

17 July 2006

Screening report

Croatia

Chapter 11 – Agriculture and Rural Development

Date of screening meetings:

Explanatory meeting: 5 – 8 December 2005

Bilateral meeting: 30 January – 2 February 2006

I. CHAPTER CONTENT

The agricultural chapter covers a large number of binding rules, many of which are directly applicable Regulations. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the Common Agricultural Policy. This includes the setting up of management systems such as a paying agency and the Integrated Administration and Control System, and also the capacity to implement rural development actions. EU membership requires integration into the common market organisations of a range of agricultural products, including arable crops, sugar, animal products and specialised crops.

The implementation, management and control of the Common Agricultural Policy (CAP) require the creation, modification and/or reinforcement of appropriate administrative structures. In some cases the *acquis* sets out, to a greater or lesser extent, detailed specifications for the required administrative structures.

The required administrative structures are not always specified in the *acquis*. In many cases the *acquis* simply uses terms such as the “competent authority” to refer to the administrative structure that is needed. This means that it is left to each Member State to decide which institution is responsible for effective implementation of the *acquis*. However, the functions that EU Member States must have the capacity to carry out - through the administrative structures they establish - are clearly specified in the *acquis*.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises information provided by Croatia and the discussion at the screening meeting. The exchange rate applied is 1€=7.5 HRK.

Croatia indicates that it can accept the *acquis* regarding Agriculture and Rural Development and that it does not expect any difficulties to implement the *acquis* by accession.

The structure of the Croatian agriculture can be summarised by the following key figures: the Gross Value Added (GVA) of the agriculture sector in GDP is 6.5%; employment rate in agriculture is 7.3% of total workforce; average farm size is 2.4 hectares; number of farms is 449,896 (51% up to 1 hectare); agricultural output is 0.6% in relation to EU-25; rural population is 48%.

The agriculture production in the years 2001-2003 was self-sufficient only in wheat, sugar, wine, maize, poultry meat and eggs. In 2004 the share of the agriculture budget in total state budget reached 3.33 %.

The main legal acts governing the agriculture sector in Croatia are the *Agriculture Act* (Official Gazette 66/01, 83/02), *Act on State Aid in Agriculture, Fishery and Forestry* (Official Gazette 87/02, 117/02, 82/04,12/05), *Food Act* (Official Gazette 117/03, 130/03, 48/04), *Act on Agricultural Land* (Official Gazette 66/01, 87/02, 48/05, 90/05), *Act on Organic Production of Agricultural and Food Products* (Official Gazette 96/03) and *Wine Act* (Official Gazette 12/01, 14/01).

The *Agriculture Act* (Official Gazette 66/01, 83/02) is the framework law that governs the overall agriculture. The Act sets out the objectives and measures of agricultural policy, defines beneficiaries, institutional aid, agricultural policy makers, monitoring and reporting in agriculture as well as administrative and inspection controls.

The main objectives of the agricultural policy in Croatia are: to secure the national food supply of the population; to promote a more efficient production and marketing in agriculture; to ensure a fair standard of living and contribute to the stability of agricultural income; to ensure that consumers have access to suitable and stable food supplies in line with their demands in particular with regard to the price and quality of food and food safety; to preserve natural resources by promoting sustainable agriculture particularly organic agriculture; and to preserve and develop rural areas and values. The Act provides the basic instruments for market and price policy measures structural policy measures and land policy measures.

II.a. Horizontal

Direct support and *EAGF* related measures are regulated in the *Agriculture Act* (Official Gazette 66/01, 83/02) and the *Act on State Aid in Agriculture, Fishery and Forestry* (Official Gazette 87/02, 117/02, 82/04, 12/05). The *Agriculture Act* provides for market and price policy measures (stipulated prices, financial aid and compensations, interventions on domestic market, measures to enhance sale and consumption, measures to redress the balance of supply, and trade measures). It provides the basis for regulating agriculture markets and market-price policy measures, if required. The Act fixes also the structural policy measures (support measures designed to enhance economic efficiency of agricultural production, support to less favoured areas, development of environmental friendly agriculture, preservation of biological diversity, support to young farmers and early retirement schemes, regional development of agriculture and diversification). In addition it includes the land policy measures (land market, use and selling of state owned land).

The largest part of the agriculture budget is spent by direct aid payments, based on the *Act on State Aid in Agriculture, Fishery and Forestry* (Official Gazette 87/02, 117/02, 82/04, 12/05). The Act provides for four different state aid schemes intended for different target groups or aid beneficiaries. The schemes are: (1) the production subsidy scheme, (2) the income support scheme, (3) the capital investment scheme and (4) the rural development scheme.

(1) The production subsidy scheme covers direct aid that is linked to production and aimed at improving the income of commercial farms (family farms, cooperative farms, small business or companies) in order to strengthen the competitiveness of farm production. It encourages arable cropping, multi-year plantations, stock farming and stock farming products.

Registration in the Farm Register and compliance with the minimum supported quantities which are provided for by the above Act and dependent on the type of the production are the basic conditions to be fulfilled to obtain aid, however, no cross compliance element conditions the payment with the respect of environment and animal health/welfare standards. In order to respect the set limits of the agricultural budget, the Government determines each year the maximum subsidized quantities for individual production, i.e. the total volume of production at the national level up to which each beneficiary shall be paid a full amount of the aid. In the event that the maximum quantity prescribed is exceeded, the aid shall be proportionately reduced for all beneficiaries.

The subsidies envisaged for less favoured areas have been increased by 35 % for viticulture, fruit growing and partially for stock farming. Organic production, in which minimum eligible quantities of livestock are not prescribed, receives higher subsidy amounts than conventional production. As a rule, the subsidies for livestock fattening and raising are 30 % higher than the same subsidies in conventional production.

(2) The income support scheme is an aid which is not linked to production and is intended for small, non-competitive family farms with elderly but still active family members. The goal of this scheme is to ensure a fair standard of living to their members and to create conditions for gradual reduction of their agricultural activities. The decoupled income support scheme only counts for approximately 1.3% of the direct support for farmers. The major part is spent on coupled aid schemes linked to production.

(3) The capital investment scheme is a structural measure designed to improve relations between farmers and business banks, and is aimed at increasing the productivity and competitiveness of commercial farms. The Ministry of Agriculture, Forestry and Water Management (MAFWM) awards investment grants to farmers to whom a commercial bank has granted a commercial loan for investments in agriculture.

(4) The objective of the rural development scheme is the maintenance and development of rural areas, and particular traditional features of the Croatian agriculture. This scheme comprises three programmes: (1) Programme for development of rural areas, (2) Programme for preservation of original and protected breeds, and (3) Programme for marketing of agricultural products (see part II.e.)

The Farm Register, which has some elements of the IACS, is used for implementing this Act and administering aids granted per area farmed. Applications for area payments are lodged with a state administration office. However, this Farm register only contains 161,398 farms out of a total of 449,896 farms in Croatia. These offices perform administrative control of aid applications and enter the data from the applications into the electronic database, which contains all the data on cadastral plots and agricultural crops for which the aid is sought. Applications for aid for other types of plant production are lodged with the MAFWM, and those for aid for stock farming with the Croatian Livestock Centre. The Ministry performs administrative controls and finally approves payments claimed.

In 2004 the majority (51 %) of the financial support covered by the Act on State aid in Agriculture, Fisheries and Forestry went to direct payments in plant production, 43 % to direct aid payments in live stock productions, 1.3% to decoupled income support and only 0.7 to the rural development scheme. The individual direct aid levels per crop are described in sections II.b-d.

The Act on State Aid in Agriculture, Fisheries and Forestry (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) foresees additional support programme, e.g. aid scheme for insurance possible damage of agriculture production.

The *Act on Excise Duty on Mineral Oils* (Official Gazette 136/2002, 123/2003, 57/2006) lays down excise duties on petroleum products. Among others, it provides for a special tax on blue-coloured Eurodiesel fuel (so-called blue fuel), used in agriculture and exempted from payment of special tax on petroleum products. Beneficiaries may be all farmers registered in the Farm Register, with the exception of the beneficiaries of income support.

Croatia has currently no *Integrated Administration and Control System (IACS)* as defined by the *acquis*. The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) foresees that the Directorate for Market and Structural Support in Agriculture in the MAFWM sets up and implements an integrated administration and control system. The Ministry's approval to introduce IACS GIS is pending.

The Ordinance on the manner of and the conditions for implementing the production subsidy scheme (Official Gazette 24/2005, 105/2005), 141/2005) provides the following elements:

- a computerised database consisting of the information of the Farm Register and collected from aid applications, this registration being mandatory for farms applying for aid schemes in agriculture sector;
- a land parcel identification is based on the alpha numerical data from the Land Cadastre, however, it is neither based on cartographic references nor on geographical information system, aerial or spatial orthophotos; the domestic animal identification and registration system covers identification and registration of domestic animals (fully for bovine, partially for sheep and goats);
- a control system which includes administrative checks of all aid applications and inspection control over the beneficiaries.

Administrative controls are undertaken to ensure compliance with legislation and consistency with the database of the Farm Register of all aid applications submitted. A substantial number of post-payment checks are made on the spot. There is neither a system for the identification and registration of payment entitlements nor a control mechanism based on remote sensing, or controls on cross compliance.

Croatia has currently no operational *Paying Agency*. The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) allocate the responsibility for the operative implementation of market and structural support measures in agriculture to the Directorate for Market and Structural Support in MAFWM.

The Regulation on internal organisation of the MAFWM (Official Gazette 86/05, 131/05) provides that the Directorate for Market and Structural Support in Agriculture shall implement all legal and other acts in the field of market-price and structural policy in agriculture. Hence, the Directorate is being prepared to become the SAPARD Agency. There is however still no certifying body. Plans exist to develop the Directorate for Market and Structural Support in Agriculture into a paying agency which will be in future qualified for the implementation of Common Agricultural Policy measures.

As regards *Trade mechanisms*, Croatia does not apply export subsidies. Article 14 of the *Agriculture Act* (Official Gazette 66/2001, 83/2002) rules trade measures of agriculture products and food stuffs. It covers import customs duties, tariff quotas, safeguard measures. There are neither export nor import licenses, hence, there is no security system required. Croatia applies the EU Combined Nomenclature.

Import duties are applied to agricultural goods (ad valorem and/or fixed specific duty expressed as EUR/100 kg). The level of MFN duties is determined by the Protocol of the Accession of Croatia to the Marrakech Agreement Establishing the World Trade Organization (Official Gazette - International agreements, 13/2000), whereby Croatia has committed itself to gradually reduce customs duties for agricultural products and foodstuffs during transition period ending 2007. The level of import duties for the EU is fixed in the Stabilisation and Association Agreement which establishes certain preferences for the Community but currently maintains a tariff quota for a number of sensitive Croatian agricultural products.

Croatia has signed a number of multilateral and bilateral agreements on free trade defining preferential trade conditions with almost all European countries. A review of preferential customs duties by products and countries is published annually as a part of the Customs

Tariff Regulation. The following institutions are competent: Customs Directorate of the Ministry of Finance (application of the Customs Tariff Act), MAFWM (preferential import quota management) and Ministry of the Economy, Labour and Entrepreneurship (safeguard measures against excessive imports).

A *Farm Accountancy Data Network (FADN)* has yet not been established in Croatia. There is no obligation for farms to keep records other than registration as company subject to VAT. Various surveys were conducted in 2003 (census covering 449,896 farms) and 2005 (specific plant production sample). There are plans to set-up the EU FADN system by the end of 2008. The Central Bureau of Statistics is responsible for the Farm Structure Survey.

Current *state aid* schemes in Croatia differ significantly from the Community provisions. Funding can be at the level of the state, regional (counties) and local (municipality and cities) budget.

Besides measures of national agricultural policy implemented through the *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005), there are also national subsidies for fuel used in agriculture, covered by the *Act on Excise duty on mineral oils* (Official Gazette 55/00, 101/00, 27/01, 107/01, 136/02, 123/03 – consolidated text, 57/06), and for compensations for damages in agricultural production caused by natural disasters, covered by the *Act on protection from natural disasters* (Official Gazette 73/97). The Croatian Government can grant exceptional aids not provided for by acts on an ad hoc basis.

Special agencies of the Croatian Government (Croatian Bank for Reconstruction and Development - CBRD, Croatian Agency for Small Business - CASB) provide credit support also to the agriculture sector, under special programmes based on several horizontal provisions (*Investment Promotion Act*, Official Gazette 73/2000; *Act on Promoting Development on Small Enterprises*, Official Gazette 29/2002; *Islands Act*, Official Gazette 34/1999, 149/1999, 32/2002; *Act on Areas of Special State Concern*, Official Gazette 26/2003, 42/2005, 90/2005; *Act on Mountainous Areas*, Official Gazette 12/2002, 32/2002, 117/2003, 42/2005, 90/2005; *Regional Development Fund Act*, Official Gazette 107/2001). The *Act on Local and Regional Self-Government* provides the opportunity for the units of regional and local self-government to support agriculture from their local budgets.

There are no special legal provisions for *non-annex I products* (processed agriculture products).

As regards *miscellaneous*, cocoa and chocolate products are regulated by the *Food Act* (Official Gazette 117/03, 130/03, 48/04), the *Ordinance relating to cocoa and chocolate products* (Official Gazette 73/05), the *Ordinance on general labelling or marking of foodstuffs* and the *Ordinance relating to chocolate similar products, cream-products and candies* (Official Gazette 73/054). This legal framework provides definitions, rules for sales name, composition, fat content and labelling. The use of vegetable fats other than cocoa butter is allowed up to a limit of 5%.

Coffee and chicory extracts are also covered by the *Food Act* (Official Gazette 117/03, 130/03, 48/04). In addition, the *Ordinance on coffee, coffee substitutes and products made of coffee and coffee substitutes* (Official Gazette 172/04) and the *Ordinance on general labelling or marking of foodstuffs* (Official Gazette 114/04, 128/04, 34/05) provide rules for definitions, labelling, and content of coffee and chicory products.

As regards nuts, direct aid is paid for the plantation of nuts (hazelnuts, walnuts, almonds and carobs) in accordance with the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002/, 117/2003, 82/2004). The amount is 2,240 €/ha (3,026 €/ha in areas of difficult farming conditions). In addition, the *Act on State Aid* foresees a yearly production subsidy of 360€/ha.

II.b. Arable crops, fibre, sugar

Arable crops, fibres and sugar markets are covered by the general agriculture policy framework composed of the *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005).

There is no market intervention for *cereals*, *dried fodder*, *oil seeds* or *protein crops*. The average production of *cereals* in Croatia during 2002 – 2004 was: maize (430,000 ha; 2.2 million tonnes) wheat (217,000 ha; 839,000 tonnes), barley (52,600 ha; 161,000 tonnes), rye (3,200 ha; 8,233 tonnes), oats (19,166 ha; 44,333 tonnes). Direct aid payments foreseen: 220 €/ha for wheat, rye and triticale, 166 €/ha for maize, barley, oats, sorghum and millet. Farmers have to produce minimum 3 hectares of cereals to be eligible for direct aid payments. No separate data available for durum and soft wheat.

As the *dried fodder* production is limited in Croatia there is no statistical data available. The majority of fodder is sun dried. There are 3 drying and processing facilities with a total capacity of 15,000 tonnes/year for dehydrate lucerne pallets. Only two of these facilities are operating with a yearly production of 8,000 tonnes. The average production of fodder crops in Croatia in period 1998-2003 is: lucerne, hay – 41,000 hectares, 185,000 tonnes; clover and mixture, hay 35,000 ha, 135,000 tonnes; mixture of legumes with grass and cereals, hay 14,000 ha, 36,000 tonnes.

The average *oilseeds* production of Croatia for the years 1998-2004 was: soybean (43,500 ha; 94,000 tonnes), rapeseed (13,000 ha; 27,400 tonnes) and sunflower (29,300 ha; 61,800 tonnes). Direct aid is paid for a minimum of 3 hectares productions: 300 €/ha for rapeseed and sunflower, 220 €/ha for soybean.

As regards *protein crops*, Croatia produced on average during the years 2001-2004 mainly peas (5,048 ha/year), sweet lupine and filed bean (both together Ø 968). The direct aid paid to farmers amounts to 166 €/ha (with a minimum production of 0.5 hectare for pees and filed bean and 3 hectares for sweet lupine).

Croatia does not produce *potato starch* or *rice*. There is no data available as regards rice mills.

The *flax* and *hemp* production in Croatia is limited. The *Act on Prevention of Drug Abuse* (Official Gazette 107/2001, 87/02, 163/03) regulates the production of hemp (e.g. compulsory registration; THC content in dry matters less than 0.2 %). In 2003, 24 registered producers cultivated 7.7 hectares fibre crops. No separate data is available. An amount of 167 €/ha is paid as direct aid for a minimum production area of 3 hectares.

Croatia has neither *cotton* nor *silkworm* production.

The Croatian *sugar* production varied over the years 2000-2005 between 58,950 and 203,650 tonnes, produced by 2,700 farmers and refined in 3 sugar mills. The *Act on State Aid in Agriculture, Fisheries and Forestry* provides incentives of 400 €/ha to farmers

cultivating more than 3 hectares of sugar beet. The payments are limited by a general yearly ceiling of 10.7 million € available for the entire sector (proportional reduction if the requests exceed the yearly ceiling). There is no market intervention or quota regime. Croatia has neither produced isoglucose nor fructose. A new isoglucose factory plans to start production in 2006.

II.c. Livestock products

The cattle and *milk* production plays a key role in the Croatian agriculture. The production is mainly based on dual purpose breeds (78 % Simmental Fleckvieh). Over the years 2002-2004, Croatia counted on average 244,000 dairy cows producing 972,000 tonnes of milk. The majority of the production is covered by small farms (≤ 5 cows). Only 50 % of the milk is delivered to the dairies. On farm consumption and direct sales prevail in family farms. The trend shows a decrease in the number of dairy farms but an increase of cows per farm. Croatia is not self-sufficient in raw milk (only 85 %). The existing quantities are mainly used for the production of drinking milk and fresh products. The consequence is that the production of butter and milk powder is marginal. The government provides significant support to develop the dairy sector. A special programme provides financial assistance for milk production (investment and credit facilities). The milk price is based on the fat content, protein percentage, and cell and bacteria count. Producer price for the years 2003-2004 reached 0,281 €/litre. Croatia counts 37 milk establishments with a yearly capacity of 820,000 tonnes, but only 2/3 of the capacities are used.

In the milk sector Croatia has no market intervention system, quota regime or other support schemes than direct aid. The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) provide the legal basis for direct aid per litre of raw milk based on quality criteria (fat, protein, cell and bacteria counts). The following subsidies are paid: 0.087 €/litre of milk delivered for processing (quality requirements: 3.7 % fat and 3.2 % protein content and up to 400,000 somatic cells and 100,000 bacteria). In areas with less favourable production conditions, the subsidies are increased by 0,140 €/litre. Further subsidies are paid for keeping cows in milk production with a yearly aid of 106 €/head, 240 €/head for cows located on farm with difficult production conditions, 200 € per head for breeding female calves and 80 € per head for male calves sold for fattening.

The *beef* and veal sector suffered during the early 90' and has been recovering since 2002, with an increase of cattle from 417,000 to 471,000 in 2005. About 85% of the bovines are in family farms, with 4.6 bovines on average. Croatia is not self-sufficient in the beef and veal sector (~ 75 %). Croatia has no market intervention schemes in place. The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) provide the legal basis for direct aid. Additional aid is provided for bulls for breeding (50 €/head) and fattening bullocks (133 €/head). Croatia has introduced the beef carcass classification system EUROP (legal basis: *Ordinance on the Quality of Bovine Carcass by Slaughtering* (Official Gazette 20/04) and registered its cattle population.

The *sheep and goat* production in Croatia is predominantly undertaken in family holdings (average holding size: 25 sheep; 6.56 goats). Croatia currently counts about 750,000 sheep and 203,000 goats. An animal identification and registration system for sheep and goats is in preparation. The country is not self-sufficient (70 %) in sheep and goat meat. Croatia has no market intervention schemes in this sector. The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) provide the legal basis for direct aid schemes. Within

the framework of the production stimulation model, a 26 €/head premium is paid for rearing of breeding ewes, rams, she-goats and he-goats, and an additional premium of 4€/head for pure-breed animals (source animals) of sheep and goats. Condition for the premiums for breeding livestock is a minimum of 25 sheep or 25 goats per holding. Beside the abovementioned premiums, agricultural holdings keeping or fattening sheep or goats receive a premium per hectare of cultivated meadow or pasture in the amount of 13€/ha under the condition of having at least 5 sheep and/or goats per hectare of meadow or pasture. Increased payments are targeting organic production. A capital investment programme aims at increasing quality, markets and supporting local breeds.

About 90 % of the Croatian *pig meat* production takes place in small family holdings (backyard farms). In 2003, 214,814 agriculture households produced 1.7 million pigs (average 8 pigs/household) and 426 registered holdings - 197,777 pigs. The self-sufficiency rate of pig meat is about 80 %. Croatia applies the SEUROP carcass classification system provided by the *Ordinance on the Quality of Pig Carcasses and Half Carcasses at the Slaughtering Line* (Official Gazette 85/2005). The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) provide the legal basis for direct aid schemes. Within the model of production stimulation for pig farming production, premiums are granted for farming of breeding pigs and pigs for fattening: 40 €/head per breeding sow, 133€/head for each positively performance-tested breeding boars and 6 €/head for pure-breed of sows. The payment is subject to a minimum number of pigs in production per holding. Increased payments (+30 %) are targeting organic production. Similar to the other meat sector, a capital investment programme aims at increasing quality and productivity of the pig meat production. The *Agriculture Act* provides for the possibility to apply market intervention measures (using a price monitoring system).

The *eggs and poultry* production is significant in Croatia. The dominant production is that of the "*Gallus domesticus*", however, the production of turkeys increased over the past years. Croatia counted in the years 2002-2004 on average 3.7 million laying hens, 6.1 million broilers and 550,000 turkeys. The figure of slaughtered broilers increased 2002-2004 from 88,600 to 96,500 and for turkeys from 7,200 to 10,800. Poultry hatchings have to be registered in Croatia. At present, Croatia counts 16 hatcheries of the capacity of 30,000 egg places, 21 hatcheries of the capacity of 2,000 - 30,000 and 4 hatcheries of the capacities less than 2,000 egg places. There are no separate packing centres. Eggs are graded in accordance with the *Ordinance on Quality of Eggs and Egg Products* (Official Gazette 53/91, 96/97, 128/97) in 10 grades depending on their weight. The egg and poultry market is free of public intervention. Croatia is self-sufficient in poultry meat (101 %) and almost as regards eggs (97 %).

Croatia's *honey* production counts currently 245,792 beehives kept by about 5,500 beekeepers (4 % being professional beekeepers), producing about 5,000 tonnes of honey (average product per beehives is 20 kg). The *Agriculture Act* (Official Gazette 66/2001, 83/2002) and the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005), provides a subsidy of 12 €/beehive (organic 15 €/beehive), depending on the registration and a minimum of 30 beehives per producer. There is no market intervention. Mixing of local and imported honey is not allowed.

II.d. Specialised crops

The *wine* production in Croatia is governed by the *Wine Act* (Official Gazette 96/2003) and 12 implementing regulations. This act specifies the following elements: tasks in the field of viticulture and oenology; production of grapes, wine and other products from grapes and

wine; designation and protection of geographical indications; designation and protection of wine names; market for grapes, must, wine and other products from grapes and wine; export and import; distillation; fruit wines; survey; penalty provisions. A large number of implementing legislation¹ regulates e.g. technical provisions and lists of geographical indications.

The production fluctuated over the past years from 1.89 million hectolitres in 1994 to a peak in 1998 with 2.27 million hectolitres and down to 1.5 million hectolitres in 2004. Quality wine represents 59 % (top-quality 3 %) and table wine 41 %. There are no official data on the production of grape must or wine stocks. The number of farms with vineyards totals 154,262, of which 148,568 have vineyards of a size up to 0.5 hectare, while the size of 5,698 vineyards exceeds 0.5 hectare. According to the statistics of the Croatian Institute for Viticulture and Oenology, the number of wine producers in 2004 totalled 14,002. The total wine growing area for the year 2004 was about 50,000 hectares. Croatia has no official data on areas under grapevine by region.

Croatia offers family farms (minimum 0.25 ha) incentives for planting of quality vineyards (per plant), an annual vineyard payment per hectare (333 €/ha) and a payment for completing replanting of quality vineyards per hectare (4480 €/ha). The legal basis for these measures is provided by the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/02, 117/03, 82/04, 12/05), the State Budget and the *Wine Act* (Official Gazette 96/03). Wine producers can also benefit from the Operational Programme for new planting of perennial plantations providing special loans. The project for the creation of the national Vineyard Register started in 2003 and should be completed in 2007.

The production of *spirit drinks* dropped from 181,176 hectolitres in 1999 to 112,667 hectolitres in 2004. There is no official information available on the total number of distilleries (state / private-owned or small/industrial-scaled distilleries). Labelling, packaging and description of spirit drinks are defined by the *Food Act* (Official Gazette 117/03), the *Ordinance on Spirit Drinks and Alcoholic Beverages* (Official Gazette 172/04) and the *Ordinance on General Labelling or Marking of Foodstuffs* (Official Gazette 114/04).

As regards *fruit and vegetables*, the average fruit production for 1997-2003 was the following (in tonnes): apple – 61,093, pear – 9,083, peach – 8,712, plum – 44,449, cheery – 7,424, sweet cherry – 5,645, mandarin – 17,311, fig – 5,107, walnut – 3,865, almond – 2,435 and strawberry – 4,052. According to the methodology of the Croatian Central Bureau of Statistics, there are no data on planted area available for fruit production (number of hectares under particular fruit crop). For the same years Croatia produced the following quantities of

¹ List of Geographical Indication (Official Gazette 6/04);

Ordinance on Basic Technical and Technological Requirements in Production of Wine and Fruit Wines Including Conditions for Selling Wine and Other Products from Grape, Wine and Fruit Wines (Official Gazette 102/04, 91/05);

Ordinance on Condition of Analysis of Must, Wine, Other Products from Grape and Wine and Fruit Wines, and Other Fruit Wine Products (Official Gazette 102/04, 64/05);

Ordinance on Advertising Wines with Controlled Geographical Indication and Fruit Wines (Official Gazette 105/04);

Ordinance on Physical and Chemical Analysis of Must, Wine, Other Products from Grape and Wine and Fruit Wines (Official Gazette 106/04);

Ordinance on Organoleptic Evaluation (Wine Tasting) of Must and Wine (Official Gazette 106/04);

Ordinance on Wine-Growing Regions (Official Gazette 159/04, 64/05);

Ordinance on National List of Recognized Wine Varieties (Official Gazette 159/04, 14/05, 42/05, 62/05, 3/06);

Ordinance on Wine Production (Official Gazette 2/05);

Ordinance on Designation and Protection of Geographical Indication of Wine (Official Gazette 7/05);

Ordinance on Vinegar and Fruit Vinegar (Official Gazette 121/05);

Ordinance on Register of Approved Distillers (Official Gazette 137/05)

vegetables: potato (64,729 hectares; 612,232 tonnes), carrot (3,360 hectares; 26,169 tonnes), (dry) bean (6,574 hectares; 17,455 tonnes), onions (6,864 hectares; 50,564 tonnes), cabbage and kale (9,706 hectares; 124,166 tonnes), tomato (6,381 hectares; 64,911 tonnes), pepper (4,932 hectares; 33,867 tonnes), cucumber (4,072 hectares; 33,776 tonnes) and watermelons (2,882 hectares; 47,830 tonnes).

The quality of fruit and vegetables is regulated by the *Ordinance on Quality Requirements for Fruit, Vegetables and Mushrooms* (Official Gazette 29/1979, 53/1987). Croatia has neither provision for Producer Organisations (PO) and Producer Groups (PG), nor for inter-branch organisations as foreseen in the *acquis*. Local cooperatives and associations of fruit or vegetable producer have recently taken initiatives similar to POs and PGs.

Currently Croatia has no intervention system (withdrawals from the market) in place. The *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004, 12/2005) provides for direct aid payment for producers in the fruit and vegetable sector. In the case of fruit, the annual subsidy, regardless of the fruit type, amounts to 333 €/ha. Another subsidy, divided into 2 groups, is paid upon the completion of new plantations of orchards: 1) 3,200 €/ha for apples, pears, mandarins, blackberries, raspberries, kiwis, lemons and oranges (4,320 €/ha in the less favoured areas); 2) 2,240 €/ha for: peaches, nectarines, apricots, cherries, sour cherries, plums, walnuts, almonds, hazelnuts, chestnuts, figs, carobs and pomegranates (3,026 €/ha in the less favoured areas).

In the case of vegetables, the annual subsidy amounts to 166 €/ha to vegetables for fresh consumption (tomatoes, peppers, cucumbers, onions, carrots, parsnip, parsley, cabbage, red beet, beans, peas, broad-beans, garlic, leek, pumpkins, zucchini, Swiss chard, spinach, kale, kohlrabi, lettuce, aubergine, mercantile potatoes, French beans, chickpeas, cauliflowers, broccoli, Brussels sprouts, kohlrabi, sweet maize, watermelons, melons and other species of cultivated vegetables). An amount of 400 €/ha is paid to vegetables for industrial processing (tomatoes, peppers, cucumbers, onions, carrots, parsnip, parsley, cabbage, red beet, French beans, chilli peppers and cauliflowers).

Croatia does not produce *bananas*.

There is very limited statistical data available on the production of *flowers and plants*. Total area under flowers and ornamental plants over the years 1998-2004 was on average 1,038 hectares. No direct aid is paid to flower and plant producers. There is no market regulation.

As regards *olive oil*, Croatia counts about 40,143 producers, cultivating 3.7 million olive trees on 16,980 hectares. The average production over the years 1999-2004 was 37,500 hectolitres. Since 1999 Croatia is a member of the International Olive Oil Council. Direct aid schemes are covered by the *Agriculture Act* (Official Gazette 66/2001, 83/2002), the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002/, 117/2003, 82/2004), and the *Ordinance on Terms and Conditions Regarding Implementation of Production Support Model* (Official Gazette 24/2005, 105/2005, 414/2005). It provides support for olive fruit processing (0,13 €/kg, or 0.17 €/kg in organic production), extra virgin olive oil production (1.3 €/litre, or 1.7 €/litre in organic production), seedling production (0.6 €/unit) and for rising olives groves (2,666 €/ha, or 3,600 €/ha in less favoured areas – as defined by the *Agriculture Act*) . In June 2004 the Government adopted the Operational Programme for Establishing New Plantations of olive-groves for the period 2004 – 2007, thanks to which the planting of 5,500 hectares olive groves can benefit from special loans.

Definitions of quality, labelling marketing standards and chemical and organoleptic characteristics are regulated by the *Food Act* (Official Gazette 117/03, 1302/03, 48/04).

Standards are regulated by the *Ordinance on Standards for Olive Oil and Olive-pomace Oil* (Official Gazette 35/99, 44/00, 109/00, 158/03).

The *tobacco* production is regulated by the *Tobacco Act* (Official Gazette 69/1999). About 2,100 holdings produced over the years 2000-2004 on average 12,518 tonnes of tobacco on an area of 5,788 hectares, using in majority (90 %) the Virginia variety. The main production area is the north eastern part of Croatia. Direct payments are governed by the *Agriculture Act* and the *Act on State aid in Agriculture* providing 0.66 €/kg premium within the budgetary limits of 8 € million/year to registered producers. There is no market regulation or recognised production areas but detailed provisions concerning the content of production contracts are included in the *Tobacco Act*. The level of stocks shows an upward trend since the end of 2002. In 2004 the stock level represented almost 75 % of the production of that same year. Cigarettes are the most important export product in the agriculture sector.

The *seed* market in Croatia is regulated by the *Act on Seeds, Seedlings and Certification of the Variety of Agricultural Plants* (Official Gazette 131/97, 163/03, 137/04). It provides measures related to seed production control; certification procedure; relevant inspection authority; minimum seed quality to be satisfied in order for the seeds to be placed on the market; registration of agricultural crop sorts; registration of seed producers, importers and processors. As regards seeds covered by the Common Market Organisation (according to the figures provided), Croatia does not produce "*ceres*" and "*oligineae*" seed species. During the years 2001-2005, Croatia produced on average 238 tonnes of "*gramineae*" on an area of 295 hectares and 617 tonnes of "*leguminosae*" on an area of 486 hectares. There is no market intervention. In order to be eligible for aid, farmers have to be registered in both the Register of Seed Producers and the Farm Register, and their production area in the latter one. In addition, a farmer is required to produce certified seeds, harvest and market them on the territory of Croatia. Direct payments are regulated by the *Agriculture Act* and the *Act on State Aid in Agriculture*. The level of direct aid varies between 300 €/ha for wheat up to 1,333 €/ha for sunflower, sugar beat or tobacco and can reach 1,733 €/ha for potato seeds. A national ceiling applies for seed aid. No data on seed stocks is available.

The production of *hops* in Croatia is limited. Only six producers grouped in one cooperative produced on average during the years 1998-2005 9.7 tonnes of hops (Aurora variety) on an average area of about 7.8 hectares. Direct payments are governed by the *Agriculture Act* and the *Act on State Aid in Agriculture* (Official Gazette 87/2002/, 117/2003, 82/2004) providing 169 €/ha to registered producers with a minimum production area of 0.5 hectare and respecting a minimum density for hop gardens. For planting of new hops gardens a subsidy of 3.200 €/ha is paid. There is no hop certification system.

II.e. Rural development

Following the definitions of OECD, 48% of Croatian population lives in rural areas, which constitute 92 % of the national territory. The current strategic framework for rural development is based on the development strategy *Croatia in the 21st century – Agriculture and Fisheries Strategy of the Republic of Croatia* (Official Gazette 89/02, 108/03), and the SAPARD programme – *Plan for Agriculture and Rural Development 2005 – 2006* (adopted by the Commission on 8 February 2006).

The objectives of the agriculture policy are listed in the *Agriculture Act* (Official Gazette 66/01, 83/02), they underline the importance of maintaining and promoting natural resources through sustainable, and especially organic agriculture; the protection and development of rural areas, and traditional rural values of the Croatian countryside. The *Act on State Subsidies for Agriculture, Forestry and Fisheries* (Official Gazette 87/02, 117/03, 82/04,

12/05) defines four State incentives and aid system models (see section II.a.). These models provide production incentives (direct payments), income aid, capital investments and rural development aid. Operative measures for the development of rural areas and their implementation are defined in the *Ordinance on the Implementation of the Programme for the Development of Rural Areas* (Official Gazette 71/05).

The rural development scheme was created by the *Act on State Subsidies for Agriculture, Forestry and Fisheries* (Official Gazette 87/02, 117/03, 82/04, 12/05) and is implemented by the MAFWM. It consists of 3 Programmes:

- 1) Programme for development of rural areas
- 2) Programme for preservation of original and protected breeds
- 3) Programme for marketing of agricultural products

The basic objective of the **programme for development of rural areas** is the sustainable development of rural areas by ensuring adequate working and life conditions as well as the preservation of natural and cultural heritage. The measures for the development of rural aid are:

- investments into farms,
- processing of agricultural products,
- establishment of machine rings,
- young farmers,
- education, retraining and training,
- environmental protection measures in agricultural and forestry areas,
- forestry,
- renewal of fire affected forests and agricultural areas,
- land improvement measures,
- reconstruction and development of the countryside,
- preservation of cultural property, rural customs and manifestations,
- various agricultural and other activities aimed at providing additional or alternative sources of income,
- rural and hunting tourism, and traditional crafts,
- improvement of rural infrastructure connected with the development of agriculture,
- promotion of wine roads and other tourist routes,
- promotion of quality autochthonous products,
- development of services in rural areas.

These activities and the entire Programme will be implemented through the following ten implementing measures:

- Measure 1: Drafting of school, teaching, educational and development programmes, plans and projects in the field of agriculture, fisheries, forestry, hunting and rural development;
- Measure 2: Specialised education (high schools, educational camps, professional training) of villagers in the field of agriculture, fisheries, forestry, hunting and rural development;
- Measure 3: Founding and development of agricultural cooperatives;
- Measure 4: Founding and development of agricultural producers' associations and machine rings;
- Measure 5: Investments in family farms, fish and shell farming, private forests and rearing of wild game (facilities and equipment for agriculture, aquaculture, forestry and hunting production);

- Measure 6: Processing, storage and marketing of agricultural, fishing and forest products;
- Measure 7: Assistance to village women and young farmers, and young fish and shell farmers in the form of pilot projects;
- Measure 8: Reconstruction and development of the countryside and rural area (rural infrastructure, environmental protection, cultivation of land, fisheries, forestry, hunting, diversification activities);
- Measure 9: Development of rural, hunting and fishing tourism;
- Measure 10: Preservation of traditional ethno heritage and autochthonous production.

The selection is undertaken by calls for expression of interest. The maximum amount (up to 50% of the project cost) of aid per project per year is 30,000 €, except for Measure 7 - assistance to village women and young farmers, and young fish and shell farmers in the form of pilot projects, for which the maximum amount is 65,000 €. Financial aid may be requested by legal or natural persons, e.g. family farms, agriculture cooperatives, companies, producer associations.

The objective of the **programme for preservation of original and protected breeds** is maintenance and advancement of the production of original and protected breeds of domestic animals. The Croatian Livestock Centre carries out registration and marking of cattle and receives and processes applications for payment of subsidies.

The objective of the **programme for marketing preparation of agricultural-food products** is to contribute to the competitiveness of the agricultural sector by subsidising sale of agricultural-food products especially in the tourist market by means of various marketing activities. The programme is conducted through bidding and its beneficiaries are scientific and professional institutions, consulting companies, cooperatives, producers' associations and local and regional units of self-government (counties, municipalities and cities). The Programme is funded by the state budget and other sources (e.g.: resources of the project holder, family farms, local and regional units of self-government (counties, cities and municipalities, etc.). Funding of projects is limited to 40,000 € (for the year 2004) and requires 50 % funding from own resources.

Further support is provided by the *Ordinance on the Implementation of the Capital Investment Scheme in Agriculture, Forestry and Fisheries* (Official Gazette 47/2004, 114/2004, 2/2005, 100/2005) offering special loans to the agriculture sector. The investment aid may amount up to 25 % of the total value of a loan used, but not more than 20 % of the total investment value. The investment aid is granted for the following capital investments:

- acquisition of production and breeding female livestock,
- acquisition of breeding male livestock,
- investments in perennial plantations,
- plantation of forests,
- construction, adaptation and furnishing of facilities used for agricultural production and aquaculture,
- preparation of agricultural land,
- purchase of fishing vessels and new equipment and machinery for agriculture, fisheries and forestry,
- construction, adaptation and furnishing of facilities used for the storage and processing of agricultural products,
- purchase of private agricultural land for the purpose of consolidating the agricultural holding.

Support for organic plant and cattle-breeding production has been defined in the *Ordinance on the Manner and Conditions for Implementation of the Production Support Scheme* (Official Gazette 24/05, 105/05).

The *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002/, 117/2003, 82/2004) provides also for 1,625 farms, or 1945 people an income support scheme (in total 1.8 € million) to support non commercial farmers.

Further programmes support the set-up of producer associations, agriculture secondary schools participation in exhibitions and fairs. SMEs development programmes are undertaken in cooperation with the Ministry of Economy, Labour and Entrepreneurship. The Ministry of Sea, Tourism, Transport and Development provides assistance to regional development (including island development).

II.f. Quality policy

The MAFWM is in charge of *quality policy* since the July 2003 with the new legal framework based on the Community *acquis* (Council Regulations (EC) 2081/92 and 2082/92)². Geographical indications are governed by the *Food Act* (Official Gazette 117/03, 130/03, 48/04) and the *Ordinance on Designation of Origin and Geographical Indications of Foodstuffs* (Official Gazette 80/05). The latter is applicable to all agriculture products and foodstuff intended for human consumption, but not to natural mineral waters and spring waters; spirit drinks, fruit wines and other products from grapes and wines, except from wine vinegars. It regulates definitions; application and the content of specification; registration procedure, registers; labelling; amendment of the specification; the right to use registered indication; conformity establishment system and control. Traditional indications are governed by the *Food Act* (Official Gazette 117/03, 130/03/, 48/04) and the *Ordinance on Recognition of Specific Character of Food Stuffs and Registration of Indication "traditional reputation"* (Official Gazette 127/05). This ordinance specifies the definitions, conditions and procedure for recognition of specific character, labelling, contents of application and of specifications, amendment of the specification, the right to use registered indication, conformity establishment system and control.

The expiring legal framework under the supervision of the State Intellectual Property Office registered a number of designations of origin and geographical indications. The protection of all these existing registered (protected) indications has to be renewed in accordance with the new procedure as provided by the *Ordinance on Designations of Origin and Geographical Indications for Foodstuffs* with a deadline for initiating the renewal of the protection of 31 December 2006. The names currently registered are:

1. Cetinski sir – cheese
2. Dingač – wine
3. Drniški pršut – meat product
4. Istarski pršut – meat product
5. Paški baškotin – biscuit
6. Paški sir – cheese
7. Slavonski domaći kulen/kulin – meat product
8. Stara slavonska šljivovica or Slavonka* – spirit drink
9. Torkul – olive oil

² Council Regulations (EC No 2081/92 and 2082/92 have been replaced by Council Regulations (EC) No 509/2006 and 510/2006 – OJ L 93, 31.03.2006, p.1 and 12.

* The protection for Dingač (wine) and Stara slavonska šljivovica or Slavonka (plum spirit) are not covered anymore by the above-mentioned legislation and will be dealt with by the wine and spirit drinks legislation.

II.g. Organic farming

Although still very limited in size, the sector of organic production develops well in a strictly regulated environment. The *Act on Organic Production* (Official Gazette 12/01, 14/01) was adopted in 2001 and regulates the organic production of agriculture products and foodstuff, its processing, trading, labelling and inspection. A significant number of ordinances³ were adopted in 2001, 2002 and 2003, based on the EU Regulation 2092/91 and the IFOAM Guidelines. The MAFWM is the competent authority for the coordination and implementation of organic production policy.

Croatia's total area of organic production is 14,975 hectares, of which 3,124 hectares are agricultural land (0.37 % of total agriculture land), 60 hectares forests and 11,791 hectares are used as pastures for bees-keeping. The main organic products are cereals, potatoes, soya, sunflower, fresh vegetables and fruit. The organic livestock increased over the past years to reach in 2005 315 cattle, 45 equidae, 4,520 sheep, 2,226 goats, 181 pigs, 5,717 poultry and 671 beehives. There are currently 269 organic producers and 20 importers of organic products registered by the Ministry of Agriculture.

In addition to the national direct subsidies for organic production provided by the *Act on State Aid in Agriculture, Fisheries and Forestry* (Official Gazette 87/2002, 117/2003, 82/2004), organic cooperatives and associations are financially supported by several counties in Croatia. These regional entities contribute to the costs of supervision and certification of organic production, in order to relieve the financial burden from organic producers and promote the development of organic production in their region. So far, six private inspection and two private certification bodies, supervised by the MAFWM, have been accredited. .

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Croatia has reached partial alignment in the preparedness for accession. However, the quality, quantity and completeness of available official statistics are limited in many sectors of the chapter Agriculture and Rural Development. The Croatian authorities should address this issue as a matter of priority. The progress of negotiations under this chapter will depend on the availability of consistent and reliable statistics, notably for milk, sugar, wine, livestock and cereals. Croatia has not provided indications as regards its timetable for the completion of transposition and harmonisation.

³ -Ordinance on organic production in crop production and production of plant products (Official Gazette 91/01);
Ordinance on organic production of animal products (Official Gazette 13/02);
Ordinance on conformity assessment system in organic production (Official Gazette 91/01);
Ordinance on procedure and criteria for obtaining the eco-label (Official Gazette 13/02);
Ordinance on processing in organic production (Official Gazette 13/02);
Ordinance on labelling organic products (Official Gazette 13/02);
Ordinance on conditions and method of registration in registers of organic production for agricultural products and foodstuffs (Official Gazette 13/02);
Ordinance on technical supervision in organic production (Official Gazette 13/02);
Ordinance on organic production in processing of fibres (Official Gazette 81/02);
Ordinance on remuneration of costs of technical supervision of organic production and costs of establishing compliance with basic requirements (Official Gazette 85/02);
Ordinance Amending the Ordinance on remuneration of cost for technical supervision of organic production and cost of conformity assessment with basic requirements (Official Gazette 101/03)

Croatia's agriculture sector has a well developed policy framework, a very complex legal and administrative structure which reflects the importance of the sector in the economy and society. Although some elements of the Common Agricultural Policy already exist in Croatia and the services proved to have a good understanding of the *acquis*, the preparations for setting up the basic instruments for managing the Common Agriculture Policy are generally at an early stage.

Croatia needs to be further aligned with the *acquis*, especially in the areas of *horizontal issues*. Decoupled direct support plays only a marginal role in Croatian agricultural policy whereas in the EU almost 90% of the direct support is paid through the decoupled payments. Given the large number of coupled aid schemes Croatia has established, the transition to the single payment scheme will be a major change for the Croatian farming sector. Only legal persons established in Croatia and natural persons holding Croatian citizenship and residing in this country may be a beneficiary of financial aid and other forms of aid for agriculture. This should be changed before accession as citizenship can not be a precondition for the eligibility of Community aid.

Missing legal provisions and institutional capacities (paying agencies, IACS) need to be further developed. The rural development policy and plans for its administrative structures are well advanced (the SAPARD agency is to enter in the final stage of accreditation process). This strategy and the related programmes and measures need now to be implemented and actual disbursement rates increased.

The large majority of Croatia's agriculture markets are not in line with the EU Common Market Organisations, which is understandable at this stage of the enlargement process. The recent reforms of the Common Agricultural Policy will facilitate the harmonisation of these markets. Today, key elements like market intervention, quotas, price reporting and monitoring do not exist in Croatia. In order to align with the *acquis*, the subsidy and direct aid policy needs to be significantly revised and institutional capacities to be strengthened.

The large number of direct aid mechanisms, state aid provisions, rural development measures and other financial support systems needs to be streamlined. In many cases they can not be clearly grouped or classified according to the EU instruments. Similar to the recent developments in the EU, Croatia should further develop the "second pillar" of its agricultural policy; hence increase the attention given to rural development and shift resources accordingly.

III.a. Horizontal

The reform of the Croatian agricultural policy followed the developments of the EU Common Agricultural Policy, hence moving from price support to *direct support*. However, Croatia has chosen to establish aid schemes linked to agricultural production whereas the EU has to a large extent moved to decoupled aid schemes. Other elements like cross compliance and modulation are not very developed. The set-up of the SAPARD agency in the MAFWM will help in setting up administrative structures, e.g. the *Integrated Administration and Control System* as required by the *acquis*. Croatia must also introduce a Land Parcel Identification Systems based on cartographic references and using Geographic Information System techniques. A system for the identification and registration of payment entitlements needs to be set up. The system for identification and registration of animals needs to be fully aligned with the EU legislation and be extended to other species than bovines. The farm register needs to be computerised and an effective on the spot control system put in place. Croatia should furthermore develop the *paying agency*. As a first step, Croatia should set-up the SAPARD agency in the organisational framework of the Department for Market and Structural Support within the MAFWM for managing the SAPARD funds. The legislation and provisions as regards *trade mechanisms* are not in line with the *acquis*. Croatia does not apply export refunds, export licenses or special safeguards following its accession to the

WTO. No *FADN* exists in Croatia. The collection and processing of data should be strengthened, at all (national, regional, local and farm) levels and brought in line with the EU standards and methodology. Croatia is planning to set up the *FADN* system by the end of 2008. *State aids* are currently not in line with the *acquis*, but Croatia will have sufficient time to adjust the current measures to the *acquis*.

Cocoa and chocolate products, coffee extract and chicory extracts are sectors with a considerable level of alignment and the legislation reflects to a great extent the EU *acquis*.

III.b. Arable crops, fibre, sugar

The legal framework and institutional requirements for the common market organisation of arable crops, fibre and sugar are not in line with the Community *acquis*. Basic market structures, e.g. market intervention system for *cereals* are missing. Croatia needs to identify intervention agencies, procedures and conditions for the storage of arable crops. It has furthermore to define minimum quality standards for intervention. *Oilseeds, dried fodder* and *protein crops* do not require market structures.

Sugar remains a very sensitive sector for Croatia and is not aligned to the EU sugar market regime⁴. The market is free of direct state intervention, hence no production quota, intervention price or production levies. Croatia has furthermore to align with the maximum level of erucic acid in oil and fats intended for human consumption. The definition of fibre types is missing for *flax and hemp*.

III.c. Livestock products

Legal framework and institutional requirements are not aligned with the *acquis* in most of the animal products market. The *milk, beef, sheep and goats, pig meat, eggs* and *poultry* sectors have no legal framework regulating the market. Croatia has to create a production quota and a market intervention system in the milk sector. As regards the beef sector, Croatia applies a very different premium system. Croatia has set up a bovine identification system similar to EU standards but the existing beef and pig carcass classification system needs to be reviewed. The animal identification system for sheep and goats needs to be further developed. A price monitoring system was, however, set up for sheep and goats but not with the frequency (weekly) required in the EU. Control and observation is not applied for on-farm slaughtering and direct sales of sheep and goats and meat, therefore the capacity is unknown. The pig market is totally free of any market or price intervention. No storage aid is being granted. The sector of *honey* is partially aligned with the *acquis* given the regulations on definitions, composition criteria and origin.

III.d. Specialised crops

Legal framework and institutional requirements are to a very limited extent aligned with the *acquis* as regards specialised crops. In the *wine* sector, Croatia has to continue the works on an EU compatible vine register and harmonising of the oenological practises. As regards spirit drinks, Croatia has partially harmonised its legislation with Commission Regulations (EC) 2870/2000 on reference methods for the analysis of spirit drinks, Council Regulation (EC) 1576/89 and Commission Regulation 1014/90 on the definition, description and presentation of spirit drinks. Croatia needs to develop in the *fruit and vegetables* sector marketing standards and conformity checking systems accordingly to EU standards, producer organisations and producer groups, inter-branch organisations (optionally) and

⁴ The bilateral screening was based on the existing *acquis*, therefore on Council regulation (EC) 1260/2001.

basic market structures (e.g. price monitoring, withdrawals systems). The *floriculture* market is missing quality standards, inspection bodies and measures to improve quality and stimulate demand. The *olive oil* sector has partially aligned with the *acquis* as regards marketing standards, chemical and organoleptic characteristics of olive oil; however, private storage scheme, producer originations, import licensing system and production limiting measures are missing. The *hops* sector has neither an EU conform certification procedure nor minimum quality standards. Croatia has to define the production regions for *tobacco* and to look at long term measures to convert production. The *seed* sector of Croatia is partially aligned with the *acquis*.

III.e. Rural development

Strategic approach in the area of rural development should be more developed for each of the Axis of the EU Rural Development Policy for 2007-2013 (absence of clear thematic and territorial priorities for each axis (article 11.3c of Regulation 1698/2005). In addition, the real implementation of various components of the programme for development of rural areas is rather slow. The Government of Croatia allocated in the years 2003-2006 a total of 21.3 € million, but only 5.46 € have been disbursed. Administrative capacities are currently limited but it is expected that they will further develop with the start of the SAPARD funding. The SAPARD instrument, and later on the IPARD (Instrument for Pre-Accession – Rural Development component) will enable Croatia to accelerate the alignment with the *acquis* in the rural development sector. However, the current financial and human resources need to be further increased to adequately address the numerous objectives set in the rural development strategy and described in the measures.

III.f. Quality policy

As regards quality policy, the legal framework has been recently reformed to comply with EU Council Regulations (EEC) 2081/92 and 2082/92⁵. However, the scope of the relevant Ordinance does not cover agricultural products not intended for human consumption listed in Annex II of the Council regulation 2081/92. The inspection system needs to be reviewed. Two figurative trademarks have been registered including a geographical indication registered as an element of the trademark by the State Intellectual Property Office, after the date of protection of this geographical indication. The quality labels granted by the Croatian Chamber of the Economy - “Croatian Quality” and “Croatian Creation” are intended for labelling all Croatian quality products, in particular foodstuffs. These labels do not comply with the rules of free circulation of goods in the EU.

III.g. Organic farming

As regards organic farming, Croatia largely complies with the *acquis*. The legal framework is based on EU Council Regulation 2092/91. Croatia has the necessary register of organic operators (including importers), authorised testing laboratories and the technical inspections for organic production. Established communication links exist between the MAFWM, the Croatian Extension Service and various producers associations.

⁵ Council Regulations (EC) No 2081/92 and 2082/92 have been replaced by Council Regulations (EC) No 509/2006 and 510/2006 – OJ L 93, 31.3.2006, p.1 and 12.