

Conclusions on Croatia

(extract from the Communication from the Commission to the European Parliament and the Council "Enlargement Strategy and Main Challenges 2011-2012", COM(2011)666 final)

After Croatia met the remaining closing benchmarks, accession negotiations were concluded in June 2011. Croatia now needs to build on the high degree of alignment achieved and focus on the remaining work before accession. This Progress Report is part of the Commission's monitoring of Croatia's fulfilment of all the commitments taken in the accession negotiations and its continued preparations to assume the responsibilities of membership upon accession.

Croatia continues to meet the **political criteria**. Substantial progress has been made in all areas, including rule of law, and results are becoming tangible. Efforts must continue to consolidate these results.

Democracy and the rule of law have been further strengthened. The *government* and the *parliament* have continued to function effectively. In the area of *public administration* reform, further efforts are needed to consolidate efficient implementation of the legal framework in order to complete building a modern, reliable, de-politicised and citizen-oriented public service.

Croatia has made good progress regarding the *judiciary*. New legislation further strengthened judicial independence and many measures have been taken to improve the efficiency of the judiciary. A new system for appointing judicial officials has been established. Some challenges remain, especially the need to further increase judicial efficiency, and to ensure the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary. Progress has been made with the impartial handling of war crimes trials. The four specialised war crimes chambers have been made exclusively competent for all new cases and their role should be further strengthened for pending cases. The Ministry of Justice adopted a strategy for addressing impunity, especially in cases where the victims were ethnic Serbs or the alleged perpetrators were members of the Croatian security forces.

There has been substantial progress in the *fight against corruption*. Anti-corruption efforts have been accelerated with positive results; legislation has been improved and the relevant authorities strengthened. The track record of effective handling of corruption cases needs to be further developed, especially covering high level corruption, local level corruption and including cases related to public procurement and the judiciary. Further experience is needed on implementing the newly adopted preventive legal framework in practice and the implementing structures remain to be further strengthened.

Human rights continue to be generally well respected and further progress has been made in the areas of *human rights and the protection of minorities*. Croatia has continued to take various measures to raise public awareness and improve protection of human rights. As for *access to justice*, implementation of the Law on Legal Aid has continued to improve, notably by simplifying procedures. With regard to the *prison system*, work on the expansion of existing detention and treatment facilities has continued, but Croatian prisons remain overcrowded. As regards *ill treatment*, the Ombudsman continued to receive complaints regarding excessive use of force by the police which need to be followed up adequately.

Freedom of expression, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. There has been further progress regarding

transparency of media ownership, but limited progress with investigating cases, from previous years, of intimidation of journalists working on cases of corruption and organised crime. Few new cases have been reported, however. Economic pressures in particular are hampering the development of investigative reporting. Problems with political interference at local level remain. *Freedom of assembly* requires continued attention in terms of handling of demonstrations.

There has been some progress with regard to *women's rights and gender equality*. However, the position of women on the labour market has not changed significantly and the percentage of unemployed women remains high. There has been limited progress with *children's rights*. The Ombudsperson for Children became more active in cases where violence against children was not being properly addressed by the relevant authorities.

There has been limited progress as regards the inclusion of *socially vulnerable groups and persons with disabilities*. The capacity of the Office of the Ombudsman for Persons with Disabilities is being strengthened. Criteria for establishing entitlements are not equally applied and legislation regulating specific rights is fragmented. The transition from institutional care to community-based care services has progressed slowly. *Labour and trade union rights* are generally respected.

Croatia has begun developing a track record of implementation of the *Anti-Discrimination Law* and legislation on hate crimes. Various awareness-raising measures were taken and the Office of the Human Rights Ombudsman is being reinforced. Law enforcement bodies have started a number of cases under hate crime legislation. However, the track record needs to be developed further and societal homophobic and xenophobic sentiment addressed.

There has been some progress with the *respect for and protection of minorities and cultural rights*. High-level public expressions of commitment to the rights of minorities, reaffirming their place in Croatian society, have continued. Funding has been secured for minority organisations. Police investigations into incidents against minorities have improved. Steps have been taken to improve implementation of the employment provisions of the constitutional act on the rights of national minorities and a plan for minority employment was adopted and now needs to be implemented. However, Croatia needs to continue to foster a spirit of tolerance towards minorities, in particular Croatian Serbs. Cases of discrimination continue, particularly in the public sector at local level. Improvements have been made in education for the Roma minority, particularly in pre-school education. Infrastructure improvements to some Roma settlements have continued. Problems remain with participation by the Roma community in the education system. There is scope for improved take-up by the Roma of measures in their favour. Access to adequate housing, social protection and health care remain problems for Roma and unemployment remains extremely high.

There has been good progress on *refugee return* issues. Refugees continued to return to Croatia. Progress was made with housing issues, in particular by providing accommodation under housing care programmes for returnees. The backlog of appeals against refused housing reconstruction applications has also been reduced. Progress has been made with the reconstruction of the remaining properties. Implementation of the decision on validating pension rights has continued. However, Croatia needs to make progress in providing accommodation to the estimated 2,500 remaining housing care applicants. Efforts to create the economic and social conditions necessary for sustainable returns of refugees need to be accelerated.

As regards *regional issues and international obligations*, Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). The government's inter agency task force has explored important new avenues in its investigations aimed at locating

or determining the fate of missing artillery documents requested by the Office of the ICTY Prosecutor. Croatia has, however, been unable to fully account for the missing military documents. Political leaders should also avoid statements and measures that could call into question the importance of reconciliation and the need to serve justice through the prosecution of war crimes.

Significant progress was made with regard to the *Sarajevo Declaration Process*. Following the meetings in June and September 2011, Bosnia and Herzegovina, Croatia, Montenegro and Serbia, agreed on a number of issues, including on the text of a joint declaration to be signed at a ministerial conference in November 2011 in Belgrade.

In July, the Croatian government adopted and transmitted to parliament for adoption a declaration on promoting European values in Southeast Europe stating a firm commitment from Croatia that bilateral issues, such as border issues, must not obstruct the accession of candidate countries to the EU from the beginning of the accession process until the Accession Treaty comes into effect.

Croatia 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). Bilateral relations with other enlargement countries and neighbouring EU Member States continue to develop, including with Serbia, but some issues require continued attention, notably regarding cooperation on the investigation and prosecution of war crimes. Relations with *Slovenia* have further improved, with the entry into force of the Border Arbitration Agreement.

The **economy** of Croatia was still in recession in 2010 and the first quarter of 2011 in spite of the recovery in the economies of the EU and other trading partners. There are, however, signs of increasing economic activity since the spring. Unemployment, public deficit and debt continued to increase. The high external indebtedness remains a key vulnerability of the economy.

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

Broad political consensus on the fundamentals of a market economy was maintained. Given the existing constraints, macroeconomic policy has, by and large, been appropriate to address the challenges of the recession. The central bank succeeded to preserve exchange rate and financial stability while maintaining an accommodative monetary policy as underlying inflationary pressures stayed low. The banking sector remained resilient to shocks. In the fiscal area, the authorities made efforts to contain the rising deficit by reining in expenditures. The budgetary framework for achieving fiscal sustainability over the medium term has been improved. The current account deficit continued to narrow as exports expanded while subdued domestic demand kept imports low. Some progress, albeit limited, was achieved on structural reforms within the framework of the Economic Recovery Programme.

However, in overall terms the speed of structural reforms remained slow, not least with respect to privatisation and the restructuring of loss-making enterprises. The investment climate continued to suffer from a heavy regulatory burden, unpredictability of administrative decisions in particular at local level and numerous non-tax fees. Planned reforms of the highly rigid labour market were narrowly circumscribed and the already low employment and participation rates declined further. Social transfer payments, which represent a relatively high share of public budgets, remained not well-targeted. Considering the need to achieve medium-

term fiscal sustainability, the budgetary process could be improved further. Enhancing the efficiency of public spending remains a key challenge.

Regarding Croatia's **ability to take on the obligations of membership**, preparations for meeting EU requirements have continued to progress well and there is a high-degree of alignment with EU rules in most sectors. In most areas there has been further progress, including in those chapters where the level of alignment is already high. Additional efforts are needed in certain areas to strengthen the administrative capacity necessary for proper implementation of the *acquis*. Implementation of the Stabilisation and Association Agreement has progressed smoothly.

Good progress has been made in the field of *free movement of goods*. Alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary, particularly on the remaining revisions of the horizontal legislation and on the New and Old Approach product legislation in order to bring national legislation fully into line with the *acquis*.

Continued progress has been made in the field of *freedom of movement for workers* and preparations to apply the *acquis* are on track. Continued attention must be paid to strengthening administrative capacity with regard to the coordination of social security systems.

Further progress has been made in the field of *right of establishment and freedom to provide services* where, in general, alignment with the *acquis* is satisfactory. Continued work on mutual recognition of professional qualifications and on transposition and implementation of the Services Directive in order to achieve complete alignment is needed as well as further strengthening of the administrative capacity of the postal services regulator.

Further progress has been made in the field of *free movement of capital* as regards the *acquis* on payment services, liberalisation of capital movements and anti-money-laundering. Legislative alignment is almost completed.

Progress has continued in the field of *public procurement*. Alignment with the *acquis* is on track and nearing completion. Special attention should be paid to aligning the secondary legislation with the new public procurement law, and to strengthening the institutions in this sector through continuous training and professional development of their staff.

Progress can be reported in the field of *company law*. Alignment with the *acquis* is well on track. Further progress has been achieved in the field of *intellectual property law* and alignment with the *acquis* has reached a very high level. Public awareness of intellectual property rights remains to be further strengthened.

Substantial progress has been achieved in *competition policy*, in particular by the approval of restructuring plans for the shipyards. However, none of the privatisation contracts has been signed. A high level of legislative alignment has been achieved. Further efforts are required to continue developing the Croatian Competition Agency's enforcement record against cartels following the entering into force of the new Competition Act.

Good progress has been made in *financial services*, both on aligning legislation and on strengthening administrative capacity. Alignment is at a high level.

Croatia has made good progress on *information society and media* and has achieved a high level of alignment with the *acquis*. Further efforts are needed to sustain liberalisation of all segments of electronic communications markets and to promote the independence of the public service broadcaster.

Good progress can be reported in *agriculture and rural development*, in particular on the establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. Overall, preparations are on track. Croatia needs to sustain considerable efforts in all these areas in order to have fully operational and compliant systems in place. Continued efforts are also necessary on alignment of the agricultural support system with the *acquis*. Croatia needs to increase its absorption capacity for rural development funds without delay.

Good progress can be reported in the fields of *food safety, veterinary and phytosanitary policy*, in particular on transposition of EU legislation and adoption of implementing legislation. Transposition of legislation is reaching completion in several sectors. Croatia needs to maintain its efforts on upgrading and monitoring establishments, setting up border inspection posts, monitoring the animal by-products sector and strengthening its administrative and control capacity.

Croatia continued to make good progress in aligning with the *acquis* in the field of *fisheries*. Overall preparations are well advanced. Croatia needs to continue its efforts regarding implementation of legislation, in particular with regard to fleet management, inspection and control and structural policy.

Further progress has been achieved and the level of alignment in the field of *transport policy* is good. Additional efforts are needed, in particular to continue work on the second phase of the European Common Aviation Area Agreement, to complete alignment of the aviation legislation and to ensure full functioning of the railway safety authority and of the vessel traffic monitoring information system.

Some progress has been made in the field of *energy*, where the level of alignment is high. Further efforts are needed, in particular on opening the electricity and gas markets and meeting the EU's targets for renewable energy sources and energy efficiency. Administrative procedures related to renewable energy projects need to be simplified and administrative capacity strengthened.

Some progress was made in the field of *taxation*. Croatia's level of legislative alignment is very high, but some further efforts are needed, most notably in the field of VAT and excise duties. Croatia should continue working on preparations for IT interconnectivity.

There has been some progress in the area of *economic and monetary policy* and alignment with the *acquis* in this area is complete. Continued efforts to improve economic policy coordination would be beneficial.

Good progress has been made in the area of *statistics*. A good level of alignment has been achieved. Efforts need to continue in order to align Croatian statistics fully with the EU requirements.

Some progress has been made in the area of *social policy and employment*. There is a good level of alignment with the *acquis*. However, some gaps remain in alignment of the legislation, notably on transposing labour law directives outside the scope of the Labour Act, and in the fields of anti-discrimination and gender equality. Due attention should be paid to addressing structural weaknesses on the labour market, as well as to the functioning of social dialogue and capacity-building of social partners. Administrative capacity requires continuous strengthening across all areas.

Croatia made some progress in the field of *enterprise and industrial policy*. Alignment with the *acquis* in this chapter is very advanced. Further sustained efforts need to focus on improving the business environment, by reducing the administrative burden, and on

innovation and skills. Alignment of the definition of SMEs with the *acquis* needs to be completed. Efforts to restructure the shipbuilding industry need to be further pursued.

Croatia has made further progress in the field of *trans European networks*, where alignment with the *acquis* has been completed.

Good progress was made in the field of *regional policy and coordination of structural instruments*. Croatia is at an advanced stage of preparations for implementation of the cohesion policy in all areas. Further sustained efforts need to focus on increasing Croatia's administrative capacity for future implementation of cohesion policy and on developing a mature project pipeline.

Croatia has made substantial progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation further strengthening judicial independence and a further reduction of the case backlog. Judicial reform requires constant attention, especially concerning judicial efficiency and the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary. Croatia has continued to improve the handling of domestic war crimes cases. The issue of impunity needs to be thoroughly addressed. Anti-corruption efforts have been accelerated with positive results, in particular as regards improved legislation and the strengthening of the relevant authorities. The track record of effective handling of corruption cases needs to be further developed, especially in relation to high level corruption, local level corruption, and including cases related to public procurement and the judiciary. Further experience is needed with implementing the newly adopted preventive legal framework in practice. Protection of fundamental rights has been strengthened, but it needs to be further improved in practice, especially for minorities and refugees.

Good progress can be reported in the field of *justice, freedom and security*, where the overall level of alignment with the *acquis* is advanced. On asylum, the legal framework was strengthened. Attention needs to be paid to improving the integration of persons granted protection in Croatia, and to the protection of irregular minors migrants. Alignment with the EU *acquis* on visas needs to continue. Progress has been made as regards external borders. Strengthening of the Border Police has continued with regard to staffing and equipment. Croatia needs to focus on the timely implementation of the revised Integrated Border Management Action Plan. Progress has been made in the field of judicial cooperation in civil and criminal matters. Good progress can also be reported in the fight against organised crime and against drugs.

Progress in the field of *science and research* has continued, the level of alignment is high, but efforts remain necessary with respect to the level of investment in research and to quality researchers and their rights. Preparations for the Innovation Union should be duly considered.

Good progress has been made in the areas of *education, training, youth and culture*. There is a good level of alignment with the *acquis*. Croatia has been fully participating in the Lifelong Learning and Youth in Action programmes since January 2011. Vocational education and training and adult education require continuous attention.

There has been progress in the area of *environment*. Overall, Croatia's preparations are nearing completion with regard to both alignment and implementation of legislation, in particular in the areas of water quality and chemicals. Implementation of the horizontal *acquis*, and in particular effective public participation and access to justice in environmental matters, need to be improved. Significant efforts are still required to further strengthen administrative capacity, especially as regards nature protection and climate change. Regarding *climate change*, significant further efforts are still necessary to complete the legislative

alignment and to ensure implementation, in particular in the areas of aviation, free allocation, registries and auctioning.

There has been some progress in the area of *consumer and health protection*. Alignment with the *acquis* and preparations in the area of consumer protection are well advanced. Sustained efforts are necessary in order to address the remaining outstanding issues in the area of public health.

Croatia continued to make good progress in the field of *customs union*. Legislative alignment in this field is very high and further alignment was achieved during the period. Croatia has continued to reinforce its administrative and operational capacity by upgrading its equipment for physical checks and improving its risk analysis capability. Preparations are also well advanced in the area of IT interconnectivity and should proceed. Efforts are needed to reinforce administrative capacity in the areas of internal controls, post-clearance and risk management.

Croatia continued to make progress in the field of *external relations*, where it has reached an advanced level of alignment and is continuing to coordinate and align its positions with those of the EU in international organisations. However, Croatia should step up its efforts to bring its international agreements into line with the EU *acquis* and to continue strengthening its administrative capacity in the areas of development policy and humanitarian aid.

Croatia has made further progress in *foreign, security and defence policy*. It has continued to participate in several EU CSDP missions. Croatia has reached a high level of alignment in this area. Croatia needs to continue strengthening enforcement of arms control, including the transparency of arms-related information.

Croatia has made further progress in the field of *financial control*, where it has reached an advanced level of alignment. Continuous efforts are needed in order to improve overall public internal financial control and external audit in Croatia at central and local levels.

Good progress can be reported in the field of *financial and budgetary provisions*. The administrative infrastructure and procedures for managing the own resources system upon accession are largely in place.