

Conclusions on Croatia

(extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2010-2011", COM(2010)660 final)

Croatia continues to meet the **political criteria**. Progress has been made in many areas, including in the field of rule of law. However, efforts must continue and further intensify in particular in the field of judicial and administrative reform, the fight against corruption and organised crime, respect for and protection of minorities and refugee return.

Democracy and the rule of law have been further strengthened. The *government* and the *parliament* have continued to function effectively. However, the capacity of the parliament to scrutinise the legislative process needs enhancing. Judicial reform has continued but significant challenges remain, especially relating to judicial efficiency, independence and accountability.

There has been limited progress in the area of *public administration* reform. The law on general administrative procedures entered into force and a human resources development strategy and action plan for the civil service was adopted. However, the public administration continues to suffer from shortcomings, including complex administrative procedures, politicisation and weak human resources management. In order to achieve tangible results, stronger political commitment and improved co-ordination between the key stakeholders at central, regional and local levels are required.

Judicial reform has continued. Case backlogs were reduced in the courts and judicial independence was strengthened through constitutional amendments. However, the main expected results of the reform process are yet to be seen. Challenges remain in particular with regard to the application of transparent criteria for the appointment of judges and prosecutors, the further reduction of the backlog of cases, the length of proceedings and the enforcement of decisions. Some progress was made with the handling of war crimes cases, including the review of questionable verdicts from the 1990s. However, the problem of impunity remains, especially for crimes committed against ethnic Serbs, many of which have not been properly investigated.

There has been good progress in the *fight against corruption*. Implementation and overall coordination of anti-corruption efforts has improved. The office for the fight against corruption and organised crime continued to be active and issued indictments in some important cases. The number of court verdicts has increased. A right of access to information from public bodies has been included in the constitution. However, corruption remains prevalent in many areas. The recently upgraded legal and administrative structures have yet to be fully tested in practice, particularly the courts' ability to handle the increasing number and complexity of cases. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. There has been little progress in preventing conflicts of interest. There has been limited improvement in the application of access to information legislation. Shortcomings remain with regard to the financing of political parties and election campaigns.

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is ensured overall but certain important challenges remain in terms of implementation. As for *access to justice*, substantial reform of the system of administrative justice has begun. State funded free legal aid is now being provided. However, procedures are complicated and the overall level of aid provided is low. With regard to the *prison system*, legislative measures have been taken to improve prison conditions through the foreseen

introduction of a probation system. Prisons remain overcrowded and provide inadequate health protection. As regards *ill treatment*, the Ombudsman continued to receive complaints regarding the excessive use of force by the police.

Freedom of expression, including freedom and pluralism of the media, is provided for by law and is generally respected. However, editors and journalists continue to report on political pressure. Problems with the independence of local media remain.

There has been limited progress with regard to *women's rights* and gender equality. The position of women in the labour market has not significantly changed and the level of female unemployment remains high. The Ombudsman for Children has become more active in promoting and protecting *children rights*. However, this body lacks appropriate resources to carry out fully its mandate.

There has been some progress as regards the *socially vulnerable and persons with disabilities*. The capacity of the Office of the Ombudsman for Persons with Disabilities is being strengthened, notably in view of extending representation in the regions. There is, however, a lack of information on rights and entitlements in the area of social welfare, health care and pensions. Criteria for the establishment of entitlements are not consistently applied and legislative provisions regulating specific rights are fragmented. The transition from institutional care to community-based care services has progressed slowly.

Some steps have been taken to raise awareness of the new *anti-discrimination* law. However, knowledge of its scope among the authorities and citizens is limited and only a small number of discrimination complaints reach the courts. There has been some progress as regards hate crime legislation, though implementation is at an early stage.

There has been some progress with regard to *respect for and protection of minorities and cultural rights*. Greater focus on minority issues can be reported in a context of improved relations in the region, particularly between Croatia and Serbia. Constitutional provisions on minorities were strengthened. The Roma minority has continued to receive attention, with improvements particularly in pre-school education. The level of funding available for minority organisations has only been marginally reduced, despite the financial austerity measures. However, many problems remain for minorities. Croatia needs to continue to foster a spirit of tolerance towards the Serb minority. Croatia also needs to take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. The Roma minority faces particularly difficult living conditions and challenges remain in the areas of education, social protection, health care, employment and access to personal documents. Minorities continue to face 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.

There has been some progress regarding *refugees*. Refugees continued to return to Croatia. Provision of housing care to former occupancy and tenancy rights holders has continued. A revised action plan has been adopted for accelerated implementation of the government's delayed 2009 housing care plans, with the aim of full implementation in 2011. Some progress was made with the reconstruction of damaged houses. The substantial backlog of appeals against rejected applications for reconstruction assistance was reduced. Implementation of the decision on validating pension rights has continued. However, progress towards meeting the 2009 housing targets has been slow. Several thousand applications for housing care remain to be fully processed and housing units made available to returning refugees. A high number of appeals for housing reconstruction remain pending. Efforts to create the necessary conditions for the permanent return of refugees need to be made.

As regards **regional issues and international obligations**, Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). The special task force set up by the government needs to continue its work to locate or determine the fate of missing artillery documents requested by the Office of the ICTY Prosecutor. Fresh impetus was given to the Sarajevo declaration process following the Ministerial meeting held in Belgrade in March 2010. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia which agreed to work together to clarify refugee statistics. The countries also committed themselves to work towards solutions to a number of outstanding issues by the end of the year.

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). The Croatian President has assumed a pro-active approach regarding regional cooperation. Bilateral relations with other enlargement countries and neighbouring EU Member States continue to develop, including with Serbia. Relations with Slovenia have improved with the signing of the Agreement on international Arbitration of the Border.

The **economy** of Croatia has been severely affected by the global economic and financial crisis. The country fell into recession in the first quarter of 2009 and there were no clear signs of a recovery by mid-2010. Unemployment, public deficit and debt have increased significantly. External indebtedness rose further and remains a key vulnerability of the economy. Monetary stability was preserved by the policies of the central bank and the financial sector weathered the crisis relatively well.

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. The Economic Recovery Programme has given economic policy a medium-term orientation. The programme's benefit for growth and international competitiveness depends on its effective implementation. Given the existing constraints, macroeconomic policy has, by and large, been appropriate to address the consequences of the global economic and financial crisis. Monetary policy succeeded to preserve exchange rate and financial stability while alleviating liquidity pressures. The current account deficit narrowed as a consequence of the recession and inflationary pressures subsided further. The banking sector remained resilient to shocks.

However, structural reforms generally advanced at a very slow pace, not least with respect to privatisation and the restructuring of loss-making enterprises. The labour market remained highly rigid, with low employment and participation rates which declined further during the recession. In the fiscal area, the authorities made limited efforts to contain the rising deficit and to increase the efficiency of public spending. Social transfer payments remained high and not well-targeted and a large number of state-owned enterprises continued to receive State support through direct and indirect subsidies and guarantees. For achieving medium-term fiscal sustainability, it remains a key challenge to improve the budgetary process and discipline and to enhance the efficiency of public spending. 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 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*.

Good progress has been made in the field of *free movement of goods* and alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary, particularly on conformity assessment, metrology and market surveillance. Croatia needs to complete alignment with the *acquis* and to strengthen implementation capacity. Good progress can be reported in the area of *free movement of workers*, and a satisfactory level of legal alignment has been achieved. Additional efforts are needed to strengthen, in particular, the coordination of social security systems.

Progress has been made in the field of *right of establishment and freedom to provide services*, in particular on mutual recognition of professional qualifications and on postal services. Overall alignment with the *acquis* is satisfactory. Increased efforts are required to complete alignment, in particular in the area of mutual recognition of professional qualifications and to transpose the Services Directive. Work on improving administrative capacity needs to be continued.

Further progress has been made in aligning with the *acquis* in the field of *free movement of capital*. Continued efforts are needed to complete liberalisation of capital movements and to consolidate the enforcement of anti-money laundering legislation.

Good progress can be reported in *public procurement*, in particular on improving the capacity of the main stakeholders to co-ordinate and implement public procurement policy. The ability to apply the law efficiently still needs to be further enhanced at all levels of the procurement system.

Some progress can be reported in the *company law* chapter. Alignment with the *acquis* is on track. Further efforts are needed in the area of auditing.

Progress can be reported in the field of *intellectual property law*. Alignment with the *acquis* has reached a very high level and progress can be reported with enforcement. Overall awareness of intellectual property rights remains to be strengthened.

Significant progress has been achieved in *competition policy*, in particular towards finalisation of the tendering procedure for restructuring the shipyards. Overall, a good level of alignment has been achieved. However, further efforts are still required to adopt restructuring plans in line with the State aid *acquis* for the shipyards in difficulty, to improve the Croatian Competition Agency's enforcement record against cartels and to improve its administrative capacity further, in particular in the area of antitrust. Alignment of the Croatian Broadcasting Act needs to be completed. The National Restructuring Plans for the steel industry also need updating.

Substantial progress can be reported in the area of *financial services*, both on alignment of legislation and on strengthening administrative resources. However, further strengthening of the administrative capacity of the regulators is needed.

Croatia has made significant progress in the field of *information society and media* and has achieved a high level of alignment with the *acquis*. However, continued efforts are needed to strengthen the capacity of the two national regulators to apply the legal framework correctly. Liberalisation of all segments of electronic communications markets needs to be sustained.

Good progress can be reported in the field of *agriculture and rural development*, in particular on establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. However, considerable efforts in these key areas of the Common Agricultural Policy need to be

sustained. Croatia also needs to align the agricultural support system fully with the *acquis* and to increase absorption capacity for rural development funds.

Good progress has been made in alignment in the field of *food safety, veterinary and phytosanitary policy*, in particular with the adoption and implementation of secondary legislation. Transposition of the *acquis* is well advanced in all sectors. Significant progress has been made through the adoption of the national programme for upgrading establishments for food of animal origin and animal by-products. Continued efforts are required regarding the programme's implementation, as well as on strengthening administrative and control capacity, and setting up border inspection posts.

Croatia has made good progress in aligning with the *acquis* in the field of *fisheries*. Preparations for applying fisheries policy are well advanced. Croatia needs to improve implementation of the legislation, in particular with regard to fleet management, inspection and control and structural policy.

Further progress has been achieved in the field of *transport*. Overall, the level of alignment is good. However the completion of the alignment is needed in the aviation sector. Additional efforts are still needed to implement and enforce the *acquis*.

Further progress has been achieved in the *energy* chapter, where the level of alignment is high. However, significant efforts are needed to increase the performance of the administration and independence of the energy sector regulatory authorities.

Progress was made in *taxation*, in particular on operational capacity and computerisation. Croatia's legislation in the field of direct and indirect taxation is largely in line with the *acquis*. Nevertheless, some further alignment is required, most notably in the fields of VAT and excise duties. Efforts to strengthen administrative capacity, including on IT interconnectivity, need to continue.

There has been further progress in the area of *economic and monetary policy* where, overall, alignment with the *acquis* is effectively complete.

On *statistics*, substantial progress has been made on modernising the statistical infrastructure. A good level of alignment has been achieved. Efforts need to continue in order to align Croatian statistics fully with EU requirements.

Good progress has been made on *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, and in the field of anti-discrimination and gender equality. Administrative capacity requires further strengthening.

Croatia has made progress on *enterprise and industrial policy*, particularly with regard to policy principles and instruments. Alignment with the *acquis* is very advanced. Further sustained efforts need to focus on improving the business environment. Efforts to restructure the steel and, particularly, shipbuilding industries need to be pursued.

Croatia made further progress with the development of the *trans-European networks*. Alignment with the *acquis* has been completed.

Good progress was made under *regional policy and coordination of structural instruments*, notably on preparing strategic documents and designating the institutions and mechanisms to implement EU cohesion policy, recruit and train further staff. Croatia's preparations for applying EU cohesion policy are relatively advanced. Croatia needs to complete its preparations by focusing on establishment of a mature project pipeline and absorption of funds.

Croatia has made good progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation strengthening judicial independence and a further reduction of the case backlog. However, judicial reform remains a major undertaking and significant challenges remain, especially relating to judicial efficiency, independence and accountability. Anti-corruption efforts have been stepped up with some positive results but corruption remains prevalent in many areas. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. Preventive measures such as improved transparency of public spending need to be strengthened. Protection of fundamental rights has been strengthened but need to be improved in practice, especially for minorities and refugees.

Croatia made substantial progress in the field of *justice, freedom and security*. The asylum system has been significantly improved, but attention needs to be paid to integrating persons granted protection in Croatia and to protecting minors among irregular migrants. Good progress has been made in the field of visas. However, alignment with the *acquis* on visas needs to continue. Progress has been made in the field of external borders. However, several aspects of the integrated border management action plan need to be amended and the upgrading of equipment needs to be stepped up. Significant progress was made in the field of judicial cooperation in civil and criminal matters. Progress also continued in the counter-narcotics policy.

Progress in *science and research* has continued, but has slowed down as a result of the economic and financial crisis. Efforts are needed to further strengthen research capacity, provide training, and increase investment in research by industry and small and medium enterprises. Further progress has been made regarding the *acquis* in the area of *education and culture*. There is a good level of alignment. Croatia needs to continue its efforts to prepare for the management of the Lifelong Learning and Youth in Action Programmes.

Good progress has been made in the *environment* chapter as regards both alignment and implementation of the legislation. Legislative alignment in the field of water quality and also, to a certain extent, climate change needs to be completed. Implementation of the horizontal *acquis* and cooperation with non-governmental organisations active in the field of environment needs to be improved. Overall, Croatia's preparations are nearing completion. Croatia needs to continue strengthening administrative capacity, especially at local level.

There has been good progress in the area of *consumer and health protection*. A good level of alignment has been achieved. Sustained efforts are necessary to strengthen further administrative capacity.

Good progress has been made with regard to *customs union*. Croatia's customs legislation is aligned with the *acquis* to a very large extent. Croatia has continued to make progress in the area of IT, notably in interconnectivity. Further progress towards removing the last discrepancies in Croatia's legislation, implementing the Anti-Corruption Strategy and preparing for IT interconnectivity is required.

Some progress has been made in the field of *external relations*. Croatia has reached an advanced level of alignment and is continuing to coordinate and align its positions in international *fora*. However, Croatia needs to pay attention to fully complying with its international obligations when resorting to safeguards. Further resources need to be allocated to development policy and humanitarian aid.

Croatia has made further progress in the area of *foreign, security and defence policy*. It has continued to participate in several EU military and civilian missions. Overall, Croatia has

reached a high level of alignment. Croatia needs to continue strengthening implementation and enforcement of arms control, including the transparency of arms-related information.

Progress can be reported in the field of *financial control*. Independence of the State Audit Office was strengthened. Efforts should now focus on the sustainability of the reforms. The bodies involved in the Anti-Fraud Coordination Structure need to enhance their efforts for efficient implementation of the anti-fraud strategy.

There has been further progress in the field of *financial and budgetary provisions*. The institutional capacity for applying the rules on own resources has been further developed. Croatia has reached a good level of alignment with the *acquis* and capacity to implement it, except in the case of sugar levies. Croatia needs to further enhance its coordination capacity.