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**Croatia in the European Union:
What can the Citizens Expect?**

Prepared by:
Hrvoje Butković
Krševan Antun Dujmović
Ivona Ondelj

Institute for International Relations
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Editors:

Dr. Christian Schmitz
Dr. Višnja Samardžija

Translation into English:

Tatjana Martinović Vučetić
Hrvoje Butković

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Abbreviations

CAF	Common Assessment Framework
CAP	Common Agricultural Policy
CFP	Common Fisheries Policy
CIP	Competitiveness and Innovation framework Programme
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECTS	European Credit Transfer System
EMU	European Monetary Union
ESF	European Social Fund
FDI	Foreign Direct Investment
EFF	European Fisheries Fund
FIFG	Financial Instrument for Fisheries Guidance
FP6	Sixth Framework Programme for Research and Technological Development
FP7	Seventh Framework Programme for Research and Technological Development
GDP	Gross Domestic Product
GNP	Gross National Product
IACS	Integrated Administration and Control System
ILO	International Labour Organization
ITC	Information Technology and Communications Infrastructure
IPA	Instrument for Pre-Accession Assistance
ISPA	Instrument for Structural Policies for Pre-accession
ISZO	Information System for Environmental Protection (Informacijski sustav zaštite okoliša)
JRC	Joint Research Centre
LPIS	Land Parcel Identification Systems
NPPEU	National Programme for the Integration of the Republic of Croatia into the European Union (Nacionalni program Republike Hrvatske za pristupanje Europskoj uniji)
PHARE	Pre-accession fund (abbreviation initially derived from: Poland and Hungary Action for Restructuring of the Economy)
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SAPARD	Special Accession Program for Agriculture and Rural Development
VAT	Value Added Tax
VMS	Vessel Monitoring System

Foreword

This publication has been written by a group of young researchers from the Institute for International Relations under the supervision of Ms. Višnja Samardžija, PhD, and upon the initiative by the Zagreb office of the Konrad Adenauer Foundation. Therefore on this place first of all we would like to thank our colleagues on their efforts.

This analysis should contribute towards concretization of the debate about accession of Croatia to the European Union. Its purpose is to explain, inform and enable a deeper insight into perspectives which are opening up to Croatia as a candidate country for membership in the EU. The analysis however does not undermine the fears and the prejudices of the citizens but it confronts them. The citizen's fears should be taken seriously since accession to the EU represents the only realistic option for the future of Croatia. Furthermore, for its neighbours from the former Yugoslavia Croatia already represents an important bridge towards the EU. Its accession is therefore in the interest of the whole region, as potential regional conflicts can face a long term solution only within the EU.

The fact that the political parties in Croatian Parliament have attained consensus on the accession to the EU is to be most welcomed. Therefore we hope that this publication will be of help to those that carry the political responsibility and that it will contribute towards scattering of citizen's fears and prejudices in the villages, counties and towns. The citizens should be aware how it is only logical that accession to the EU will affect their lives, as the processes of harmonization with the EU's body of law and the normative apparatus of the Brussels based joint institutions, will introduce changes that the citizens will have to adapt to. Of course, the accession is demanding for the politicians as well which also have to be prepared for this process.

To this publication we wish a broad reception in Croatia, first of all though electronic means.

Dr. Christian Schmitz
Konrad-Adenauer-Stiftung

Introductory Remarks

The objective of this analysis is to identify and in a simple way present expected short and long term benefits of the European Union (EU) accession for Croatia in some selected economic, political, and social areas. The analysis is targeted towards expected costs and benefits of integration from a perspective of Croatian citizens. The aim is to contribute towards realization that integration will bring benefits first of all for the citizens. It underlines the fact that benefits of integration will be visible in a long term, while costs represent a short term factor and they would be necessary as part of the transition process even without the EU perspective.

The integration process demands broad citizen's support. Therefore, this analysis based on a clear and simple argumentation intends to help Croatian citizens to come to their own conclusions about the necessity of the EU integration. It presents arguments that can contribute towards strengthening of enthusiasm for the European project and help in combating prejudices and Euro-scepticism, while also keeping in mind the costs of integration. According to the fall 2006 Eurobarometer survey only 42% Croatian citizens think that the EU membership will bring benefits to Croatia.¹ This analysis intends to help change this figure through enabling people better to understand the process of European integration. The principal goal is to raise the general public awareness to the fact that the EU membership is of primary importance from the political and economic stand point.

This publication has been written upon invitation of the Konrad Adenauer Foundation (KAF), which entrusted this work to young researchers at the Institute for International Relations (IMO) from Zagreb. The study was envisaged as continuation of the KAS sponsored project "*EU is Worth It: Why the EU is Vital for Its Member States*". However, the principal difference between previous reports, composed for a number of EU member states, and this one is that unlike before in the case of Croatia an *ex-ante* approach was implemented. The publication has been prepared under the assumption that the timeframe envisaged by Croatian government will be respected and that Croatia will join the EU in 2009.

The authors were asked based on the existing literature published articles and research results, to present expected impacts of the forthcoming EU integration in a number of different fields and with the primary focus on integration impacts for Croatian citizens. The publication presents information (and sometimes also speculations) about the impact of integration in some selected fields. It therefore represents the starting point for identification of the areas where information is lacking and which need to be further analysed. In order to compose this work, different sources have been used; from the official policy-setting papers of the EU and Croatian national strategies to the more specific documents and studies resulting from Croatian accession process. Furthermore, academic articles and books as well as national press sources were used.

The study is result of a team work of three research assistants, carried out within the IMO European Integration Department coordinated by Višnja Samardžija, PhD. The authors Hrvoje Butković, Antun Krševan Dujmović and Ivona Ondelj are specialised in the research of the process of European integration.

¹ European Commission (2006), *Standard Eurobarometer 66: Public opinion in the European Union: National Report – Croatia*, Brussels: Autumn 2006.

The publication is divided in three major parts: the Introduction gives a brief overview of the EU-Croatia relations, explains the main macroeconomic trends in Croatia, examines impacts of integration on the state, producers and consumers and considers strategies on how to fight prejudices and Euro-scepticism. In the second part the report analyzes political and institutional benefits of EU integration in Croatia, while the final part goes through economic and social benefits of integration by reviewing sectors of vital interest for Croatian citizens and the whole Croatian society.

Due to special limitations and the timeframe the analysis is focused only on the main expected impacts of integration without entering into more detailed explanations. The authors were instructed to write in a simple and understandable language, having in mind the fact that publication is intended for the broad audience. The publication is complementary to regular informing of the citizens, academic community and civil society on the European integration process which the Institute for International Relations has started with launching of the Entereurope portal (www.entereurope.hr). Despite special limitations and the limited budget resources this work intends to give answers on some key questions on the expected impacts of integration, thereby helping in understanding of the entire European integration process.

The publication was completed in June 2007.

Dr. Višnja Samardžija
Institute for International Relations

Communicating Integration Impacts to Citizens

Croatia on the Road of Integrating into the EU

Since gaining independence, Croatia has been going through a period of democratization and transition to a free market economy. However, legal foundation of EU-Croatia relations was established on the 29th of October 2001 when the *Stabilization and Association Agreement* (SAA) has been signed. The SAA is a legal instrument which set the position of Croatia as an associated EU member state. Implementation of the SAA prepares Croatia and other Stabilisation and Association Process (SAP) countries for the future EU membership. In July 2001 the *Interim Agreement* was initialled, which speeded up the implementation of trade and transport provisions in the SAA.

In December 2002 the Croatian Parliament adopted the *Resolution on the Accession of the Republic of Croatia to the European Union*, which affirmed that membership of Croatia in the European Union is a strategic national objective. Soon after on the 21st of February 2003 Croatia submitted its application for the full membership in the European Union.

The Thesaloniki European Council in June 2003 confirmed the European perspective of the Western Balkans. In July 2003 Croatia received the Questionnaire of the European Commission comprised of 4560 questions. Croatian government submitted the answers to the Questionnaire in October 2003, and the European Commission issued in April 2004 a positive Opinion (*Avis*) on the *Application of Croatia for Membership in the EU*. Two months later, on the 18th of June, the European Council adopted decision which granted Croatia the status of a candidate country for a full membership in the Union. The European Partnership and the Pre-Accession Strategy adopted in autumn 2004 by the EU Council marked another step towards opening of accession negotiations for the country.

The SAA entered into force on the 1st of February 2005, and in March the European Council adopted the *Negotiating Framework for Croatia*. The accession negotiations were opened during bilateral Inter-governmental EU-Croatia Conference on the 3rd of October 2005 in Luxembourg. The screening was completed in October 2006, while by the end of 2006 negotiations in 2 out of 35 chapters of the *acquis* have been provisionally closed. In June 2007 12 chapters have been opened; it is expected that more than half of chapters will be opened and some of them provisionally closed during 2007.

Croatia has a functioning market economy and if it continues the process of economic reforms in the same speed, Croatia should in the medium term period be capable to cope with competitive pressure and market forces within the European Union.² Croatia generally maintains exchange rate stability and preserves low inflation rate, which was 3,3% in 2005.³ Inflation is kept under control because of stability of the kuna-euro exchange rate.

² European Commission (2006), *Progress Report on Croatia*, COM (2006) 649 final, Brussels, 8 November 2006.

³ Croatian National Bank, *General Information on Croatia - Economic Indicators*, URL=http://www.hnb.hr/statistika/e-ekonomski_indikatori.htm (15 March 2007.)

Since the year 2000 Croatian GDP has been steadily growing. In 2006 real GDP growth was 4.5%, which is an increase compared to 4,3 % in 2005 or 3,8% in 2004⁴. The total GDP growth is mainly driven by domestic demand, stronger private investment and partly also by stronger exporting.⁵ This steady growth brought the GDP per capita to more than 7,700 euro in 2006; only a year before the GDP per capita was just around 7,000 euro.⁶

In 2006 the average Croatian per capita income expressed in purchasing power parity reached an estimated 49% of the EU-25 GDP average, which is below the level of 10 new member states that joined the EU in 2004; nevertheless, these figures are higher than in Bulgaria and Romania which had 33% and 34% of the EU-25 GDP average respectively. It must also be stated that per-capita income places Croatia ahead of the other two candidate countries, Turkey with 28% and Macedonia with 26% of the EU-25 GDP average.⁷

The process of uninterrupted fiscal consolidation is underway the fiscal deficit is diminishing, while inflation places Croatia among successful transitional countries. All this being considered Croatia should not have major difficulties with fulfilling the Maastricht criteria.

The greatest challenges for Croatia remain maintenance of macroeconomic stability, successful application of structural reforms and good preparation for effective usage of the EU funds. The attention should be targeted towards building competitiveness and increase of the current level of Greenfield investments.⁸

Impacts on the State, Producers and Consumers

The accession to the European Union will bring both benefits and costs in various areas of social life, be it short term, medium term or long term. But the accession and full integration within the EU's single market has no alternative, since Croatia is a small country that has to be opened to goods, services and investments which generally come from the EU countries.

By becoming the EU member state, Croatia will improve its access to the single EU market that already counts more than 490 million people. This will further open the doors to those Croatian companies which are competitive and capable to make their business at the EU market, while those who will not adapt to the new circumstances might be forced to end their business activities. This however, does not have to be regarded exclusively as a cost of integration into the EU, because the reforms are necessary as a part of transition to a market economy, regardless of EU accession.

⁴ Central Bureau of Statistics (2006), *Statistical Information*, December 2006, URL= <http://www.dzs.hr> (10 May 2007.)

⁵ Eurostat, *News releases*, December 2006, URL=http://epp.eurostat.cec.eu.int/portal/page?_pageid=0,1136107&_dad=portal&_schema=PORTAL (14 April 2007.)

⁶ Croatian Chamber of Economy (2007), *Basic Macroeconomic Indicators of Croatian Economy*, URL=<http://hgk.biznet.hr/hgk/fileovi/10100.xls> (30 March 2007.)

⁷ IBID.

⁸ Croatian National Bank, *General Information on Croatia - Economic Indicators*, URL=http://www.hnb.hr/statistika/e-ekonomski_indikatori.htm (15 March 2007.)

As a member of the European Union and a part of the single market, Croatia will experience full competition of foreign companies in its domestic market. The openness of the market will be an incentive both for further foreign direct investments (FDI) in the country and with it mergers and acquisitions of national companies. However, this openness of the Croatian society and economy does not mean that all Croatian economic subjects will be “threatened” by the more competitive companies from the EU.

Namely, the integration within the EU allows member states to preserve control over their strategic industries of national interest. Because of the ever-growing competition between the EU member states, but also due to the rapidly growing economies of the USA and Asia seeking to expand their trade globally, many EU countries, like France and Germany, recently made amendments to their Trade Laws by which the acquisition by foreigners of large stakes in sectors of national interest are subjected to government approval. Thus, Croatia as a member state will also have a legitimate right to protect its vital public interest and strategic industries and sectors.

The accession will have specific impacts on Croatian state, as well as on its producers and consumers. Once citizens of the European Union, Croatian consumers will benefit from the higher supply, plus with abolishing of remaining customs to the goods from the EU member states the prices of many products will most likely decrease. Membership in the Union will bring a higher level of consumer protection. Moreover, liberalization of services market will have positive impacts on consumers in Croatia because it will enable them to reach higher and broader offer of services, which will enhance their standard of living.

The single European market will increase the pressure on Croatian producers. However, the stronger competition will have two-sided effect. Namely, the state will also feel the costs of accession by losing some its revenues in form of customs duties. Croatian state will have to seize subsidizing many branches of its economy, which can be viewed as a short term cost, because enterprises which do not go through restructuring might not be able to cope in a new environment. Still, this could also be viewed as a long term benefit because uncompetitive industries will not be subsidized which is always a heavy burden for a national budget; instead money will be invested into more profitable sectors.

Taking into account the positive economic effects of EU enlargement to Eastern European countries in 2004 which have registered record high figures in the first two years after accession, it is expected that membership in the Union will stimulate new influx of FDI. Namely, the EU membership brings higher credit rankings and confidence of investors. Also, Croatia will have greater benefits from EU funds, which combined with FDI will be a significant catalyst for Croatian economy.

Membership in the Union will not have the same consequences for all segments of Croatian society; some people are expected to benefit more, others less. The younger generation with entrepreneurial capacities, those equipped for the challenges of flexible labour market and especially those involved in EU-related issues will benefit the most from the entrance to the vast single market. The EU accession will have large social impacts, however as stated before these are not necessarily linked exclusively to EU membership but also to conditions in the globalized world market.

Financial market will experience substantial improvements. Croatian citizens will gain the opportunity to invest their money in foreign securities and legal entities will get a chance to manage their assets in a more secure environment. Free movement of capital will surely have large impact on the Croatian real estate market. The mere status of a candidate country in 2004 already made large impact on that market and the years before and immediately after accession will most likely continue this trend, raising the prices of real estates even more. This will have a two-sided affect; Croatians purchasing real estates will feel a cost of higher prices but those selling them will surely benefit.

How to Deal with Prejudices?

In spite of the fact that there are many arguments supporting expectations that Croatian citizens will benefit from the EU accession, there are fears that integration into the EU might bring some negative implications. There are two principle reasons for increase of Euro-scepticism in the years running up to EU membership, and both of them are seated in prejudices. First of all, there is a problem to the certain extent of the lack of confidence in national institutions which manifests itself also in lacking support for the EU membership. This problem could be addressed by enhanced actions of national government which should increase the level of transparency, efficiency and accountability of all of its institutions. Secondly, there is the issue of insufficient and partial informing on the integration process which results in fear among certain groups of population that after joining the Union they will be worst of then before.

Still, it should not be forgotten that inner dynamic of integration process also effects public support for membership. Namely, as observed in all acceding countries, in the first stage of integration the national public support tends to be unrealistically high due to unfounded expectations and lack of specific knowledge on both benefits and costs that integration will cause in certain areas. The described phenomenon shreds some light on the change of public support in Croatia from around 70% before 2004 to around 50% in the last three years.⁹

Insufficient and partial informing which causes prejudices and Euro-scepticism can effectively be fought by an appropriate communication campaign. This is not to say that all fears related to joining the EU are unfounded and that everybody will benefit form that act. However, the percentage of “losers” shouldn’t be anywhere near the percentage of population which currently believe that integration is not good for Croatia.¹⁰ Communicating with the public as well as informing and educating it presents a great challenge given the fact that integration process in itself is very complex and that its impacts cannot be explained to all segments of population equally, but rather that they need to be communicated in a number of separate campaigns (separate for the agricultural producers, separate for the small and medium sized enterprises, separate for the students etc.).

⁹ European Commission (2004), *Standard Eurobarometer 62: Public opinion in the European Union: National Report – Croatia*, Brussels: Autumn 2004;

European Commission (2006), *Standard Eurobarometer 66: Public opinion in the European Union: National Report – Croatia*, Brussels: Autumn 2006.

¹⁰ European Commission (2006), *Standard Eurobarometer 66: Public opinion in the European Union: National Report – Croatia*, Brussels: Autumn 2006.

The importance of the above mentioned “segmented approach” in communicating with the public has been recognised in the 2006 national “*Communication Strategy Aimed at Informing the Croatian Public about the European Union and Preparations for EU Membership*”.¹¹ This document identifies three major target groups: the multipliers/initiators of public opinion, the youth, and the groups with higher susceptibility to change, all of which demand the design of particular methods and means towards achieving the principal objectives of the Communication strategy. The success of the national communication strategy could only be measured in the field of implementation. Therefore the work on rising awareness on the impacts of EU membership needs to be vigorously embraced not only by Croatian government but also by various other actors such as the academic community, civil society, business community etc.

If implemented well the communication campaign will clearly show that economic and political impact of membership will benefit both the country as a whole and its citizens as individuals. The citizens efforts in adjusting to new circumstances will be rewarded with the benefits such as: higher level of legal protection, an increased level of work mobility, and better chances for making profits, to name just a few of them.

Sending coherent and targeted messages by a variety of different actors through publications, organisation of public events, organisation of information services, and engagement with the media ultimately should defeat prejudices about the EU.

Political and Institutional Benefits of EU Integration

Political Benefits

Membership in the European Union is a guarantee of political stability and well-functioning public institutions which will act as guardians of democracy, rule of law, human rights and respect of the minority rights. As a member of a community with approximately half a billion people, Croatia will enter a zone of political stability, which will enable overall social and economic development of the country. The application of European standards will assist further democratization of Croatia society. Moreover, reaching European standards will bring to country necessary de-politisation of its civil service.

Since Croatia will most likely be the 28th EU member state it will become the leader in the region of Western Balkans, gaining the role of a show-case country. It is in Croatia’s interest that other countries in the Western Balkan region become members of the EU, because this will enable the country to cooperate with the Balkan nations on new foundations within a large European family. The Union membership will enable Croatia to become the most active promoter of further integration of this region into the EU. Furthermore, since regional cooperation is one of the corner stones of the EU, Croatian membership will have a big impact on the Western Balkan region. The membership in the EU will also bring higher standards of protection of minority rights.

¹¹ Ministry of Foreign Affairs and European Integration (2006), *Communication Strategy Aimed at Informing the Croatian Public about the European Union and Preparations for EU Membership*, Zagreb: Ministry for Foreign Affairs and European Integration.

The EU membership means active participation of Croatia in decision-making in EU institutions. Together with other European countries Croatia will participate in creation of European policies, and through that its impact on the global policies will increase. The EU will act as a protector of Croatian interests towards third countries, and the country will necessarily identify its global political interests with the EU. The EU membership will generally make Croatia better equipped for facing global challenges.

Judiciary and Fundamental Rights

Croatia is no exception among transitional countries suffering from serious shortcomings in their legal systems; considering that the chapter on judiciary and fundamental rights has been characterised as Achilles heel within accession negotiations.¹² Judiciary capable to guarantee justice, transparency and independency for all citizens will be a prerequisite for Croatian membership in the EU.¹³

The most important challenges in the area of judiciary are: lack of uniform, objective and transparent system for assessment of judges and judicial trainees; weaknesses in impartiality of judiciary; weaknesses in judicial professionalism, competence and efficiency; excessive length of proceedings; serious backlog (especially as far as enforcement cases are concerned); and insufficient implementation of judicial reform strategy.¹⁴

The reform process of Croatian judiciary already resulted in improvements especially as far as reduction of backlog is concerned. Furthermore, the intensive introduction of ITC infrastructure, professional development of judges, state attorneys, counsellors, trainees and other employees in judiciary, also can be observed as bringing perceptible benefits within the process of getting closer to EU membership.

Compliance with European standards will bring transparent and efficient judiciary, reformed not only through written strategies but also in practice. Systematic monitoring of judiciary as well as integrated case management system and applied alternative dispute resolution method are just some of advantages of fulfilling the European standards. Moreover, Croatian citizens will benefit from trustful judiciary capable to secure reasonable length of procedures, lawful decisions and diminishing of uncertainty related to individual's legal position.

Among Croatian citizens there is a perception of a wide spread corruption in the society; especially concerning sectors of judiciary, local government and health.¹⁵ Therefore a strong European demands for the fight against corruption, present very important factor within the

¹² Teška domaća zadaća (Difficult Homework) *Slobodna Dalmacija*, daily, 11.09.2006.

¹³ Korupcija u Hrvatskoj ruši prava građana (Corruption in Croatia is Demolishes Citizen's Rights) *Jutarnji list*, daily, 12.11.2005.

¹⁴ European Commission (2006), *Progress Report on Croatia*, COM (2006) 649 final, Brussels, 8 November 2006.

¹⁵ Korupcija u Hrvatskoj ruši prava građana (Corruption in Croatia Demolishes Citizen's Rights) *Jutarnji list*, daily, 12.11.2005.

chain of reforms.¹⁶ Although Croatia has become an integral part of international mechanism of conventions regulating fight against corruption, great efforts are needed in order for the country to reach European level in this area.

More satisfying human rights protection also appears as important benefit in approaching the EU, since Croatia suffers from lacks in this area.¹⁷ True compliance with the European standards and requests will bring, among the rest: established and operating free legal aid system; improved respect of the trial within a reasonable time; decent respect and granted rights for national minorities; return of refugees with opportunities for life and existence; complete implementation of the principle of equal treatment; better protection of the rights of persons with disabilities; implementation of non-discrimination strategy; implementation of international norms for treatment of prisoners (with necessary improvements in penitentiary system); and transparent electoral system.

Strengthened, trustful state and its institutions providing efficient judicial service, capable to guarantee professional decisions and legal certainty appear as necessary consequences of Croatian participation in the EU legal regime.

Justice, Freedom and Security

The participation in the area of justice, freedom and security is very problematic domain within the process of accession of Croatia into the EU. Some old habits, insufficiently developed system, too general strategies and lack of coordinated cooperation among institutions, place this domain among the crucial ones within accession negotiations. This is why this area demands detailed analyses, significant changes and improvements, as well as capability and will for actual reforms. At the moment legislative framework in this area is only partially harmonized, although even now amendments show impressive results.

Joining the European Justice, Freedom and Security (JFS) regime will bring to Croatia: more efficient fight against terrorism and organised crime; development and improvement of judicial cooperation in criminal and civil matters; upgraded mechanisms for combating drugs, fraud and corruption; and efficient fight against money laundering and trafficking.

Joining the large frontier-free area means movements of people without border checks enjoying freedom to decide where to live or work. In that context efficient management of external borders based on the close cooperation between judicial authorities and police forces, will grant a high level of security. At the same time adoption of the European legal framework related to migrations, visa policy and border management will bring more efficient fight against illegal migrations as well as better monitoring of migration flows¹⁸.

¹⁶ Korupcija novi povod za pritisak iz EU (Corruption as a New Motive for Pressure from the EU) *Jutarnji list*, daily, 12.11.2005.

¹⁷ Human Rights Watch (2006), *World Report*, (s.l.) Human Right Watch.

¹⁸ Počelo betoniranje granice s BiH (Concrete-work on the Borders with Bosnia and Herzegovina has been Started) *Slobodna Dalmacija*, daily, 26.03.2002.

In the area of asylum joining the EU will provide for better organised systems for asylum seekers¹⁹ and transparency within the process of getting asylum (particularly in asylum appeal process which has been identified as very problematic issue in Croatian legislation).

Through planned strategies, intensive education of citizens as well as rising of public awareness on trafficking in human beings, all Croatian citizens will be provided with improved systems for their protection.

In the area of judicial cooperation in civil and criminal matters Croatian citizens will benefit from: accelerated investigations; wider possibilities to prosecute perpetrators of serious criminal offences with international elements; mutual recognition of court judgements in civil and criminal proceedings; as well as simplified and speeded up settlements of cross-border disputes. Adjustment of Croatian constitutional prohibition to extradite its own nationals is also necessary in order for Croatia to enjoy full benefits of participating in the European Arrest Warrant System.

Very important consequence of joining the European JFS regime is the adoption and implementation of legislation and guarantees for the victims of crime. An individual will be guaranteed life in safe surroundings where threats as: organised crime, terrorist attacks, criminality and trafficking in human beings are dealt with strategically and cooperatively.

Public Administration

Public administration based on European standards can be considered as foundation–stone for more efficient functioning in all other areas.

Before joining the EU Croatia will have to implement a detailed reform of its public administration. Croatian citizens are almost used at inefficient public administration at all levels. Compliance with European standards will bring less arbitrary legal framework, providing lower level of corruption as well as communication free of arbitrary administrative operations. For Croatian citizens this further means effective service, more transparent system of reaching information as well as professionalized personnel.²⁰

Through reaching of European standards Croatian citizens will benefit from reduction of legal uncertainty in general (usually caused by excessive duration of procedures with high costs and by silence of administration). During the alignment process unprofessional treatment of Croatian citizens by public administration, low quality of business activity (particularly of municipal services), and inefficiency and week implementation of the legal provisions, will be significantly reduced.

Concrete programs in the area of public administration (for example Hitro.hr, E-Uprava²¹) are preparing the path for full enjoyment of benefits after reaching the EU membership. For

¹⁹ Azilanti u potrazi za ljudskim pravima (Asylum Seekers Seeking Human Rights) *Večernji list*, daily, 18.11.2006.

²⁰ Prespora reforma državne administracije (Too Slow Reform of Public Administration) *Privredni vjesnik*, weekly, 26.09.2005.

²¹ *E-Hrvatska*

URL=<http://www.e-hrvatska.hr> (10 May 2007.)

individuals this will mean public administration with tidy documentation conduction and transparent operations, as well as systematic data management. Ultimately, satisfaction on the side of service provider and on the side of customers can be pointed out also as one of the crucial benefits in approaching the EU public administration regime. Joining Common Assessment Framework (CAF), which has been created as a result of the cooperation among the EU Ministers responsible for Public Administration, serving as an instrument for quality management throughout Europe's public administration, will offer Croatia an easy-to-use tool for public administration improvement. Joining CAF will bring to Croatian citizens more efficient public administration capable to operate as service provider on the European level.

Economic and Social Benefits of EU Integration

Agriculture and Rural Development

With about 0,65 ha of agricultural land per capita Croatia is one of those countries that are relatively rich in agricultural land; however rational land use is hampered by a number of factors: the inherited problems of the fragmentation of private land, constant loss of agricultural land to built up areas and the considerable share of untilled and abandoned land.²² The process of approaching the EU generally has brought benefits to Croatian agriculture since it directed numerous reforms opened up new markets and introduced rationalization in that sector.

The SAA paved the way for a gradual liberalisation of trade between the EU and Croatia. In addition, after Croatia acquired the candidate country status, the EU started to provide support through the Special Accession Programme for Agriculture and Rural Development (SAPARD). This pre-accession programme provided funding for support of investment in agricultural holdings and food processing, economic diversification, development of rural infrastructure, upgrading of technological and quality standards etc.²³

The opening of accession negotiations brought the task of complete alignment with the EU agricultural *acquis*. This, among other things, implies a fundamental reform of the existing system of agricultural subsidies. Namely, after accession the payments to Croatian agricultural producers will no longer be made from the Croatian state budget but directly from the EU budget reserved for the Common Agricultural Policy (CAP), accounting for more than one third of the entire EU budget. Transition to this new system requires from Croatia the establishment of the specialised agency which will regulate "direct payments" from the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) to Croatian agricultural producers. Croatia will also have to establish the Integrated Administration and Control System (IACS), Land Parcel Identification System

²² Franić, R., Žimbek, T., (2002), Premises for the Inclusion of Agriculture in the Process of Croatian Accession to the European Union, in: Ott, K. (ed.), *Croatian Accession to the European Union: Economic and Legal Challenges*, Zagreb: Institute of Public Finances, Friedrich Ebert Stiftung.

²³ Intervju Petar Čobanković ministar poljoprivrede, šumarstva i vodnog gospodarstva (Interview with Petar Čobanković Minister of Agriculture, Forestry and Water Management) *Vjesnik, daily*, 25/26.11.2006.

(LPIS) as well as Farm Register, and the System of Agricultural Accounting which will support the work of the specialised “direct payments” agency.²⁴

In the new member states it has been decided that from the CAP funds the agricultural producers in the first year of EU membership will be receiving in subsidies 25% of the amount available for the producers in the new member states. This percentage is to be gradually increased resulting in complete levelling of subsidies 10 years after the enlargement (in some new member states even before). To protect the interest of agricultural producers in the new member states in the first few years following the accession the system of “direct payments” was topped-up with complementary national payments. The described system of gradual introduction to CAP will also be implemented in Croatia.²⁵ Experiences of the Central and Eastern European countries confirm that after joining the EU the regularity in payments of agricultural subsidies increased while the risks of irregularities and fraud have been reduced.²⁶

For Croatian agriculture, which is suffering from structural weaknesses (cereals which bring lower financial effects than other cultures account for 65,7% of the sown land)²⁷ participation in the new CAP represents opportunity for further reform of the sector, with support from the EU funds, towards more economically sustainable production.²⁸ Namely, in 2003 CAP went through significant reform which introduced the new system of agricultural subsidies the so called “single farm payments”, which are calculated based on past payments given to the farm operators irrespective of production (for the new member states the subsidies are calculated based on the hectares). The principal goal of this new subsidy system is to decouple subsidies and production of agricultural products, therefore motivating farmers to produce for the market and not for subsidies. Furthermore, in line with increased focus on rural development the reformed CAP introduced subsidies for the farmers as keepers of environment and because of their other functions, not as producers of food.²⁹

Despite the CAP reform the EU still prescribes quotas on the production of vine, sugar, milk and olive oil. These quotas are set differently for each member state who then proportionally divides them among national producers. The quotas for Croatia will be set during the

²⁴ Što veća poljoprivredna kompanija to više novca a mali proizvođači odumiru (The Bigger the Agricultural Company the More Money it is While Small Producers Parish) *Privredni vjesnik*, weekly, 25.09.2006.

²⁵ Beširević, N. (2006), *Kako u EU?: 85 pitanja i odgovora za hrvatske poljoprivrednike o Europskoj uniji (How in the EU: 85 Questions and Answers for Croatian Agricultural Producers on the EU)*, Zagreb: Ministarstvo vanjskih poslova i europskih integracija.

²⁶ Što veća poljoprivredna kompanija to više novca a mali proizvođači odumiru (The Bigger the Agricultural Company the More Money it is While Small Producers Parish) *Privredni vjesnik*, weekly, 25.09.2006.

²⁷ Central Bureau of Statistics (2006), *Statistical Information*, December 2006, URL= <http://www.dzs.hr> (10 May 2007.)

²⁸ Što veća poljoprivredna kompanija to više novca a mali proizvođači odumiru (The Bigger the Agricultural Company the More Money it is While Small Producers Parish) *Privredni vjesnik*, weekly, 25.09.2006.

²⁹ Koestler, U., El-Agraa, A. M. (2004), *Common Agricultural Policy*, in: El-Agraa, A. M. (ed.), *The European Union: Economics and Policies*, Harlow: Prentice Hall.

negotiation process; the quotas will be established according to the choice of a reference year for the above mentioned products.³⁰

Agriculture is considered to be one of the few sectors where EU accession is generally speaking expected to bring losses for consumers and benefits for the producers. It is anticipated that participation in the CAP will result in an increase of food prices. However, the slight increase of food prices will be matched by substantial increase of income for agricultural producers. In the new member states accession led to dramatic increase of average real agricultural incomes, by more than 70% as compared to the average in the last years before accession. It is also important to note that at the same time the agricultural income in the old member states remained stable.³¹

Market-oriented agricultural producers are expected to be the winners of the accession, while farmers working on small, uncompetitive land without restructuring might be the potential losers. However, farmers working on small land will be given every opportunity to adopt to new circumstances especially within the EU rural development initiatives. The balance between benefits and losses will also depend on the financial and technical capacity of farmers to adjust themselves quickly to the strict health and safety standards applied by the EU. The farmers capable of connecting their traditional production activities with priorities that can be financed from EU funds (rural development, reforestation, ecological environment) will also be the winners. Almost certainly, producers of ecological goods (“natural food”) will be long term winners.³² Croatian agricultural producers will benefit from expected balancing of ratio between agricultural imports and exports; at the moment only 60% of Croatian agricultural imports are covered in exports.³³

The inevitable liberalisation of agricultural land market as a consequence of the EU membership should not be viewed as a threat to the national agriculture since it is open to introduction of an potentially lengthy transition period. The transition period for liberalisation of agricultural land market is very important for Croatian farmers, because extending the size of small and fragmented Croatian estates is crucial for raising their competitiveness.³⁴

The EU membership will bring an end to collection of customs duties by Croatian authorities on the food imports from the EU (at the beginning of Stabilisation and Association Process Croatia yearly collected around 100 million euro from customs duties on food imports from the EU). However, losing this important source of revenue shouldn't be viewed as net loss but rather as national contribution to the EU's CAP.³⁵

³⁰ Beširević, N. (2006), *Kako u EU?: 85 pitanja i odgovora za hrvatske poljoprivrednike o Europskoj uniji (How in the EU: 85 Questions and Answers for Croatian Agricultural Producers on the EU)*, Zagreb: Ministarstvo vanjskih poslova i europskih integracija.

³¹ European Commission (2006), *Enlargement, Two Years After: An Economic Evaluation*, Occasional Papers, Brussels: European Commission, Directorate-General for Economic and Financial Affairs.

³² Tang, Helena, ed. (2000), *Winners and Losers of EU Integration: Policy Issues for Central and Eastern Europe*, Washington: The World Bank.

³³ Žuljevita prilagodba (Difficult Adaptation) *Vjesnik*, daily, 19.02.2005.

³⁴ IBID.

³⁵ IBID.

Fisheries

Fisheries are one of the areas where EU accession will bring many benefits. Although the sector of fisheries contributes only to 0,3% of the Croatian GDP and the Adriatic Sea is comparatively thinly populated with fish, it has a great diversity of species³⁶. The catch of marine fish and other maritime organisms has been in the years between 2000 and 2005 around 20 000 tones a year. The Croatian fishing industry is oriented on export, and it brings surplus in foreign trade. The EU is Croatia's greatest trading partner and the free access to the EU market after accession will be an incentive for the development of the fishing industry in the country.

For the purpose of alignment with the *acquis*, Croatia has already made many legal reforms in fisheries and Croatian legal regulation has been harmonized with that of the EU. Apart from this, Croatia is the only non EU country which is a member of the Federation of European Aquaculture, and has ratified the treaty with the General Commission for Fisheries in the Mediterranean³⁷.

In the process of EU accession and in the years after it, Croatia will apply measures to modernize its fishing fleet and incorporate its fishing policy within the Common Fisheries Policy (CFP). As member of the EU, Croatia will join the Vessel Monitoring System (VMS), that connects navigational and communication satellites with fishing and patrolling vessels, surveillance aircrafts and national surveillance systems. This will enable the country to control the fishing activities in the Adriatic and to protect more adequately its population of fish. In order to become a member of the VMS, Croatia will have to build its infrastructure, logistics and system of surveillance and produce fleet registers. This will create sustainable fisheries, protect the endangered species, and then enable increase in the population of fish in the Adriatic by selection of fishing tools. The System will also be used to combat illegal, unregistered and unregulated fishing activities.

As a member of the Union, Croatia will benefit from the use of the European Fisheries Fund (EFF), which replaced the Financial Instrument for Fisheries Guidance (FIFG) from year 2007 (until 2013 the EU plans to detach more than 3,5 billion euro to EFF). Croatia will be able to allocate the resources from the Fund to strengthen further investments in infrastructure, reconstruct its fishing fleet and to enhance the quality of fishing products. Furthermore, the Fund will enhance occupational health, security and diversification of fishing activities; it will enable early retirement, and support young fisherman as well as their education. The EFF will also bring better environmental protection and it will assist further investments for Research and Development (R&D) in the fisheries sector.

Once a member of the EU, Croatia will have registered fishing ports where fish will be loaded or embarked during import or export of fish and fishing products. To regulate the trade of

³⁶ Intervju s Ružicom Gelo iz Hrvatske gospodarske komore (Interview with Ružica Gelo from the Croatian Chamber of Economy) *Privredni Vjesnik*, weekly, 20.11.2006.

³⁷ Intervju s Ivanom Katavićem pomoćnikom ministra u Ministarstvu poljoprivrede (Interview with Ivan Katavić, Assistant Minister in the Ministry of Agriculture) *Vjesnik*, daily, March 2006.

fish, Croatia will also have to build wholesale markets, which exist in other EU countries in the Mediterranean³⁸.

Industry

Aligning with the EU industrial *acquis* will provide a framework for restructuring and modernization through which Croatian industry will become more competitive and more export oriented. At the moment only 50% of Croatian import is covered in export, which will need to be changed if the current level of growth is to be sustained and expanded.³⁹ The legal harmonization in the area of industry will encourage integration of national industry into international markets through strategic partnerships, international and regional clusters, and integration in production and supply networks of big clients. Furthermore, implementing the EU Lisbon agenda instruments and approaching its goals (to the extent that is possible) is expected to bring benefits in the area of growth, jobs and competitiveness.

The EU industrial policy is horizontal and it is aimed at creating adequate framework condition for growth of all industrial sectors through creation of equal opportunities and conditions for all enterprises. It is based on the control of state aid and on support for the Research and Development (R&D) in the industry sector. The state aid is controlled due to its distorting effect on conditions of competition within the common market; while R&D is given a particular attention since turning new knowledge into new products and services is of key importance for industrial growth.⁴⁰

The alignment with the EU industrial *acquis* however, does not mean the end of state aid. The EU member states may intervene and provide horizontal financial support to industry where restructuring takes place, particularly when it comes to privatisation of the state-owned industry and investment in R&D. In the case of small and medium sized enterprises (SMEs) state aid is not only allowed but also encouraged.

The SMEs are considered to be the backbone of European economy and the EU supports some aspects of their functioning through its Competitiveness and Innovation Programme (CIP) funded from the Structural and the Cohesion funds.

Through legal harmonization with the *acquis* technical requirements for industrial products will be harmonized with the EU standards which will remove technical barriers to trade and further raise competitiveness of Croatian firms. Furthermore, the overall conditions for doing

³⁸ IBID.

³⁹ Croatian National Bank, General Information on Croatia - Economic Indicators, URL=http://www.hnb.hr/statistika/e-ekonomski_indikatori.htm (15 March 2007.);

Intervju Mladen Vedriš (Interview with Mladen Vedriš) *Vjesnik*, daily, 20/21.01.2007.

⁴⁰ Curzon Price, V. (2004), Industrial Policy, in: El-Agraa, A. M. (ed.), *The European Union: Economics and Policies*, Harlow: Prentice Hall;

European Commission (1999), *Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty*, Notice to Member States Including Proposals for Appropriate Measures, OJC 288, Brussels, 9 October 1999.

business will improve due to increase in regulatory transparency and predictability of the business environment.

The alignment with the EU industrial *acquis* requires restructuring of Croatian industry which implies accepting of new technologies. Both the shipbuilding as well as the steel industry will have to be restructured and privatised so that by the time of accession they become capable for independent existence on EU and the world market. Privatisation is crucial for restructuring of these sectors because it represents the only way for attracting export oriented Greenfield investment.⁴¹

Similar challenges are presented in front of national food and textile industry. The firms in these sectors are too fragmented; therefore merger of different companies will be needed. Before joining the EU the national food and textile industry should work out high-quality strategies for expansion on the regional market, since all indicators show that within that market they have the largest potentials for growth.⁴²

It would be wrong to think of traditional industries as losers of the accession process. The industries that are already competitive or that are going through restructuring will benefit from joining the EU. After joining the Union the investor confidence is expected to increase and all administrative obstacles for doing business in the single market will be abolished. Moreover, restructuring and privatisation of the currently uncompetitive sectors if handled professionally can result in successful adaptation to new market realities.

Transport

Road transport is the dominant mode of freight and passenger transport in the EU crucial for the normal functioning of the single market because it offers flexibility that is required by modern, just-in-time production management.⁴³ This relates to Croatia because already in the pre-accession stage, through its ISPA fund, the EU is aiding the development of road transport networks in the candidate countries, of course without forgetting other means of transport.

The possibilities for funding of transport related projects increase significantly after the country enters the EU. Namely, transport figures among top priorities of the EU Structural and the Cohesion funds. The Cohesion fund alone (approximately 20% of the EU regional policy budget) is entirely reserved for financing environment, transport and renewable energy projects. However, it is important to note that forming a priority list of the national transport corridors that will connect to the EU corridors represents a precondition for successful post-accession funding in this area.⁴⁴

Although its market importance is continuously diminishing the rail transport in the EU receives a considerable support from the EU funds, because it's been seen as environmentally

⁴¹ Oštra tržišna utakmica (Sharp Market Competition) *Večernji list*, daily, 03.10.2005.

⁴² IBID.

⁴³ IBID.

⁴⁴ Prometni planovi zadovoljili EU (Transport Plans Satisfied the EU) *Vjesnik*, daily, 27.09.2006.

desirable and as contributing to containing the rising levels of road traffic in Europe.⁴⁵ Therefore, the EU membership represents opportunity for implementing both economically sound and socially sensitive reforms in the Croatian rail system, which is currently based on outdated technologies and which serves primarily as job creator rather than transport supplier.

The maritime transport is traditionally connected with Croatia; it represents 9.7% of the overall passenger and 26.5% of the overall freight transport. After entering the EU the importance of maritime transport will be increased, and this will contribute to development of Croatian Adriatic ports. Namely, exporting through these ports represents economically most favourable way of reaching the world market for many companies in Central Europe. Therefore, as far as maritime transport is concerned the benefits of EU accession will be very pronounced both for Croatia as well as for the EU.

As a consequence of the accession process the national transport and goods processing firms will suffer a loss of revenue on services relating to customs clearance. However, these losses will turn into profits because after becoming a member state the administrative obstacles for entering the EU market will be abolished and the overall traffic in goods is expected to increase significantly.⁴⁶

From the mutual recognition of qualification certificates in the area of transport both service providers and consumers will benefit. More controversial is the adoption of safety and environmental requirements for vehicles and operation, adjusting technical requirements, administrative procedures, and meeting other requirements for entry into market. These measures require initial investment; therefore they represent costs for domestic service providers.⁴⁷

The alignment with the EU transport *acquis* introduces new cabotage regulations in the national road, air and maritime transport. In other words in domestic traffic these transport sectors will be opened to competition from the EU member states. This however, should not be viewed as a threat to national transport firms operating at domestic market because they are already raising competitiveness of their fleets. Furthermore, the cabotage provisions of the *acquis* will most probably be subjected to transition periods. The opening of national transport market will be beneficial for Croatian citizens because it will reduce the prices and increase the quality in both freight and passenger transport.⁴⁸

The EU is currently making a lot of investment into combining different modes of transport to offer better overall links (“intermodality” in the jargon of experts) which is seen as fundamental for developing alternatives to road transport. Joining the EU will enable funding

⁴⁵ Button, K. (2004), Transport Policy, in: El-Agraa, A. M. (ed.), *The European Union: Economics and Policies*, Harlow: Prentice Hall.

⁴⁶ Prometna politika pred mukotrpnim pregovorima (The Transport Policy Facing Difficult Negotiations) *Poslovni dnevnik*, daily, 12.10.2005.

⁴⁷ Tang, Helena, ed. (2000), *Winners and Losers of EU Integration: Policy Issues for Central and Eastern Europe*, Washington: The World Bank.

⁴⁸ Prometni planovi zadovoljili EU (Transport Plans Satisfied the EU) *Vjesnik*, daily, 27.09.2006.

for reorganization of the national transport system in accordance with intermodality principles.⁴⁹

Environment

As far as environment is concerned the membership in the EU brings the benefits of influencing an efficient and influential supranational environmental regime. Furthermore, on a purely national level Croatia will greatly prosper from joining the EU environmental regime. Namely, before accession necessary reforms have to be introduced to establish the new domestic system of environmental protection; the current system is suffering from inconsistencies and implementation failures.⁵⁰ Furthermore, the current national environmental standards would need to be raised and the environmental protection system reformed, even if Croatia was not to aspire becoming the EU member state.

In 2001 *Ecotec* made an independent report on health-related and economic benefits likely to ensue in the acceding member states from compliance with the environmental *acquis*. The report identified many of these benefits, including better public health by reducing environmentally related respiratory diseases and premature mortality, less damage to commercially related natural resources and buildings, reduced risk of permanent damage to critical natural resources such as groundwater aquifers etc. The report concluded that in economic terms even the lowest estimates of anticipated benefits are still 18 % greater than the highest estimated costs.⁵¹

In the process of alignment with the EU environmental *acquis* Croatia has established the Environmental Protection Agency with the basic task of organising and collecting all information about the condition of environment at the national level and creation of a single and unified Environmental Protection Information System (known as ISZO). Croatia also had to establish an Environmental Protection Fond.

The establishment of the Environmental Protection Agency and the Environmental Protection Fund operating independently from the Croatian Ministry of Environmental Protection, Physical Planning and Construction provides for independent approach in the given field. On one hand the setting up of the Environmental Protection Agency as the roof body for collection and standardisation of data proved itself as a very efficient system in the EU member states. On the other hand, the Environmental Protection Fund demonstrated its high usefulness in gathering financial resources from the private sector.⁵²

⁴⁹ European Commission (2003), *Europe at a Crossroads: The Need for Sustainable Transport*, Europe on the Move Series, Brussels: European Commission, Directorate-General for Press and Communication.

⁵⁰ Ministry of Environmental Protection, Physical Planning and Construction (2002), *National Strategy for Environmental Protection*, Zagreb: Ministry of Environmental Protection, Physical Planning and Construction.

⁵¹ Ecotec Research and Consulting (2001), *The Benefits of Compliance with the Environmental Acquis for the Candidate Countries*, (s.l.): Ecotec Research and Consulting.

⁵² Ban, A. (2004), Environmental Protection: Public Participation and Access to Information, in: Ott, K. (ed.), *Croatian Accession to the European Union: Institutional Challenges*, Zagreb: Institute of Public Finances, Friedrich Ebert Stiftung.

The environment together with agriculture represents the most difficult chapter in the process of accession negotiation, and certainly the one which is financially most demanding. It is estimated that in Croatia the overall costs of legislative harmonisation and implementation of the EU environmental *acquis* will run up to 10 billion euros, with largest funding needed in the area of waste management and in leading away and treatment of waste waters.⁵³ However, although legislative harmonisation needs to be concluded by the end of negotiation process, the implementation of certain expensive environmental directives is a subject to possible introduction of transition periods. These periods could run up to 10 years after the accession or even further.

Croatia will benefit from participation in the EU environmental regime without having to bare alone the high costs of implementation of the environmental *acquis*. It is expected that only around 30% of alignment expenses will come directly from the Croatian state budget, while the rest will be covered from the private sector (both national and foreign) and in smaller amount through the EU funds. A smaller amount of expenses will also be covered by the loans of international financial institutions. Instead of net costs, the alignment expenses will take the form of investments which will enable further economic growth and bring profits to its investors.⁵⁴

Science and Education

Science and education is an area where the reforms are expected to be less painful and demanding for Croatia than alignment with the *acquis* in other sectors. In accordance with that, EU accession in these areas will bring medium term and long term benefits to Croatian citizens. The relative ease of adjusting to European standards in that area is evident from the fact that negotiating chapters for Science and Research and Culture and Education have been opened and closed before all other chapters.

Since academic year 2005/06 in its higher education Croatia has introduced the principles of the Bologna declaration. Although the first results cannot be expected one year after its introduction, in the long term Bologna will make a significant contribution to Croatian higher education. First of all, it will organize Croatian universities according to European model. Croatian students in graduate, postgraduate, doctoral and postdoctoral programmes, as well as academic community will have an opportunity to use all the benefits of mobility within the European Union. This will make in a long term Croatian universities more competitive and more adapted to the needs of a modern economy.

Bologna is particularly important for an ex-socialist country such as Croatia whose education system was not harmonised with the needs of the labour market. Thus, the reform of education should be seen as a catalyst for the Croatian economy. In compliance with Bologna, Croatia will introduce the binary system which facilitates the integration of vocational and university programmes. Building the bridge between the two systems will provide mobility of Croatian students; together with the introduction of the European Credit Transfer System

⁵³ Intervju Nikola Ružinski, državni tajnik za zaštitu okoliša i glavni pregovarač za okoliš i energetiku (Interview with Nikola Ružinski State Secretary for Environmental Protection and the Main Negotiator for Environment and Energy) *Vjesnik, daily*, 10.06.2006.

⁵⁴ IBID.

(ECTS), the binary system will bring more diversity and flexibility in the Croatian system of higher education.

One of the main goals of the EU is to make its economy more competitive in the area of global competition by investing more in R&D. Until 2010, the EU goal set by the Lisbon strategy is to increase investments in R&D to 3% of its GDP, with participation of 2/3 from private and 1/3 from the public sector. At the moment, Croatia invests 1,25 % of its GDP to R&D, out of which 0,9% is invested by the state, and 0,35 comes from the private sector.⁵⁵ To reach the European goal of creating more competitive economy on the global level, Croatia will have to invest more in science and education which will have positive implications on the overall society. Having in mind the present situation in R&D sector, Croatia is not in a position to reach the EU goal of 3% expenditure for mentioned purposes until 2010, but the current expenditures will be increased reasonably. In a long term increased investing in science and education will raise the level of education and bring benefits to Croatian citizens.

At this moment only 7,9% of Croatian population has higher education, which is a concerning figure when compared with the EU countries – for example neighbouring Slovenia has brought this figure to 15%. After Croatia becomes an EU member state it will experience all advantages of joining the globally competitive European market, which also represents an opportunity for making improvements in the area of education.⁵⁶

In the process of EU accession, Croatia has already benefited as a candidate country by participating in the 6th Framework Programme for research and technological development (FP6) during 2006. The new 7th Framework Programme (FP7) will bring even more funding to science, research and innovation, and Croatian scientist and researchers will be able to benefit from it, thus contributing to the technological and economic development of the country. Namely, within FP7 Croatia has the status of an associated candidate country and it is eligible to participate and get funding from the Programme same as the member states of the EU. Although Croatia has to submit participation fee as a non-member state, the participation in FP7 represents a great benefit for Croatian science and educational system. It also serves as preparation for participation within future projects.

Croatia is eligible to participate as a full member in the Joint Research Centre (JRC) and EURATOM. The JRC assists Croatia through the project of providing satellite images for agricultural areas, projects of environmental protection and through establishing of the flood warning system. The JRC also helps Croatia exploit more of its large capacities of renewable energy, primarily solar and wind energy. Croatia is allowed to participate in all specific EU R&D programmes which include: COOPERATION (Collaborative Research), IDEAS (Frontier Research), PEOPLE (Human Potential), and CAPACITIES (Research Capacity). Since June 2000 Croatia has participated as a full member in the EUREKA Programme. Croatia still has a status of a third country within the ERASMUS MUNDUS which means that it cannot conduct postgraduate studies and award ERASMUS diplomas.

⁵⁵ Intervju Dražen Vikić-Topić državni tajnik za znanost i tehnologiju (Interview with Dražen Vikić-Topić State Secretary for Science and Technology) *Vjesnik* daily, 1/2. 07.2006.

⁵⁶ Ministry of Science, Education and Sports (2005), *Plan razvoja sustava odgoja i obrazovanja 2005 –2010*. Zagreb: Ministry of Science, Education and Sports.

Employment

The EU membership will be beneficial first of all for the skilled labour force because expected higher economic growth will bring new possibilities for employment for well-educated individuals. It is however unclear how accession will generally affect the high unemployment rate in the country (according to ILO methodology 11,2%)⁵⁷ since employment growth does not directly relate to economic growth. However, after accession Croatia will be better equipped in fighting unemployment since for that task it will be able to get funding from the European Social Fund (ESF).

The gradual liberalization of the EU labour market will bring better employment chances for all unemployed Croatian citizens, plus after joining the EU the unemployed will have better chances for participation in training and re-qualification programmes.⁵⁸ However, education structure of unemployed people in Croatia is not very favourable in the context of EU economy. According to 2005 statistics out of the total of 308,738 unemployed individuals only 21,022 possessed university diplomas; while 287,716 were the high school graduates or people with lower educational degrees.⁵⁹

Every EU citizen has the right to work in another member state without being discriminated against on grounds of nationality. The right to work also includes enjoyment of all social rights connected with that status. The free movement of labour is one of the most visible results of integration and it will be beneficial to both employees and employers. It is however unlikely that Croatian citizens (same as citizens of new member states) will fully benefit from the labour mobility provisions of the *acquis* immediately after joining EU. Namely, after accession other member states will individually be eligible to introduce a moratoriums running up to seven years on liberalisation of their labour markets for Croatian citizens.⁶⁰

Still, it is encouraging to note that two years after the 2004 enlargement majority of the old member states abolished all barriers to implementation of labour mobility provisions of the *acquis* for the new member states citizens, while Great Britain, Ireland and Sweden followed the "open doors" policy right from the start. Furthermore, according to the reciprocity principle, Croatia will be able to postpone liberalisation of its own labour market for the citizens of member states that imposed aforementioned moratoriums.⁶¹

The alignment with the EU *acquis* in the area of employment introduces significant reforms in the national system of employment that will be beneficial for Croatian citizens. These reforms will bring more control for the employers, more rigid anti-discrimination measures, and in

⁵⁷ Ministry of Economy, Labour and Entrepreneurship (2007), Ministar Vukelić o napretku u razvoju malog i srednjeg poduzetništva, URL= <http://www.mingorp.hr/default.asp?id=1376&glink=> (15. Jun 2007.)

⁵⁸ Bejaković, P. (2002), Unemployment and Employment in the Republic of Croatia, in: Ott, K. (ed.), *Croatian Accession to the European Union: Economic and Legal Challenges*, Zagreb: Institute of Public Finances, Friedrich Ebert Stiftung.

⁵⁹ Central Bureau of Statistics (2006), Statistical Information, December 2006, URL= <http://www.dzs.hr> (10 May 2007.)

⁶⁰ I nakon ulaska u Uniju Hrvati će morati imati radnu dozvolu (Work Permits for Croatians Even After Joining the EU) *Jutarnji list*, daily, 17.11.2006.

⁶¹ IBID.

general better guarantees for the respect of workers rights.⁶² Namely, accession to the EU will upgrade the social safety net, and the legal position of employees will generally become stronger.

As a consequence of aligning with the *acquis* Croatia will introduce the method of accounting work related social contributions according to the number of work hours. This will result in an increase of part-time employment which currently accounts for only 5% of the overall employment, while the EU average is 20%. The increase of part-time work is expected to reduce the overall level of unemployment, while at the same time it is going to make Croatia more socially sensitive⁶³

EU Funds and Regional Policy

Since 2004 Croatia participates in the EU per-accession programmes: PHARE, ISPA and SAPARD. Objective of the PHARE programme is to support the reforms in the process of EU accession, and through it 167 million euro was allocated primarily for strengthening of administrative capacities. Through ISPA programme 25 million euro in 2005 and 35 million euro in 2006 were invested in environmental protection and transport infrastructure. The funding through SAPARD program started in 2006 with 25 million allocated for the support of farmers and development of rural infrastructure.

Since 2007 PHARE, ISPA and SAPARD are replaced by a single Instrument for Pre-accession Assistance (IPA), which primarily supports candidate and potential candidate countries in their harmonisation with the *acquis*. Through IPA the EU will fund projects in Croatia worth 589,9 million euro until 2010. Apart from projects in the area of harmonization with the *acquis* IPA also supports projects aimed at institutional capacity building, regional cooperation, development of traffic infrastructure, environmental protection, increase in regional competitiveness, rural development and development of human resources. Implementation of projects funded as part of the pre-accession assistance is very important for Croatia because it educates and prepares Croatian beneficiaries for future participation in the EU regional policy as well as in its Common Agricultural Policy (CAP).

The EU regional policy is being funded from the Structural and the Cohesion funds. The EU spends about one third of its overall budget on its regional policy which is aimed towards diminishing differences in development levels between its regions and its member states. Since development aid from the Structural funds and the Cohesion fund is only available to EU member states, the benefits of joining the EU in this area are very pronounced.

Further to this, according to the current EU financial perspective 78,5% of the EU regional policy budget is reserved for funding of the so called “convergence objective”, in other words regions which do not surpass 75% of the EU GDP average. Once Croatia joins the EU all of its territory (divided in three regions) will be eligible for funding under the convergence objective of the EU regional policy. However, at this point it must be stated that the EU financial perspective (2007-2013) doesn't predict funding for member states that would join the Union during the current period. Therefore, in 2008 when the perspective is set for

⁶² Zastrahujuće kazne za diskriminaciju (Incredible Penalties for Discrimination) *Vjesnik*, daily, 13.10.2006.

⁶³ U part-time radu na repu smo EU-a (In Part-Time Work We are at the Tail of the EU) *Slobodna Dalmacija*, daily, 19.11.2006.

adjustment the fact that Croatia plans to join the EU before 2014 will have to be taken into account.

Once a member state Croatia will have to pay a contribution to the EU budget which will not exceed 1,24% of its GNP. At the same time, as a new member states it will be entitled to receive up to 4% of its GDP from the EU Structural and the Cohesion fund. Since Croatian GDP is about 30 billion euro, 4% amounts approximately to 1 billion and 200 million euro. This is the minimum that Croatia will receive from these funds once it enters the EU, while the expected further growth of Croatian economy would only increase this figure. At the moment from the pre-accession aid the country is yearly receiving around 140 million euro. Therefore, the difference between what Croatia is receiving now as a candidate country and what the country will be receiving annually in development aid after joining the EU is approximately 1 billion euro.⁶⁴

While the pre-accession aid is targeted primarily towards capacity building in the state administration, the development aid from the EU Structural and the Cohesion fund is much broader in scope, with a lot of finances targeted directly towards SMEs and towards increase in entrepreneurship. Therefore, once Croatia joins the EU the benefits of the EU development aid will become much more tangible for Croatian citizens.⁶⁵

European Monetary Union (EMU)

Cost and benefits of joining the EMU will largely depend upon the overall process of Croatia's economic and political integration with the EU and its ability to absorb the disruptions on the global foreign exchange market. Croatian economy has already been very much "euroized", almost to the level of the new member states that joined the EU in 2004 and 2007. From all the transition countries, Croatia has the highest level of currency substitution. Measured by the bank debits, approximately 65% of deposits in Croatia are in euro.⁶⁶ Croatian banking system is dominated by the Eurozone banks (92%)⁶⁷ and foreign direct investment and trade with the Eurozone are dominant within the Croatian economy.

To join the Eurozone, Croatia has to fulfil the Maastricht criteria. The accession to the EMU can be completed two years after the accession to the European Union at earliest and Croatia is already on the way to meet some of the required criteria. In 2005 public debt remained stable and amounted to 52,8% of the nominal GDP⁶⁸ while the general government deficit fell

⁶⁴ Kako u EU: Neven Mimica predsjednik Saborskog odbora za europske integracije (How in the EU: Neven Mimica President of the Parliament Committee for European integration) *Banka*, No. 12, December 2006.

⁶⁵ Intervju s Charles White-om predstavnikom Opće uprave za regionalnu politiku Europske unije (Interview with Charles White European Commissioner for Regional Policy) *Vjesnik*, daily, 7,8 and 9 October 2005.

⁶⁶ Croatian National Bank (2007), *Official Bulletin*, 12 (122): 1-82;

Intervju Boris Vujčić vice guverner Hrvatske narodne banke (Interview with Boris Vujčić Vice-Governor of the Croatian National Bank) *Vjesnik* daily, February 2007.

⁶⁷ Croatian National Bank (2007), *Official Bulletin*, 12 (122): 1-82.

⁶⁸ Croatian National Bank (2005), *Annual Report*, Zagreb: Croatian National Bank.

to 3,9% in 2005 from 5% in 2004⁶⁹; Croatia also maintained stable prices, exchange rate stability and low inflation rate.

The principal benefits of joining the EMU will be felt at the micro level. The most obvious benefit is the abolition of direct costs of conversion of currencies and payment operations. Joining the EMU will also bring more transparency in money transfers, i.e. the prices in Croatia will be easily comparable to those in other EMU countries which will diminish uncertainties due to a fixed exchange rate and it will create greater resistance to price discrimination among areas. In addition to this, permanently fixed exchange rate will make decisions in investment, production and consumption easier. Introduction of the euro will also stimulate greater exporting to other European countries, which has so far been a shortcoming of the Croatian economy due to relatively high exchange rate of Croatian kuna.

Common currency will also facilitate further integration of Croatian banking sector and financial system with financial systems of Europe and diversification of risks. Within the EMU Croatia will have better access to liquid assets, and will further develop stocks and bonds market by enhanced liquidity. Common monetary policy will preserve the stability of prices without disrupting the distribution of economic activities, and it will facilitate trade with other member countries of the EMU.

Apart from benefits, Croatia will also face costs of joining the EMU. Croatia will lose its independent monetary policy as a part of its economic policy – the Croatian monetary policy will be defined at the European Central Bank in Frankfurt, not at the Croatian National Bank in Zagreb.⁷⁰ Nevertheless, Croatia being a small and open economy well intergraded into European financial market, has already been largely constrained in conducting an autonomous economic policy.

Conclusion

The benefits of EU membership will be manifested in a long term, while the costs are a short term factor largely connected with the process of transition. On the cost side, Croatia as a member state will have to pay a contribution to the EU budget amounting to no more than 1,24% of its GNP. This however, together with customs clearance and a loss of a share of its harmonised value added tax (VAT), is a small price to pay compared to the benefits, since the country will be able to finance up to 4% of its GDP from the EU funds.

Yet, not all benefits can be calculated in financial terms. Namely, the most valuable aspect of accession process is that it initiates reforms in all areas which set conditions for an increase in both economic growth and political stability. After accession Croatia will become an active creator of the EU policies and through that its overall political position will be strengthened.

⁶⁹ European Commission (2006), *Progress Report on Croatia*, COM (2006) 649 final, Brussels, 8 November 2006.

⁷⁰ Samardžija, V., Staničić, M., Nikić, G., (2000), *Hrvatska i EU: Koristi i troškovi integriranja*. Zagreb: Institut za međunarodne odnose.

The Croatian accession will contribute to stabilisation of the Western Balkan region and to continuation of democratization in that part of Europe.

Through accession related reforms the Croatian state will be modernized and made less expensive and more efficient. In certain areas like agriculture, transport and environmental protection the costs for the state will be high. However, in the medium to long term period these costs will be outnumbered by the benefits because initiated reforms will create conditions for sustainable economic development and growth. For Croatian producers the accession related reforms will introduce the costs of restructuring. Still, these short term expanses will turn into a medium to long term benefits, because successful restructuring will bring an increase in competitiveness and profits. For Croatian consumers already in the short term period the accession will bring benefits. It will introduce lower prices of goods and services, higher supply and an increase in consumer protection.

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