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COMMISSION STAFF WORKING DOCUMENT

COMPREHENSIVE MONITORING REPORT ON CROATIA

accompanying the document

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Comprehensive Monitoring Report on Croatia's state of preparedness for EU
membership**

{COM(2012) 601 final}

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1. INTRODUCTION

Accession negotiations with Croatia were closed in June 2011. After the Commission's favourable opinion, the European Parliament's assent and the Council decision on the admission of Croatia, the Accession Treaty was signed on 9 December 2011. Croatia will become a Member of the European Union on 1 July 2013, subject to the Accession Treaty being ratified by all Member States. As an acceding country, Croatia has active observer status during the interim period before accession.

In the course of the negotiations, Croatia has agreed to a number of commitments, which have to be implemented by the date of accession, at the latest, unless specific transitional arrangements have been agreed.

Article 36 of the Act of Accession requires the Commission to closely monitor all commitments undertaken by Croatia in the accession negotiations, focusing in particular on competition policy, judiciary and fundamental rights, and freedom, security and justice. Moreover, as an integral part of its regular monitoring tables and reports the Commission is to issue six-monthly assessments up to accession on the implementation of Croatia's commitments in these areas. The Commission adopted a Monitoring Report on Croatia's accession preparations in April 2012¹ and Croatia developed an action plan to follow up on its recommendations. The Act further provides for the Commission to present a Comprehensive Monitoring Report to the European Parliament and the Council in autumn 2012.

In line with Article 36 of the Act of Accession, this Comprehensive Monitoring Report assesses the progress made by Croatia in its preparations for accession in the period October 2011 to September 2012, provides an overall assessment of the level of preparedness for membership and highlights the areas in which further efforts are necessary in order for Croatia to be ready for membership on 1 July 2013.

Furthermore, Article 36 of the Act of Accession provides that if issues of concern are identified during the monitoring process and not remedied by Croatia, the Commission will, if necessary, address early warning letters to the Croatian authorities and may propose to the Council that all appropriate measures be taken even before accession. In addition, as in the previous enlargement, the Act of Accession contains a general economic safeguard clause, an internal market safeguard clause and a safeguard clause on justice, freedom and security.

The report contains three main parts:

- The first part briefly describes the situation with regard to compliance with the political criteria.
- The second part describes the situation with regard to compliance with the economic criteria.
- The third part gives an overview of where Croatia stands in terms of fulfilling all of the commitments and requirements arising from the accession negotiations for each *acquis*

¹ COM(2012) 186 final.

chapter, both in terms of legislation and implementation, as well as the overall level of preparedness for each *acquis* chapter.

This assessment is based on information gathered and analysed by the Commission, including input provided by Croatia, and information shared by Member States and international and civil society organisations in their regular contacts with the Commission. The assessment is also based on the Commission's findings in its updated Monitoring Tables, a working tool aimed at following up in detail on all of Croatia's commitments in the context of the negotiations.

Through this report, the Commission also aims to assist Croatia in its further preparations for membership.

In this context, Croatia must ensure that the EU *acquis* is translated into Croatian. Of the nearly 144 000 pages of *acquis*, Croatia has already translated about 114 000 pages. However, about 50% of these already translated pages have still to be revised by the national authorities before they can be submitted to the EU institutions.

Croatia should further increase its capacity to ensure the completion of the translation and revision of the *acquis* in time for accession. The Commission calls on the Croatian authorities to maintain focus on this issue, which is essential in order to ensure legal certainty in the implementation of EU legislation. With regard to financial assistance, the 2012 Instrument for Pre-accession Assistance (IPA) programmes totalled € 156 million. This assistance is focused on institution-building and preparing for implementation of the EU's common agricultural policy and cohesion policy. In addition, Croatia continued to benefit from regional and horizontal programmes.

Overall, Croatia has demonstrated that the decentralised implementation system under the IPA functions satisfactorily, although some delays were encountered in implementation. The Court of Auditors issued a report on EU pre-accession assistance in Croatia in February 2012. The findings of the Court will be followed up by the Commission and addressed in bi-annual reports by Croatia. Croatia has submitted to the Commission its request to waive ex ante controls by the date of accession, in accordance with the provisions in the Accession Treaty. A transition facility has been agreed for the first year following accession to strengthen judicial and administrative capacity.

The Commission has drawn conclusions regarding Croatia in its separate Communication on Croatia's state of preparedness for EU membership², based on the technical analysis contained in this report.

2. POLITICAL CRITERIA

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

² Comprehensive Monitoring Report on Croatia's state of preparedness for EU membership, COM(2012) 601

Issues relating to the judiciary, corruption and human rights are dealt with in more detail under Chapter 23 – Judiciary and fundamental rights, which also addresses cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) and war crimes.

Parliament / Election issues

Parliamentary elections were held in December 2011 and a new government appointed thereafter. Elections took place in a pluralistic environment and were administered in an efficient and transparent manner. However, improvements are necessary with regard to maintenance of the voters' list and work has been initiated in this respect. This needs to be addressed as a matter of urgency, with a view to local elections and the election of Croatia's members to the European Parliament scheduled for spring 2013.

Public administration

The implementation of the State Administration Reform Strategy (2008-2011) has been finalised. No follow up strategy has been developed. The Civil Service Human Resources Development Strategy (2010-2013) is being implemented. Amendments to the Civil Service Act entered into force, providing for increased mobility among civil servants. The process of harmonising the relevant sectoral legislation with the General Administrative Procedures Act has continued and almost reached completion. The legal framework on salaries, necessary to ensure merit-based promotion and reward mechanisms and to attract and retain qualified personnel, still remains to be finalised.

The administrative capacity to implement and monitor public administration reform requires further attention, in particular at local level. Further efforts are needed with regard to training staff of the Ministry of Public Administration and other line ministries, in particular with a view to their role in the future management of the Structural Funds. The State School for Public Administration needs to be further strengthened. Increased efforts are required to strengthen administrative capacity for the future implementation of cohesion policy and to develop a mature project pipeline.

Further efforts are needed to improve the professionalism of the public service. Efficient implementation of the relevant legal framework is necessary in order to continue building a modern, reliable, transparent and citizen-oriented public administration. In view of the recent substantial restructuring of the public administration, and taking into account the additional responsibilities of EU membership, Croatia should address without delay the administrative capacity constraints identified in this Comprehensive Monitoring Report and ensure that the completion of preparations for EU membership is not affected.

Judicial system (See also Chapter 23 – Judiciary and fundamental rights)

Implementation of the judicial reform strategy and action plan has continued, along with efforts to strengthen the independence, accountability, impartiality and professionalism of the judiciary. The reformed State Judicial Council (SJC) and State Prosecutorial Council (SPC) have continued to function independently. Both bodies have continued to appoint judicial officials based on transparent, uniform and objective criteria. Efforts are needed to improve their functioning especially in order for them to carry out their increased tasks. Improvements are needed in the procedures leading to the selection and assignment of new judges and prosecutors. Croatia has continued to implement various measures aiming at improving the efficiency of the judiciary. While the backlog of old criminal cases continues to fall, the number of old civil cases has increased over the last 18 months. This general trend of increase

of unresolved cases, mainly civil, commercial, misdemeanours and enforcement cases is a matter of concern. The merger of courts as part of the court rationalisation process is continuing, as is the functional rationalisation of the state prosecutor's offices. The revised enforcement system needs to be adopted and implemented in order to lead to further concrete results.

Anti-corruption policy (See also Chapter 23 – Judiciary and fundamental rights)

An adequate legal and institutional framework remains in place and a track record of implementation continues to be developed. Law enforcement bodies remain proactive, especially on higher-level cases. Local-level corruption needs attention, particularly in public procurement. Croatia has improved its track record of strengthened prevention measures by means of a number of legal instruments. However, Croatia has not fully implemented the conflict of interest legislation and has overturned the previous provisions on the criteria for membership of supervisory and management boards of public companies. Some initial steps have been taken for the setting up of the Conflict of Interest Commission, with the publication of the request for expression of interests for the selection of the Commission's members. The Commission needs to be established and start operating without delay. The scope and implementation of access to information legislation requires attention. As regards the financing of political parties and election campaigns, the State Electoral Commission, the supervisory body, was strengthened and the new rules from 2011 were applied without major difficulties, with only a few shortcomings identified.

Human rights and the protection of minorities (See also Chapter 23 – Judiciary and fundamental rights)

Human rights continue to be generally well respected. The general Ombudsman and specialised ombudspersons continue to play an important role in human rights protection. However, there has been no proper follow-up of the Ombudsman's recommendations. The gay pride events in Split and Zagreb took place without major incidents, with strong commitment from the Croatian government to their smooth organisation. Lesbians, gays, bisexual and trans-gender (LGBT) people still face discrimination and even threats and attacks.

Protection of minorities has continued to improve, through the continued implementation of measures including the Constitutional Act on the Rights of National Minorities. However, the minority employment in the state administration and judiciary remains below the level required by the act. In line with the Constitution, eight representatives of national minorities were elected in the parliamentary elections of December 2011. Croatia needs to foster a spirit of tolerance towards minorities, in particular Croatian Serbs and to take measures to protect those who may still be subjected 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.

The situation with regard to refugee return issues has improved and the implementation of the housing care programmes continues, although at a slower pace. Conditions for sustainable refugee return need to be further developed.

Freedom of expression, including freedom and pluralism of the media is provided for in Croatian law and is generally respected. A new law on the public broadcaster was adopted in

July 2012. Continued efforts are needed to ensure the independence of the public service broadcaster and to increase its transparency.

ICTY and war crimes (See also Chapter 23 - Judiciary and fundamental rights)

Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). Croatia has continued to process war crimes cases including the priority cases identified at the national and regional level linked to the 2011 strategy on impunity. More cases were transferred to the specialised chambers. However, efforts to address impunity for war crimes should be intensified, as the majority of crimes have yet to be successfully prosecuted. Measures need to be taken to facilitate the attendance of witnesses at trial, especially in cases relocated to specialised chambers.

Regional cooperation

Croatia has continued the dialogue with neighbouring countries in order to address open bilateral issues. The Declaration of the Croatian Parliament of October 2011 on promoting European values in south-east Europe emphasised Croatia's firm commitment to supporting the other countries of the region on their path to EU integration.

Croatia continued to engage in cooperation on war crimes at bilateral and regional level and cooperation between judicial authorities, in particular prosecutors, continued to be good. Discussions are ongoing with Serbia on a cooperation agreement, aimed also at addressing the potentially negative implications of the *Law on invalidation of certain legal acts of the judicial bodies of the Former Yugoslav National Army, the former Socialist Federal Republic of Yugoslavia and of the Republic of Serbia* adopted in October 2011.

Croatia has continued to contribute actively to the Sarajevo Declaration Process. A ministerial declaration was signed in November 2011 in Belgrade renewing political commitment to bringing this chapter to a close. An international donors' conference was held in April 2012 in Sarajevo to secure funding for a durable solution for all refugees in the region who were displaced as a result of the armed conflicts in the former Yugoslavia in the 1990s. Croatia needs to allocate the necessary additional funding.

The unresolved fate of missing persons from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. As of August 2012, there were still approximately 13,250 people missing from the conflicts in the region. Of these, some 9,550 were related to the conflict in Bosnia and Herzegovina, approximately 1,900 to the conflict in Croatia and over 1,800 to the conflict in Kosovo*. In the past year approximately 1,100 remains were identified at regional level. A comprehensive process to review the cases of missing persons needs to be carried out as an important step in the reconciliation process in the region.

Bilateral relations with other enlargement countries and neighbouring EU Member States

Relations with other enlargement countries and neighbouring EU Member States are continuing to improve. A number of bilateral and regional issues, including succession issues, remain to be addressed.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

The second informal meeting of the Presidents of Croatia, Serbia and the Bosnia and Herzegovina Presidency took place in February 2012, focusing on the fight against organised crime and economic cooperation.

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

Relations with *Bosnia and Herzegovina* have intensified. A number of meetings have taken place to address the implications for bilateral relations of Croatia's accession to the EU. In this context, discussions have continued with regard to the outstanding issues on border management, with limited progress. The local border traffic agreement and the agreement on free transit through the port of Ploče, in Croatia, and the Neum corridor, in Bosnia and Herzegovina, should be aligned with the EU *acquis* and ready before accession (*See Chapter 24 – Justice, freedom and security*). Urgent attention should be paid to complete preparations for border inspection posts (*See Chapter 12 – Food safety, veterinary and phytosanitary policy*). Limited progress was achieved in resolving outstanding issues, including property issues and border demarcation. The Croatian government has announced its intention to initiate the procedure for the ratification of the 1999 Border Agreement.

Croatia continues to have good relations with *Montenegro*. The temporary agreement on Prevlaka continues to function smoothly. There has been no further progress in the procedure for submitting the border demarcation to the International Court of Justice.

Relations with *Serbia* are stable, regardless of a number of outstanding issues (border demarcation, missing persons). The two countries are working on a bilateral agreement on war crimes prosecution, aiming at addressing potentially negative implications of the *Law on invalidation of certain legal acts of the judicial bodies of the former Yugoslav National Army, the former Socialist Federal Republic of Yugoslavia and the Republic of Serbia*, which has been challenged by the Croatian President at the Constitutional Court. There have been no tangible results with regard to border demarcation concerning the Danube. The Serbian government submitted its written pleadings supporting its counter-suit against Croatia before the International Court of Justice on genocide allegations in November 2011. A Protocol on the return to Croatia of cultural assets taken during the war in the 1990s was signed, thus resolving an outstanding bilateral issue.

Relations with *Kosovo* have been further developed. High-level visits continue to take place.

Relations with *Turkey* continue to be good and high-level meetings between the two countries were held.

Croatia continues to have good relations with neighbouring EU Member States *Hungary* and *Italy*.

Relations with *Slovenia* continued to improve. The procedure on the international border arbitration between Croatia and Slovenia has started. The Arbitral Tribunal held its first procedural meeting on 13 April 2012, when it was decided that the parties' first memorials would be simultaneously submitted on 11 February 2013, the counter-memorials would be simultaneously submitted on 11 November 2013, and a hearing would be held in the spring of 2014. Concerning the Ljubljanska Banka case (guarantee of foreign currency deposits), Croatia has reconfirmed its commitment to resuming negotiations under the auspices of the Bank for International Settlements. Two experts have been nominated by the parties with the aim of finding a mutually acceptable way forward to resolve the issue.

As in previous years, Croatia continues to fulfil the political criteria for membership. In all areas covered by the political criteria (stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities) work has continued and results are becoming tangible. Further efforts are needed to continue strengthening the rule of law, by improving public administration and the justice system and by fighting and preventing corruption effectively. Croatia needs to intensify its efforts to address impunity for war crimes. In the area of human rights and the protection of minorities, further efforts are needed. Croatia needs to continue to foster a spirit of tolerance towards minorities, in particular Croatian Serbs. The Roma minority continues to face particularly difficult living conditions. Regional cooperation and bilateral relations with neighbouring EU Member States and other enlargement countries have continued to improve. A number of bilateral issues remain to be addressed.

3. ECONOMIC CRITERIA

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

3.1. The existence of a functioning market economy

Economic policy essentials

Croatia's Pre-accession Economic Programme (PEP) for 2012-2014, submitted in March 2012, presented a comprehensive, though optimistic, macroeconomic and fiscal framework for economic policies. The government plans to consolidate public finances by reining in expenditures while stimulating economic growth through infrastructure-oriented investments by publicly owned companies. Monetary policy continues to be conducted within the framework of exchange rate stability vis-à-vis the euro. The consensus on the fundamentals of a market economy was maintained.

Macroeconomic stability

In 2011, annual GDP is estimated to have stagnated (-0.0%) in real terms compared to 2010. GDP still declined in the first quarter, then started to expand in the second and third quarters, before contracting again in the final quarter. Final domestic demand continued to contract in 2011, particularly due to a further drop in investment activity (-7.2%). Private consumption was slightly positive (+0.2%), but this was partly offset by lower public consumption (-0.3%). The level of real GDP was held up by inventory accumulation, which contributed 1.1 percentage points to growth. Net exports added 0.4 percentage points to GDP growth as exports of goods and services expanded faster than imports. GDP per capita in purchasing power terms remained unchanged from 2010 at 61% of the EU-27 average.

The renewed output decline accelerated in the first seven months of 2012. Following a 0.4% contraction in the fourth quarter of 2011, GDP declined by 1.3% year-on-year in the first quarter and by 2.2% in the second quarter of 2012. In July, the monthly indicators of economic activity were all sharply lower in real year-on-year terms: retail sales by -5.1%, industrial production by -5.5% and construction output by -9.7%. The current account deficit narrowed from 1.1% of GDP in 2010 to 0.9% in 2011 before widening again in the first quarter of 2012. Like in the preceding year, Croatia's trade performance in 2011 indicated a

lack of international competitiveness. Market share was lost as exports of goods and services increased by 2.0% in volume terms while the weighted export market grew by 5.4%. Imports of goods and services in volume terms increased by 1.2% although domestic demand contracted by 0.6%. Inflows of foreign direct investment were € 1 billion, which was far below the pre-recession level, but 3 times higher than in 2010. Gross external debt declined slightly from a revised 105% of GDP at the end of 2010 to 103% at the end of 2011 before returning to 105% in mid-2012. Gross international reserves increased from 24.1% of GDP at the end of 2010 to 25.2% at the end of 2011 and further to 26.1% at the end of July 2012 helped by a large foreign-bond issue by the government in April. Despite a significant stock of international reserves, the high level of gross external debt remains a key vulnerability of the Croatian economy.

The labour market continued to deteriorate in 2011. Unemployment was high at 13.5%, a 1.7 percentage point increase on the previous year. Employment fell by 3.2%. The rising trend of unemployment continued into 2012. In July the registered unemployment rate was 0.7 percentage points higher year-on-year. There has only been little progress in reducing the structural weaknesses of Croatia's labour market, which are reflected in low employment and participation rates and high rates of youth and long-term unemployment. In 2011, the employment rate declined to 52.4%, the participation rate fell to 60.8%, while youth unemployment increased to 36.1%.

Consumer price inflation increased from 1.1% in 2010 to 2.3% in 2011, mainly as a result of higher international prices for energy and food commodities and their pass-through to related domestic prices. A small depreciation of the domestic currency contributed also to the rise in the price level. Due to the slack in resource utilisation, not least in the labour market, underlying inflationary pressures have remained low on the domestic side. However, a 2 percentage point increase in the general VAT rate and increases in administered energy prices have pushed up the year-on-year increase of consumer prices to 2.8% in the first eight months of 2012.

Monetary policy succeeded in preserving exchange rate and financial stability. It remained oriented towards a tightly managed kuna/euro exchange rate with little variability, but without a formal peg to the euro. This monetary framework anchors inflation expectations and reduces exchange rate-related credit risks in the highly euroised economy. The kuna appreciated by 1.4% against the euro between the beginning of October 2011 and 19 September 2012. In this period, the central bank stabilized the kuna/euro rate by selling € 724.4 million and by buying € 58.1 million in the foreign exchange market. On two occasions the central bank supported the domestic currency by raising the reserve requirement rate for banks, but was able to reverse most of these increases when the kuna was strengthening. Foreign exchange liquidity was expanded by lowering the rate of minimum required foreign exchange currency claims of banks relative to their foreign currency liabilities. Overall, monetary policy was able to maintain an appropriately accommodative stance in a context of persisting recessionary conditions.

Fiscal policy has, to some extent, contained the negative budgetary consequences of the continuing recession. In 2011 total expenditures of general government were held unchanged year-on-year in nominal terms as stipulated by the Croatian parliament in August 2010. The share of social transfers in total expenditures was reduced somewhat, but huge scope remains for increasing the efficiency of public spending through better targeting of social support. Total revenues declined by 0.6%, mainly as a result of changes in the tax legislation in the preceding year. Net borrowing by general government increased from a revised 5.0% of GDP

in 2010 to 5.1% of GDP in 2011. This outcome is significantly below the budgeted deficit (5.6% of GDP) mainly because realised public investment expenditure was 0.5 percentage points of GDP below budget. General government consolidated gross debt increased from 42.2% of GDP at the end of 2010 to 50.5% at the end of June 2012 (excluding outstanding state guarantees and the debt of the State Development Bank). A tax reform in February 2012 included an increase in the general VAT rate from 23% to 25% and a reduction in the employers' contribution to the compulsory health insurance from 15% to 13%. The Ministry of Finance projects a general government fiscal deficit of 3.9% of GDP in 2012. Revenues are budgeted to increase by 1.7% while expenditures are projected to decrease by 1.2%. In the first half of 2012, net borrowing of general government amounted to 2.0% of projected full-year GDP. The Ministry's current budgeting is based on the optimistic assumption of stagnating real GDP in 2012. Overall, the budgetary process continued to show weaknesses. The efficiency of public spending needs to be enhanced in order to ensure medium-term fiscal sustainability.

Interplay of market forces

The private sector's share of GDP and employment has remained at around 70% of the overall economy. In the twelve months to the end of June 2012, the Government Asset Management Agency (GAMA) reduced its holdings from 693 to 649 companies. The proceeds of the sales were relatively modest since many of the companies were liquidated in the process. GAMA's remaining portfolio consists predominantly of highly indebted and often loss-making companies. Overall, little progress has been made towards reducing the large role of the state in the economy.

Market entry and exit

The legal framework for companies entering and leaving the market did not change significantly in the reporting period. The average number of active legal entities in 2011 was 9.4% lower than in 2010. The investment climate remained hampered by difficulties in obtaining the necessary licences, building permits and other authorisations; by uncertainties arising from changes in the legal environment; and by the lack of certainty and uniformity of public administration decisions and the length of the related procedures, particularly at local level. A large number of non-tax fees at national and local levels continue to be a significant burden for entrepreneurs although their number and rates have been reduced. Overall, lengthy procedures and numerous non-tax fees hamper business start-ups and the business environment in general.

Legal system

The weaknesses of the judicial system continue to hinder the effective enforcement of creditor and property rights. The length of court proceedings remains generally excessive and problems persist with the enforcement of court decisions. Investors still face problems regarding the registration of property. The business environment continues to suffer from inefficiencies in the public administration.

Financial sector development

The financial sector continued to be dominated by banks, which held 75% of the total assets of financial intermediaries at the end of June 2012. Market concentration has remained moderate, with the four largest banks continuing to hold about two thirds of total banking assets. Banking sector assets were 1.9% higher year-on-year at the end of July 2012 and

amounted to 122% of GDP. The sector has remained stable and well capitalised with the capital adequacy ratio increasing to 20.2% at the end of June 2012. Bank profitability has generally remained depressed since 2009. There was a slight improvement in the return on equity for banks in 2010 and 2011 followed by a renewed decrease in the first half of 2012. The quality of bank loans continued to deteriorate, with the share of non-performing loans in total loans rising by 1.4 percentage points year-on-year to 13.3% at the end of June 2012. The largely unhedged foreign exchange liabilities of the non-financial private sector remain a significant risk.

3.2. Capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

Croatia is a functioning market economy. The monetary policy stance has remained appropriate given the existing constraints imposed by the very high level of external debt while fiscal policy has contained the rise of the budget deficit under recessionary conditions.

Human and physical capital

Further steps were taken to improve the quality of education at all levels. The government continued its programme of active labour market policy measures, but rigidities in the labour market remain a major challenge.

Investment fell for a third consecutive year in 2011, again mainly due to a drop in construction activity. As a share of GDP, investment declined from 21.6% in 2010 to 19.8% in 2011. Foreign direct investments, particularly greenfield investments, remained scarce. The 30 public-sector investment projects (mainly in energy, tourism, water management and transport infrastructure) which the government announced in late 2010 have not materialised. The new government's Investment Cycle Plan schedules investments by publicly-owned companies, mainly through public-private partnerships and with funds from international financial institutions. These projects focus predominantly on energy, infrastructure and education.

Sector and enterprise structure

The services sector increased its share of total gross value added slightly, from 69.3% in 2010 to 69.7% in 2011. The share of industry rose from 18.4% to 18.8% while the share of agriculture, forestry and fishing fell from 5.5% to 5.4%. These gains were made at the expense of construction, whose share of total gross value added further declined, from 6.8% in 2010 to 6.1% in 2011. Small and medium-sized enterprises (SMEs) continued to account for around 50% of GDP, their share of total exports amounted to around 40%, and they employ more than 63% of all employed people. The government continued to support SMEs through the Croatian Agency for SMEs (HAMAG Invest) and the State Development Bank (HBOR).

State influence on competitiveness

State aid amounted to 2.8% of GDP in 2010 and preliminary data indicate that it was in the range of 2.6–2.8% of GDP in 2011. Sector-specific aid, including for agriculture and fisheries, represented 87% of overall State aid in 2010, with the remainder going to horizontal aid (research and development, employment, SMEs, environmental protection, training, etc.).

There has been little change in the share of horizontal aid in total State aid in the period 2008-2010.

Trade integration

Croatia is an open economy with total trade in goods and services accounting for around 82% of GDP in 2011, up from 77% in 2010. The EU has continued to be Croatia's largest trading partner. Its shares of total Croatian exports and imports of goods remained relatively stable in 2011 at 60% and 62% respectively. 91% of all FDI stocks stemmed from EU Member States. Overall, integration with the EU in the areas of trade and investment remained high.

The kuna depreciated slightly in real effective terms in 2011. The depreciation amounted to 2.4% year-on-year on the basis of consumer prices, 1.4% on the basis of producer prices, and 0.9% on the basis of unit labour costs. Unit labour costs decreased due to rising labour productivity. Overall, standard indicators point, on balance, to a slight improvement in Croatia's international price competitiveness in 2011.

4. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

This section examines Croatia's ability to take on the obligations of membership — that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses Croatia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises Croatia's overall level of preparedness for accession and the respect of commitments taken in the accession negotiations. Where appropriate, reference is made to transitional arrangements agreed during accession negotiations.

4.1. Chapter 1: Free movement of goods

Croatia has largely aligned its legislation as regards the **general principles**. It has almost completed implementing its action plan for compliance with Articles 34 to 36 of the Treaty on the Functioning of the European Union (TFEU). Urgent attention must be paid to the requirements imposed by Croatia for additional intermediate storage of imported petroleum products, which constitute a measure having an effect equivalent to quantitative restrictions, not in line with the *acquis*.

As regards **horizontal measures**, Croatia has largely aligned its legislation with the *acquis*. A further revision of the Act on technical requirements for products and on conformity assessment is necessary for further alignment the Croatian legislation with the *acquis*.

As regards *standardisation*, the Croatian Standards Institute (HZN) has transposed nearly all European standards (ENs). The HZN was chosen as a notification body for the implementation of the Agreement on Technical Barriers to Trade (WTO/TBT).

As regards *conformity assessment*, the Croatian legislation is advanced but needs some further amendments to align it with the new legislative framework.

In the field of *accreditation*, European cooperation for Accreditation (EA) completed in December 2011 the re-assessment of the Croatian Accreditation Agency (HAA) with a

successful outcome. At the 18 April 2012 meeting of the EA MAC (Multi-Lateral Agreement Council) it was decided that the HAA remains an EA MLA signatory in all accreditation fields (calibration, testing, inspection and certification management systems, products and persons). So far the HAA has accredited a total number of 314 bodies and publishes a list of these with the detailed scope of their accreditation on the official website (www.akreditacija.hr).

Alignment with the *acquis* in the area of *metrology* is advanced, but finishing the transfer of responsibility for scientific metrology to the National Metrology Institute (NMI) remains the main outstanding issue in this field.

Alignment with the *acquis* in the field of *market surveillance* is well advanced. The State Inspectorate's enforcement measures have been improved. The State Inspectorate ensured coordination between market surveillance institutions and carried out eight joint inspection programmes.

Legislative alignment has further advanced as regards the **'Old Approach' product legislation**, where a number of regulations have been adopted such as on chemicals and good laboratory practice in pharmaceuticals. Further efforts are needed to achieve full alignment in particular as regards data exclusivity in pharmaceutical products, veterinary medicinal products and pre-packaging. Further efforts are needed to build up the necessary administrative capacity to ensure proper implementation of the legislation. Croatia continues to provide periodic reports to the Commission on the implementation of the transparency of measures regulating the prices of medicinal products for human use and their inclusion in the scope of national health insurance systems.

In accordance with the transitional arrangement granted, Croatia is committed to upgrading market authorisations for medicinal products granted before accession, to comply with the level of quality, efficacy and safety stipulated by the Directive on medicinal products, at the latest four years after accession.

Croatia has further advanced as regards alignment with the **'New and Global Approach' product legislation**. Safety of toys regulation has been adopted. Further efforts are still needed, particularly on construction products, civil explosives, eco-design requirements for energy-related products, gas appliances, measuring instruments, non-automatic weighing instruments, pressure equipment, simple pressure vessels and medical devices.

Croatia has further advanced in aligning its legislation in the area of **procedural measures**, and alignment is almost complete. The transposition of Directive 98/34/EC on the provision of information in the field of technical standards and regulations has yet to be completed. Croatia has transposed the *acquis* governing acquisition and possession of weapons in June 2012.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of free movement of goods and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required, in particular in the field of horizontal measures, as well as New and Old Approach product legislation, in order to ensure that Croatia completes its preparations for membership by the date of accession. Urgent attention must be paid to the requirements imposed by Croatia for additional intermediate storage of imported petroleum products.

4.2. Chapter 2: Freedom of movement for workers

In the field of **access to the labour market**, Croatia has completed alignment with the *acquis*. A transitional arrangement has been agreed whereby for the first two years following accession, current Member States will apply national measures, or bilateral agreements, to regulate the access of Croatian workers to their labour markets. These arrangements may continue for up to a maximum of seven years. Croatia may apply equivalent measures to any current Member State applying restrictions.

In the area of future participation in the **EURES** (European Employment Services) network, Croatia is well prepared. Preparations have continued with a view to connecting the Croatian Employment Service to the European Job Mobility Portal.

In the area of **coordination of social security systems**, Croatia is well prepared. Administrative capacity is being strengthened. Training has been provided to staff of the state administration on topics such as pension insurance, health insurance and family benefits. The required estimate of the additional financial costs of health care to be taken into account in internal budgetary planning is still pending.

Preparations in relation to the **European Health Insurance Card** (EHIC) are reaching completion. A Regulation on EHIC was adopted in December 2011 determining the period of validity of the card (one year for all insured persons, if necessary longer for posted workers and their family members), the form of the card (it will be issued as a separate card), and all other necessary details needed for its issuance.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of freedom of movement for workers and is in a position to implement the *acquis* as of accession.

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

In the area of the **right of establishment and freedom to provide cross-border services** Croatia has largely aligned its legislation with the *acquis*. The main principles of the Services Directive have been transposed into a horizontal law, while several sector-specific legislative alignments are pending.

Preparations for the functioning of the Point of Single Contact (PSC) have progressed and need to continue in order to have a fully operational PSC before accession.

Continuous efforts are needed to strengthen the administrative capacity of all institutions working on implementing the Services Directive and on improving their cooperation with the relevant ministries. The Section for Internal Market Service Development at the Ministry of Economy currently employs 4 people out of 7 persons. The Section is constantly undertaking training activities for its own staff and the staff of other relevant institutions working on services, in particular those of the Croatian Chamber of Economy, i.e. staff working on the PSC.

Legislative alignment in the area of **postal services** is almost completed. However, the recent administrative practice raises some concerns as to its compatibility with the postal *acquis*, notably on the regulatory treatment of value added services. Further legislative efforts are still

needed to ensure full transposition of the Third Postal Directive. The national regulator, the Croatian Post and Electronic Communications Agency (HAKOM), has continued to strengthen its overall administrative capacity and regulatory expertise. In particular, it is currently actively working on a cost accounting separation method and on a manual for accounting separation. This is of utmost importance in view of regulatory significance of separate cost accounts and recently raised concerns about unjustified pricing practices by the national postal operator. The Croatian Post, the designated universal service provider, adopted a new business plan for 2012, to prepare for full liberalisation of the postal services market. Work on a new central logistic centre for the public operator is advancing. Further efforts are needed to modernise the national postal operator, to fully establish separate cost accounting and to ensure adequate supervision by the regulator.

Croatia is on track to meeting its commitments in the field of **mutual recognition of professional qualifications**. Croatia has considerably aligned its legislation with the EU *acquis* for the four sectorial professions of doctors, dental practitioners, nurses responsible for general care and midwives. Few issues, notably regarding the nurses responsible for general care and midwives and some minor legal drafting issues regarding basic medical doctors and medical specialists, still remain to be addressed before accession.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of the right of establishment and freedom to provide services and is expected to be in a position to implement the *acquis* as of accession. Further efforts are needed particularly for alignment with the Services Directive and in the field of mutual recognition of professional qualifications in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.4. Chapter 4: Free movement of capital

Preparations are almost completed in the field of **payment systems**, but some further legislative alignment is needed to ensure direct application of the cross-border payment Regulation.

As regards the **fight against money laundering**, preparations are almost completed. The Croatian Financial Intelligence Unit (FIU) and other supervisory bodies continued their training activities for the reporting entities. The Financial Inspectorate strengthened its administrative capacity with the recruitment of 6 new employees. Croatia still has to keep up its efforts in this area. The administrative capacity of all bodies dealing with anti-money laundering should be further strengthened. Croatia should continue to co-ordinate criminal and financial investigations. Croatia has stepped up efforts in identifying money laundering offences, resulting in increased number of investigations. There is good level of interagency cooperation. Special attention is needed with respect to designated non-financial business and professionals (DNFBP).

In the area of free movement of capital Croatia has achieved a good level of alignment with the *acquis*. Further attention must be paid to the amendments to the Act on the Privatisation of INA and the Act on the Privatisation of Telecom concerning special government rights and to the amendments of the provisions for acquisition of land in areas covered by the Nature Protection Act to explicitly eliminate existing restrictions.

In accordance with the transitional arrangement granted, Croatia is committed to removing restrictions on the acquisition of agricultural land by EU/EEA nationals at the latest before the seventh year after accession.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of the free movement of capital and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required, in particular as regards amendments to the Acts on the Privatisation of INA and of Telecom as well as the Nature Protection Act and the continued implementation of the action plan against money laundering, in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.5. Chapter 5: Public procurement

Legislative alignment as regards the **general principles** has further advanced and is almost complete. The new Public Procurement Act (PPA) entered into force in January 2012 and a number of implementing acts were adopted. The defence procurement act was adopted and in force since August 2012. The Act on the establishment of the State Commission for supervision of public procurement procedures needs to be amended in order to be harmonised with the new PPA. Croatia has decided to draft a new law on Concessions. The sector regulating legislation needs to be aligned with the law once adopted. Efforts need to focus primarily on the implementation of the new PPA, especially at local level, also with a view to the future management of the Structural Funds.

Croatia has further advanced as regards the **award of public contracts**; administrative capacity needs to be enhanced to ensure appropriate implementation. New Act on Public Private Partnership was adopted on 6 July; full alignment of the final text with the *acquis* remains to be confirmed. The new e-Notices platform has been in operation since January 2012 but a strategy on e-procurement together with a concrete Action Plan have to be prepared and implemented.

With regard to administrative capacity, the Department for the Public Procurement System (DPPS) at the Ministry of Economic Affairs has continued to steer enforcement of the PPA. The Department for the Public Procurement System (DPPS) at the Ministry of Economic Affairs together with the other key institutions in the sector continued the work to improve the transparency and accountability of the system. Sustained effort is needed to ensure coordination in the sector and efficient prevention of corruption, fraud and irregularities in public procurement. Following the adoption of the new PPA, intensive training activities were organised involving civil servants, economic operators and contracting authorities at central and local level. Their capacities still need to be enhanced further, especially with regard to avoiding conflicts of interest in public procurement procedures, corruption, fraud and irregularities.

In the area of concessions, the administrative capacity of the Ministry of Finance needs to be enhanced by further developing the professional skills not only of its staff but also of concession grantees. The Concessions and Public Private Partnerships (PPP) Service has been established following the adoption of the new Decree on the internal structure and functions of the Ministry of Finance. The Concessions and PPP Service comprises a department for registration of concessions and a department for PPPs. Seven of the 13 planned employees have been recruited. Sustained efforts are needed to maintain coordination between the

Ministry of Finance and the Agency for Public Private Partnerships (APPP) to ensure efficient implementation of concessions and PPP projects in the country. Additional efforts are needed in order to stimulate private sector investments through PPPs.

The APPP continued to improve its capacity to evaluate and approve PPP project proposals, tender documents and final draft contracts pursuant to the provisions of the PPP Act. New methodological tools have to be devised and further efforts invested, especially in building up the capacities of economic operators to develop high-quality projects and effectively apply the PPP guides and manuals.

As regards the **remedies** system, the legislative alignment has advanced moderately. The functioning of the State Commission for supervision of public procurement procedures needs to be enhanced. The State Commission needs to improve its internal organisation and structure. Even if most of the registered cases were solved during the 12-month period, the growing number of appeals, the increasing length of time required for issuing the Commission's decisions (70 days instead of the mandatory 15 days), and the lack of a legally binding statute and rules on internal organisation cause some concern. Further efforts are needed in order to improve the quality of the decisions taken, especially with a view to the preparations for future Structural Funds management and given the key role of the State Commission as the main supervisory body in the area of remedies after accession.

The State Office for Central Public Procurement achieved good results in implementing the centralised public procurement procedures. Its current staffing is 16. Further efforts are needed to improve its efficiency.

Conclusion

Croatia is meeting the requirements and commitments arising from the accession negotiations in the field of public procurement and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required, in particular for implementation of the new public procurement act, especially at local level, also with a view to the future management of the structural funds, in order to ensure that Croatia completes its preparations for membership by the date of accession. Improvements concerning the system of remedies are required. Administrative capacity of different bodies in the public procurement area should be strengthened.

4.6. Chapter 6: Company law

In the field of **company law**, Croatia's legislation is largely in line with the *acquis*. Some inconsistencies still have to be addressed, in particular with regard to shareholders' rights.

In the field of **corporate accounting**, legislation is largely in line with the *acquis*. The Croatian Financial Reporting Standards Board continues to publish translations of the International Accounting Standards, the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

In the field of **auditing**, legislation is largely in line with the *acquis*. The Audit Public Oversight Committee (APOC) and the Quality Assurance Team (QAT) performed satisfactorily over the period. The QAT within the Croatian Audit Chamber is fully functional with five full-time staff members.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of company law and is in a position to implement the *acquis* as of accession.

4.7. Chapter 7: Intellectual property law

Croatia has aligned its legislation in the field of **copyright and neighbouring rights** and **industrial property rights**.

With regard to **enforcement**, in September 2011, a Memorandum of Understanding on cooperation between the Office for Harmonisation in the Internal Market (OHIM) and the State Intellectual Property Office (SIPO) was signed, followed by the signature of two further cooperation agreements on specific activities relating to trademarks. New joint information website of the enforcement bodies was launched in April 2012.

As regards intellectual property, further emphasis needs to be placed on developing the capacity of the police and prosecutors to handle more complex cases and on raising public awareness of intellectual property rights. The State Intellectual Property Office (SIPO) has sufficient administrative capacity.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of intellectual property law and is in a position to implement the *acquis* as of accession.

4.8. Chapter 8: Competition policy

Croatia has largely aligned its legislation in the fields of **anti-trust and mergers** and of **State aid**. It has also kept up its efforts to build a positive enforcement record. Croatia's Competition Agency (CCA) is fully operational and functionally independent; it carries out its duties in line with the legislation in force. A proper system of merger and State aid control is in place.

In the field of **anti-trust and mergers**, since 1 October 2011, the CCA issued 29 decisions and 25 opinions. The CCA continued to provide the government with assessments of draft laws and other expert opinions.

In the field of **State aid**, the CCA took 30 decisions, of which 13 involved aid schemes and 17 concerned individual aid measures.

With regard to Croatia's reporting obligations in the steel sector, the first reports were submitted to the Commission on 15 December 2011 and 18 June 2012 in line with the requirements agreed during the negotiations.

Sisak has yet to reimburse the aid received. In October 2011, the owners decided to close and sell the steel mill, resulting in production being completely halted. The owners of CMC Sisak sold the steel mill to a new investor, the Italian group Danieli.

The reports also provide updated information on the bankruptcy proceedings concerning the other steel mill, Željezara Split.

With regard to Croatia's obligations to report on the shipbuilding industry, on 16 January 2012 it submitted the first six-monthly report on the restructuring of the Croatian shipyards in difficulty as required by Annex VIII of the Act of Accession. The report contains data on the measures taken to return to viability, aid used, own contribution and production capacity, following the methodology for monitoring implementation by Croatia agreed with the Commission. The report also provides details on the agreements regulating property law in the context of expropriation in the maritime domain. On 16 July 2012 Croatia submitted its second six monthly report on the restructuring of the Croatian shipbuilding industry. In addition, Croatia submitted the first Report on the Annual Output of the Shipyards under Restructuring.

In March 2012, the bid for the shipyard *Brodosplit* was accepted. Its restructuring plan had to be revised in light of the changes that occurred after the original acceptance of the plan in February 2011, namely the substantial increase of the aid received by the yard. According to the Act of Accession, the Commission must accept any amendments to the restructuring plans. The Commission accepted the revised plan on 16 August 2012. Croatia has indicated that the privatisation contract will be signed without delay. The bids for the shipyards *Kraljevica* and *Brodotrogir* were rejected by the government and the bid for the shipyard *3.Maj* was withdrawn by the potential investor. The government has decided to initiate bankruptcy proceedings for *Kraljevica* and to sell *Brodotrogir* to a new investor. As regards 3. MAJ, Croatia has decided to seek a new privatisation and restructuring arrangement.

As regards existing aid, Croatia has provided the Commission with a list of 11 aid measures that it wishes to be considered as existing aid at the date of accession. Seven of these measures have been included in the Act of Accession. Croatia needs to provide further information on the remaining ones for the Commission to complete its assessment.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of competition policy and should be in a position to implement the *acquis* as of accession. Increased efforts must be paid to the signature of the contracts for privatising the shipyards in difficulty.

4.9. Chapter 9: Financial services

In the field of **banks and financial conglomerates** Croatia has largely aligned its legislation. Further alignment is required to fully implement the latest the Capital Requirements Directive (CRD III). Preparations are pending for the implementation of CRD IV. Croatian National bank experts started to participate in the working bodies of the European Systemic Risk Board and European Banking Authority as observers. In general terms Croatia is well advanced on banking legislation and supervision.

Croatia has largely aligned its legislation in the area of **insurances and occupational pensions**. Croatia now fully complies with Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. Preparations for the implementation of the Solvency II Directive are on-going. The Croatian Financial Services Supervisory Agency (HANFA) has been cooperating with the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) on technical details regarding the participation of HANFA representatives in the work of both European regulators.

In the area of **financial market infrastructure** legislative alignment with the *acquis* is almost completed with the adoption of the legislation aimed at the full implementation of Directive 2009/44/EC on settlement finality. Further efforts are needed to implement Directive 2010/78/EU (Omnibus I).

As regards **securities markets and investment services** legislative alignment is almost completed. Further efforts are needed to implement the Prospectus Directive 2010/79/EU and the UCITS IV Directive 2009/65/EC.

As regards administrative capacity, both regulators, the Croatian National Bank and HANFA, continued with the educational programmes for their staff and the staff of supervised entities. They also kept up their cooperation with domestic and foreign regulators, in particular from the EU Member States. HANFA increased the number of its employees from 134 to 138. Its internal organisation has been changed through the creation of the new position of Secretary General, to whom executive powers were transferred. Also, the president and members of HANFA's Management Council were appointed. It remains to be seen how this will affect HANFA's supervisory function and its independence. Strong administrative capacity of both supervisory institutions needs to be maintained.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of financial services and is in a position to implement the *acquis* as of accession.

4.10. Chapter 10: Information society and media

Legislative alignment in the field of **electronic communications and information and communications technologies (ICT)** to allow competition and to achieve a higher level of consumer protection has further advanced and is almost complete. The Act on the fee for the provision of services in mobile communications, re-introduced in January 2012 as a temporary measure, was abolished again in July. At the same time, however, a new Ordinance that entered into force in August 2012 has increased the one-off spectrum licence fee on mobile operators. Implementation of competitive safeguards and market analysis procedures is well advanced. Activities have continued related to the project to develop a cost accounting model. The broadband penetration rate has increased slightly, reaching 26% at the end of 2011. While mobile broadband is well developed by EU standards, the overall broadband take-up by households needs to be improved. A project on broadband services in non-profit areas (islands and mountains) has been launched in order to bring broadband internet access e.g. to schools and hospitals. Measures have also been taken to improve access to electronic communications services for people with disabilities. Croatia needs to focus now to ensure sustainable competition, including improved access to rights-of-way, and to make finalising the cost accounting model one of its priorities. The incumbent continues to retain a strong position in fixed broadband access and in fixed voice markets.

Administrative capacity of the Croatian Post and Electronic Communications Agency (HAKOM) is considered sufficient, with a staff of more than 170. Continuous efforts are needed to further develop the Agency's strategic and operational capacities.

In the area of **information society services**, Croatia has completed alignment with the *acquis*. Amendments to the Electronic Commerce Act were adopted in November 2011 to align with the *acquis*. A new Strategy for the development of broadband access 2012–2015, along with an implementation plan, was adopted in October 2011 based on the Digital Agenda for

Europe (DAE). Establishment of a coordination body involving all stakeholders is ongoing, while the Ministry of Administration has taken over responsibility for information society policy. A Decision establishing eGovernment development goals in the state administration for 2011–2015 was adopted in October 2011. Croatia is advanced in the area of e-health. Croatia plays an active role in many of the related EU initiatives. However, no overall national strategy for developing the information society is in place.

In the field of **audiovisual policy**, Croatia has completed alignment with the *acquis*. The Electronic Media Act and the implementing legislation governing the electronic media continue to be applied. A new Croatian Radio and Television Act was adopted in July 2012. Amendments to the Criminal Code adopted in October 2011 confirmed the decriminalisation of defamation. The administrative capacity of the Electronic Media Agency has been strengthened. Continued efforts are needed to ensure the independence of the public service broadcaster and to increase its transparency, in particular through proper implementation of the legislative framework.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of the information society and media and is in a position to implement the *acquis* as of accession.

4.11. Chapter 11: Agriculture and rural development

In the field of **horizontal issues**, Croatia has reached a good level of alignment with the *acquis* and preparations are on track. In accordance with the transitional arrangements agreed, Croatia is committed to prepare for the phasing in of direct payments as of 2013, including direct payments for demined land put into agricultural use. Croatia amended the Act on State Aid to Agriculture and Rural Development, and published the Ordinance on Direct Payments and Rural Development for 2012, although it is only partially aligned with the *acquis*. Consequently, the 2012 national campaign based on an *acquis*-compatible direct payments system was launched. Croatia still needs to fully align its legislation on direct payments with the *acquis* and to implement it to prepare for the 2013 applications for direct payments. Croatia needs to ensure that accreditation of the paying agency is completed by the end of 2012 and that the paying agency is fully functioning in line with the *acquis* as of January 2013 in order to benefit from reimbursement of direct payments in 2013 from EU budget. The capacity of the Competent Authority needs to be further strengthened. In accordance with transitional arrangements granted, Croatia is committed to use only up to 20% of the annual rural development funds in 2014, 2015 and 2016 to finance complementary national direct payments.

Implementation of the plan for establishing an integrated administration and control system and setting up a paying agency is on track. The capacity of the Paying Agency has been further strengthened by completing the software for the management of EU direct payments and training of staff. The land parcel identification system has been continuously updated. Software for the implementation of rural development measures was developed and will later have to be adapted to the future Croatian Rural Development Programme for 2014-2020. Croatia will need to avoid any delay in restructuring of the regional offices and the recruitment of additional staff.

Croatia continued the farm accountancy data network (FADN) pilot surveys. Under the new act on agricultural advisory services, the implementation of FADN will be ensured by the Croatian Agricultural Extension Institute. Human and financial resources in that sector need further strengthening. Croatia needs to prepare for due reporting of 2013 accounting year data in FADN.

Alignment of legislation in the area of the **common market organisation** is ongoing. Implementation of the plan to prepare for the application of the Single Common Market Organisation by the time of accession is on track. Croatia adopted several implementing regulations related to the fruit and vegetables, sugar, milk and milk products sectors. Marketing standards for fruit and vegetables are being implemented. Croatia will need to further strengthen human resources in order to meet the EU reporting requirements.

In the area of **rural development**, preparations are moderately advanced. Croatia continued implementing the Instrument for Pre-Accession Assistance for Rural Development (IPARD). Despite improvements, the absorption capacity needs to be stepped up. In accordance with the transitional arrangement granted, Croatia is committed to continue IPARD during 2013 and to implement a post-accession rural development programme as of 2014. Croatia will need to speed up the preparation of the future rural development programme and partnership contract for the funds covered by the Common Strategic Framework. The development of measures on agri-environment and organic farming as well as the payment scheme for areas facing natural constraints will need special attention. Croatia will need to ensure the continuity of the staff as well as their training.

Alignment in the fields of **quality policy** and **organic farming** is advanced. Croatia adopted implementing regulations on aquaculture, the labelling of designations of origin, geographical indications and traditional specialities and published guidelines for their registration. In accordance with the transitional arrangement granted, Croatia is committed to submit applications for the registration at EU level of agricultural products as designations of origin, geographical indications or traditional specialities guaranteed not later than 1 July 2014. In the area of organic farming, Croatia will need to ensure that an efficient control system including supervision by a competent authority is in place as of accession.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of agriculture and rural development and should be in a position to implement the *acquis* as of accession. Increased efforts are needed in the area of direct payments and rural development, in order to ensure that Croatia completes its preparations for membership by the date of accession.

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

Croatia has completed aligning its legislation in the field of **general food safety**. It moved closer towards full implementation and enforcement of the aligned legislation. Continued efforts will be needed to ensure even implementation over the entire Croatian territory.

Legislative alignment in the field of **veterinary policy** has further advanced and is almost completed. Croatia has continued with the adoption of implementing legislation. Control capacity has improved as, in addition to official veterinarians, some control bodies employing authorised veterinarians were accredited. The accreditation process is still ongoing. In accordance with the transitional arrangement granted, Croatia can exceptionally maintain and

not more than 12 months after accession non-EU compliant cages for laying hens already in lay at the date of accession. Croatia will need to ensure that eggs from such cages are identified with a special mark and are only placed on the Croatian market. Croatia needs to speed up work on building and fitting out the agreed border inspection posts. In accordance with the arrangement agreed, Croatia is committed to operate as of accession a regime for the transiting of products of animal origin through the territory of Bosnia and Herzegovina at Neum ('Neum corridor') allowing such consignments to be exempted from required veterinary checks before they re-enter EU territory. Croatia will need to have fully equipped and staffed points of entry to the north and south of the corridor in place as well as effective technical surveillance systems to ensure efficient controls.

Alignment with the *acquis* in the field of **placing on the market of food, feed and animal by-products** has further advanced. Croatia continued to implement its plan for upgrading establishments for food and feed of animal origin. Close monitoring of the national upgrading plan remains necessary. In accordance with the transitional arrangement agreed, establishments for milk, meat, fish and animal-by products must comply with the *acquis* on food safety by the end of 2015. Croatia will need to step up its efforts with a view to setting up intermediate plants for the handling of high-risk animal by-products.

Legislative alignment in the fields of the **food safety rules** and the **specific rules for feed** has further advanced and is almost completed. Croatia needs to ensure that sufficient administrative and control capacity is in place.

Legislative alignment in the field of **phytosanitary policy** has further advanced and is almost completed. Additional implementing legislation has been adopted in the areas of plant health and plant protection products. Croatia needs to keep up its efforts, in particular with regard to setting up border inspection posts and further strengthening administrative capacities. In accordance with the transitional arrangement granted, Croatia is committed to cease by the end of 2014 the marketing of seeds of certain varieties of beet, cereals, oil and fibre plants, fodder plants, vegetables and seed potatoes which have not yet passed the Distinctness, Uniformity and Stability (DUS) examinations. Croatia will need to ensure that such plants and seeds may not be marketed in EU territory during the transitional period.

Croatia will need to ensure alignment of its bilateral veterinary and phytosanitary agreements with the *acquis* by accession.

Croatia has progressed in alignment with the *acquis* on **genetically modified organisms (GMOs)**. It has developed new procedures and carried out reporting and monitoring activities. Continuous efforts are still required in this field.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of food safety, veterinary and phytosanitary policy and should be in a position to implement the *acquis* as of accession. Increased efforts are needed in the area of the animal by-products sector, the upgrading and the monitoring of establishments, and in particular with regard to border inspection posts. Continued attention needs to be paid to the further strengthening of administrative capacity in this area.

4.13. Chapter 13: Fisheries

In the areas of **resource and fleet management**, Croatia has generally aligned its legislation with the *acquis*. Croatia continued adopting implementing legislation in the fields of commercial fishing, fishing licences and data collection. The fisheries monitoring centre is continuing operation. Croatia started preparing the management plans required under the Mediterranean Regulation and in accordance with the transitional arrangement agreed, allowing it to continue certain fishing methods until 30 June 2014. Croatia is progressing in the finalisation of the fleet register and to fully establish the entry-exit scheme. It will need to ensure that commitments are met according to plan in order to enable the necessary fleet data to be transmitted by accession. Croatia will need to speed up the process of phasing out the category of subsistence fisheries in order to complete it by the end of 2014 as agreed under the transitional arrangement.

Legislation is generally aligned in the fields of **inspection and control** and preparations are progressing. Improvement of the administrative and control capacity continued, but further strengthening is needed, in particular concerning the recruitment of fisheries inspectors at sea and on land. Croatia will need to complete the satellite-based vessel monitoring system.

In the field of **structural actions**, alignment is moderately advanced. The administrative bodies to implement the European Fisheries Fund are in place. Croatia will need to agree the national strategic plan and prepare the operational programmes without delay. A reliable management and control system ensuring sound and efficient implementation of the operational programmes needs to be set up. Croatia will need to accelerate the preparation for the partnership contract for the funds covered by the Common Strategic Framework and for the implementation of the future European Maritime and Fisheries Fund.

Croatia has generally aligned its legislation with the *acquis* in the fields of **market policy** and **State aid**. Collection of information on species, quantities and prices has been further improved. Croatia will need to step up efforts to establish producers' organisations and to align marketing standards.

In the area of **international agreements**, alignment is moderately advanced. Croatia continued to implement all the recommendations of the International Commission for the Conservation of Atlantic Tunas (ICCAT) regulating catches, farming and trading. Concerning the General Fisheries Commission for the Mediterranean (GFCM), Croatia continues aligning its national legal framework with GFCM recommendations. It will need to ensure timely alignment with the *acquis* in this area by the date of accession.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of fisheries and should be in a position to implement the *acquis* as of accession. Increased efforts are needed in the area of fleet and resource management, inspection and control and structural policy, in particular as regards the preparation of the management plans, the phasing out of the category of subsistence fisheries and the completion of the satellite based vessel monitoring system.

4.14. Chapter 14: Transport policy

Alignment in the area of **road transport** is almost completed. Croatia amended its legislation to ensure compliance with the *acquis* on driving licences, qualification and training of drivers

and road infrastructure safety management. Implementing legislation still needs to be adopted, and the on-going efforts to ensure effective enforcement the road safety *acquis* need to be further sustained.

Legislative alignment in the field of **rail transport** is at an advanced level, but efforts will need to be increased in certain areas to fully align with the *acquis*. The Rail Market Regulatory Agency took steps against the lack of the independence of the infrastructure manager. Furthermore, the financial viability of the infrastructure manager and the passenger operator without support from public funds remains problematic. With respect to the Croatian Railway Safety Agency, an action plan was adopted for strengthening its administrative capacity. However, current staffing level and the available facilities remain inadequate. Necessary ordinances for the functioning of the Agency are still to be adopted, and vehicle authorisation has not yet been transferred from the ministry to the agency. The agency has stepped up its cooperation at EU level, notably with the European Railway Agency. The agency awarded the authorisations for HZ Infrastruktura recently and work on the vehicle register has started. As regards the establishment of a multi-modal accident investigation body, the law has yet to be adopted and implemented.

As regards **inland waterways transport** preparations are advanced. Implementation of the River Information System (RIS) in Croatia is ongoing, with construction and installation of equipment to be completed by the date of accession. The RIS is planned to be fully implemented on the Danube River by the date of accession; implementation of the RIS on the entire length of the Sava River has been postponed to 2015 to achieve coordinated RIS implementation with the other countries crossed by this waterway.

Concerning **combined transport** preparations are advanced, but the relevant law still needs to be revised in order to comply fully with the *acquis*.

In the area of **air transport**, alignment with the *acquis* is well advanced, in particular with regard to implementation of the European Common Aviation Area Agreement and the Single European Sky initiative. Croatia needs to keep up efforts to ensure full alignment of the Civil Aviation Act and related bylaws with the *acquis*, as well as make the necessary updates following the establishment of the multi-modal accident investigation body.

With regard to **maritime transport** preparations are almost complete, as Croatia has established a Vessel Traffic Monitoring and Information System (VTMIS), and the system is planned to be fully operational at the beginning of 2013. The Croatian flag continued to remain in 2011 on the White List of the Paris MoU. Particular attention needs to be paid to ensuring non-discriminatory market access in maritime agreements and establishment of an independent accident investigation body.

With respect to **satellite navigation** preparations are complete. Following accession Croatia will participate in the Galileo programme as an EU Member State.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of transport policy and is expected to be in a position to implement the *acquis* by the date of accession. Further efforts are required, in particular to strengthen the administrative capacity and to ensure the independence of the yet to be established joint accident investigation body, in order to ensure Croatia completes its preparations for membership by the date of accession.

4.15. Chapter 15: Energy

In the field of **security of supply** preparations are advanced. As regards the mandatory 90 days of emergency oil stocks, Croatia has established the reserve targets in line with the *acquis*. It needs to continue efforts to establish its own storage.

In the field of the **internal energy market** alignment is moderately advanced. Croatia has adapted implementing legislation to bring it further into line with the *acquis*. The alignment with the third energy package is significantly delayed compared to Croatia's original timetable and remains to be achieved. Further efforts are needed to improve competition in the electricity and gas markets, in particular by ensuring the cost-reflectivity of regulated energy tariffs and the predictability and transparency of tariff setting measures. Temporary price caps for eligible customers, which have become a regular practice, remain to be removed. In addition, the energy regulatory authority needs to play a more assertive and independent role, which will require it to be de-politicised. The tariff for the procurement of gas by suppliers to tariff customers needs to be removed.

In the areas of **renewable energy** sources and **energy efficiency**, preparations are moderately advanced. Investments have been increasing, but are still below the targets set by the *acquis*. Although the issue of complicated and lengthy administrative procedures for RES projects has been addressed in 2012 further efforts are needed in this regard. Investments in the transmission and distribution network will also be necessary to accommodate an increasing uptake of intermittent electricity in the system. The Act on Energy End-Use Efficiency and the Act on Physical Planning and Adoption have been amended. Full alignment will require the adoption of implementing legislation, in particular regarding energy performance of building.

In the area of **nuclear energy, nuclear safety and radiation protection**, Croatia has largely aligned its legislation with the *acquis*. Implementing legislation relating to the physical security of radioactive sources, nuclear material and nuclear facilities has been enacted. The previous different regulatory authorities, now merged under the State Office for Radiological and Nuclear Safety (SORNS), function as a single entity, but further attention is needed to ensure its independence and to continue improving its administrative capacity. The Euratom Directives on public information and on shipment of radioactive waste and substances have not yet been transposed. A draft national emergency plan for nuclear accidents has been developed and an Emergency Preparedness and Review (EPREV) mission has been carried out by the IAEA. Implementing legislation on certain aspects, such as control of high-activity sealed radioactive sources and orphan sources, has not yet been enacted. Furthermore, Croatia needs to establish a national programme for the management of spent fuel and radioactive waste from generation to disposal, including radioactive waste and spent fuel from the Krško Nuclear Power Plant, which is in compliance with the recently adopted Directive 2011/70/EURATOM.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of energy and is expected to be in a position to implement the *acquis* as of accession. However, further efforts are required, in particular to align to the third internal energy market package and ensure the development of a competitive market for electricity and gas. Croatia also needs to continue efforts to meet the 2020 requirements regarding the promotion of energy efficiency and renewable energy, as well enhance administrative

capacity, especially in the Sector for Energy of the Ministry of Economy, in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.16. Chapter 16: Taxation

Legislative alignment in the field of **indirect taxation** has further advanced and is almost completed. New legal provisions were adopted on the introduction of an electronic system for supervising movements of excise goods. Legal alignment in the area of excise duties and VAT needs to be completed, with special reference to the scope of the reduced rates, tobacco products, exemptions and special schemes.

In accordance with the transitional arrangement granted, Croatia is committed to remove the exemption from VAT regarding the supply of building land, whether or not built on, by the end of 2014. Similarly, in accordance with the transitional arrangement, Croatia is committed to remove by the end of 2017 the excise duties on cigarettes that are lower than the minimum level set in the *acquis*.

Legislative alignment in the field of **direct taxation** has further advanced and is almost completed. In November 2011 and February 2012 legislation implementing the Profit Tax Act was adopted which is in line with the *acquis* on direct taxation.

Alignment in the field of **administrative cooperation and mutual assistance** has further advanced and is almost complete. Further efforts to prepare staff of the Central Liaison Office and the Excise Liaison Office for administrative cooperation and mutual assistance tasks are required. An IT application for the exchange of information as regards the *acquis* on taxation of savings needs to be developed. Further efforts are needed to reduce the backlog of appeals suspending the payment of taxes, as this has a significant impact on the collection of national revenues (and likewise of EU own resources after accession). (*See also Chapter 33 — Financial and budgetary provisions*)

Alignment in the field of **operational capacity and computerisation** has further advanced and is almost complete. Both the Tax Administration and the Customs Directorate (in charge of collection of excise duties) updated their business strategies for the period up to and after accession, together with some of the associated sector strategies, e.g. for human resources and IT. Further efforts are required to implement these strategies in practice, especially through developing concrete action plans and further sector strategies for particular core areas (including controls and risk management). The personal identification number (PIN) has been made fully operational and access to the electronic system for declaring taxes has been broadened. Further attention must be given to the need for Croatia to ensure that all relevant IT systems are in place and to be able to exchange information with the EU institutions and other Member States from the day of accession. Efforts need to continue to launch the Excise Movement and Control System (EMCS) at national level in March 2013.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of taxation and is expected to be in a position to implement the *acquis* as of accession. Alignment with the *acquis* is almost complete with the exception of some areas of excise duties and VAT. Further efforts are required to ensure that all relevant IT systems are in place and to be able to exchange information with EU institutions and other Member States as from the day of accession, in order to ensure Croatia completes its preparations for membership by the date of accession.

4.17. Chapter 17: Economic and monetary policy

Legislative alignment has been completed in the field of **monetary policy**.

In the area of **economic policy** Croatia has further advanced and has almost completed fulfilling the commitments and requirements arising from the accession negotiations. Improvement of the institutional and technical capacity for developing medium-term macroeconomic and fiscal frameworks continued. The Fiscal notification and the Pre-accession Economic Programme (PEP) 2012-2014 was submitted in March 2012 and presented a comprehensive, though optimistic, and consistent macroeconomic and fiscal framework for economic policies. Overall, broad political consensus on the fundamentals of a market economy was maintained.

Implementation of the necessary structural reforms needs to be stepped up. Alignment of fiscal reporting with ESA95 standards needs to be further enhanced.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of economic and monetary policy and is in a position to implement the *acquis* as of accession.

4.18. Chapter 18: Statistics

Legislative alignment in the field of **statistics** has further advanced and is almost complete.

The responsibilities of the Croatian Bureau of Statistics (CBS) have increased and it is gradually taking the leading methodological role in the compilation of Excessive Deficit notifications.

Croatia has further advanced in the field of **classifications and registers**, where the Croatian Bureau of Statistics (CBS) is steadily working on improving the coverage the Statistical register of business entities and the statistical farm register.

Croatia has advanced in the area of **sectoral statistics**. Publication of the annual GDP data according to the EU requirements has been completed. Increased efforts are needed to provide all data in accordance with the ESA95 transmission programme, a complete GNI Inventory and a complete set of government deficit and debt statistics (EDP).

Concerning agriculture statistics, the 2010 Farm structure survey (FSS) data and Survey on Agricultural Production Methods (SAPM) data were transmitted to Eurostat in April 2012. The use of administrative data in producing agricultural statistics is constantly increasing.

A pilot survey for Intrastat was carried out. Testing the Intrastat methodology and related applications in CBS and in the Customs Administration (CA) is on-going.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of statistics and is in a position to implement the *acquis* as of accession.

4.19. Chapter 19: Social policy and employment

Croatia has largely aligned its legislation in the field of **labour law**. A new Aliens Act transposing the *acquis* on posting of workers was adopted in October 2011. Legal alignment still needs to be completed, notably as regards working conditions of mobile workers engaged in interoperable cross-border services in the railway sector and on the European Works Council Directive. Strengthening the administrative capacity of the Wage Guarantee Agency needs to continue. A municipal court for work-related disputes in Zagreb has been operational since January 2012. Training of judges in the area of labour law needs to continue.

Croatia has largely aligned its legislation in the field of **health and safety at work**. Legal alignment still remains to be completed as regards the Occupational Safety and Health Act. As regards administrative capacity, training of labour inspectors has continued. The number of labour inspectors (111) still falls short of the requirements of the State Inspectorate Act (139).

In the area of **social dialogue**, Croatia is well prepared. Regular meetings of the Economic and Social Council have continued following the constitution of the new government, with strategic reform issues being debated in plenary. Representativeness criteria for the participation of trade unions in collective bargaining were adopted in July 2012. Two bipartite sectoral councils (social councils for road and railway transport) have been established in addition to the two already established tripartite sectoral councils. Training has been provided for mediators in collective labour disputes. Capacity building of social partners to assume their responsibilities for social dialogue at EU level needs to continue.

As regards **employment policy**, Croatia is sufficiently prepared. Amendments to the Law on Contributions were adopted in February 2012 with the aim of making the labour market more competitive. An employment incentive package focusing on providing long-term traineeships for young people has been adopted; providing a quality framework in implementation will be essential. Funds for active labour market policies have been increased. The situation on the labour market has further deteriorated, with the young and the long-term unemployed particularly hard hit. So far, effects to make the labour market more dynamic and overcome its structural weaknesses have been limited. Low participation and employment rates still need to be addressed (*See Economic criteria*). Employment policy also needs to be subject to regular monitoring and evaluation. The mismatch between demand and supply and skills forecasting still needs to be addressed. A full-fledged strategy for lifelong learning still needs to be adopted. As regards undeclared work, more efforts are needed to address the issue, in terms of both policy targets and implementation.

As regards preparations for the **European Social Fund**, Croatia is well prepared. Recruitment and training of staff are ongoing. Further capacity building of relevant structures needs to continue to allow sufficient absorption of the future funds under the ESF.

In the area of **social inclusion**, Croatia is sufficiently prepared. A new Social Welfare Act was adopted by the parliament in March 2012, aimed at rationalising social benefits and advancing the fiscal and administrative decentralisation of social services. Decentralisation of social services is still at an early stage. Further efforts are needed to make the labour market more inclusive and to provide adequate pensions or income support for the elderly. Particular attention needs to be paid to the employment of minorities in the state administration. Challenges remain in terms of reducing health and regional inequalities and in terms of

inclusive rural development. Implementation of measures envisaged under the Master Plan on De-institutionalisation 2011–2016 needs to be speeded up.

People with disabilities continue facing discrimination on the labour market, and children with disabilities still face problems in access to education. In the public sector, employment quotas are not being met. Public awareness of the rights of people with disabilities remains low, especially in rural areas. Attention needs to be paid also to the implementation of regulations ensuring physical accessibility.

In the area of **social protection**, Croatia is sufficiently prepared. New legislation regulating the second and third pension system pillars entered into force in October 2011. Efforts need to continue to ensure the adequacy and sustainability of pensions, and to reduce further the system of privileged pensions. More efforts to improve employment of older workers and to protect elderly people without income are needed. Efforts need to continue to implement a comprehensive reform of health care to ensure that it is efficient and sustainable.

Croatia has aligned its legislation in the area of **anti-discrimination** through adoption of amendments to the Anti-discrimination Act in September 2012. Measures aimed at developing a comprehensive system of monitoring of cases of discrimination are ongoing. A number of measures have been taken to raise the awareness of anti-discrimination efforts and to train relevant stakeholders. These efforts need to continue, in particular at local and regional levels, with a particular focus on remote and rural areas. Implementation of the Plan for Employment of National Minorities in State Administration Bodies for the period 2011–2014 needs to continue. As regards administrative capacity, a new Law on Ombudsman was adopted in June 2012 providing for the existence of a general Ombudsman Office and other specialised Ombudsmen's offices.

Croatia has largely aligned its legislation in the field of **equal opportunities**. Legal alignment of the Occupational Safety and Health Act with Directive 92/85/EEC, on the introduction of measures to improve safety and health of pregnant workers and workers who have recently given birth or are breastfeeding in the workplace, still needs to be completed. Follow-up and evaluation of measures envisaged under the National Policy for the Promotion of Gender Equality 2011–2015 need to continue. Employment rates for women remain much lower than those for men.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of social policy and employment and is expected to be in a position to implement the *acquis* as of accession.

Further efforts are required, in particular to complete legal alignment in the field of equal opportunities, address the structural weaknesses on the labour market, better target social welfare, and to strengthen administrative capacity, in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.20. Chapter 20: Enterprise and industrial policy

In the field of **enterprise and industrial policy principles** alignment has further advanced and is almost complete.

Excessive regulation in some areas and the cost of registration prevent expansion of the SME sector. Administrative and judicial weaknesses continue to affect the business environment. Croatia needs to continue taking action to further improve the conditions for doing business, by increasing the predictability of the business environment, such as by implementing the regulatory impact assessment, and increasing transparency of decision making, particularly at local level.

Croatia has further advanced in developing administrative capacity in enterprise policy. Alignment of the definition of SMEs with the EU recommendation has been completed with the amendment of the Act on SME Support, which was adopted in April 2012. Other acts mentioning the definition of SMEs (e.g. the Accounting Act) remain to be aligned with the EU recommendation. Croatia needs to complete alignment with the EU Directive on combating late payment in commercial transactions.

In the area of **enterprise and industrial policy instruments**, Croatia has established appropriate instruments and is in advanced stage of implementation. Croatia continues to play an active part in the EU's Competitiveness and Innovation Programme (CIP).

Croatia has made some progress in the field of **sector policies**, notably in the wood and shipbuilding sectors. (*See Chapter 8 — Competition policy*)

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of enterprise and industrial policy and is expected to be in a position to implement the *acquis* as of accession. Efforts are necessary to improve the business environment and to start the enforcement of the regulatory impact assessment. Further work is needed to align the legislation as regards combating late payment in commercial transactions.

4.21. Chapter 21: Trans-European networks

In the field of **trans-European transport and energy networks**, Croatia has completed alignment with the *acquis*.

As regards the development of transport networks, the ISPA measure 'Vinkovci to Tovarnik to State Border Railway Rehabilitation' was completed and the section was opened to traffic at the end of 2011. However, for another major project, 'Zagreb Main Railway Station Signalling and Interlocking System', there are some delays in implementation due to necessary works unforeseen in the initial planning.

Croatia has actively participated in the development of new network development plans by the European Network of Transmission System Operators for Electricity (ENTSO-E) and in the first phase of the North-South Interconnection Initiative. The feasibility study for the first phase of an LNG terminal (1-2 bcm/year) is on-going.

Further efforts are needed to ensure the necessary expertise and capacity for developing and implementing complex infrastructure projects so as to maximise absorption of the currently available IPA funds and future cohesion and structural funds in this area.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of trans-European networks, and is in a position to implement the *acquis* as of accession.

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

As regards the **legislative framework** necessary to ensure that operations financed by the Structural and Cohesion Funds are fully compatible with EU policies, alignment with the *acquis* is largely in place. A new law on public procurement together with legislation on the supervision of its implementation came into force in January 2012. Implementing legislation in the area of public procurement needs to be completed.

Preparations with regard to the **institutional framework** have further advanced and are now almost complete. Following the reorganisation of the institutions involved in the implementation of EU funds, a revised decision regarding the management and control structures for post-accession programmes has been adopted in July 2012 and is to be submitted to the Commission. Croatia's institutional framework for implementing the EU cohesion policy will largely build on the existing implementation structures for IPA.

Preparations are moderately advanced in the field of **administrative capacity**. Some delays have occurred in building up staffing levels as shown by delays in the implementation of IPA. Following a workload assessment, the Government adopted a decision in July to recruit 232 staff by October in view of preparation for the Structural Funds and the Cohesion Fund. Increased efforts are needed to enhance capacity in line with the Institutional Development and Capacity Building Strategy and the Action Plan for Implementation for the period 2010-2013. Croatia needs to accelerate measures in building up the required administrative capacity for managing the Structural Funds and the Cohesion Fund.

Croatia is at an advanced stage in preparations in relation to **programming** requirements. The finalised National Strategic Reference Framework and the Structural Funds Operational Programmes for the whole period 2007-2013 are to be submitted to the Commission by end 2012. Sustained and increased efforts are required to build up a high quality and mature project pipeline with a view to swift absorption of regional policy funds.

Preparations are moderately advanced in the field of **monitoring and evaluation**. Based on the set-up and experience under IPA, the development of a Monitoring and Evaluation System and an electronic management and information system for structural and cohesion funds continued. An evaluation strategy was adopted in March 2012 that provides a coherent framework for evaluations under the cohesion policy. The interim evaluation of current Operational Programmes (OPs) and ex ante evaluations of future OPs has started. Continuous efforts are needed to complete the establishment of the required system and ensure that it is fully functioning.

Croatia's preparations in the field of **financial management, control and audit** are moderately advanced (*See also Chapter 32 — Financial control*). Requests for the waiver of ex ante controls under IPA were sent to the Commission and are being assessed. Waiver of ex ante controls for IPA components preparing for structural and cohesion funds should facilitate compliance assessment, which is a precondition for payments of structural and cohesion funds. Croatia needs to further strengthen its capacity in these fields so as to comply, upon

accession, with the specific financial control provisions applicable to the Structural Fund and the Cohesion Fund.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of regional policy and coordination of structural instruments and should be in a position to implement the *acquis* as of accession.

Increased efforts are required to strengthen the administrative capacity for future cohesion policy implementation and to develop a high quality and mature project pipeline, with a view to swift absorption of regional policy funds, building on the recent report of the European Court of Auditors.

4.23. Chapter 23: Judiciary and fundamental rights *(See also Political criteria)*

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of the judiciary and fundamental rights and should be in a position to implement the *acquis* as of accession, as outlined in the 10 areas set out in Annex VII of the Act of Accession. However, increased efforts are needed to continue strengthening the rule of law and to fight and prevent corruption effectively. Prosecution of domestic war crimes, respect for human rights and the protection of minorities requires continuous attention.

1) To continue to ensure effective implementation of its Judicial Reform Strategy and Action Plan

Implementation of the judicial reform strategy and action plan has continued generally in line with the deadlines set, and included legislative fine-tuning in a number of areas. Working groups have been established and are active to further improve specific legislation and to increase coordination of legal instruments. Human resources planning, including for the long-term needs of the judiciary, remains to be improved. The budget available for the judiciary remained stable at around € 337 million, or 0.7% of GDP. A council for monitoring the implementation of the Judicial Reform Strategy was established in February 2012, focusing in particular on the efficiency of court proceedings. Amendments to the State Judicial Council Act were adopted in October 2011 to further increase scope for transferring judicial staff according to needs.

2) To continue to strengthen the independence, accountability, impartiality and professionalism of the judiciary

Implementation of the various measures taken in 2010 and 2011 to strengthen the independence, accountability, impartiality and professionalism of the judiciary has continued. The reformed State Judicial Council (SJC) and State Prosecutorial Council (SPC) have continued to function independently.

Both bodies have continued to appoint judicial officials based on transparent, uniform and objective criteria. Since 2011 63 judges have been appointed. Improvements in the implementation of the transitional system of appointing judges and prosecutors have been introduced, including greater transparency in marking interviews, with attention paid to ensuring equal treatment of all candidates. This is important in the final months of implementation of the transitional system, up to December 2012. Lessons learned from the implementation of the transitional system should be applied to the implementation of the new

system of appointments through the State School for Judicial Officials, which will start in January 2013. This experience should also be taken into account in upgrading the selection procedure for transferring judges to different positions. The first intake of candidates for the State School for Judicial Officials is finishing the second school year. However, enrolment of the second annual intake of 55 candidates was substantially delayed, with candidates being selected only in July for the programme to start in September.

The SJC has begun implementation of the new system of asset declarations for judges. Disciplinary measures are being taken in cases of wrongdoing by judicial officials. Both SJC and SPC became more proactive. However, the track record of implementation of the new system of disciplinary proceedings needs to be further developed.

The SJC and SPC need to be provided with further administrative resources to function more effectively and need to demonstrate independence and accountability in carrying out their increased tasks, including systematic and accurate checking of asset declarations and proactive application of disciplinary procedures.

Secondary legislation remains to be amended to limit judges' immunity, thereby completing the legislative framework in this field, and further guidance should be provided on the application of the code of conduct.

The Judicial Academy continued to work well. Professional training programmes, including initial training, have continued. Training on EU law has been stepped up. The involvement of the Judicial Academy in Europe-wide activities has increased and Croatia has signed a Memorandum of Understanding with the Commission on participation in the EU Civil and Criminal Justice Programmes. However, budget limitations (a cut of approximately 28% in the 2012 budget compared to 2011) affected the functioning of the Academy. Attention has to be paid to fully preparing judges to apply EU law and jurisprudence as of accession.

3) To continue to improve the efficiency of the judiciary

Croatia has continued to implement various measures aiming at improving the efficiency of the judiciary. In the first semester 2012 the backlog of criminal cases continued to fall by around 12%, and the number of old civil cases decreased by around 5%. However, a bigger effort is needed to reduce the number of unresolved civil and commercial cases further. Slightly more new cases entered the system in the first semester 2012 (844,218) than were resolved (836,160).

Also the number of enforcement cases increased by around 5% in the first semester 2012, although the enforcement system for monetary claims run by the financial agency FINA worked well. In July 2012 the government submitted to Parliament proposals for new enforcement legislation, which no longer provides for the introduction of public bailiffs. The new system, once adopted, will have to demonstrate its capacity to ensure the enforcement of court decisions and writs of executions and to reduce the backlog of enforcement cases. Further attention needs to be paid to ensuring that higher courts, including the Supreme Court, are adequately equipped to handle the disproportionate increase as cases advance through the system. The new system of administrative justice came into force in January 2012, albeit with some delays in appointing the necessary staff. Croatia needs to continue to implement efficiency measures with vigour, in particular to ensure improved rates of case handling and reductions in the number of old cases.

Some progress has been made with the physical infrastructure and computerisation of courts. The merger of courts as part of the court rationalisation process is continuing. The roll-out of the integrated case management system (ICMS) in 33 municipal courts is underway. Once it is finished, it will cover almost all courts in Croatia. However, the system should be applied to all courts, including the High Commercial Court and, for case management of misdemeanours, the High Misdemeanour Court. Moreover, further improvements are still needed in statistical data collection and analysis and in the monitoring of the overall length of proceedings. In general, misdemeanour courts need better equipment and premises. Further efforts are needed to increase mobility of judges and to develop the framework criteria for assessing their productivity.

4) To continue to improve the handling of domestic war crimes cases

Croatia has continued to process domestic war crimes cases. Implementation of the strategy for addressing impunity has started and a number of priority cases identified at national and regional level have been addressed, with further arrests, indictments and court rulings. However, the majority of crimes have not yet been pursued in Court. A more balanced approach to trials has continued, with further cases being transferred to the four specialised courts (87). Measures have been taken to protect witnesses with improved witness support services at certain courts. The war crimes database should be upgraded to enable more analytical information searches and should be effectively used by county prosecutors. Courts should further specialise in war crimes trials, through specific training of dedicated judges, and should prepare for an increasing number of cases. Croatia needs to give continuous attention to the issue of witness protection and attendance of witnesses in war crimes trials, especially in cases relocated to the specialised chambers. The review of cases tried *in absentia* should continue. The *Law on invalidation of certain legal acts of the judicial bodies of the Former Yugoslav National Army, the former Socialist Federal Republic of Yugoslavia and of the Republic of Serbia* adopted in October 2011 gave rise to concerns about future bilateral cooperation with Serbia in war crimes cases. The law has been challenged by the President in the Constitutional Court on procedural grounds. Croatia has made contact with Serbia to address the possible adverse effects of the law, and has started technical negotiations with Serbia on an agreement on cooperation in this field.

Further efforts have to be made to tackle impunity especially as the majority of cases have yet to reach final verdict or are still to be investigated. Croatia needs to give continuous attention to the issue of witness protection and attendance of witnesses in war crimes trials, especially in cases relocated to the specialised chambers.

5) To continue to ensure a sustained track record of substantial results based on efficient, effective and unbiased investigation, prosecution and court rulings in organised crime and corruption cases at all levels including high level corruption, and in vulnerable sectors such as public procurement

An adequate legal and institutional framework remains in place for the fight against corruption and organised crime and a track record of implementation continues to be developed. Law enforcement bodies remain proactive, especially in higher-level cases. Developments include guilty verdicts against a former manager of a state-owned company, a city mayor and a County Court judge for abuse of office and indictment of a political party for corruption. While the law enforcement bodies continue to focus on more complex, higher-level cases, the overall number of cases being handled is falling.

Local-level corruption needs attention, particularly in public procurement. The legal framework for the seizure and confiscation of assets needs to be better implemented across the board.

Further attention should be paid to the system for checking on dismissals of criminal cases by the prosecutor. The current system does not provide for independent checks on decisions by State prosecutors to dismiss reports of crime.

A number of senior appointments to the police were made. The implementation of the Law on the Police should be ensured, in particular to depoliticise the police and increase professionalism of the police.

6) To continue to improve its track record of strengthened prevention measures in the fight against corruption and conflict of interest

Croatia improved its track record of strengthened prevention measures in the fight against corruption by means of a number of legal instruments, e.g. on the financing of political parties and electoral campaigns, access to information and public procurement. However, Croatia has not efficiently implemented all legal measures to prevent conflict of interest.

As regards the financing of political parties and election campaigns, the State Electoral Commission, which is the supervisory body, was strengthened and new rules were applied to the general elections in December 2011 without major difficulties and with few reported shortcomings. A working group was set up to draw on lessons learnt in preparing for the local elections planned for 2013. Continuous efforts are needed to effectively control the financing of political parties, including outside the election period.

New rules on access to information are being applied, with the first appeals reaching court. However, general monitoring by the Data Protection Agency, which is in charge of implementing the law, is difficult because in 2011 less than half of the institutions concerned submitted a report to the agency. In 2011, no public interest test was applied to classified data. The current practice of the Administrative Court is to confirm the existence of such data and deny access to it. The practice of applying the public interest test to classified information needs to be developed, including through legislative changes.

The new public procurement legislation in force since January 2012 provides for increased transparency, including publication of information on the actual execution of contracts. The effective implementation of this legislation is key.

Improved and stricter conflict of interest legislation was adopted in early 2011; however, the new Conflict of Interest Commission has still not been appointed, and this has delayed the implementation of the law. Some initial steps have been taken for the setting up of the Commission, with the publication by the Parliament of the request for expressions of interest for the selection of the Commission's members in August 2012. The system for checking on asset declarations and unjustified wealth needs to be strengthened and effectively implemented.

Provisions of the previous legislation on criteria for membership of the supervisory and management boards of public companies have been overturned. Croatia needs to ensure that a strong system is in place to prevent corruption in state-owned companies. The Conflict of Interest Commission needs to be established without delay. The concept of political accountability and zero tolerance of corruption needs to continue being developed.

7) To continue to strengthen the protection of minorities, including through effective implementation of the Constitutional Act on the Rights of National Minorities (CARNM)

Implementation of the Constitutional Act on the Rights of National Minorities continues. Eight members of parliament representing national minorities were elected in December 2011. Some steps have been taken by the government to implement the May 2011 plan for minority employment for the period 2011-2014. The level of employment of minorities in the state administration and judiciary remains below the requirements set by the Constitutional Act on the Rights of National Minorities. While this may be partially explained by relatively few new recruitments due to the general economic crisis, more efforts should be made to ensure implementation of this plan, including increased monitoring efforts.

Croatia also needs to continue to foster a spirit of tolerance towards minorities, in particular Serbs, and to take appropriate measures to protect those who may still be subjected 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.

8) To continue to address outstanding refugee return issues

Housing Care programmes for returning refugees continue to be implemented, although at a slower pace. Under the March 2011 plan for dealing with the approximately 2,350 remaining applications, by August 2012, 259 were settled, out of which 139 families took over the keys. By August 2012, 1,305 positive approvals for housing care above the benchmark for housing care have been given. 106 appeals for housing reconstruction are still pending. The decision on validating pension rights continues to be implemented. Croatia has also continued to engage with the other countries of the region in the Sarajevo Declaration Process, in which progress is being made, particularly on the regional housing project. There has been limited implementation of the new purchase options under favourable conditions for housing care beneficiaries and no significant progress with regard to the 15 unsolicited investment cases. Conditions for sustainable refugee return need to be further developed.

9) To continue to improve the protection of human rights

Human rights continued to be generally well respected. However, existing legal provisions need to be applied with more vigour. The general Ombudsman and specialised ombudspersons continue to play an important role in human rights protection. However, the follow-up of the Ombudsman's recommendations needs to be ensured. The Constitutional Court revoked a law on the merger of the Ombudsman's offices with the Centre for Human Rights and with the three specialised Ombudspersons for gender equality, for children and for disabled persons, due to procedural reasons. New legislation, which no longer foresees the merger of the offices, was adopted in July 2012. The Ombudsman offices need to be strengthened to further improve the human rights protection system. This includes providing adequate financing and office premises, and setting up a joint database.

Croatia has further developed its track record of implementation of the Anti-discrimination Act and legislation on hate crimes. This needs to continue to develop, with attention paid to ensuring that dissuasive sanctions are applied. Amendments to the Anti-discrimination Act were adopted by the Parliament in September 2012. The gay pride events in Split and Zagreb took place without major incidents, with strong commitment from the Croatian government to

their smooth organisation. Lesbians, gays, bisexual and trans-gender (LGBT) people still face threats and attacks. The legal framework for free legal aid has to be improved to enable better access to legal aid and to foster the role of NGOs as legal aid providers.

10) To continue to cooperate fully with the International Criminal Tribunal for the former Yugoslavia

Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). There have been no particular developments with respect to Croatia's investigations aimed at locating or determining the fate of missing military documents requested by the Office of the ICTY Prosecutor. Croatia's request to act as *amicus curiae* in the appeal against the verdict of 15 April 2011 in the case of Croatian Generals Gotovina and Markač was rejected by the Court. The ICTY Chief Prosecutor has issued a positive report on Croatia's cooperation with the ICTY.

4.24. Chapter 24: Justice, freedom and security

In the field of **migration**, Croatia has further aligned with the *acquis* and preparations in this area are almost complete. The number of irregular migrants apprehended in 2011 increased to 3,461. Over the same period, 552 unaccompanied irregular minors were identified (their number is almost twice as high as the previous year). Good cooperation with the other countries of the region in the field of readmission can be noted; the agreement with Bosnia and Herzegovina entered into force in April 2012. A similar agreement was signed with Germany in March 2012. Work is on track to build the facility for minors and other vulnerable groups of illegal migrants in Jezevo. Further efforts are needed to start building two additional transit reception centres for irregular migrants. On legal migration, the new Aliens Act entered into force in January 2012, further aligning the national legislation with the *acquis* in this field. The preparation of a new migration strategy needs to continue without delays. Croatia will need to implement the legal framework on unaccompanied minors, by developing for them appropriate assistance and start building the new reception centres for irregular migrants before accession. Alternative temporary solutions, taking into account the growing number of migrants entering the country, especially in the border areas, need to be considered.

In the field of **asylum** Croatia has almost completed alignment with the *acquis*. Preparations need to ensure sufficient institutional capacity in this field, in terms of sufficient and trained personnel, taking due account of the steady increase in the number of asylum seekers in the country. Implementing legislation in the field of free legal aid during the asylum procedure was adopted in March 2012. The administrative courts took over responsibility for second-instance asylum cases as of January 2012. Following a three-month transitional period, the commission for asylum ceased its work in March 2012. An initial number of posts for judges and administrative staff of the new courts were filled; training on asylum for the staff began. Refugees still face difficulties in securing access in practice to the rights granted to them by national law. The recruitment and training of the administrative courts' judges and employees need to continue. The number of asylum seekers increased sharply, from 290 in 2010 to 807 in 2011. The Ministry of the Interior has stepped up its efforts to offer certain services to asylum seekers, with the support of local NGOs, but the involvement of all the other ministries needs to be ensured. Preparations for implementing the Dublin and Eurodac Regulations have continued, including by providing the personnel of the Ministry of the Interior and the border police with relevant training. Croatia will need to ensure that refugees enjoy full access to their rights before accession.

Legislative alignment is moderately advanced as regards **visa policy** and needs to progress, to reach full alignment with the *acquis* on visa issuance and travel documents. The new Aliens Act entered into force in January 2012; the related implementing legislation has not yet been adopted. On visa requirements, Croatia has fully aligned its legislation with the EU positive list of Regulation 539/2001. Further alignment is required with the uniform procedure for issuing visas and the EU visa code. The list of countries whose nationals require a visa to enter Croatian territory is not yet fully aligned with that of the EU. The government adopted a decision temporarily liberalising the visa regime for citizens of the Russian Federation, Ukraine and Kazakhstan for transit through or staying up to 90 days from 1 April to 31 October 2012, which is not in line with the *acquis*; the decision will cease to apply as of November. Biometric passports are compliant with EU standards; the old ID cards issued before 2003 are still in circulation but in August 2012 the Government adopted the decision that they cannot be used as valid travel documents.

As regards requirements to be met as of accession to the Schengen area, further alignment is necessary on the procedure for issuing visas in line with the EU visa code.

With regard to **external borders and Schengen**, legislative alignment with the *acquis* has progressed moderately and needs to continue for Croatia to be prepared to take over control of the EU external borders. The State Border Control Act and its implementing legislation were amended at the end of 2011. The Integrated Border Management (IBM) Action Plan was revised in April 2012. The National Maritime Centre in Zadar has started to be operational; yet its interconnectivity with relevant Ministries has to be ensured. The cooperation with Frontex was enhanced and includes Croatia's participation in different activities and joint operations. Regular coordination meetings take place with neighbouring countries, as do joint patrols of the borders; those with Serbia and with Montenegro need to be enhanced. A common contact point with Serbia was established at the border crossing point (BCP) of Bajakovo-Batrovci and it is fully operational. A first coordination meeting with the authorities of Bosnia and Herzegovina, to implement the mutual agreement on state border control, was held in December 2011. Discussions with both countries, and with Montenegro, to bring bilateral agreements on local border traffic in line with the *acquis* are advancing and need to be finalised before accession. The Free Transit Agreement with Bosnia and Herzegovina ('Neum agreement') needs to be brought in line with the *acquis* before accession.

Staffing targets for the border police set for 2011 were almost completely met; 308 new officers were hired in 2011. The total number as of May 2012 is 6,017, of which 4,647 are at the future external border. The recruitment needs to continue to reach the Schengen standards. Basic and specialised training continued; full alignment with the programme of the Common Core Curriculum needs to be ensured, with the specialised training systematically included in the curricula of the border police.

The IBM Action Plan was partly implemented; certain activities planned in 2011, relating to the procurement of technical equipment and to infrastructures, have been postponed to 2012. Delays in these areas need to be properly monitored and addressed, particularly with regard to the Neum corridor. The construction of the BCPs at the Neum corridor needs to be finalised such that they are operational upon accession. The installation of the National Border Management Information System (NB MIS) has continued but the new system is not yet installed at all BCPs. As of August 2012, it was operational at 81 BCPs. The preparation and the relevant training need to continue. Efforts need to be made to conclude the interministerial agreement and to continue recruitment, purchase of equipments and trainings, with a view to making the National Maritime Centre in Zadar fully operational. Inter-agency cooperation on

IBM issues has continued, but a joint risk analysis is missing. Croatia will need to address the delays in implementing the IBM Action Plan, especially those related to infrastructures. All bilateral agreements need to be brought in line with the *acquis* before accession.

Croatia has continued to align its legislation in the field of **judicial cooperation in civil and criminal matters** and the preparation is almost completed. An agreement on mutual execution of criminal judgments with Montenegro, and an extradition agreement with the former Yugoslav Republic of Macedonia, were signed in October 2011. A working group has been set up and met several times to prepare the new Act on International Private Law. Cooperation with the European Judicial Network in civil and commercial matters has progressed; a network of national contact points is being developed in this regard.

Croatia will need to continue strengthening interinstitutional coordination on judicial cooperation.

As regards **police cooperation and the fight against organised crime**, activities have continued with the aim of bringing the national legislation into line with the *acquis* and coping with the future challenges of fighting organised crime within the EU. In this area, the country is advanced, but needs to remain vigilant given the important challenges as regards organised crime activities in the region.

A number of bilateral agreements in the field of police cooperation and organised crime were signed; those with Bulgaria and with Poland were ratified. Good cooperation with Europol has continued. Two new liaison officers have been appointed, respectively for Europol and for Bosnia and Herzegovina. The technical preparation and staff training to establish the Supplementary Information Request at the National Entry (SIRENE) Office and the National Office for the Schengen Information System (SIS) have progressed; yet the regulatory framework for the SIS office is still missing. A decision on the premises, staff and the budgetary allocation destined to the SIRENE office needs to be taken.

Both the legal framework and the institutions in charge of combating organised crime have effectively contributed to counteracting this phenomenon, at both national and international level, taking into account the good level of alignment with the EU standards achieved in this area. Training and activities to improve police performance continued. The government decided not to revise the Law on Police currently in force; part of the legislation implementing the Police Act is still missing and needs to be prepared without delay. The Ministry of the Interior needs to develop IT support to ensure transparent implementation of the Strategy for its Human Resources Management. The track record on organised crime cases has continued to develop, not least on drug trafficking. Implementation of the legal framework on the seizure and confiscation of assets needs to be consolidated, as does the coordination between criminal and financial investigations. The total level of assets seized and confiscated is relatively low and further efforts are necessary in this regard. A monitoring system to fight corruption in border management is in place. The equipment and the premises of PNUSKOK's regional office in Split would still need to be upgraded; operational guidelines and specialised training for the newly employed staff of the office need to be introduced. The second-instance body which reviews cases of offences against the public administration remains to be strengthened.

Inter-agency cooperation in exchanging data on transactions suspected of involving money laundering or terrorist financing is now facilitated by the signature of an annex to the protocol on cooperation between authorities dealing with corruption, organised crime and the

associated crimes of money laundering and terrorist financing. Training on anti-money laundering measures and on the fight against cybercrime has continued. Administrative capacities in the anti-money laundering field need to be improved (*see also Chapter 4 — Free movement of capital*), as well as the capacities of the law enforcement authorities to conduct financial investigations.

The new Criminal Code, adopted in October 2011, splits the criminal offence of trafficking in human beings and slavery, introducing new types of exploitation. The national action plan against trafficking in human beings for the period 2012-2015 was adopted in February 2012; a new national committee for action against trafficking was set up in March 2012. Implementation of the legislative framework on trafficking needs to be strengthened, as does public awareness, to ensure better identification and protection of the victims. The new national committee for action against trafficking has not yet met, since the beginning of 2012. In 2011, only 14 victims were identified (7 in 2010). Further measures need to be put in place to ensure their rehabilitation and compensation. The training for judges, prosecutors and other civil servants dealing with trafficking needs to be improved, as the level of sentencing in cases of human trafficking is very low compared to other types of organised crime.

Croatia will need to complete a number of steps in this field before accession. These include putting in place the regulatory framework for the SIS office and making the SIRENE's one fully operational, upgrading police equipment and the facilities of PNUSKOK, increasing the level of seized and confiscated assets and better coordinating criminal and financial investigations. In the fight against trafficking in human beings, attention needs to be paid to implementation of the relevant legal framework and to the overall definition of policies in this area.

With regard to internal border control, a decision on the application of the relevant Schengen *acquis* in Croatia shall be taken by the Council, in accordance with the applicable Schengen procedures and while taking into account a Commission report confirming that Croatia continues to fulfil the commitments undertaken in its accession negotiations that are relevant for the Schengen *acquis*.

Alignment is moderately advanced in the **fight against terrorism** and will require further attention, especially to implement the Action Plan for the prevention and suppression of terrorism and the Maritime anti-terrorism plan. Experts from the police attended various training sessions on topics related to anti-terrorism, such as counter-explosive protection and measures to protect against ionising radiation. The Ministry of the Interior completed the examination of the Murat storage facility for explosives and ammunition, in line with the *acquis*; additional efforts need to be made to complete the work at a similar location near Djakovo. Safety studies for the areas where ammunition is to be destroyed have yet to be prepared. The protocol on cooperation between the Interior and Defence Ministries for the destruction of explosives and ammunition needs to be adopted. Croatia needs to step up its efforts in implementing the action plans relating to anti-terrorism and in completing the examination of ammunition and explosive storage sites, to bring them into line with the *acquis*.

Legislative alignment in **cooperation in the field of drugs** has achieved significant progress and is almost complete; Croatia is ready to face the challenges in the fight against drug trafficking within the EU. The new National Strategy on Combating Drug Abuse, for the period 2012-2017, was prepared taking account of the evaluation of the previous Strategy (2006-2012). A first national survey on the use of drugs and other addictive substances in the

general population was conducted in 2011, with a view to improving reporting to the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). The number of drug offences and drug offenders identified in 2011 remained quite stable compared to last year; 7,767 drugs-related offences were reported (7,782 in 2010), 5,269 for the purpose of possession or use and 2,498 for the purpose of trafficking or production. A total of 5,715 offenders were reported. Croatia's regional and international cooperation in the field of drug smuggling and trafficking has continued to be very good. With a view to improving its national Early Warning System on New Psychoactive Substances, the Office for Combating Drug Abuse set up an expert group to improve the reporting and sharing of data on drugs and drug trends with other countries. The office set up a database to take stock of the projects in Croatia in the fields of prevention, treatment, harm reduction and social reintegration; the best programmes will receive a joint quality certificate from the National Office and the EMCDDA, giving them priority access to the funds available at national level. Croatia needs to keep up its efforts to implement the *acquis* in this field by accession.

Preparations in the field of **customs cooperation** are well advanced.

For the fight against **counterfeiting of the euro**, see *Chapter 32 — Financial control*.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations in the field of justice, freedom and security and should be in a position to implement the *acquis* as of accession.

Attention must be given to further legislative alignment across the board, including with regard to new *acquis*, in order to ensure that Croatia will be fully aligned as from the date of accession. Specific efforts are required to complete the alignment with the EU visa regime.

In the area of border management, continued attention needs to be paid to timely implementation of the relevant action plan, including by filling the vacant positions according to the schedule; efforts are still needed on equipment and infrastructures. The country needs to make sure sufficient financial allocation is made available in this field already before accession. Croatia should also continue developing a track record of cases in the fight against organised crime. Further efforts are needed in the implementation of the legal framework on the seizure and confiscation of assets.

4.25. Chapter 25: Science and research

In the area of **research and innovation policy**, Croatia is sufficiently prepared. It has continued to participate successfully in the Seventh EU Research Framework Programme (FP7) and has taken several measures to reform the national research landscape with a view to further integration into the European Research Area. Measures have been taken also to stimulate innovation and to contribute to the Innovation Union flagship.

In the area of the Seventh EU Research **Framework Programme** (FP7), Croatia is well prepared. Participation in FP7 has continued to increase. Croatia has a good level of administrative capacity and a good knowledge of cooperation with EU partners and the region. In a number of important FP7 programmes, participation is insufficient; in particular, the number of successful Marie Curie grants is still very low, the number of SMEs participating in FP7 is weak and no grants have been obtained from the European Research Council. This remains to be addressed, in particular in preparation for the next Research and

Innovation programme Horizon 2020. Croatia needs to also consider more actively research opportunities on nuclear research under the Seventh Euratom Framework Programme 2011–2013.

As regards preparations for integration into the **European Research Area**, Croatia is sufficiently prepared. Implementation of the Action Plan for Mobility of Researchers has continued and steps have been taken to host foreign researchers in Croatia. Croatia actively participates in EURAXESS network. Thematic evaluation of public research institutes has been concluded with a view to boosting scientific excellence. There has been no increase in the level of investment in research, which is still rather low (less than 1% of GDP, compared to an EU average of 2%). Conditions for enhanced cooperation between the private and public sectors need to be encouraged. Further measures such as establishing a national roadmap for research infrastructure and transfer of technology management have to be further considered in order to be fully in line with EU standards and targets.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of science and research and is in a position to implement the *acquis* as of accession.

4.26. Chapter 26: Education and culture

In the field of **education, training and youth**, Croatia has completed alignment with the *acquis*. Amendments to the Act on Primary and Secondary Education were adopted by the Parliament in July 2012 providing *inter alia* for the establishment of a National Education Council in charge of monitoring quality and elaborating recommendations for early, primary and secondary education system, and of facilitating students who completed a three-year VET programme to continue or to complete four-year VET programmes. Also reform of higher education and of vocational education has continued through application of a learning outcomes approach. The process of self-assessment of vocational education schools has continued. Reform of adult education has also continued. Croatia actively takes part in the EU open method of coordination activities. As regards the benchmarks that the EU has set itself in the context of the strategic framework for European cooperation in education and training (ET 2020), Croatia continues to perform below the EU average for tertiary education attainment and participation in pre-school education. It lags behind also as regards the participation of adults in lifelong learning.

As regards participation of Croatia in EU programmes, the Croatian National Agency continues to ensure sound and efficient management of the decentralised actions.

In the area of **culture**, Croatia is well prepared. Amendments to the Act on Protection and Preservation of Cultural Goods were adopted in February 2012, easing the requirements for the payment of a fee for the use of cultural goods. Good results have continued to flow from Croatia's participation in the Culture Programme. Funds absorbed through the Europe for Citizens Programme and the number of projects implemented remained at a satisfactory level.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of education and culture and is in a position to implement the *acquis* as of accession.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, legislative alignment in the field of *horizontal legislation* has further advanced and is almost complete. Further efforts are needed to implement the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA). In particular, the quality of environmental impact studies as well as the quality check mechanisms need to be significantly improved. Implementation of provisions on public participation and access to justice in environmental matters has improved. Cooperation with the public, NGOs, judiciary and law enforcement institutions was enhanced during the reporting period.

Legislative alignment in the field of *air quality* has further advanced and is almost complete. A new Air Protection Act has been enacted, incorporating provisions of the new *acquis* on ambient air quality and cleaner air for Europe. Investments for implementation of the *acquis* are insufficient and need to increase to reach EU targets.

Legislative alignment in the field of *waste management* has further advanced but needs further attention, in particular as regards the Waste Framework Directive and the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS Directive). The new waste management strategy has not yet been adopted. Considerable efforts are needed to meet the deadlines for full implementation of the *acquis* in this area, in particular as concerns the timely development of a pipeline of mature projects. Transitional arrangements have been agreed for the remediation of existing landfills and the building of new waste management centres to comply with the *acquis* by 31 December 2018, and by 31 December 2020 concerning the amount of biodegradable municipal waste to be landfilled.

Croatia has largely aligned its legislation in the field of *water quality*. The new draft Water Act due to ensure further compliance with the *acquis* was not adopted yet. Transitional arrangements have been agreed until 31 December for 2023 for urban waste water collection and treatment systems with intermediate deadlines for part of the Decision until 31 December 2018 and 31 December 2020, and for the quality of water intended for human consumption with regard to microbiological parameters until 31 December 2018. Croatia will as agreed start implementing the new Bathing Water Directive from the date of accession. Reforms in the water sector are proceeding slowly. Pending problems linked to insufficient quality of environmental impact studies for water projects need to be solved. Efforts to develop and adopt river basin management plans (RBMPs) need to be stepped up. Croatia needs to speed up investments in infrastructure to comply with the *acquis*.

The legislative alignment in the field of *nature protection* has further progressed and is almost complete. The sector has been transferred from the Ministry of Culture to the Ministry of Environment and Nature Protection. Sectoral consultations relating to the establishment of Natura 2000 have continued. Preparations for the establishment of a list of marine Natura 2000 sites have progressed and a framework has been enacted in the field of marine environmental protection. Specific attention needs to be paid to the quality of Appropriate Assessments as per Art.6(3) of the Habitats directive. Administrative capacity for enforcement of the *acquis* nature protection inspection and technical support by the State Institute for Nature Protection needs to be strengthened, in particular for the management plans for Natura 2000 sites at the local level.

Croatia has largely aligned its legislation in the field of *industrial pollution control and risk management* (IPPC). Three transitional periods have been agreed, one with a final implementation date of 31 December 2017 for the modernisation of existing IPPC installations, and , a second until 31 December 2017 for the limitation of emissions into the air of certain pollutants from large combustion plants, and a third until 31 December 2015 for the limitation of emissions of volatile organic compounds due to the use of organic solvents in certain activities and installations. The permitting process for existing installations needs to be significantly sped up and appropriate funding for upgrading such installations needs to be secured. Administrative capacity in the area of IPPC needs strengthening, especially at the local level.

Croatia has largely aligned its legislation in the field of *chemicals*. An adaptation period of six months after the accession date has been agreed for the pre-registration of phase-in substances, registration dossiers and authorisation applications. The Department for Chemicals and Biocidal Products has been established within the State Sanitary Inspection Service of the Ministry of Health. The Department needs further reinforcement of its administrative capacity.

In the field of *noise*, Croatia has completed alignment with the EU requirements. The Department for Objects of Common Usage and Noise Protection was established within the State Sanitary Inspection Service of the Ministry of Health.

Croatia is progressing well in its preparations in the area of *civil protection* and is part of the EU Civil Protection Mechanism.

The legislative alignment is moderately advanced in the field of **climate change**. The Air Protection Act, of October 2011 represented a step forward. Legislative acts still need to be adopted to align with the EU *acquis* on the Monitoring Mechanism Decision, the EU Emissions Trading System (aviation, monitoring, auctioning and registries), geological storage of carbon dioxide, and light commercial vehicles. Croatia has submitted preliminary information on national implementing measures, on free allocation of allowances, on exclusion of small emitters, and on new gases and new sectors, which is being assessed by the Commission.

Significant further efforts are needed to catch up delays which have occurred in transposition and implementation so far, in particular with respect to the EU Emissions Trading System (monitoring and reporting as well as aviation) and geological storage of carbon dioxide. This is particularly important since Croatia will join the third phase of the EU Emissions Trading System as of 1st of January 2013 in so far as stationary installations are concerned. In accordance with the transitional arrangement granted, Croatia will take part in the EU ETS for aviation as of 1 January 2014.

Croatia regularly associated itself with EU positions in the international context. Following close coordination with the EU, Croatia submitted in April its provisional quantified emission limitation or reduction objectives (QELROs) for the second commitment period under the Kyoto Protocol, which is based on the understanding that it will be fulfilled jointly with the EU and its Member States, in accordance with Article 4 of the Kyoto Protocol. The country continues to fulfil its reporting obligations under the UNFCCC and the Kyoto Protocol.

Croatia participated regularly in climate work under the Regional Environmental Network for Accession (RENA).

Efforts to strengthen Croatia's **administrative capacity** have further slowed down. Due to the generalised shortage of human resources within the Ministry and the Agency, and also partly related to high staff turnover. The administrative capacity is clearly not sufficient to properly transpose and implement the EU climate *acquis*. Further, strengthening of administrative capacity is also needed within the Ministry of Health in the field of chemicals. Coordination mechanisms between ministries and administrative bodies need to be further strengthened.

Conclusion

Croatia is generally meeting the commitments and requirements arising from the accession negotiations and should be in a position to implement the environment *acquis* as of the date of accession. However, increased efforts are needed to properly implement and enforce legislation. In particular in the field of climate change, urgent steps need to be taken to be in a position to implement the *acquis* by the date of accession. Administrative capacity needs to be strengthened in some sectors, especially in the fields of climate change, industrial pollution control and risk management, nature protection and chemicals. Investments need to be increased across the sectors, but more particularly in the fields of air quality, industrial pollution control and risk management, water and waste, in order to ensure that Croatia completes its preparations for membership by the date of accession. Specific attention needs to be paid to the timely fulfilment of commitments in the fields of waste and IPPC. The quality of environmental impact assessment for projects needs to be significantly improved.

4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, Croatia is well prepared. Advice given to consumers in the four regional counselling centres increased by 15% in 2011 as compared to 2010. Various activities have been carried out with a view to raising public awareness of consumers' rights in line with the national consumer protection programme. Support for the consumer movement needs to continue. Steps have been taken to develop the system for out-of-court settlement of consumer disputes. Public awareness of the system needs to be raised, as the existing mechanisms are still underused.

In the field of *product safety-related issues*, Croatia has completed alignment with the *acquis*. A conference addressing general product safety was held in Zagreb in March 2012. Market surveillance continues to be at a satisfactory level. (See Chapter 1 — Free movement of goods)

Croatia has aligned its legislation in the field of *non-safety-related issues*. Amendments to the Consumer Protection Act were adopted in July 2012 aiming at aligning with the *acquis* on timeshare. Legislation on consumer credit was adopted by the Parliament in September 2012. Technical preparations will be necessary to ensure timely implementation of the *acquis* on cooperation between national authorities responsible for the enforcement of the consumer protection laws by accession.

As regards **public health**, Croatia has completed alignment with the *acquis* in the field of *tobacco control*. Measures have continued to promote smoke-free environments and smoking prevention.

Croatia meets the requirements in the field of *communicable diseases*.

Legislative alignment in the field of *blood* has made further progress and is almost complete. Amendments to the Act on Blood and Blood Components were adopted in October 2011 with

a view to completing legal alignment. Clarity needs to be provided on the status of the restructuring of blood services and when it is expected to be completed. Croatia has largely aligned its legislation in the field of *tissues, cells and organs*. A new Act on Medically Assisted Fertilisation was adopted by the Parliament in July 2012. Implementing legislation in this area still needs to be adopted. Facilities for handling blood, tissues and cells need to be upgraded and restructured in accordance with the EU technical requirements. The National Competent Authority needs to become fully operational and staffed. Capacity building and continuous education of professional staff need to continue.

In the field of *mental health*, Croatia is sufficiently prepared. Community-based services remain insufficiently developed as an alternative to institutionalisation. Further efforts are needed to promote socially inclusive treatment and care models and to promote mental health of children and young people. Financial resources allocated to mental health care remain scarce, although a strong commitment to mental health does exist.

In the area of *cancer screening*, Croatia is moderately advanced. The National Programme for early detection of cervical cancer has yet to be implemented. Further efforts are needed to achieve full implementation of breast and colorectal cancer screening programmes.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of consumer and health protection and is expected to be in a position to implement the *acquis* as of accession.

Further efforts are required to ensure that Croatia completes its preparations for membership by the date of accession, in particular in the area of medically assisted reproduction, where legal alignment remains to be completed, and in the areas of blood, tissues and cells, where facilities for handling them need to be upgraded and restructured in accordance with the EU technical requirements, and as regards staffing of the National Competent Authority in this field.

4.29. Chapter 29: Customs union

Legislative alignment in the field of **customs legislation** has further advanced and is almost complete. The national customs tariff nomenclature for 2012 was aligned with the 2012 EU Combined Nomenclature. Alignment with the *acquis* of the Croatian provisions on transit and the single administrative document was completed. In April 2012, Croatia ratified the Convention on a common transit procedure and the Convention on the simplification of formalities in trade in goods and joined these Conventions in July 2012. Apart from some minor discrepancies remaining in the allocation of tariff quotas, and the procedures used for authorising inward and outward processing, Croatia needs to swiftly abolish the fees impeding free access to customs services, especially the fees for access to the terminals where the Customs offices are located.

Alignment in the field of **administrative and operational capacity** has further advanced and is almost complete. Croatia adopted an updated customs business strategy and Action Plan 2012-2014. In July 2012, Croatia started as planned to redeploy customs officers from the future EU internal borders, to further reinforce internal supervision, mobile teams, the fight against corruption, and its strategy, risk assessment and planning capacities. Further development and testing of the New Computerised Transit System (NCTS) at national level ensured full compatibility with the EU NCTS system from July 2012, when Croatia started to

operate under the Convention on a common transit procedure. Work has continued to upgrade the automated risk management system in line with EU standards. The NCTS system was integrated into the risk management system. A new customs laboratory was fully equipped but needs to be fully staffed. Further efforts are in particular required in the area of interconnectivity and interoperability with the EU customs systems.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of customs union and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required to ensure that all relevant IT systems are in place and able to exchange information with the EU and other Member States as from the day of accession, in order to ensure Croatia completes its preparations for membership by the date of accession.

4.30. Chapter 30: External relations

Legislative alignment in the field of the **common commercial policy** has further advanced and is almost complete. Croatia continued to coordinate and align its positions with those of the EU in international organisations. A State Office for Trade Policy was established with the aim of strengthening administrative capacity in the area of trade policy.

As regards dual-use items, legislative alignment is as complete as possible before accession to the EU when the *acquis* in this area, including the Community regime for the control of exports, transfer, brokering and transit of dual use-items as well as the single market for dual use items will apply. Training of relevant staff in procedures, licensing, and control of dual-use items continued under the export control component of the EU Stability Instrument.

Croatia largely aligned bilateral trade and investment **agreements with third countries** with the *acquis* but further progress is required in accordance with Croatia's Action Plan updated in February 2012. Croatia continued to actively participate in the work of the Central European Free Trade Agreement (CEFTA). An Additional Protocol to CEFTA, enabling further liberalisation of trade in agricultural and food products between interested parties, entered into force in November 2011. Croatia will need to withdraw before accession from all free trade agreements with third countries and align with the *acquis* Bilateral Investment Treaties (BITs).

Croatia has completed alignment with the *acquis* in the field of **development policy** and **humanitarian aid**. The National Strategy for Development Cooperation 2009–2014 continued to be implemented. Croatia provides humanitarian aid within its financial capabilities and commitments. Croatia needs to continue to build up its administrative capacity so as to be able to fully participate in EU development and humanitarian policies.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of external relations and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required, in particular as regards alignment with the *acquis* of Croatia's bilateral investment agreements with third countries, in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** with the EU on foreign policy issues is in place and has continued in all relevant fora, including through participation in meetings of the EU-27 ministers of foreign affairs.

As regards the **common foreign and security policy (CFSP)**, during the reporting period, Croatia aligned itself, when invited, with 70 out of the 70 relevant Council decisions and EU declarations (100% alignment). It has continued to actively participate in the Barcelona Process — Union for the Mediterranean. Croatia has adequate administrative capacity to work within the EU CFSP structures. As a party to the Rome Statute establishing the International Criminal Court (ICC), Croatia continues to fully support the EU Common Position on the ICC (2003/444/CFSP) and will not sign an agreement with the US on the exemption of American citizens.

With regard to *restrictive measures* and *conflict prevention*, Croatia adopted the relevant decisions to implement sanction regimes deriving from UN Security Council Resolutions. Croatia has continued to implement sanctions introduced by the EU.

As regards *non-proliferation*, implementation of the National Strategy and Action Plan for the Control of Small Arms and Light Weapons has continued and its regional component strengthened. Public-awareness activities and measures to collect and destroy weapons have continued. Implementation and enforcement capacity has been strengthened, as has networking with other enlargement countries and Member States.

With regard to *cooperation with international organisations*, Croatia has, as a member of the UN, the OSCE, the Council of Europe and NATO, maintained its involvement in the policy-making of these organisations. Croatia continued to provide support to a wide range of UN and NATO missions.

Preparations are complete with regard to *security measures (classified information)*.

Croatia continued its participation in EU missions to support implementation of the **common security and defence policy (CSDP)**. Regarding *civil and military crisis management*, it has been participating in the EU operation Atalanta (Somalia). Croatia continued to support EU civilian missions. Croatia is participating in the EU rule of law mission (EULEX) in Kosovo and the EUPOL mission in Afghanistan.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of foreign, security and defence policy and is in a position to implement the *acquis* as of accession.

4.32. Chapter 32: Financial control

Alignment in the field of **public internal financial control (PIFC)** has further advanced and is almost complete. The Central Harmonisation Unit (CHU) at the Ministry of Finance updated and further developed methodological tools for the transparent and effective management of public funds in all budget users. Implementation of the action plan of the PIFC strategy for the period 2009–2011 has been successfully completed. An updated Action Plan for the period 2012–2013 still needs to be adopted. Training in financial management and

control (FMC) and in internal audit (IA) continued to be provided by the CHU in cooperation with other public bodies, line ministries, professional associations, academics, local authorities, the State Audit Office and the Agency for Audit of EU programmes implementation system (ARPA). Capacities of budget users, especially at the local level, need to be further enhanced with a view to preparations for future Structural Funds management. In addition, the independence of the internal audit function throughout the public administration needs to be strengthened.

Alignment in the field of **external audit** has further advanced and is almost complete. The State Audit Office (SAO) continued to successfully implement its Strategic Development Plan (2008–2012). Efforts continued to gradually shift from transaction-based to system-based audits. The parliament adopted a report on the work of the SAO in 2010 together with a report on the audit activity. The SAO drew up an Annual Plan and Work Programme for 2012. Further improvement of the follow-up of the SAO's recommendations by the parliament is needed and quality control of the SAO's performance needs to be improved. Training of external auditors in modern audit techniques as per international standards needs to continue. Cooperation between the CHU and the SAO needs to be enhanced as to ensure improved quality of audit performance by internal and external auditors.

Alignment in the field of **protection of the EU's financial interests** has further advanced and is almost complete. The Independent Service for Combating Irregularities and Fraud at the Ministry of Finance (ISCIF), together with the other bodies of the Anti Fraud Coordination Structure (AFCOS), continued to successfully implement the National Anti-fraud Strategy and its Action Plan. The legal basis for the efficient functioning of the AFCOS structure still needs to be finalised. ISCIF needs to improve its ability to play a leading role in the coordination of the AFCOS network on the basis of its functional independence. Further efforts are needed in streamlining fraud prevention, detection, reporting and follow-up at all levels of the public service, especially with a view to preparations for cohesion policy.

Alignment in the field of **protection of the euro against counterfeiting** has further advanced and is almost complete. The Croatian National Bank (CNB) improved its coordination capacity by strengthening cooperation with the Ministry of the Interior and other institutions involved. The CNB communicated its analysis of suspicious banknotes and coins on a monthly basis to the European Central Bank and through quarterly reports to the European Commission. Training was organised for employees of commercial banks and exchange offices so as to enhance their fraud detection skills.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of financial control and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required to consolidate the implementation of public internal financial control and the independence of internal audit at central and local level, to enhance the impact of external audit, and to improve the functioning of the Anti Fraud Coordination Structure for protecting the EU's financial interests, in order to ensure that Croatia completes its preparations for membership by the date of accession.

4.33. Chapter 33: Financial and budgetary provisions

Alignment in the field of **traditional own resources** (TOR) has further advanced and is almost complete. The testing environment for the TOR accounting module (A and B

accounts) has been enhanced and the IT application is now applied throughout the country. The professional knowledge and skills of customs officers on EU TOR was further improved. Measures have continued to combat customs duty and VAT fraud. Effective tools to fight against tax evasion and fraud and to decrease the informal economy are to be further developed. Continued efforts are needed to ensure efficient and independent internal and external control and audit of the collection, accounting and making available of traditional own resources, including further development of post-clearance control at traders' premises. Special attention needs to be paid to the development of criteria for the evaluation of potential financial liability towards the EU budget in the event of non-recovery of customs debt.

Croatia has undertaken further measures to ensure an adequate legislative and institutional framework for the implementation of sugar levies. Cooperation among all bodies within the network of anti-fraud coordinating services (AFCOS) continued. Training sessions were held for customs officials in the fight against fraud and the reporting of irregularities. The legislative framework was completed and written procedures are currently elaborated.

Alignment in the field of the **VAT resource** has further advanced and is almost complete. Croatia continued to work on improving the methodology used in calculating the Weighted Average Rate. The Agreement implementing the Protocol on the Privileges and Immunities of the EU was signed by Croatia in November 2011 and by the Commission in June 2012.

Alignment in the field of the **GNI resource** has further advanced and is almost complete. **Administrative** capacity of key bodies in the field has been improved and relevant methodological tools and procedures for managing the Own Resources (OR) system have been elaborated. The Croatian Action Plan to complete own resources preparations was updated in April 2012. The Department for Coordination and Management of EU own resources in the Ministry of Finance needs to continue to build up its capacity to coordinate the overall system of own resources efficiently after accession.

Conclusion

Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of financial and budgetary provisions and is expected to be in a position to implement the *acquis* as of accession. Further efforts are required, in particular to strengthen the capacity to coordinate the overall system of own resources efficiently after accession. Modernisation of the customs control strategy, so that it focuses more on post-clearance controls, needs to be stepped up, in order to ensure Croatia completes its preparations for membership by the date of accession.

Statistical Annex

STATISTICAL DATA Croatia

Basic data	Note	2001	2007	2008	2009	2010	2011
Population (thousand)		4 437	4 441	4 436	4 435	4 426	4 412
Total area of the country (km ²)	1)	56 542	56 594	56 594	56 594	56 594	56 594
National accounts	Note	2001	2007	2008	2009	2010	2011
Gross domestic product (GDP) (million national currency)	2)	192 289	318 308	343 412	328 672	326 980p	333 956p
GDP (million euro)	2)	25 738	43 390	47 543	44 781	44 876p	44 922p
GDP (euro per capita)	2)	5 800	9 770	10 717	10 097	10 140p	10 181p
GDP (in Purchasing Power Standards (PPS) per capita)		10 018	15 156	15 796	14 627	14 843	15 500p
GDP per capita in PPS (EU-27 = 100)		51	61	64	64	61	61
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)	2)	3.7	5.1	2.1	-6.9	-1.4p	0.0p
Employment growth (national accounts, % change on previous year)	2)	0.5	3.5	1.1	-1.8	-5.1p	-2.4p
Labour productivity growth: GDP growth per person employed (% change on previous year)	3)	10.1	3.2	0.8	-5.2	2.7p	3.3p
Real unit labour cost growth (national accounts, % change on previous year)	3)	-1.6	3.2	1.0	-1.4	3.8p	1.6p
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)	3)	67.4	75.6	78.2	76.9	77.3	80.1
Gross value added by main sectors (%)							
Agriculture and fisheries	2)	6.5	4.9	5.0	5.1	5.0p	5.1p
Industry	2)	23.1	20.0	19.2	19.5	20.1p	20.5p
Construction	2)	5.6	8.1	8.5	7.9	6.7p	6.0p
Services	2)	64.8	67.1	67.3	67.4	68.2p	68.4p
Final consumption expenditure, as a share of GDP (%)	2)	82.4	78.2	77.3	78.6	78.8p	79.0p
Gross fixed capital formation, as a share of GDP (%)	2)	19.5	26.2	27.4	24.5	20.6p	18.8p
Changes in inventories, as a share of GDP (%)	2)	1.8	2.8	3.1	0.5	1.1p	2.3p
Exports of goods and services, relative to GDP (%)	2)	43.4	42.3	42.1	36.6	39.4p	41.8p
Imports of goods and services, relative to GDP (%)	2)	47.2	49.5	49.8	40.1	39.9p	41.9p
Industry	Note	2001	2007	2008	2009	2010	2011
Industrial production volume index (2005=100)		87.9	109.3	110.6	100.4	99.0	97.8
Inflation rate	Note	2001	2007	2008	2009	2010	2011
Annual average inflation rate (HICP, % change on previous year)		4.3	2.7	5.8	2.2	1.1	2.2
Balance of payments	Note	2001	2007	2008	2009	2010	2011
Balance of payments: current account total (million euro)		-785	-3 151	-4 258	-2 293	-481	-437
Balance of payments current account: trade balance (million euro)		-4 604	-9 470	-10 855	-7 416	-5 991	-6 360
Balance of payments current account: net services (million euro)		3 348	6 367	7 075	5 886	5 987	6 371
Balance of payments current account: net income (million euro)		-628	-1 090	-1 548	-1 799	-1 566	-1 601
Balance of payments current account: net current transfers (million euro)		1 100	1 043	1 071	1 036	1 088	1 154
of which government transfers (million euro)		65	-17	-20	-30	-40	-60
Net foreign direct investment (FDI) (million euro)		1 677	3 867	5 189	3 303	184	1 107
Foreign direct investment (FDI) abroad (million euro)		210	216	970	888	-113	32
of which FDI of the reporting economy in EU-27 countries (million euro)		152	564	740	529	-407	50
Foreign direct investment (FDI) in the reporting economy (million euro)		1 468	3 651	4 219	2 415	298	1 075
of which FDI of EU-27 countries in the reporting economy (million euro)		1 344	3 664	3 253	2 339	204	995
Public finance	Note	2001	2007	2008	2009	2010	2011
General government deficit/surplus, relative to GDP (%)		5.6	-2.4	-1.4	-4.1	-5.0p	-5.2p
General government debt relative to GDP (%)		35.7	32.9	28.9b	36.0	41.6p	46.1p
Financial indicators	Note	2001	2007	2008	2009	2010	2011
Gross foreign debt of the whole economy, relative to GDP (%)	4)	52.9	77.7	83.6	97.7	103.6p	101.8p
Gross foreign debt of the whole economy, relative to total exports (%)	4)	126.0	184.6	200.4	268.1	262.4	243.3
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		3 216	7 901	7 539	6 458	6 655	7 018
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		11 891	30 863	34 756	34 700	36 912	39 726
Interest rates: day-to-day money rate, per annum (%)		3.0	5.6	6.6	7.8	1.1	1.3

Lending interest rate (one year), per annum (%)		10.0	7.5	9.0	9.0	9.0	6.3
Deposit interest rate (one year), per annum (%)		-	0.5	0.5	0.5	0.5	0.3
euro exchange rates: average of period - 1 euro = ... national currency		7.471	7.336	7.223	7.340	7.286	7.434
Effective exchange rate index (2005=100)		97.6	90.8	89.0	90.0	90.9	92.9
Value of reserve assets (including gold) (million euro)		5 334	9 307	9 121	10 376	10 660	11 195

External trade	Note	2001	2007	2008	2009	2010	2011
Value of imports: all goods, all partners (million euro)		9 903.0	18 692.0	19 022.0	15 144.0	15 137.0	14 367.0
Value of exports: all goods, all partners (million euro)		5 072.0	9 004.0	8 965.0	7 458.0	8 905.0	8 437.0
Trade balance: all goods, all partners (million euro)		-4 831.0	-9 688	-10 057.0	-7 686	-6 232.0	-5 931.0
Terms of trade (export price index / import price index)	5)	94.4	97.5	96.1	109.2	100.9	101.3
Share of exports to EU-27 countries in value of total exports (%)		68.3	60.3	63.2	60.8	61.1	62.3
Share of imports from EU-27 countries in value of total imports (%)		71.9	64.5	62.3	62.6	60.2	61.8

Demography	Note	2001	2007	2008	2009	2010	2011
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		-1.9	-2.4	-1.9	-1.8	-2.0	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		7.7	5.6	4.5	5.3	4.4	:
Life expectancy at birth: male (years)		71.1	72.3	72.4	73.0	73.5	:
Life expectancy at birth: female (years)		78.1	79.3	79.7	79.7	79.6	:

Labour market	Note	2001	2007	2008	2009	2010	2011
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	68.6	68.3	67.5	66.2	65.5
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	62.3	62.9	61.7	58.7	57.0
Employment rate male (20-64) (%)		:	70.3	70.7	68.2	64.7	63.2
Employment rate female (20-64) (%)		:	54.5	55.2	55.4	53.0	50.9
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)	6)	23.7	35.8b	36.7	38.5	37.6	37.1
Employment by main sectors (%)							
Agriculture	7)	15.6u	10.7u	11.3u	11.5u	12.6u	13.0u
Industry	7)	23.1u	22.4u	22.3u	20.8u	20.4u	21.2u
Construction	7)	6.3u	9.1u	9.1u	9.1u	7.8u	7.3u
Services	7)	55.0u	57.8u	57.3u	58.6u	59.3u	58.6u
Unemployment rate: share of labour force that is unemployed (%)	6)	16.3	9.6b	8.4	9.1	11.8	13.5
Share of male labour force that is unemployed (%)	6)	14.4	8.4b	7.0	8.0	11.4	13.8
Share of female labour force that is unemployed (%)	6)	18.7	11.2b	10.1	10.3	12.3	13.2
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)	6)	41.7	24.0b	21.9	25.1	32.6	36.1
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)	8)	10.1	5.7	5.3	5.1	6.7	8.6

Social cohesion	Note	2001	2007	2008	2009	2010	2011
Average nominal monthly wages and salaries (national currency)	9)	5 061.0	7 047.0	7 544.0	7 711.0	7 782.0	7 796.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	9)	99.2	120.4	121.5	121.3	121.2	118.7
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)	6)	:	3.9u	3.7u	3.9u	3.7u	4.1u

Standard of living	Note	2001	2007	2008	2009	2010	2011
Number of passenger cars per 1000 population		269.4	335.7	346.1	345.6	342.4	344.1
Number of subscriptions to cellular mobile telephone services per 1000 population		390.1	1 133.6	1 325.4	1 360.8	1 437.5	1 159.3

Infrastructure	Note	2001	2007	2008	2009	2010	2011
Density of railway network (lines in operation, per 1000 km ²)		48.2	48.1	48.1	48.1	48.1	48.1
Length of motorways (km)		429	1 156	1 199	1 244	1 244	1 254

Innovation and research	Note	2001	2007	2008	2009	2010	2011
Spending on human resources (public expenditure on education in % of GDP)		4.2	4.0	4.3	4.3	:	:
* Gross domestic expenditure on R&D in % of GDP		0.9	0.8	0.9	0.9	0.7p	:
Percentage of households who have Internet access at home (%)		:	41.0	45.0	50.0	56.0	60.0

Environment	Note	2001	2007	2008	2009	2010	2011
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		86.7	102.4	98.5	91.8	91.0	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		331.0	292.0	278.2	284.3	282.7	:
Electricity generated from renewable sources in % of gross electricity consumption		42.9	23.0	27.9	36.9	45.4	:

Road share of inland freight transport (% of tonne-km)		78.0b	75.6	72.7	73.7	71.2	74.0
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Energy	Note	2001	2007	2008	2009	2010	2011
Primary production of all energy products (thousand TOE)		3 758	4 057	3 950	4 065	4 216	:
Primary production of crude oil (thousand TOE)		1 061	773	720	676	623	:
Primary production of hard coal and lignite (thousand TOE)	10)	-	-	-	-	-	-
Primary production of natural gas (thousand TOE)		1 642	2 362	2 194	2 196	2 215	:
Net imports of all energy products (thousand TOE)		6 121	8 141	8 001	7 277	4 497	:
Gross inland energy consumption (thousand TOE)		7 995	9 330	9 082	8 726	8 575	:
Electricity generation (thousand GWh)		12.1	12.2	12.3	12.8	14.1	:

Agriculture	Note	2001	2007	2008	2009	2010	2011
Agricultural production volume index of goods and services (producer prices, previous year=100)	11)	107.4	97.3	108.0	100.1	91.8	99.0
Total utilised agricultural area (thousand hectare)	12)	1 178	1 202	1 288	1 300	1 335	1 326
Livestock: cattle (thousand heads, end of period)	13)	438	467	454	447	444	447
Livestock: pigs (thousand heads, end of period)	13)	1 234	1 348	1 104	1 250	1 231	1 233
Livestock: sheep and goats (thousand heads, end of period)	13)	632	738	709	695	705	709
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		672	881	848	843	809	826
Crop production: cereals (including rice) (thousand tonnes, harvested production)		2 829	2 534	3 726	3 442	3 007	2 827
Crop production: sugar beet (thousand tonnes, harvested production)		965	1 583	1 270	1 217	1 249	1 168
Crop production: vegetables (thousand tonnes, harvested production)		208	282	309	338	234	240

: = not available

- = not applicable

p = provisional

e = estimated value

b = break in series

u = unreliable or uncertain data

* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

- 1) Land area; 2003, break in series due to improved methodology.
- 2) For the period from 2008 to 2009 data are annual; for the period from 2010 to 2011 data are calculated on the basis of the sum of quarterly values and are provided according to NACE Rev. 1.1
- 3) For the period from 2008 to 2009 data are annual; for the period from 2010 to 2011 data are calculated on the basis of the sum of quarterly values, and are revised according to the annual GDP calculation (as well, data are provided according to NACE Rev 2.)
- 4) 2000 -2007, Gross foreign debt of the whole economy excluding Special Purpose Entities; 2008-2009, gross foreign debt of the whole economy excluding Special Purpose Entities (in December 2008 round-tripping transaction related to SPE amounted to 825.7 million euro and in December 2009 round-tripping transaction related to SPE amounted to 1499.0 million euro); 2000-2007 and 2010-2011, gross foreign debt of the whole economy does not include round tripping component of direct investment; from December 2005 external debt statistics include data on non-resident investment in debt securities issued by Croatian issuers in the Croatian market.
- 5) Calculated on the basis of exports and import values expressed in US dollars; break in series in 2004, change in methodology as of 1 January 2004.
- 6) Data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 7) Until 2006 data refer to half-year periods; from 2007 onwards, data refer to quarter periods. Until 2008 employment data are given according to NACE 1.1 sections
- 8) 2001, Long-term unemployment refers to thirteen months or more; data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 9) Persons employed in crafts, trades and as free-lances, as well as in the police and defence-related activities are excluded; from 2004 onwards the number of persons employed in the police and defence-related activities are included.
- 10) Croatia closed all coal mines in 1999 and 2000 and therefore, there is no production of coal from 2000 onwards.
- 11) Volume indices of agricultural production have been calculated on the basis of production data for 65 agricultural products since 1977; the moving average of producer's prices in the last three years has been taken as a weighting factor for the calculation of the index.
- 12) Break in series in 2005, up to 2005, data on land areas, number of fruit trees, grapevines, production and home processing by individual family farms were obtained by the estimation method; since 2005, data is obtained by using the interview method done by interviewers on a selected sample; data for 2000-2004 are recalculated.
- 13) 2000 - 2005, data as on 31 December for legal entities and 15 January for private family farms, from 2006 onwards, data as on 1 December for both legal entities and private family farms.