

The role of the CEA and of entrepreneurship in the overall development of Croatia

Entrepreneurship is the basis of advanced business

The role of employers' associations, and thus of the Croatian Employers' Association, in modern societies and countries of developed democracy and market economy, means first and foremost enabling the activity and influence of the economic sector on the development strategies of the economy, and raising the overall social standard.

No single country or national policy is capable by itself of accurately and correctly comprehending economic problems from the position of "the authorities". Not only in our country but in the most developed countries, there is a strong and tough "bureaucratic" structure which does not provide even the best strategists – the ministers and other high-ranking government officials – the decision makers, with sufficient support on which to reach the right decisions. That is why it is often impossible to implement reforms or certain important changes, not because the will is lacking, but because implementation is obstructed by "small bureaucratic wheels" which can stop the whole machine.

It is for these reasons that institutions like the CEA are becoming a *conditio sine qua non*. They are a corrective to bad economic measures, they constitute the best indicator of those measures, but they are also the object of implementation of such measures, and they feel them the most. Employers have a better sensitivity towards economic policy, because they experience it every day and they know how to recognize what most needs to be changed or improved in the economic policy in order to achieve their results in the best possible way.

Any wise "policy" will realize that a mutual cooperation with entrepreneurs (and also trade unions) is much better than a policy of tough "imposed" ideology loaded with political pamphlets. One may ask why that is so. Because after the revisions and controls of implementation of any economic policy there will be the trump card of being able to say - "we worked on this together". Otherwise the whole responsibility falls on the creators of policy.

In the present situation in Croatia, entrepreneurship also means opening wide the doors to European integration and to the processes of market expansion. Some of our companies have long been present on the European and world markets, and it is precisely they who are the guarantees of our European orientation. They become the accelerator of all social processes, because it is through them that we will gain both new technologies and new markets. But certainly we cannot make do with that, because the future ahead of us is a future of rapid changes, rapid adjustments and fierce merciless competition.

It is precisely the CEA, as a catalyst of these processes, which is becoming a source of strong influence on our future. It might be immodest and pretentious to state our ambition - that we also wish to be "enlighteners" in these processes. We want to direct our activities increasingly to raising knowledge on all levels. Here, by all means, we start with ourselves, showing entrepreneurs the significance of the need to recognize "the knowledge worker and the work of knowledge" and investment in human resources and new technologies.

In the relations with the state, we are looking on a daily basis for better solutions to the creation of an entrepreneurial climate and economic environment, one which will be as favourable as possible. With the social partners on the trade union side, we are trying to point to the need to increase the work efficiency of Croatian workers, which according to some statistics is at an extremely low level, even in comparison with certain countries which until recently were far below us.

In addition, the role of the CEA is also very important in international activities, which are in present times a necessary factor in all deliberations on positioning in the new market that is opening soon. Therefore, the existing friendly and business connections with related associations and institutions of the EU countries - Austria, Italy, Germany, France, Netherlands, Belgium, Great Britain and a number of other East European countries - present a great potential for help to our economy as a whole.

Entrepreneurship needs to be established as an activity, as the most important social activity, since it is the basis of an advanced and progressive social system. At its root it needs to be understood as the creation of new value, as the process of creating higher social standards. Besides, what must not be ignored is the social component of entrepreneurship, which is the creation of new jobs and employment; yet we must in no circumstances allow entrepreneurship to carry social policy all by itself. That should be the state's role, which by rational administration of the tax income will provide for the social needs of its citizens.

An economically developed Croatia and a healthy and competitive entrepreneurship must be the main goal of a policy that aspires to prevail in the country for any period of time. In the implementation of that policy, a partnership relationship is necessary with the entrepreneurs and the trade unions.

The Croatian Employers' Association, embracing almost 80% of the Croatian economy, is the centre from which true entrepreneurship, organized on the voluntary principle, with its constructive approach and cooperation with the Government of the Republic of Croatia and the trade unions, acts strongly to achieve economic growth and the standards of all its citizens and seeks to make its contribution to these goals.

And in order to be more efficient and effective ourselves, we persistently work on the further advancement of our activities and useful services to our members, and we improve ourselves with the help of our friendly associations from the EU countries who are glad to share their knowledge with us. With the fall of borders and the end of one historical stage - one of divisions between countries - co-operation is the new trend in this scene.

The CEA wishes to be at the forefront of these new processes in our country.

Bernard JAKELIĆ
General Manager of the Croatian Employers' Association

AMAC PROGRAMMES

CONNECTIONS AMONG CROATIAN EXPERTS

Former students and university friends participate in Croatia's development through AMAC associations

During the course of studies, a university is a community of students and professors where one becomes formed for a future life through academic education, and which may be said to awaken a lifelong feeling of belonging to the university. This feeling of belonging, based on the quality of the Alma Mater – the university one attended, should grow into a permanent loyalty to one's own university through the activities of the former students - alumni. Pride in the university one has studied at is a moving force and a point of prestige that drives alumni to help their university. Of course, this is also true in reverse; universities are proud of their successful graduates, who are the true ambassadors of the reputation, quality and strength of their old university. This is why alumni associations are formed at universities across the world gathering not only former students but university friends as well. The strength of Zagreb University is imposing if one looks at the number of its graduates, totalling 105,535, and that only in the last decade from 1991 to 2000 (table). The number of old alumni is of course much higher when we analyse a longer period of time. However, this segment of a university's activities and influence is usually overlooked; we forget that beside the students and lecturers – professors, the old alumni are also an important part of a university.

Alumni help the activities of their Alma Mater in various ways. The main objective (at least in Western universities) of alumni societies is to gather donations for the successful work of the universities through a whole range of actions that are usually philanthropic, or they allot funds for very specific projects proposed by the university. On top of this, former students and university

friends help their old university through a whole range of different actions, such as promoting the university, organising various (interdisciplinary) activities, securing scholarships for undergraduate and postgraduate studies, as well as providing grants for postdoctoral posts, finding jobs, various social activities etc.

On the occasion of the 320th anniversary of the university in Zagreb, on October 19, 1989, a decision was made to set up the Society of Former Students and University Friends in Zagreb (Latin: Almae Matris Alumni Croaticae (AMAC), or Almae Matris Croaticae Alumni (AMCA)). The AMAC/AMCA association at Zagreb University groups the AMAC DOMUS and AMAC MUNDUS societies, i.e. the local and international branches.

Coordinating work of associations in the country and abroad

The University of Zagreb stresses and fosters the ties and loyalty of former students and friends through 16 Alumni, AMAC DOMUS associations in the faculties of the University. It should be said that the alumni philosophy has spread to other members of the University so that the number of AMAC DOMUS associations is steadily rising. Our alumni in the world are grouped in 16 alumni societies, the AMAC MUNUDS associations. In order to link the associations and their activities at home and abroad in a permanent, systematic and coordinated way, it has become necessary to create the Alliance of Associations. The Vice-Chancellor's office of the University in Zagreb is currently working on setting this up.

Although the potential number of alumni members is quite high, the number of former students who are active in alumni societies is unfortunately not sufficient. This is why we need to work on spreading the alumni philosophy and on including all former students in alumni activities. Some of the local alumni associations are especially active. For example, the AMAC of the Faculty of Chemical Engineering and Technology has a number of sections such as the scientific section

(organising lectures), visual art section (holding visual art workshops and exhibitions), art (the well-known choir «Vladimir Prelog»), sports, etc. At the Faculty of Civil Engineering, through its web page the AMAC makes it easier for its graduates to find a job with the help of its alumni in various institutions. We could cite a whole range of alumni actions by local AMAC societies.

At the same time we must point to the activities of AMAC MUNDUS associations, positioned geographically from Australia, across Europe all the way to the USA. These associations were of enormous significance during Croatia's dramatic recent past, when they helped not only by spreading the truth about Croatia but also through direct financing of many actions in Croatia. AMAC MUNDUS associations now mainly focus on the promotion of Croatian cultural and scientific values and expect encouragement for a more powerful interaction with Zagreb University.

The associations meet at conferences of which two have so far been held. The first conference was held on October 19, 1990, in the assembly hall of Zagreb University. The Nobel prize winner Vladimir Prelog (1906-1998) was appointed the first honorary member and president for life. The second conference of the AMAC/AMCA associations was held in Zagreb from June 25-29, 1998. The conferences proved to be convenient forums for the exchange of ideas, proposals, opinions and achievements. The 3rd conference of the AMAC/AMCA associations of Zagreb University has just concluded (June 30 – July 3, 2004) and it represented an exceptional chance to open a democratic dialogue on issues that are essential for Croatia, this in the framework of the topic *University, Science and Globalisation*. At the conference, 11 invited lecturers who are also Zagreb University alumni (Dragan Primorac, the Republic of Croatia's Science, Education and Sports Minister, Helena Jasna Mencer, Ph.D, Vice-Chancellor of Zagreb University, Zvonimir Šeparović, Ph.D., Branko Kunst, Ph.D., Emilio Marin, Ph.D., Member of the Academy Radoslav Katičić, Neven Šimac, Ph.D., Ivo Šoljan, Ph.D., Miroslav Radman, Ph.D., Radan Spaventi, Ph.D.

and Nikola Demarin) raised important subjects relating to higher education and science. Furthermore, some AMAC societies reported on their activities and plans for future cooperation. In this way more than 150 participants defined a platform for future cooperation.

Prof.dr. Greta Pifat-Mrzljak

Head of AMAC associations coordination

**Total number of graduates at institutions of higher education in the Republic of Croatia
1991-2000/**

Year of graduation	Vocational studies	University studies	Total
1991	3,009	5,671	8,680
1992	2,783	5,073	7,856
1993	2,967	5,308	8,275
1994	2,852	5,542	8,394
1995	3,219	6,079	9,298
1996	3,782	7,679	11,461
1997	3,657	7,803	11,460
1998	4,419	8,867	13,286
1999	4,468	8,847	13,315
2000	4,626	8,884	13,510
Total	35,782	69,753	105,535

Source: Ministry of Science and Technology, 2003.

AGRICULTURE

Challenges prior to negotiations on EU membership

During the wait for the status of candidate and the beginning of negotiations on membership in the European Union, debates regarding the challenges in our agricultural and food sector in the coming years have intensified. Some regard the association process with optimism, considering it to be an opportunity for development to the quality, competitiveness and profitability level attained in other European countries. Others warn of the lack of funds and time for adjustment, being of the opinion that most producers will not survive on the market. What then will the process of rapprochement with the EU bring to our agricultural sector?

We can learn about this from the experience of other transitional countries which have in the meantime become EU members, and were faced with the same dilemmas a few years ago that Croatia is facing today. In its preparations for membership the candidate country must be capable of assuming the Community regulations entirely. In this respect the term "negotiations on membership" can lead to a wrong conclusion, since particularities and issues of the domestic agricultural sector and the exemptions that must be secured for it to survive are not negotiated. The example of the new EU member states shows that the candidate country bears most of the burden resulting from the adjustment process. This is moreover true after it joins the EU, as it obtains only partial access to certain items of the Community agricultural budget.

In other words, the country's producers can count on only one fourth of the aid granted to producers in the old member countries. However, due to a lower sectoral development, they will be using more of the other types of aid, especially aid intended for rural development. Although Croatia will have to rely, just like other candidates, mostly on its own resources, as a candidate country we will obtain resources for sectoral adjustment. Examples show that the more accessing countries are capable of using them, the higher these resources are.

This is why we do not see the process of acceding to the European Union as a solution to existing problems in the Croatian agricultural sector. We consider the future negotiations on membership in the EU rather as an incentive to conduct adjustments necessary for strengthening the competitiveness of our agriculture. We will do everything on our side to raise the level of institutional capabilities so that benefits for numerous agricultural economies can be as high as possible.

It is well-known that agriculture is a specific sector, which has not only an economic but an equally important social and also ecological role. The complexity of this field is best seen from the huge number of regulations establishing it in the EU, amounting to more than 40 thousand pages of text. The Ministry of Agriculture, Forestry and Water Management is already deep in the process of adjustment to the EU regulations, having adopted a whole range of legal and technical regulations. This year for instance, 6 acts and 37 subordinate regulations will be adopted, directly linked to our process of rapprochement to the European Union. In the coming years this process will gather pace even more, quickly creating a new basis for the systems of quality, supervision and standards and for the agricultural and food market. National administrative authorities will certainly play a large role in this, but it is important to mention that producers through their associations must assume their share of the responsibility in preparations for membership in the EU, mostly through joint appearance on the market, through education and similar programmes.

In the development of a competitive agricultural sector, the State Aid in Agriculture, Fisheries and Forestry Act plays a special role, the amendments of which were proposed bearing in mind the need for restructuring aid in order to further develop cattle breeding, wine growing and fruit growing. The Act also emphasises the significance of the category of numerous small agricultural economies, for whom a more extensive aid in resources is intended. We have moreover foreseen

an increased share in investment aid and in the programme of rural development which will primarily support the development of prosperous agricultural economies successful in the market.

We are also aware of the significance of speeding up privatisation of the state-owned agricultural land, since the present average size of properties represents a limitation to the development of our agriculture. It is not possible to develop competitive agriculture with estates of 3 hectares or less. The privatisation of agricultural and processing plants must be completed in a similar way, so that new owners may organise production in these companies in accordance with market conditions, which would enable them to again become initiators of economic development in their regions.

Intense discussions are ongoing globally regarding the topics of reducing customs protection, decreasing export subsidies, and reducing or even eliminating certain types of agricultural aids. The result of the negotiations regarding these topics within the World Trade Organisation will have a significant influence on further development of the Common Agricultural Policy of the European Union, and also of the agricultural policy in Croatia, which as a member of the World Trade Organisation must respect the agreements reached.

In Croatia we are closely monitoring the reforms of the Common Agricultural Policy, putting increasingly less emphasis on the production of agricultural products itself, and introducing measures for promoting the interests of the rural area as a whole. Moreover, the Common Agricultural Policy today puts an emphasis on the final consumer, thus responding to the growing demand for ensuring safe, high-quality foods. Croatia has also accepted this new, wider concept of agriculture and agricultural policy, and has incorporated it into the main regulations determining this field in our country.

In the upcoming negotiations with the European Union we would like to follow the example of those new members who were most successful in this process, and to ensure the best possible conditions for Croatian agriculture through membership negotiations. This is why we find the rapprochement to the EU Common Agricultural Policy exceptionally important, conducted through our own legal solutions and agricultural policy measures. This demands from us the need for constant education, training and open dialogue. In this process we certainly expect support from the European Union, as well as the support of all those who can contribute with their valuable experience.

PETAR ČOBANKOVIĆ
Minister of Agriculture, Forestry and Water Management

Croatia's Way to Europe: Preparation for Accepting European Standards

The Croatian National Council for Competition (NCC) recently published a set of 55 recommendations, focusing the Government's and wider public attention on priority activities aimed at transforming Croatia into an internationally competitive economy. The point is that concrete policies, measures and resources should be focused on seven key priority areas: education; rule of law; competitive cost management and pricing policies; innovation and technological development; strengthened development of small and medium-sized enterprises; regional development and development of clusters, and, finally, development of a positive attitude and leadership.

According to estimates, Croatia needs to define and implement its own unique reform plan, which would mobilize the potentials of its overall population and thus bring about a turn-around and increase the competitiveness of Croatia's economy. A key role in this respect should be that of public-private dialogue and partnership. Seven committees for implementation of the recommendations in the area of competition, recently appointed by the Government, include representatives of the Government, the competent ministries, the National Council for Competition and other experts, and will be responsible for seeking optimum solutions for quality implementation of the policies defined in 55 recommendations. Awareness of the crucial role of education and know-how as the most important distinguishing factors between the developed and the underdeveloped world, the rich and the poor, high living standards and a bare survival level, is here of the greatest importance. Which route we will take is primarily a matter of political choice.

Investments in Croatian industry have been below the regulated depreciation level for years, meaning that there has been no substantial and planned investment in new equipment or development of new technological solutions, a fact which will certainly not result in the strengthened competitiveness of Croatian products in the global market. There are additional unfavourable signals indicating that a wider inclusion of the Croatian processing industry would require a very painful adjustment process, for which most of the potential companies are not ready at all.

Efficiency, rationality and productivity seem to be at the bottom of the value ladder. At the same time, individual competitiveness and overall social productivity depend on the synergy of these indicators, being at the same time the basis for our capability to assume a new position on the world market. The awareness of this is constantly growing.

The idea that strengthening of productivity and general competitiveness should become the guiding principle for all creators and implementers of economic policy is present in all analyses. Having obtained the status of an EU candidate country, Croatia is given a new chance to catch up with the developed countries in transition, to which, according to the relative indicators, it is becoming seriously inferior. It is here important to understand that the desired objective of Croatia's sustainable development, prosperity and social welfare in general can be achieved only through an urgent, integrated and well-targeted policy, aimed at promotion of national competitiveness.

The analysis of the global competitiveness index, carried out by the World Economic Forum, shows that the per capita income level in Croatia fully agrees with its microeconomic competitiveness level. Measurements have shown one more thing: in most of the key competition areas Croatia is seriously inferior to the developed transition countries and is currently at the bottom of the scale according to numerous criteria. This fact indicates the problem most clearly: Croatia needs a comprehensive policy of serious reforms and changes aimed primarily at increasing its competitiveness.

The NCC analysis showed that some factors with favourable effects on improving competitiveness are particularly evident in Croatia. These include a simple and transparent tax system; macroeconomic stability; a consolidated banking system; a relatively unpolluted environment; traffic infrastructure capacities and relatively simple establishing procedures.

Unfortunately, the list of factors negatively affecting Croatia's competitiveness is much longer and more complex: high operation costs; a high total tax burden; high public debt; poor competition which fails to stimulate innovation and competitiveness; an unsolved waste disposal problem; the quality of the traffic infrastructure; high barriers to the winding up of companies; rigid labour regulations and poor efficiency and transparency of the civil services, in particular justice, are just the tip of the iceberg.

As already highlighted, the specific feature of the NCC report and the above recommendations lies in the fact that Croatia's competitiveness is analysed from the position of an individual company, as it is the firm NCC position that the general competitiveness of each country, including Croatia, can only be improved by increasing the competitiveness of individual companies.

There is one more point I would like to make here: Croatia has reached the top limit of indebtedness, and further spending on infrastructure and social expenditures needs to be rationalized. Secondly, spending must be brought in line with actual capabilities and the philosophy of budgetary expenditures must be changed to create a balance between development and social aspects. Finally, the Government must assume a firm position in domestic, especially economic issues, and set priorities in this respect so as to ensure Croatia's sustainable economic development. It is important to stress that every policy setting priorities for the strengthening of education, technology and innovation will open the way to easier and more rapid placement and survival of Croatian products not only in the national but in the European market.

The National Council for Competition does not view the speculations on when Croatia will become an EU member as the priority concern of the Croatian economy, but considers it important to make the best use of the period of preparations, so as to ensure appropriate efficiency and competitiveness in line with the existing European standards. It is my personal view that the changes we are facing will require sacrifice from all sides and all segments of society, and that without that sacrifice problems cannot be solved. It is also a unique chance for creating conditions and increasing Croatia's competitiveness in such a way as to become capable, when Croatia reaches full EU membership, of providing an adequate response to the challenge of European and global markets.

Željko Čović,
President of the National Council for Competition

~~CROATIAN~~ ENERGY LEGISLATION

Harmonisation with EU Directives

Early in 1999, the Government of the Republic of Croatia started the process of the voluntary assessment of the level of harmonisation of the legislation in force with the *acquis communautaire*, aimed at speeding up the process of bringing Croatia closer to the European Union, which is shown in detail in the Integration Action Plan presented to the European Commission in October 1999.

Key documents of the European Union's energy sector

One of the main legislative documents of the European Union is the White Paper on Energy Policy for the European Union, COM(95) 682, Final, January 1996, which imposes three basic requirements for the future development of the energy system at EU level:

- environmental protection
- security of energy supply
- industrial competitiveness

The White Paper on Energy Policy for the European Union, COM(95) 682, Final, January 1996, is followed by the Green Paper "Towards a European Strategy for the Security of Energy Supply", which emphasises three key issues:

1. If the current trend of increase in energy consumption is maintained in the European Union, according to the analyses that have been carried out, by the year 2030 the member states will import 70 per cent of energy, as opposed to the present 50 per cent.
2. At the moment, emission of greenhouse gases in Europe is on the increase and, if the trend continues, EU member states will not be able to comply with the Kyoto Protocol under which emission of six greenhouse gases (CO₂, CH₄, N₂O, HFCs, PFCs and SF₆) should in the period from 2008 to 2012 be reduced by 5.2 per cent on average in relation to the 1990 level.
3. The analyses show that the European Parliament has a very limited impact on energy supply conditions, and that the energy consumption sector is the segment where the actions of the European Commission, primarily in the area of consumption in buildings and transportation, can produce excellent results.

The abovementioned key issues present a strong reason for the implementation of any measure available with a view to reducing energy consumption, to using renewable sources of energy and to protecting the environment to the maximum extent possible.

The main conclusion of the Green Paper is that the European Commission should intensify a wide range of activities and initiate various programmes in order to promote energy efficiency and renewable energy sources on one hand, and their implementation into the energy policy of the member states on the other hand.

Directive 96/92 EU of the European Parliament and of the Council of 19 December 1996 concerning common rules for the internal market in electricity regulates the electricity production, transmission and distribution sectors.

For the purpose of full liberalisation of the electricity and gas market by 2005, which is based on consumer protection and separation of the transmission system operators and distribution system operators, the European Commission proposed in March 2001 a number of measures which have been elaborated and this resulted in the adoption of Directive 2003/54/EU of 26 June 2003. The Directive replaces Directive 96/92 EU in full and is to be incorporated into national legislation of the member states by 1 July 2004.

Regulation on conditions for access to the network for cross-border exchanges in electricity (1228/2003/EEU) of June 2003 regulates cross-border trade in electricity aimed at supporting the internal electricity market while taking into account specific features of national and regional markets.

On 22 September 1992, the Council of the European Union adopted Directive 92/75/EEC with regard to energy labelling of household electric refrigerators, freezers and their combinations, which imposed the obligation on the member states to implement standardised labelling of energy-consuming household appliances within the framework of their national legislation.

By virtue of Directive 92/75/EEC, the European Commission adopted the following implementing Directives, which precisely define labelling methodology for the following household electrical appliances:

- Commission Directive 94/2/EC with regard to energy labelling of household electric refrigerators, freezers and their combinations;
- Commission Directive 95/12/EEC with regard to energy labelling of household washing machines;
- Commission Directive 95/13/EC with regard to energy labelling of household electric tumble driers;
- Commission Directive with regard to energy labelling of household combined washer-driers;
- Commission Directive 97/17/EC with regard to energy labelling of household dishwashers;
- Commission Directive 97/17/EC with regard to energy labelling of household;
- Commission Directive 2002/31/EC with regard to energy labelling of household air-conditioners;
- Commission Directive 2002/40/EC with regard to energy labelling of household electric ovens.

The adoption of the Directive on the energy performance of buildings (2002/91/EC) established a new single legislative instrument for all member states, which should facilitate the implementation of energy efficiency measures at the European Union level, whereby the practical application of the adopted provisions and standards will remain within the jurisdiction of individual member states. A characteristic feature of Directive 2002/91/EC is the integral approach to different energy parameters within a building, which facilitates the defining of uniform indicators of the energy characteristics of a building. Another significant feature is that it provides a common methodology and terminology at the EU level. In this way, a certain level of harmonisation is achieved, which facilitates the fulfilment of basic common objectives: increased energy saving potentials and reduced emissions of CO₂ in building construction in the European Union.

One of the most important features of Directive 2002/91/EC is that from the energy aspect a building is perceived as an energy whole, which includes the energy characteristics of a building structure and components on one hand, and any energy-consuming equipment installed within the building (heating system, hot water preparation system, lighting system, cooling system, ventilation system, etc.) on the other hand. The Directive does not cover uninstalled equipment within a building (e.g. household appliances, office equipment, stand-alone lighting fixtures, etc.). The energy efficiency of uninstalled energy-consuming equipment has already been regulated by the aforementioned Directive 92/75/EEC, as well as by the said implementing Directives and the European Action Plan for Energy Efficiency, which is based on the labelling requirement in respect of energy-consuming equipment, on the introduction of an energy efficiency standard, etc.

The basic document that formulates the policy of the European Union on renewable energy sources is the White Paper on Renewable Sources (Energy for the Future: Renewable Sources of Energy, White Paper for a Community Strategy and Action Plan, COM(97) 599, Final, November 1997), which warns that, despite considerable potential, renewable sources are not adequately utilised and that it is necessary by 2010 to find the most effective measures to increase their current share in the total energy consumption from approximately 6 per cent to 12 per cent.

Each member state shall adopt its own strategy to this effect and shall, within that strategy, propose its contribution to the overall objective, as well as specify planned incentives.

With a view to fostering the development and market penetration of projects, as well as ensuring a coordinated implementation at the Union level, the European Commission has proposed a special campaign to promote renewable sources of energy, which defines separate objectives for the use of specific technologies:

- 1,000,000 photovoltaic systems;
- 10,000 MW wind power plants;
- 10,000 MWt biomass-driven plants
- integration of renewable sources into local communities;
- 5,000,000 tons of liquid biofuel.

The use of renewable sources has been identified as an important prerequisite for security of the energy supply and on this basis a requirement has been imposed that 20 per cent of fuel used in road transportation be replaced by alternative fuels by the year 2020. Considerable

efforts and close coordination among all member states will be required to achieve this ambitious target. Therefore, the European Commission has published three documents relating to the use of alternative fuels in transportation:

- Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions on alternative fuels for road transportation and on a set of measures to promote the use of biofuels, COM(2001) 547 Final, which emphasises the advantages of the use of alternative fuels and identifies biofuel, natural gas and hydrogen as three potential alternative fuels that have the potential to reach by the year 2020 a share of 5 per cent or more in road transportation each;
- Directive on the promotion of use of biofuels for transport adopted on 8 May 2003 on the basis of the Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport, 2001/0265 (COD), which clearly defines biofuels and imposes the obligation on member states to ensure that the minimum share of biofuel is placed on the market;
- Proposal for a Council Directive Amending Directive 92/81/EEC with regard to the possibility of applying a reduced rate of excise duty on certain mineral oils containing biofuels and on biofuels, 2001/0266 (CNS).

In addition to liquid fuels, the European Commission also significantly supports by means of Directives the use of renewable sources for the production of electricity and for the combined production of electricity and thermal energy. So far, two documents relevant to this area have been published:

- Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market, Official Journal L 283, adopted on 27 September 2001, setting the objective that 22.1 per cent of total electricity produced by the year 2010 be from renewable sources. In addition to relevant provisions on the obligation to increase energy efficiency in electricity production, this Directive for the first time provides a clear and precise definition of biomass as follows: biomass is a biodegradable fraction of products, wastes and residues from agriculture (including crop production and livestock raising), forestry and related activities, and a biodegradable part of industrial and municipal waste.
- Directive 2004/8/EC on the promotion of cogeneration based on a useful heat demand in the internal energy market, published on 11 February 2004, recommends that an 18 per cent share of cogeneration in the production of electricity be set as a national objective to be reached by the year 2010. The draft further identifies and proposes ways to remove barriers to cogeneration, facilitates access to the network for manufacturers who use renewable sources in cogeneration, etc.

Final considerations

At its session held on 19 July 2001, the Croatian Parliament adopted a package of five laws regulating relationships in the energy sector:

- Energy Act;
- Electricity Market Act;
- Act on the Petroleum and Petroleum Products Market;
- Gas Market Act;
- Act on Regulating Energy-Related Activities.

The Energy Act, as a basic document, regulates relationships in the energy sector and, by defining energy efficiency and use of renewable sources of energy as important prerequisites of sustainable development, opens up the possibility of incorporating the Directives of the European Union into Croatian legislation.

The harmonisation of relevant Croatian legislation with the Directives of the European Union is a very complex task, which will require an interdisciplinary approach to the problem, plenty of time spent and a lot of work done, but beyond any doubt it is one more step towards Croatia's admission to full membership of the European Union.

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Europa nas prepoznaće kao ravnopravnog sugovornika

Postoje realni preduvjeti za privlačenje stranih investitora u Hrvatsku, a zadaća je diplomacije, posebice gospodarske, da pomogne u prepoznavanju tih mogućnosti i realizaciji konkretnih inicijativa u tom pogledu

Čime objašnjavate snažnu vanjskopolitičku podršku nastojanjima Hrvatske da dobije kandidaturu za prijem u punopravno članstvo u EU?

Mislim da je Europa prepoznala odlučnost Hrvatske za provođenje reforma i ispunjenje političkih kriterija. Mogu argumentirano tvrditi da je Hrvatska svojim političkim i diplomatskim djelovanjem doista zaslužila status kandidata za članstvo u Europskoj uniji. Poznato je da regiji treba *success story* kako bi EU pokazala da je nije zaboravila te što je sve potrebno učiniti kako bi se te države u što skorije vrijeme približile EU.

Hrvatska Vlada je u svom Programu vrlo jasno odredila da je članstvo u EU naš strategijski cilj. O ovom pitanju postoji široki politički konsenzus koji je manifestiran usvajanjem Deklaracije Hrvatskog sabora u prosincu 2002.g. prije podnošenja zahtjeva za članstvo u EU, čemu su i prethodne Vlade dale doprinos. U procesu ostvarivanja članstva u Europskoj uniji, kao glavnog prioriteta, ova je Vlada prepoznala ključan značaj ispunjavanja glavnih političkih uvjeta koji su - objektivno gledajući - već više godina bili ozbiljna prepreka na putu Hrvatske u Uniju.

Stoga smo naše prve poteze usmjerili na ubrzanje procesa povratka izbjeglica i povrata imovine, te na suradnju s manjinama u Hrvatskoj, koje su i podržale ovu Vladu. Odlučno smo pristupili suradnji s ICTY-em, gdje smo učinili sve napore sukladno preuzetim međunarodnim obvezama te hrvatskim zakonima. Našu suradnju s ICTY-em sagledali smo u njenoj cjelebitosti, a ne kroz fokusiranje na samo jedan slučaj ili aspekt, te smo je postavili u pune okvire. Takvo stajalište hrvatske Vlade s vremenom je uvažila i međunarodna zajednica, a što je najvažnije Predsjednik Suda i Glavna tužiteljica. Mi smo vrlo otvoreno krenuli u proces rješavanja svih otvorenih pitanja sa susjednim državama i nastojali smo pozicionirati Hrvatsku kao svojevrsni most spram država jugoistočne Europe, promovirajući i regionalne aspekte suradnje

Također uspostavili smo intenzivnu komunikaciju na razini premijera i ministara vanjskih poslova sa svim članicama Unije. Aktivirali smo diplomatsku mrežu u državama članicama, a posebno smo dinamične aktivnosti koncentrirali u Bruxellesu kroz brojne posjete, kao i rad Ministarstva za europske integracije te Misije pri EU.

Mi smo željeli najprije pomoći Europskoj komisiji da pripremi pozitivno Mišljenje o našem zahtjevu za članstvo. Nakon tog uspjeha 20. travnja o.g. u Strasbourg, naša je zadaća bila da Europsko vijeće istodobno donese odluku o dodjeljivanju statusa države kandidata Hrvatskoj, kao i o terminu početka pregovora o pristupanju. U tjesnoj suradnji s predsjedavajućom Irskom, kroz posljednja dva mjeseca vodili smo intenzivne konzultacije sa svim državama članicama te smo bili upoznati s različitim razmišljanjima unutar Vijeća.

U okviru svih razgovora imali smo vrlo jasne i snažne argumente za dobivanje željenih odluka. Prvi argument je bila sasvim jasna preporuka Komisije o otpočinjanju pregovora. Drugi je bila spremnost Hrvatske i odlučnost da započne pregovore. Treći argument bilo je načelo otvorenosti procesa proširenja Unije. I četvrti, izuzetno važan, bila je snaga političke

poruke drugim državama Jugoistočne Europe, koju daljnje napredovanje Hrvatske spram EU definitivno simbolizira. Uz dosljednost u ispunjavanju poznatih Kopenhagenskih kriterija i posebnih uvjeta iz Procesa stabilizacije i pridruživanja, te insistiranje na individualnom vrednovanju postignuća Hrvatske, to je bila srž naših zahtjeva i očekivanja proteklih mjeseci.

Koje zadaće sad predstoje pred hrvatskom diplomacijom, posebno njenim gospodarskim dijelom?

Dobivenim statusom zemlje kandidata za članstvu u EU, sasvim sigurno, promijenile su se i okolnosti za daljnji gospodarski razvoj Hrvatske. Mi smo ambiciozna Vlada, dokazali smo da znamo komunicirati s Europom i da nas Europa prepoznaće kao ravnopravnog sugovornika, a tako stečen politički kredibilitet naravno da otvara vrata jačoj gospodarskoj suradnji i povoljnijoj klimi za strana ulaganja u Hrvatsku. EK je ocijenila Hrvatsku kao državu "funkcionirajućeg tržišnog gospodarstva", koje bi u srednjoročnom razdoblju trebalo biti sposobno nositi se s konkurenčijom i tržišnim silnicama Unije, naravno, pod uvjetom da nastavimo provoditi reforme, koje trebaju ukloniti i postojeće slabosti. Ako je proces ispravan, a zalaganje snažno, uslijediti će i rezultati. Mogućnosti su, zbog našeg iznimnog položaja u srcu Europe, uistinu velike, uzme li se u obzir činjenica da će Hrvatska ulaskom u EU postati dijelom velikog europskog tržišta, tome valja pridodati i dobru prometnu infrastrukturu, pogodnosti za ulaganja u slobodnim zonama i ono što je najvažnije makroekonomsku stabilnost i kontrolu nad javnim financijama. Sve su ovo, uvjeren sam, preduvjeti koji će privući strane investitore i ukazati na naše komparative prednosti pri odabiru mjesta za ulaganje, a naša je zadaća, posebice gospodarske diplomacije stvoriti mogućnosti da te inicijative dođu do izražaja i da ih se kao takve prepozna i da im se olakša put. Gospodarska diplomacija svojim proaktivnim angažmanom uistinu može odigrati važnu ulogu i pri privlačenju investicija i pri otvaranju mogućnosti izvoza na pojedinim tržištima. Naravno, očekuju nas izazovi, međutim, ključni su čimbenici politička volja, vizija i odlučno vodstvo.

Kako ojačati afirmaciju i identitet Hrvatske u svijetu? Koliko znamo, pokušavate poraditi na jačanju ukupnog imidža u tom pogledu?

Prije svega želim istaknuti kako je percepcija Hrvatske u svijetu definitivno izmijenjena, stav apriori više nije negativan, nego je od neutralnog ka pozitivnom. Drugim riječima, prepoznalo se da je Hrvatska politički drugačija nego ostatak regije i takav trend političkog imidža zemlje je izvrsna prepostavka i za ukupnu afirmaciju i identitet Hrvatske u svijetu. Mi smo dobro definiranim političkim imidžom zemlje stvorili kredibilitet, pojačali povoljne reakcije i na taj način kao svojevrsni "otvarač vrata" promijenili početni pogled prema Hrvatskoj koji je sasvim sigurno izazvao namjeru da se više nauči o njoj. Kao pravi odgovor na taj povećani interes vjerujem da moramo poduzeti aktivniju kampanju projiciranjem slike jedne nove, moderne, Hrvatske poželjne kao partnera i domaćina. No, mi osim te intezivne kampanje na području unapređenja našeg imidža u svijetu, moramo paralelno raditi i na nama samima. Moramo mijenjati naše navike, graditi ih na pozitivnim primjerima, polako podizati našu zemlju do razine koja joj pripada. Mnogi su analitičari nedavnog proširenja EU primijetili kako je Hrvatska već danas, po mnogim segmentima razvijenija od nekih zemalja koje su postale članicama Zajednice. Nas ta procjena ne smije niti uljuljkatiti niti deprimirati, ona nas dapače, mora motivirati da nastavimo posao koji smo započeli. Dakle, podizanje našeg ugleda u svijetu neće samo po sebi pomoći mnogo ako paralelno s tom kampanjom ne usavršavamo naše društvo. Ministarstvo vanjskih poslova će sasvim sigurno, uz efikasniji rad u diplomaciji osigurati kanale kroz koje se može poslati poruka o tome što je Hrvatska i što zapravo ona pruža.

Kako vidite razvoj dalnjih događaja kad je riječ o pristupu Hrvatske Europskoj uniji?

Osnovno načelo ove Vlade je "korak po korak" integracija u Uniju. Pritom je dakako brzina vrlo važna, ali jednako tako i dobra pripremljenost. Mi danas znamo da je sljedećih nekoliko mjeseci značajno za kvalitetnu pripremu pregovora o pristupanju Uniji koji će početi rano 2005. g. To razdoblje iskoristit ćemo za ustrojavanje odgovarajuće pregovaračke strukture, kao i jačanje koordinacije na razini Vlade i svih resora. U tom smislu osnažiti ćemo postojeće strukture u MVP-u i MEI-u, a dodatno ćemo pojačati i Misiju pri EU.

Kroz mehanizme za provedbu Privremenog sporazuma obaviti će se znatan dio ispitivanja sukladnosti hrvatskog zakonodavstva s *acquis*-em EU. Taj posao će kasnije biti uvršten u tzv. formalni *screening* nakon što započnu pregovori o pristupanju. Temeljem iskustava novih država članica i aktualnih kandidatkinja, kao i temeljnih vlastitih analiza, pripremit ćemo pregovaračke pozicije za proces pregovora.

Mišljenje Europske komisije i ocjene koje su u njemu sadržane, poslužit će nam kao koristan vodič za usmjeravanje reformskih npora, osobito u područjima koja su identificirana kao problematična. Tu prije svega mislim na zaštitu okoliša, slobodno kretanje roba, osoba i usluga, tržišno natjecanje, poljoprivrednu, regionalnu politiku, zapošljavanje i socijalnu politiku, poreze, telekomunikacije i informacijsku tehnologiju, te područje pravosuđa i unutarnjih poslova.

Naš godišnji Nacionalni program za pridruživanje EU prilagodit ćemo prioritetima iz Europskog partnerstva, što će također pridonijeti kvaliteti i pravodobnosti reformi.

Smatram da će u političkom pogledu Hrvatska nastaviti s jačanjem partnerskog odnosa s EU, te da ćemo kao država kandidatkinja sve više biti uključivani i prihvaćeni kao dio europske obitelji.

To moje uvjerenje zasnivam na procjeni da je Hrvatska dosegla stupanj zrele demokracije gdje sve vodeće političke stranke, bez obzira kojem spektru pripadaju, zastupaju vrlo slične strategijske ciljeve za boljitet svih hrvatskih građana.

Treba li robovati nekim zadanim rokovima u tom pogledu? Ili, što su realni prioriteti na tom putu?

Cilj Hrvatske je da do 2007.g. okonča pregovore bude spremna ispuniti zahtjeve za članstvo u EU. Mi ćemo ustrajno raditi na ostvarenju tog cilja. Da li ćemo baš tada ostvariti članstvo – ovisit će o odluci EU. Međutim, ja držim da svakako treba uložiti sve napore. Naime, Hrvatska je upravo tom metodologijom došla i do svoje samostalnosti, do oslobođanja okupiranih područja kroz Domovinski rat, do mirne reintegracije hrvatskog Podunavlja, pa i do samog podnošenja zahtjeva za članstvo u Uniji. Naša odvažnost, organiziranost i sposobnost bit će ključni elementi na dalnjem putu do članstva u proširenoj EU.

Istodobno, mi s velikim interesom pratimo šire procese koji se odvijaju unutar EU, pri čemu posebno izdvajam usvajanje Ustavnog ugovora, nedavne izbore za Europski parlament, imenovanje novog predsjednika Komisije i budućeg ministra vanjskih poslova, kao i započete rasprave o sljedećoj Financijskoj perspektivi.

U takvom kontekstu mi očekujemo da Komisija pripremi Pred-pristupnu strategiju za RH, koja će sadržavati i nužni financijski instrument. Konkretna financijska i tehnička pomoć Unije bitno će olakšati napore koje Vlada poduzima u ispunjavanju europskih standarda.

Stoga mogu zaključiti da su naši prioriteti usmjereni na kvalitetnu pravnu i gospodarsku prilagodbu, ali isto tako i na jačanje institucionalnih sposobnosti kako bismo, kada dođe trenutak, bili u stanju odgovoriti svim izazovima članstva u Uniji. S tim u vezi, kao važne zadaće, nameću se kontinuirano obrazovanje hrvatskih građana te vrlo jasno i detaljno informiranje o troškovima i koristima članstva u EU. Jer na kraju procesa pristupanja, samo dobro upućeni građani znat će meritorno odlučivati na referendumu o članstvu u Uniju. S tim u vezi, držim kako je dužnost Vlade, političkih stranaka, znanosti, stručnih udruga, sindikata,

civilnog društva i medija da u predstojećim godinama što bolje zajednički komuniciramo i još više približimo proces europske integracije hrvatskim građanima.

The Minister of Foreign Affairs dr. Miomir Žužul speaking:

Europe recognises us as equal partner

There are realistic preconditions for attraction of foreign investors to Croatia and the task of diplomacy is, in particular economic, to help in identification of potential opportunities and realisation of concrete initiatives.

How do you explain the strong support of foreign politics to Croatia's endeavours towards candidacy for the full membership in the European Union?

I think Europe has recognised Croatia's determination to implement reforms and fulfil political criteria. Croatia with its political and diplomatic activities has indeed earned the candidacy for the European Union membership. It is well known that the region needs a *success story* to show Croatia is not forgotten and what needs to be done in order to make those countries come closer to the EU.

Croatian Government very clearly defined in its Programme that EU membership was its strategic objective. There was a broad political co-census on that question shown by adoption of Declaration by Croatian Parliament in December 2002, before the submission of the EU membership application, an act to which former Governments also contributed. In the process of accession to the European Union, as the primary priority, the Government recognised the key importance of fulfilment of main political conditions that for many years were – objectively – a serious barrier to Croatia's accession to the EU.

Thus we directed our first moves towards the acceleration of return of refugees and property, and co-operation with minorities in Croatia, who supported the Government. We decisively entered into co-operation with ICTY, where we made all efforts according to assumed international obligations and Croatian laws. Our co-operation with ICTY was observed in its entirety, not through focus on only one case or aspect, so we built a full framework. International community gradually adopted such attitude of Croatian Government, and what was more important by the Court President and Chief Prosecutor. We very openly started the process of conflict management with neighbouring countries and we tried to place Croatia as a kind of bridge towards South East European countries, promoting various aspects of regional partnership.

We have also established intensive communication between Prime Ministers and Ministers of Foreign Affairs of all member states of the Union. We activated diplomatic network in all member states, and particularly dynamic activities were focused in Brussels through numerous visits and the work of Ministry for European Integration and Mission to the EU.

We primarily wanted to assist to the European Commission in preparation of positive Opinion on our membership application. After that success on April 20, 2004 in Strasbourg, our task was to make European Council decide on Croatia's candidacy, and on the date of the beginning of accession negotiations. In close co-operation with presiding Ireland, in the course of the past two months we conducted intensive consultations with all member states and we familiarised with various thoughts within the Council.

During all conversations we had very clear and strong arguments for realisation of desired decisions. The first argument was completely clear Commission recommendation on the beginning of negotiations. The second was Croatia's readiness and determination to start negotiations. The third was the principle of openness of the Union enlargement process. And

the fourth, of great importance, was the strength of political message to other South East European countries, which further advancement of Croatia towards the EU definitely symbolises. Consistency in fulfilment of well known Copenhagen criteria and special conditions of the Stabilisation and Association Process, and insisting on individual evaluation of Croatia's achievements, that was the core of our requests and expectations during past few months.

What are the tasks ahead of Croatian diplomacy now, especially its economic part?

With candidate status for the EU membership, the circumstances for the further economic development of Croatia have certainly changed. We are ambitious Government and we have proved our ability to communicate with Europe and Europe recognises us as equal partner and thus achieved political credibility opens the door to stronger economic co-operation and more favourable climate for foreign investments into Croatia. EC has estimated that Croatia is a country of "functioning market economy", that in the medium term period should be able to cope with competition and market forces of the Union, of course, under condition that reforms that are supposed to eliminate current weaknesses are continued. If the process is correct, and commitment strong, there will be results. The opportunities, due to our extraordinary position in the heart of Europe, are really big, taking into account that Croatia will become the part of the big European market, after its accession to the Union, not to mention better traffic infrastructure, opportunities for free zone investment and the most important, macroeconomic stability and control over public finance. All those are, I believe, preconditions that will attract foreign investors and point to our comparative advantages for the choice of investment place, and our task is, especially that of economic diplomacy, to create opportunities to make those initiatives prominent, recognised and then facilitated. Economic diplomacy could really play an important role with its proactive engagement, also in attraction of investments and opening to export opportunities on some markets. Of course, a lot of challenges are ahead, however, the key factors are political will, vision and decisive leadership.

How to make Croatia's identity and recognition in the world stronger? As far as we know, you are trying to work a little bit more on the strengthening of the entire image?

First of all I would like to point out that perception of Croatia has definitely changed, attitude is not a priori negative, but moves from neutral to positive. In other words, Croatia has been recognised as politically different from the rest of the region and such trend of political image of the country is an excellent presupposition for complete recognition and identity of the Croatia in the world. We have created our credibility with well defined political image of the country, strengthened favourable reactions and in that way, as a kind of "door opener" changed the initial attitude towards Croatia that by no means provoked interest for it. And I believe that a true answer to that increased interest is more active image projection campaign of a new, modern Croatia, desirable as a partner and host. But, beside that intensive campaign in the field of world image promotion, we have to work on ourselves as well. We have to change our habits, build on positive examples, and slowly raise our country to the level it belongs to. Many analysts of the recent EU enlargement have noticed that Croatia today is in many segments more developed than some countries recently becoming the EU members. That estimation must neither lull us nor depress us, but on the contrary, motivate us to continue the work we have started. Thus, the increase of our reputation in the world will not help us much unless the society is perfected along with the campaign. The

Ministry for Foreign Affairs will, by no means, with more efficient work of the diplomacy, ensure channels for sending a message on what Croatia actually is and what it offers.

How do you see the development of further events with regards to accession of Croatia to the European Union?

The main principle of this Government is "step by step" integration into the Union. Of course, the pace is very important but also readiness. We know today that the next few months are very significant for the quality preparation of negotiations on accessions to the Union beginning in the early 2005. That period shall be used for constituency of appropriate negotiation structure within Ministry for Foreign Affairs and Ministry for European Integration, and we shall additionally reinforce the Mission to EU.

Through Interim Agreement implementation mechanisms the majority of the work on compliance of Croatian legislation with the EU rules will be done. That job will be later included in so called formal *screening* after the beginning of the accession negotiations. Based on the experience of new member states and current candidates, as well as on our thorough analyses, we shall prepare negotiation positions for the beginning of negotiations.

The European Commission's Opinion and evaluations therein contained, will serve us a useful guidelines for the direction of reformation efforts, in particular in the areas identified as problematic. Here I primarily mean the environmental protection, free movement of goods, persons and services, market competition, agriculture, regional politics, employment and social politics, taxes, telecommunications and information technology and the area of judiciary and home affairs.

Our annual National Programme for accession to EU will be adapted to the priorities from the European partnership, what would also contribute to the timely and quality reforms.

I think that politically, Croatia will continue with strengthening of partnership with the EU, and that as a candidate we shall be more included and accepted as a part of the European family.

I conceive that belief at the estimation that Croatia has reached the degree of mature democracy where all leading political parties, regardless of the scope they belong to, represent similar strategic objectives for the welfare of all Croatian citizens.

Should we follow some required deadlines in that respect? Or, what are actual priorities on that way?

Croatia's goal is to finalise the negotiations by 2007, and to be ready to fulfil the requests for EU membership. We shall persistently work on the realisation of that objective. Whether we shall join the EU exactly then – it depends on the EU decision. However, I think that all efforts should be made. Namely, Croatia has with exactly the same methodology achieved its independence, liberation of areas occupied during the Homeland War, peaceful reintegration of Croatian Podunavlje, and even the application for the EU membership. Our audacity, organisation and ability will be crucial elements on the further way to the membership in the enlarged European Union.

At the same time, we follow broader processes within EU with great interest, with special emphasis on the adoption of Statutory Contract, recent elections for the European Parliament, nomination of the new Commission president and future Minister of Foreign Affairs, as well as the opening discussions on the next financial perspective.

In such context, we expect the Commission to prepare the pre-accession strategy for the RC

that will contain necessary financial instrument. Concrete financial and technical assistance of the Union will significantly facilitate the Government efforts in fulfilment of the European standards.

Thus I can conclude that our priorities are focused on quality legal and economic harmonisation, but also on strengthening of institutional abilities in order to be able to, when the moment comes, answer to the all EU membership challenges. With respect to this, continuous education of Croatian citizens is an important task, as well as clear and detailed information of costs and benefits of the EU membership. At the end of accession process, only well informed citizens will be able to competently vote at the referendum for the EU membership. Therefore I believe it is the duty of the Government, political parties, science, professional associations, trade unions, civil society and media to mutually communicate as much as possible in the coming years and make the process of the European integration closer to Croatian citizens.

SMALL ENTREPRENEURSHIP

PLACE, ROLE AND INCENTIVES

Becoming a candidate and with date for the beginning of negotiations for admission to the European Union defined, the Republic of Croatia entered the new phase of its development. In distinction from the end of the last century when the state policy priorities were focused on big national themes, current strategic goals are creation of rich and socially just Croatia based on the rule of law, organised and effective state administration and dynamic and competitive market economy.

The rapprochement process to the European Union membership will be marked by a whole series of adaptations of Croatian State and society to standards of highly developed European countries. Croatia will use their experience and apply models that will enable strong economic growth, increase of employment and raise of standard of living. In that context it is the importance of small business, i.e. small and medium entrepreneurship that should be pointed out. That economic segment becomes more and more essential and influential in the economies of developed western countries and it is traditionally the most propulsive and toughest part of Croatian economy. Taking into account the mentioned compatibility, Croatia should create conditions favourable to further development and affirmation of small and medium economic subjects. It is necessary to develop social awareness of the fact that without strong development of entrepreneurship there will be no significant moves in improvement of standard of living and employment increase, and eventually in entire economic progress of Croatia.

With analysis of the small entrepreneurship condition I would like to point to seven key problems unfavourable to its development:

- Social environment that discourages people to enter into entrepreneurship;
- Lack of effective educational system that would train young people for entrepreneurship;
- Dependence of state projects financing for small and medium entrepreneurs on business banks' terms and procedures, as well as lack of small banks that would appropriately support small and medium entrepreneurship;

- Lack of flexible labour market;
- Inert and ineffective state government, complicated procedures, slow judiciary and ineffective and irrational public enterprises;
- Difficulties in connecting small, medium and big enterprises;
- Lack of use of various institutional mechanisms that would increase international co-operation and competitiveness of Croatian entrepreneurs.

The above problems are not new, they are deeply rooted in the Croatian society and are result of many years of lack of market economy and therefore developed mentality.

In order to overcome those problems, I would like to point to seven key measures that could provide for the development of small and medium entrepreneurship:

1. **Creation of entrepreneurship climate** – it is of extreme importance to essentially modify the existing predominating way of thinking which considers entrepreneurship as bad, suspicious and at the margins of the law. One should create the climate in favour of entrepreneurs, and organise affirmative public campaign on entrepreneurs – the best entrepreneurs should be presented as heroes – as people carrying development, opening new working places, building new factories and creating new products. Croatia needs co-census and joint strategy on importance of entrepreneurship for the development of the country as a whole by all relevant political parties.
2. **Education for entrepreneurship** – reform of education system is at its beginnings.

The reform objective is to make students after their secondary, higher or high education in Croatia as ready for business life as are their coevals in the European Union countries. It means complete computer literacy, knowledge of two foreign languages and readiness to creatively and self confidently enter the world of entrepreneurship.

3. Tax reform project – new Croatian government has initiated the tax reform project. The project goal is tax relief for entrepreneurs and creation of tax system entirely compatible with tax system of the European Union countries.

4. Financing of entrepreneurs – ensuring the conditions for stable and favourable financing of entrepreneurs' projects is one of the most important activities of the Ministry of Economy, Work and Entrepreneurship. Thus negotiations with business banks on interest rates reduction for entrepreneurship loans are praiseworthy. Also, the increasing role of HBOR (Croatian Bank for Reconstruction and Development) in financing of risk bearing, and crucial projects for the state. The measures focused on encouragement of domestic production, in particular those export oriented, are especially positive.

5. Connecting domestic entrepreneurs – the necessity of better and more quality connection between raw material owners, producers, final product producers, sellers and marketing professionals has been noticed. The future of some economic branches lies exactly in creation of such clusters that will result in new domestic products that will reduce import dependence. I expect better communication and connection between entrepreneurs themselves and intervention of state structures, when necessary. As in many other segments here the good organisation, co-ordination and clear system for connecting domestic entrepreneurship is necessary.

6. Reform of judiciary system, state government and public enterprises – This is one of the key elements in the reform of the entire society and state. It is comprehensive, decisive and systemic reform that is necessary.

Public enterprises should be in function of entrepreneurs' development, not disrupting with their prices the competitiveness of Croatian producers, primarily exporters. Public enterprises should not compensate with prices their monopolistic position, inefficiency, irrationality and even excessive spending, and over the shoulders of Croatian citizens and entrepreneurs. It is necessary to thoroughly modify the constituency of all public enterprises that do not satisfy the standards Croatia needs.

Furthermore, state government should become citizens' service, and judiciary faster and more efficient. Civil servants should help our entrepreneurs, not retard them and make the

realisation of their projects difficult. I expect from the Government energetic move in systematic state government transformation and soon realisation of «one stop shop» project.

Also the mayors should be encouraged to reduce local contributions and rates and other allowances so that in that way local self-government could give its contribution to small and medium entrepreneurs' cost reduction.

7. Inclusion of entrepreneurs into international business trends and co-operation

– The status of candidate for the European Union membership is a huge step towards that direction. The beginning of negotiations and subsequent membership will be the final phase in which Croatia would ensure to its entrepreneurs conditions equal to those in the European Union. Until then all resources from various funds and international initiatives and programs for small and medium entrepreneurship development should be used.

The mentioned measures and their realisation primarily depend on us. Some require the change of current behaviour and way of thinking some will be implemented more easily, for some we shall need more time. But it is encouraging that problems have been recognised, they have been discussed and the awareness that it is necessary to solve them is present. Politics direct and create condition, and entrepreneurs have to adapt to new market conditions, stronger international competition and technological progress. Regardless of difficulties ahead, I look at development of small and medium entrepreneurship in the Republic of Croatia with great optimism.

Gordan Jandroković

President of the Committee for Economy, Development and Reconstruction of
Croatian Parliament

By Kolinda GRABAR-KITAROVIĆ, Minister of European Integration

The real work of integration has yet to begin

Gaining candidate country status opened for us a window of opportunities. However, it also opened a set of obligations towards Europe, and primarily and most importantly, towards Croatian citizens. The Ministry of European Integration (MEI), together with other state administration bodies (SAB), literally kicked into full swing a whole array of activities, which we have been implementing in the last months as preparation for the continuation of the European integration process.

Much has been done - we are not starting from scratch. However there are a few years of intensive and hard work ahead of us. Ahead of us, I would say, is a dual process of negotiations and the continuation of reforms, as well as the challenge of their inter-adjustment. Ahead of us are the challenges of fulfilling membership criteria - Copenhagen, i.e. political, economic and legal, as well as Madrid, i.e. administrative criteria¹. Ahead of us are also high expectations of Croatian citizens, as in the whole process we must not forget that all that we do, we are doing for ourselves - for Croatia and for Croatian citizens. Membership in the EU is only the stop we plan to reach after an all-encompassing reform process aimed at strengthening Croatia as an exemplary European democracy and stable market economy with a strong social component.

These following few pages are not even remotely enough to outline all that is ahead of us. Precisely at this moment in time, MEI is finalising a document in which we are elaborating all that we must do prior to 2007 in order for us to be ready for membership. This document will be a living paper, which will need to be constantly updated. Here, I shall focus on some key issues of the integration process in the imminent period.

Screening as an introduction to negotiations

Prior to opening of negotiations, it is necessary to undergo a detailed analysis of the conformity of Croatian legislation with the Acquis of the Communities, the so called Screening, after which Croatia, on the one side, and the 25 Member States of the EU on the other, elaborate negotiation positions for each of the Acquis Communautaire chapters that are subject to negotiations.

The Screening process is coordinated on the Government Level, and it includes detailed elaboration of the coordinative mechanism of all government

¹ **Copenhagen criteria:** *political* - stability of institutions ensuring democracy, rule of law, human and minority rights as well as accepting political goals of the Union; *economic* - existence of a functioning market economy as well as capacity of market factors to withstand competitive pressures and market forces within the EU; *legal* - adoption of the Acquis of the EU. **Madrid criteria:** *administrative* - adjustment of administrative structures with the goal of ensuring conditions for gradual and harmonious integration (such as administrative capacity building, creating an efficient state administration system with the goal of ensuring effective process of adoption and implementation of the Acquis)

administrative bodies for the assessment of the conformity of legislation by sectors, as well as the objective follow-up analysis of the implemented screening in all 31 chapters of the Acquis. Screening will be the basis for strategic planning of the harmonisation of legislation until 2007, based on the economic effects (cost-benefit) by individual sectors.

Furthermore, Screening will be the basis for the annual National Programme and will define our actual possibilities, needs and interests. The National Programme is the result of transforming all the listed obligations in the European Partnership into living, concrete measures of strategic and implementation programmes. We are currently introducing an array of measures into the National Programme for 2004, in line with the obligations ensuing from the European Partnership for Croatia and pending its official adoption.

Screening results will affect the beginning of negotiations, elaboration of the negotiating positions and time dynamics of the closure of individual chapters.

Negotiations

Negotiations for the accession of the RC into the EU should be opened in the beginning of 2005, prior to which Croatia has to appoint a Chief Negotiator and Negotiation Team of experts for every field, given that the speed of negotiations depends on the degree of preparedness of a candidate country and the complexity of problems that need to be resolved. The Rules of Procedures for the Negotiating Team needs to be adopted, which shall define the co-ordination and method of work at the level of the Croatian Government, co-operation with the Croatian Parliament with regard to the discussion on the negotiating positions, the establishment of think-tanks at an expert public level with an advisory function, as well as the co-operation with social partners and interest groups.

What is in fact negotiated?

It is the conditions of adoption, application and implementation of EC regulation that are negotiated, while transition periods, which can be requested by either party, for the application and/or implementation of EC regulations are discussed and agreed upon.

The experience of the recently joined countries shows us that of the 31 chapters of the Acquis Communautaire, the most difficult are the ones in the field of environmental protection, agriculture, market competition, finances, free movement of goods, capital and labour. Therefore, similar difficulties can be expected in Croatia.

Adjustment and Development of More Effective Legislation

Adjustment and development of more effective legislation is the most commonly raised issue. There are still 37 laws and 200 by-laws to be adopted by the end of this year within the harmonisation process. By the end of the year, the RC should have a total of 170 laws and 255 by-laws harmonised with the Acquis.

There remains a question - "How many more laws must Croatia harmonise with the Acquis?" However, the answer to that question will be revealed to us only after the screening process has been finished. It is important to emphasise that legal harmonisation must not be equated only with the number of laws adopted by the Croatian Parliament, as adopting laws is not a purpose in and of itself. It is important to pay attention to their effective implementation.

One of the preconditions for the adoption of a more effective legislation is the impact assessment that, prior to its adoption, is used to evaluate the effects an act will have on the budget, other laws and by-laws, and particularly the economy.

In the future (as of 2005) impact analysis should be made according to the adopted content of the standardised Form developed by the Ministry of European Integration. This year we introduced a Pilot project of the impact analysis of the implementation of six legislative measures from the following fields: thermal energy, public procurement, sea fisheries, environmental protection, foreign investments promotion and savings deposit insurance.

Functioning Market Economy

What lies ahead is the challenge of continuous economic adjustments with the goal of continuously strengthening the competitiveness of our economy on the European and world markets. While economic adjustments, from our perspective, are only one of the criteria for membership in the EU, the ability to undertake such adjustments in the long term is important even for the competitiveness of the EU itself.

One of the main priorities for the Croatian Government in the establishment of the market economy is to maintain stability of the macro-economic and institutional environment, as a prerequisite for strengthening the competitiveness of Croatian economy. It is also necessary to create preconditions for further gradual liberalisation of capital flows and for the provision of financial services, as well as to gradually eliminate obstacles in the capital flows between the Republic of Croatia, Member States and the third countries. Furthermore, we must continue with the structural reforms in public finances in order to improve formulation, execution and control of budgetary resources.

Croatia's competitiveness in many respects depends on domestic and foreign investments, the completion of the restructuring and privatisation processes, and the increase in standards and quality of goods and services, including tourism, and further trade liberalisation.

Despite the fact that Croatia had invested a lot of efforts and achieved a significant improvement in those areas, further progress is necessary in the implementation of reforms, so that Croatia can successfully integrate into the internal European market. This, in addition to the aforementioned, pertains also to the labour market, land registry and tax system reforms. Furthermore, it is important that the state structures closely work with the businessmen, entrepreneurs and trade unions when the economic policy is concerned.

With the goal of fulfilling Copenhagen criteria and elaborating activities for development and strengthening institutional and administrative capacity for taking part in the economic and monetary policy of the EU, or, more generally speaking, of maintaining macro-economic stability and suitable economic environment, it is also necessary to adopt an Economic Pre-Accession Programme, which contains medium-term macroeconomic forecasts and establishes general quantitative goals and planned instruments of economic policy, as well as structural reforms for the planned multi-annual period.

EU Assistance Programmes

In the European integration process, the EU offers assistance with the adjustments to candidate states. It is important that it is used efficiently. MEI also coordinates bilateral cooperation with Member States, and forges contacts on bilateral basis aimed at channelling financial resources to the priorities of the RC. MEI is currently carrying out intensive preparations with other Ministries and state administration bodies aimed at increasing absorption capacity, that is, at increasing effectiveness and amounts of technical assistance used. Among other, we have prepared a document on the Pre-Accession Assistance Needs (PAAN), which is used to evaluate all foreign technical assistance programmes and investments (past, resent and future), with the goal of increasing foreign investments in those areas that have been inadequately covered by the foreign technical assistance programmes. In addition to the aforementioned, the Ministries are working on strategies for the use of resources available in various pre-accession funds.

CARDS

Since the year 2000, the Republic of Croatia has been a user of the CARDS Programme (Community Assistance for Reconstruction, Development and Stabilisation), which financed many projects in priority fields such as the return of refugees and displaced persons, economic and social development, modernisation of justice, reorganisation of government administration, national, regional and local development, environmental protection, etc. In the budgetary period 2001 - 2004, the EC disbursed to Croatia a total of 257 million € within the framework of CARDS. Since January we have raised the absorption capacity from 30 to 38%, but we are not satisfied. Within our efforts to raise absorption capacity, we are also working on the decentralisation of CARDS, whereby the largest possible number of projects would be transferred onto Croatian institutions.

Cross-border, transnational and interregional co-operation

One of the political and development priorities of the Government is cross-border, transnational and interregional co-operation, with the aim to create the best possible relations with the neighbouring countries, as well as to participate in the European programmes of such co-operation. Therefore, for several years, the Republic of Croatia has participated in the initiative of the European Communities INTERREG III, specifically in the cross-border co-operation programmes (Adriatic

cross-border co-operation and the Neighbour Programme Slovenia - Hungary - Croatia), as well as in the transnational programmes INTERREG IIIB, and in INTERREG IIIC CADSES. A part of Croatia's participation in joint projects can be financed through CARDS.

With the aim to improve the activities which the central and local administration bodies carry out in this field, in March this year the Government established the National Committee for the Implementation of the INTERREG IIIB CADSES Initiative, and appointed MEI for the national co-ordination body for the INTERREG III Initiative.

MEI continues to direct its activities towards local administration and self-governments, so that Croatian representatives would propose highest quality projects at tenders for funding from the EU funds and therefore gain the biggest possible share. This would strengthen absorption capacity of all our regional and local actors.

In order for Croatia to be able to participate as a candidate country in the regional policy of the EU, as well as to finance its activities from numerous Structural Funds, the Croatian Government has to prepare the National Development Plan, which will be a key document for long-term development policy planning and a basis for future co-existence in the EU.

Pre-accession funds

After gaining candidate status, a possibility to use pre-accession funds in the integration process has been opened to Croatia. European Commission is currently preparing a pre-accession strategy within which it will define pre-accession programmes made available to the RC. So far, the candidate countries used three funds - ISPA for structural intervention in the transport and environmental infrastructure sectors, SAPARD - in the agriculture and rural development sectors, and PHARE - for social and economic cohesion, as well as for institutional building needs indispensable for the fulfilment of the EU membership criteria.

The financial resources available to the three funds are foreseen until the end of 2006, after which most likely this kind of assistance will be continued in a form of a single pre-accession fund intended for the candidate states. According to the Draft Budget Proposal 2007-2013 by the EC, the amount of resources used by the EU to support candidate states should not be significantly changing.

Efficient use of pre-accession funds offers Croatia a possibility to strengthen production competitiveness, as well as to achieve economic and social cohesion, whether internal or external, in respect to the EU. Their institutional effect is also important, i.e. to allow future member states to benefit from the largest possible share of funds upon entry into the EU, through institutional capacity building and creation of necessary human resources.

State Administration Reform

The integration process also puts heavy demands before the state administration, set forth in the Copenhagen and Madrid criteria, and the principles on which the European Administrative Space is based. However, it is important to emphasise that the Acquis Communautaire does not impose "European standards" on the way how to organise and operate state administration.

The European Administrative Space defines a whole series of principles that, although not an integral part of the Acquis Communautaire, are applied to the organisation and operation of the state administration of the Member States. These principles are grouped in the following units: reliability, transparency, accountability and efficiency of the state administration. We need to find an appropriate model for Croatia's reality that also adheres to the highest standards prescribed, so that our state administration grows into an effective service for its citizens.

In the reform process, an important place is held by the judiciary reform.

Croatian citizens are the key to success...

Systematic and regular informing of the Croatian public on various aspects of European integration is especially important as it is a basis of the Communication Strategy for Informing the Croatian Public about the European Integration Process of the Republic of Croatia. Our efforts will be particularly targeted at groups such as the youth, women, farmers, entrepreneurs, etc. and therefore help them in their adjustment.

We do not want to create only a positive picture. Quite the opposite, in fact. We wish to explain the positive and negative sides of the process in an objective and open manner, and therefore signal the possibility of adjusting to the forthcoming changes which will spur the implementation of many common values, on which the great European Club we wish to join is based.

It has been shown that the public support decreases, as the goal of EU membership gets closer. This tendency can also be witnessed in Croatia, and it is primarily due to inadequate level of information.

With this goal in mind, we are initiating the National Forum for Europe, through which we will give the possibility to all target groups, on all levels, to discuss, in an argumented manner, all issues related to our membership in the EU. We are inviting all citizens to co-operate in the negotiation process. Because all changes, good or bad, caused by the EI process, primarily affect the daily lives of Croatian citizens. Therefore, efforts by the Government and other institutions will not suffice for joining the great European family. The process must not be elitistic. We wish to forge partnerships with institutions, the Parliament, entrepreneurs, in short, a partnership with the public. We wish that all citizens share with us the tears and laughter which are ahead of us. It is indeed the hands of Croatian citizens that hold the key to the success of Croatia's integration into the EU.

Quality of translation and treatment of EU materials

Translation of the EU's Acquis Communautaire

In everyday spoken or written communication we use language so naturally that we hardly notice its existence. However, if the problem arises of not understanding a foreign language, far from being totally invisible, language becomes a significant obstacle.

From its very beginning, the European Union, a homeland to some 500 million people, has respected the right to one's own language as a democratic right. Multilingualism is a basic principle that brings about, among other things, equality before the law, and every citizen of the European Union can address institutions in his or her language and has the right to get an answer in that language. For each individual citizen, the European Union is monolingual, but in fact it has 20 official languages, which include three working languages: English, French and German.

Since the founding Treaties had very scant provisions on the use of language, on 15 April 1958 the Council of Ministers adopted a regulation concerning the use of language in the institutions of the then Community. The regulation was originally written in Dutch, French, German and Italian, and it represents a kind of language charter for the European Union. It lays down the official languages and specifies that all legislative texts should be written and published in all official languages, and that all are equally authentic.

With each new wave of enlargement, the number of official languages has grown. The latest and largest round of enlargement brought with it more new official languages than at any other time. From 1 May 2004, Germanic languages (German, English, Danish, Dutch and Swedish), Romance languages (French, Italian, Spanish and Portuguese) and Greek are joined by Slavic (Polish, Slovak, Czech and Slovene) and Baltic languages (Latvian and Lithuanian). The Finns now finally have Uralian company and are no longer the only ones speaking a non-Indo-European language. They have been joined by the Estonians and Hungarians. The Maltese will now be the lonely ones, with their Semitic language.

But this is not the end! In a few years, we hope that Bulgarian, Croatian and Romanian will be added to the list of official languages of the European Union.

Translation of the European Union legal acts

The *acquis communautaire* represents the entire legal heritage of the European Union. It consists of primary and secondary legislation. Primary legislation includes the Treaties establishing the three original Communities, amended and supplemented by all later treaties. Secondary legislation includes regulations, directives, decisions, recommendations, opinions and other kinds of legal acts. Regulations and decisions are legally binding in their entirety and are directly applicable, whereas directives are binding only as regards the goals to be achieved. Recommendations and opinions are

not binding but are very significant, especially for some areas such as, for example, environment protection.

Translation of the *acquis communautaire* is the obligation and interest of each state that wishes to become a member of the European Union and have its language as one of the official languages. Candidate countries translate the *acquis communautaire* of the European Union themselves and European Union institutions verify the authenticity of texts before a country's accession. Following accession, the translations of the legal acts in a national language are published in a special supplement of the *Official Journal of the European Communities*, after which they become legally binding.

In the stage of harmonisation of legislation, translation of the *acquis communautaire* of the European Union is necessary for clear understanding of the obligations to be met in certain areas.

Translation of the *acquis communautaire* is an exceptionally complicated, demanding and long-lasting job and it is but one stage in shaping a legislative text, in our case, in the Croatian language. On top of translation, expert, legal and even linguistic editing is also needed.

When translating EU legislative texts, in order to achieve clarity and understanding, the emphasis is put on the target language. In fact, it is often stressed that the ideal translation of legislative texts is one that reads as if it was originally drafted in that language. But, since translators are usually not legal experts, legal revision of a translated text is required.

Terminological consistency is of extreme importance in legal translation in order to achieve legal certainty. But apart from consistency in the translation of legal terminology, which must be transparent in both European and national contexts, consistency in the translation of the technical terms of a certain profession or area regulated by that legislative text is also necessary.

Quality of translation

In the Republic of Croatia, the translation of the *acquis communautaire* started in 1999 and activities in this area have expanded as the relations between our country and the European Union started to intensify.

Translation of the *acquis communautaire* into the Croatian language and translation of Croatian legislative texts into one of the official languages of the European Union are the main tasks of the Translation Centre at the Ministry for European Integration. The importance and volume of this work have from the very start required the establishing of an appropriate language policy of the Translation Centre. Ensuring a high quality of translation tops the list of priorities.

To meet the needs of translating legal acts, the translation must faithfully reflect the content, sense and intent of the original, it must have correct grammar and phraseology, and must be precise in the legal sense. Texts should be unequivocal and

unambiguous, which is achieved only by the consistent and standardised use of the agreed legal and other expert terminology.

The Translation Centre cooperates with experts in relevant ministries, in scientific institutions and at faculties, with the aim of standardising terminology in various fields, which is an extremely demanding and complicated task. In some areas, this implies terminology that is almost non-existent or very poorly developed in the Croatian language. The result of this comprehensive work will be a systematised terminology base, which we believe will be of use not solely to external contributors of the Translation Centre. There are almost two hundred of them - translators, and legal and expert editors.

The basic manual helping in the translation of the *acquis communautaire* is the *Manual for Translation of the EU Legal Acts*, published by the Translation Centre at the end of 2002. It gives guidelines for work to translators, editors and other experts who participate in the translation and harmonisation of terminology. The most important part of the Manual is the translation of a part of the *Manual of Precedents for Acts Established within the Council of the EU*, which comprises all kinds of legal acts in the shape of bilingually printed forms in English and Croatian. In this way, total uniformity of translation of legal acts is achieved, both linguistically and terminologically and with respect to the form as well. Translators are obliged to use the official terminology, even though they might not agree with it, since this is the only way for us to correct possible mistakes in the future if a more suitable term is found.

Apart from the *Manual for Translation of the EU Legal Acts*, translators should consult the English-Croatian and Croatian-English *SAA Glossary* based on the Stabilisation and Association Agreement between the Republic of Croatia and the European Communities and their member states. The glossary was also published by the Ministry for European Integration in 2002 and has almost 6,500 entries, phrases and collocations. The glossary includes exclusively the vocabulary of the Croatian and English version of the Stabilisation and Association Agreement with meanings in a specific context, so it represents a descriptive manual. The glossary clearly showed that terminology in this area must certainly be further updated and standardised.

The EU Law Glossary in four languages (published by HIDRA) has some 5,000 entries. It encompasses a vocabulary of the most important documents of the European Union's primary legislation and is definitely an imperative tool, as is *Eurovoc*, published by Hidra every two years in a supplemented version.

The Translation Centre is intensively preparing another two manuals. These are the *Glossary for expert areas: banking, insurance and other financial services* that will include some 6,000 entries, and the *Manual for the Translation of the Republic of Croatia's legislative texts into English*. Both editions are expected in the course of 2004.

Finally, we would like to show once again the importance the European Union attaches to languages by quoting the head of the Office for EU Minority Languages, who says that the extinction of one language is similar to the destruction of biological diversity, because the death of one language means that one concept of the world has gone.

Jasminka Novak
MEI, Director of the Translation Centre

NN: Public opinion survey on European integration process

N: Favourable attitudes of Croatian citizens

The Republic of Croatia's progress towards the European Union is accompanied by a campaign to inform the Croatian public about the integration process, and about the European Union and Croatia on its path towards EU membership on the basis of the programme document – *Communication Strategies for Informing the Croatian Public on the Republic of Croatia's Progress towards European Integration*. The Ministry for European Integration (MEI) organises these informative activities in accordance with this Strategy and one of these activities implies regular public opinion polls conducted by MEI together with the GFK centre for market research.

Public opinion polls are conducted twice a year on a representative sample of 1,000 people (age 15+) on the entire territory of the Republic of Croatia. Until now, eight rounds of polls have been conducted, in the period from July 2000 (first round) to December 2003 (eighth round). Results of the ninth round of the research will be known in July 2004.

The polls have so far shown that almost all of Croatia's adult citizens have heard about the European Union (98.8% in the eighth round of research in December 2003, with no significant changes in comparison to the previous research). The general view of the vast majority of citizens regarding the EU is positive and stable (75.5% at the end of 2003 compared to 78.7% in the year 2000). The proportion of supporters of the Republic of Croatia's joining the European Union is also maintained at a fairly stable three-quarter majority (72.4% in 2003 in comparison to 77.6% in the year 2000). However, there is a noticeable decrease in the number of uncommitted respondents, who accounted for 7.2% in December 2003, whereas six months earlier they were 12.9%. At the same time, the share of citizens opposing Croatia's accession to the EU is rising- from 7.9 % in the year 2000 to 20.3 % in December 2003. These fluctuations of public opinion were somewhat expected since similar trends were previously recorded in other countries which, at the time, had intensified the process of their advance toward membership of the European Union.

A study of research results at the level of individual population categories shows a higher support for Croatia's accession to the EU among citizens with average and higher household income, among citizens with secondary school and university diplomas and among middle-aged and younger citizens. However, a great majority of respondents think that Croatia's accession to the European Union will mostly have positive consequences (66.3% to 85.9%). The order of these positive consequences which has remained almost unchanged in all eight rounds of polls shows that citizens expect the most from the common market and open borders (from 80.2 % in 2000 to 85.9% in 2003), then from cooperation and progress in the area of science and education (from 78.6% in 2000 to 83.3% in 2003), and from development and progress of the economy (from 79.4% in 2000 to 73.4% in 2003).

Apart from positive consequences, two possible consequences of the Republic of Croatia's joining the European Union are statistically significant – a partial loss of autonomy and possible problems in the economy. In the year 2000, 35.7% respondents foresaw a partial loss of autonomy whereas in the year 2003 this number rose to 56.9%. Economic problems following Croatia's joining the European Union were expected by 53.3% of citizens in the poll conducted in 2000, and by 65.2% in 2003.

According to the latest survey, almost half of citizens think there is enough information about the EU in the media (48.2%), in comparison to 34.3% in the year 2000. The most often used source of information is the TV, and this in the case of as many as 96.3% of respondents, followed by daily newspapers read by almost three quarters of the adult population (73.4%). Some 44.8% of citizens get their information through the radio. The Internet is used by 11% of those surveyed.

Specific information that is most interesting to citizens includes the impact of Croatia's membership in the EU on the economy (90.1%), the influence of membership on political life in Croatia (88%) and the conditions for Croatia's entry to the EU (86.9%) as well as duties and obligations arising from membership (87.2%).

Since the interest of citizens in information about Croatia's integration into the EU grows hand in hand with the Republic of Croatia's intensified integration process, the Ministry for European Integration plans to conduct three special public opinion polls, the results of which would be used for defining a future strategy for informing the Croatian public about all aspects of Croatia's joining the European Union. One of these polls would research the level of information and need to inform groups in focus. The second research would be a detailed public opinion poll on the views of Croatian citizens on the Republic of Croatia's integration into the EU, on the existing level of information about the European integration process and on specific information needs. The third poll would be directed towards needs for informing farmers and the rural population, since this is a specific target group whose scope of activities includes some of the most complex adjustments to the standards and legislation of the European Union.

Marija Pejčinović-Burić
State Secretary, Ministry of European Integration

Corporate Social Responsibility as European Key Business Trend Make Profit in Order to do Something Better

A momentum for corporate social responsibility (CSR) in Europe was created by European Heads of states who, at the Lisbon summit in March 2000, launched a “*Special Appeal at the Companies’ s Sense of Corporate Social Responsibility*”, recognising the value of CSR for achieving the European strategic goal for 2010 – a knowledge based, highly competitive economy in socially inclusive Europe.

This momentum has been highly reinforced by EC supported and NGO led european initiatives like, for example, *European Business Campaign on CSR 2005* in which one of the main pillars has been a marathon of high level conferences in major European capitals. Since November 2001, eleven national conferences have brought together over 3000 participants including a high number of business leaders.

Good business is good business

There are other initiatives like support systems and tools for SMEs, multi-stakeholder forum related activities, and particularly successful initiatives of introducing CSR on university level and launching new focal points for CSR like, for example, The European Academy of Business in Society (EABIS) which was set-up in recognition of the necessity for partnership between companies, academic institutions, policy-makers and other stakeholders to integrate business in society into the heart of research, education and training.

The European momentum on CSR could be considered to have all three crucial components fully active. There is the government support on national and EU levels, there is the growing strength and dynamism of NGO involvement and stakeholder dialogue proving increasing CSR awareness in the civil society, and there is an extremely fast growing dynamism in the business sector regarding CSR. It is shown by a growing number of social reporters (more than 400 based only on the Global Reporting Initiative), increasing number of new strategic jobs in CSR, conferences on CSR in many European states, particularly in UK.

Finally, we witness a fast response to the demand of the market – mushrooming of new agencies and private business whose main activity is to help businesseses developing their CSR programmes and enhance their CSR reputation. Good businesshas become good business.

All this raises also the level of competence among managers in Europe. However, the bar seems to be higher every day. The academic circles around some focal points have launched a number of research which indicate that CSR is, as Alison Warhurst, Director of Warwick Business School Corporate Citizenship Unit, pointed out on May London Conference titled “What is the Point of the Corporate Social responsibility” – a process. This raises a question whether and how can companies remain socially responsible, economically profitable and morally acceptable, all at the same time. Most of the dilemmas that businesses have, however, can be summarised in a question how can CSR be mainstreamed and how can a CSR be truly embedded in the corporate culture. Most often, the answer is - by changing mindset of business people.

Porter against defensive business

Michael Porter counteracts the attitude of mindset changing. He proposes to move away from defensive strategies, as he pointed it on an EABIS conference in 2003, and start thinking in terms of efficiency and value creation. To him, there is no inherent conflict between social and economic objectives; both can contribute to improved competitive advantage. In the article *The Competitive Advantage of Corporate Philanthropy*, he advocates the “context focused philanthropy” which does not just address a company’s self interest, but benefits many through broad social change.

Be the mind set of an average European businessman exclusively profit oriented or both profit and socially oriented, the crucial business question hot to make this CSR practical, feasible, economically viable, remains an issue which inspires both academic and business circles.

Couple of recent initiatives provide some answers which seem to be on the track of focus on knowledge and competence. Thus, a set of practical advises on how companies can integrate corporate responsibility into mainstream business practice has been put forward by Ashridge Business School and the British Quality Foundation. In a research document, “Making Corporate Responsibility Work: Lessons from Real Business”, case studies of ten UK companies, key learning points were that: Corporate responsibility must be relevant to individual businesses and there is no “one size fits all”; for corporate responsibility to be successful it needs to be integrated into company-wide systems; Successful corporate responsibility should be a subject for new thinking within and beyond the boardroom; Middle management is largely

responsible for day-to-day operations, and so are a key group to involve; Corporate responsibility provides benefits for the business, employees, customers, investors and society; In regulated environments and in public companies corporate responsibility is vital to ensuring a long-term licence to operate.

No One Size Fits All

Ashrifdge Management College authored a joint study by CSR Europe and Entreprise&Personnel to look at the European experiences in CSR focusing on understanding how it interacts with the company strategy, how it interacts with company's structures and processes, how it integrates in people management and how it helps innovate production and services on the example of French companies.

The study warns that mainstreaming CSR across strategy and operations is a learning process extending over time where corporate culture plays a central part. There also seems to be a strong correlation between CSR friendly operations and managers' attitudes. There is a strong alignment between managers attitudes, corporate values and corporate culture. These results of the still working paper titled "*Competence Building to Mainstream CSR across Business*" based on interviews and exchange for experience from French managers point to the whole range of opinions regarding the role of knowledge and attitudes in mainstreaming CSR. Yet, no doubt, the role of knowledge remains crucial in acquiring capacity to streamline CSR.

Why knowledge? Charles Handy, the famous business social guru would answer: "The language and measures of business must be reversed. In a knowledge economy, good business is a community with a purpose, not a piece of property. If, like many European companies, a business considers itself a wealth-creating community consisting of members who have certain rights, those members will be more likely to treat one another as valued partners and take responsibility for telling the truth. Such a community can also help repair the image of business by insisting that its purpose is not just to make a profit, but to make a profit in order to do something better."

CROATIAN WINES AND THE EUROPEAN MARKET

Ensuring quality and appropriate prices

Two thirds of the world's wine production originates in the European Union. It is the largest exporter and importer of wine, and has a significant wine surplus. The future of Croatia will be shaped by its membership in the EU, this huge market where Croatian wines will obtain a significant place for their quality and recognisability, especially wines produced from indigenous grapes. The future of Croatian wine growing lies in the production of high quality recognisable wines, in the increase of consumption, and most of all in the increase of wine export. Exports, together with the so-called "silent export" through tourist consumption, needs to be significantly higher. In order to achieve this goal Croatia must produce wines competitive in their quality and price with international wines. For this we need to surmount a number of obstacles and limiting factors related for example to land plots, incentives, credit financing, production of seedlings, legislation and others.

In the year 2003, 89,929.69 hl of wine were exported (facts from the Croatian Institute of Viticulture and Oenology), which is 20% less than 2002. 28,770 hl of high quality wines were exported, or 32% of the total export, 4,984 hl or 6% of top quality wines, while the rest encompasses the export of table wines, and wines for processing. The export of other products – brandy, wine brandy, wine vinegar and distillate - amounted to 3,505 hl, which is a decrease of about 30 percent. 57 entities participated in the export of wine, and the largest exporters include Segestica Sisak, Kutjevački podrumi - Kutjevo, Istravino Rijeka, Dalmacijavino Split, Badel 1862 Zagreb (accounting for about 90% of exports). The export of small producers and family businesses remains minor. Most of the wine was exported to Germany, Poland, BH and Italy.

The import of wine in 2003 amounted to 106,449 hl, of which the import of high quality wines was the biggest, 37,443 hl (41%), table wines were imported in the amount of 21,023 hl (23%) and wines for processing 6,419 hl (14%). In relation to 2002 the import of wine increased by 20%. 111 entities participated in the import of wine in 2003, and the largest importers were Badel 1862, Istravino, Segestica, Dalmacijavino. Most of the wine was imported from Macedonia, BH, Italy, Serbia-Montenegro, Spain, Germany, France. In 2003 the trend of a larger import than export of wine was observed, which is continuing. In the first quarter of 2004, 36,085 hl of wine were imported, indicating a 293 growth index (2004/2003). Only 16,919 hl of wine were exported in the first quarter, indicating a 4% decrease in export

in relation to the same period last year. The increase of wine imports can be controlled only by competitiveness of the domestic production and by increasing exports.

Aware of the lack of desired results and the current problems in this production, the Government of the Republic of Croatia formulated an Operation Programme at its session of 3 June 2004 in Požega, of creating vineyards in the period 2004 - 2007. This Programme specifies the planting of 13,000 hectares of new vineyards or 4,000 hectares annually, in order to double the market production of wine by the time of joining the EU, and to ensure competitiveness and adequate production for both local needs and for export. The Programme lays down in detail measures for its realisation, in particular measures for securing land plots and nursery production of seedlings. Incentive resources for the existing vineyards and for the creation of new vineyards, balm bases and grafts etc. have already been incorporated into the Amendments of the Support Act, and have been significantly increased. This ambitious programme of creating vineyards is costed at over two billion kunas. The crucial role in this will be played by companies and family businesses. Most of the new plantations will be created by the leading wine producers Beljski vinogradi, Kutjevački podrumi, Đakovačka vina, Istravino, Iločki podrumi, Badel 1862, Dalmacijavino.

We need to particularly emphasise the problem of land, both state-owned forests or state-owned agricultural land and private property. Without the creation of larger plots production cannot be competitive. Land remains the basic and biggest problem, for which a quality solution is needed. The sizes of vineyards in the EU countries are some ten times larger than in Croatia (in Croatia the average size of a vineyard plot is about 0.5 hectares). The huge problem of obtaining seedlings also remains unsolved, since only two million vine stocks are produced today, and the difference is imported mostly from Italy and France. We have to develop our own nursery production, where about 15 million high quality seedlings will be produced annually, mostly indigenous sorts. This is a precondition for the success of the vineyards and wine production. When creating new vineyards special attention must be paid to the planting of indigenous varieties of grape: plavac mali, babić, pošip, rukatac, grk, vugava, bogdanuša, kujundžuša, bratkovina, zlatarica, žlahtina, škrlet, kraljevina. We furthermore have to produce wines of famous international varieties: riesling, traminer, pinot blanc, pinot gris, sauvignon, silvaner, chardonnay, franconia, pinot noir, cabernet sauvignon. The advantage and opulence of our country is in the southern coloured wines of exceptional quality, and in the gentle, fresh and tasty white wines of inland Croatia. These advantages should be assessed and applied in the offer on the international market.

Croatia must focus on the exclusive production of high-quality, and as far as possible indigenous wines, particularly in the production for export. The main export wines must be coloured – the Plavac varieties (zinfandel) (Dingač, Postup, top-quality plavac varieties from Hvar and Pelješac), the Primošten Babić, for instance, and among white wines Pošip, Grk, Maraština, Vugava, Bogdanuša, Malvasija dubrovačka, Škrlet. We need to produce recognisable indigenous dessert wines, particularly Prošek (sherry), wines of late and select harvests, vintage wines, special wines. The production of these wines must be the identity of all leading wineries, while most production should rely on family businesses and winery co-operatives. We should finally start creating export wine brands – Dalmatian plavac, Slavonian riesling, Istrian malvasija (malmsey) and other high quality wine brands, in larger series, of standard quality and competitive prices. At present there are hardly any recognisable Croatian high quality wines in the world. Leading regional wine producers should be producing most of these wines. We need to offer several wine brands in the European market, in series of 500 to 1000 wagons per year. Without production in such quantities it is impossible to compete in the European market with high quality wines. Furthermore, our target markets must include other countries as well, in particular Russia, America, China, Japan. These markets must be analysed systematically and divided among exporters, all through a strong and sound association of grape and wine producers, Croatia wine - GIUP. Export to the international markets cannot be partial and disorganised, by counties or regions. We must appear as a country exporter on the international market with Croatian wines, united in the name of Croatian exporters. Associations and chambers need to ensure the presentation of our wines, while producers need to be co-ordinated by the leading regional wine producers.

It is clear that in order to achieve the goal “Croatia – a wine country and a significant wine producer on the European market” appropriate legislation in this field is mandatory. The Wine Act of 2003 has been harmonised with the European Union. It represents an important and progressive step, representing the basic framework for the development of such production. Based on the Wine Act, implementation regulations are being prepared, to be published during the course of this year, and entirely harmonised with EU regulations. We are currently in the stage of publishing several regulations: Regulations on Wine Advertising, Regulations on Physical and Chemical Analyses, Regulations on Assessing Wine, Regulations on Minimal Technical Requirements for Wine Cellars, Regulations on the Regionalisation of Vineyard Plots, Regulations on Wine Cultivators and others. In the second half of 2004 we will also publish Regulations on Wine, Regulations on Fruit Wines, Regulations on Protecting the Geographic Origin of Wine and on Wine Marking. Exceptional

attention must be given to harmonising these regulations with the EU legislation to the greatest possible extent, and for them to be functional for producers, i.e. that the procedure of production, protection and placing on the market is simplified as much as possible and cheaper, especially in relation to export.

We wish to emphasise that the vineyard cadastre is in preparation, as a basis for registry and records of production and trade of wine. The procurement of devices for wine analysis is also necessary, such as the nuclear magnetic resonance based on which authenticity will be established, i.e. whether the wine is natural, mixed etc. Since the wine inspection controlling wines in production and trade is now within the Ministry of Agriculture, it is clear that by this we will minimise the possibility of wine being doctored. Finally, conditions have been created to initiate a high quality wine production, eliminating the possibility of fraud, all of which represents the basis for the success of this production. Thus, wine producers, both big and small, family businesses or co-operatives must turn to the production of high quality grapes, which is the basis for the production of high quality wine, and what is most important, this wine must be competitive, by quality and price, with international wines. Otherwise, wine producers will not survive on the market, and this industry will not succeed. All organisational and technological changes must be focused on the increase of production of high quality wines, by reducing production costs.

We have a great deal of work and sacrifice before us, focused mainly on the creation of new vineyards, contemporary technology for wine production, and also on marketing wine on the domestic and international market. However big the improvement in the quality of wine, the organisation of production and profitability are still inadequate. Family businesses need to increase their production areas, and focus exclusively on the high quality of grapes and wine. We need 20,000 businesses with an average size of about two hectares of vineyards. Wine co-operatives must turn to the production of grapes and wine, reorganise their personnel and technology in order to produce larger series of known wine brands, competitive with international wines by their prices. The leading wine producers must assume a more significant role, especially concerning wine export, appearance on the domestic market and marketing activities. Vineyard plots and vineyards must be owned by producers or given to them for long-term use, while all wineries must be privatised!

And finally, a few words regarding the domestic consumption of wine with a special emphasis on the tourist consumption of wine (“silent export”). The registered annual consumption of wine (facts from the Croatian Institute of Viticulture and Oenology) is about 60 to 70 million litres, amounting to an annual consumption per capita of about 15 litres. By

taking into consideration that some 50,000 households engage in this production, either professionally or as a hobby, it is then estimated that the natural consumption of wine is approximately 10 litres per capita. Accordingly, a realistic estimate is that the annual consumption of wine is about 25 litres per capita, whereas this consumption in all the Mediterranean wine countries is at least double. This fact is all the more devastating in comparison to the consumption of beer per capita which is 95 litres, especially since this production is conducted by 4 – 5 leading companies in foreign ownership, with only 2,000 people employed in the beer industry. We must create “Europe at home” in Croatia in all industries, specially in wine growing and production, by significantly increasing the production of high quality wines, by improving the offer and reducing production costs, by reducing production prices of wine, and especially by reducing prices in the tourist consumption, by developing better offers for foreign tourists, where the price for services must include the consumption of wine as well. Tourist consumption means indirect export and the best advertising for wine export.

And finally I want to emphasise that Europe is our destiny and our challenge – a challenge for the producers of high quality wines, which the Croatian wine producers will meet, naturally with some effort and additional sacrifices, because our wine production is strong and more advanced than other industries. Wine is our recognisable product, inspiring and connecting people, this time the people of Europe.

**Vinko Milat – Advisor to the Minister
of Agriculture, Forestry and Water Management**

TAX SYSTEM AND ITS ADJUSTMENT TO EU STANDARDS

Tax competition is limited

TAX POLICY IN THE EUROPEAN UNION

As a constituent part of the overall economic policy, the tax policy in a certain way reflects national sovereignty and as such is the responsibility of governments of individual countries. The EU's task in this area is not to equalise tax systems in the Member Countries, but to harmonise and co-ordinate them.

From its beginning, the EU has relied on the "Four Freedoms", the free movement of people, goods, services and capital, as essential conditions for the existence and success of a single European Economic Area. Therefore, the main objectives of EU tax policy in recent years have been closely related to development of the Internal Market, strengthening of the monetary union, and economic integration. The general tasks of the EU tax policy are to lessen the tax burden, achieve sustainable fiscal consolidation and tax revenue stabilisation, resolve difficulties in the functioning of the Internal Market, promote employment and establish a simpler and a more efficient tax system.

Internal Market regulation in the early 1990s has provided a legal framework for indirect taxes (value added tax and excise duties), in contrast with direct taxes (income and profit tax) where such a clear legal framework has not been provided.

However, differences in individual tax systems have posed a constant obstacle to the full achievement of objectives that can only be accomplished through ongoing harmonisation efforts by the Member Countries. Though it appears that such harmonisation is very difficult to achieve in the area of taxation as a whole, major results have been achieved in the area of indirect taxes, unlike direct taxes where much poorer results have been achieved. Certain aspects of taxation, in particular income taxes, are not subject to harmonisation and every Member Country is free to regulate this area at its discretion.

In the course of its approximation to full EU membership, Croatia needs to harmonise its legislation with EU legislation. The Croatian tax system today, following its reforms launched after the country gained independence in the 90's, is comparable to the tax systems in the EU Member Countries. All the major taxes and taxation procedures are conceptually similar to comparable taxes in EU Member Countries.

Though it would already be desirable to make certain adjustments in the course of the forthcoming candidacy, account needs to be taken of the objectives and the possibilities of fiscal policy in Croatia.

TAXATION IN CROATIA AND THE EU – PRESENT STATUS AND TRENDS

The basic principles on which the Croatian tax system was based when it first underwent reform ten years ago are generally still followed today with only minor departures. Some of the changes that were made indicate positive movements (tax burden lessening, focus on the

taxation of consumption rather than income and savings, reduction of tax evasion, improvement of tax administration efficiency, etc.) while others, either introduced or announced, such as the introduction of new reliefs, exemptions, concessions, new income tax rates or VAT rates, VAT reduction or increase in excise duties, introduction of new taxes, should be closely re-examined and their fiscal consequences realistically quantified.

Tax Burden

The tax burden shown as the share of taxes and contributions in GDP at the consolidated general government level (Table 1) has been decreasing gradually, reaching 40.8% in 2001, almost equal to the 41% in the EU Member Countries. Nevertheless, it is still fully 5 percentage points higher than the average of a selected four of the countries that joined the EU in May this year. The share of total contributions in GDP in Croatia has also been falling (Table 1) and is now approximately 1 percentage point larger than in EU Member Countries.

TABLE 1 SHARE OF TAXES AND CONTRIBUTIONS IN GDP (%)

	Taxes and		
	Contributions	Taxes	Contributions
Croatia			
1995	44.4	30.2	14.2
2001	40.8	27.6	13.2
EU Average			
1995	40.1	28.5	11.6
2001	41.0	29.6	11.4
Average for Four New EU Member Countries			
(Hungary, the Czech Republic, the Slovak Republic, Poland)			
1995	41.2	29.5	11.7
2001	35.8	22.6	13.3

Source: Revenue Statistics 1965-2002, OECD, 2003, Ministry of Finance of the Republic of Croatia, 2003

Despite EU tax policy and its emphasis on the reduction of the tax burden as measured by the share of total tax revenue in GDP, the tax burden has actually been increasing mildly in the past ten years. Greece, Austria and Sweden contributed to the increase in the average, while Germany, the Netherlands, Luxembourg, Finland and, particularly, Ireland (-2.1 percentage points) contributed to a total lessening of the tax burden.

Tax Structure

As regards the structure of total taxes collected in EU Member Countries, each of the three main types of taxes accounts for about one third of the total. Income tax accounts for the largest share of direct taxes collected (25.5% of total tax revenue in 2001). Consumption related taxes (mainly VAT and excise duties) make up almost 50% of total tax revenue in Croatia. The share of income tax in 2001 was 9.7%.

TABLE 2 SHARE OF TAXES IN TOTAL TAX REVENUE (%)

	Indirect taxes (VAT, excise duty, real estate transactions tax)	Direct taxes (income, profit)	Contributions
Croatia			
1995	50.8	17.4	31.9
2001	53.6	13.9	32.5
EU Average			
1995	32.4	33.2	34.4
2001	33.7	34.9	31.4

Source: European Commission, 2003. "Structures of the Taxation Systems in the European Union", Data 1995-2001, Ministry of Finance of the Republic of Croatia, 1998, 2003.

DIRECT TAXES

Harmonisation in the area of direct taxation (natural and legal persons' income) has not been strictly regulated, and it is up to the Member Countries to decide on their relevant national legislation as long as they observe the four basic freedoms of the Internal Market. In accordance with the objectives of the general EU tax policy, a fiscal environment should be created such as to enable equitable and free competition and prevent an unfair tax policy.

Income Tax

Income taxation is not subject to specific harmonisation and co-ordination requirements. The Member Countries are free to regulate their income taxation independently, while taking care that the basic principles of the Common Market, the free movement of goods, people, services and capital, are not compromised. There are a certain number of recommendations for income tax harmonisation, mainly relating to the resolution of the issue of double taxation, taxation of cross-border activities and prevention of tax evasion. Progressive taxation is the general trend while decreased rates and a reduction in the number of tax brackets are recommended with the aim of simplifying the system and achieving improved efficiency in tax collection.

Table 3 Income Tax Rates in 2002

Country	Highest rate (%)	Number of brackets	Country	Highest rate (%)	Number of brackets
Austria	50	5	Ireland	42	2

Belgium	55	6	Luxembourg	38	17
Denmark	*	*	The Netherlands	52	4
Finland	36	5	Spain	48	6
France	52.75	7	Portugal	40	6
Germany	48.5	4	Sweden	25	3
Greece	40	5	Great Britain	40	3
Italy	45	5			
EU Average					
14**	43.7	5.6	Croatia (2003)	45	4

Source: IBFD, 2002

Tax brackets as such do not exist in Denmark. Rather, different tax rates, ranging from 5.5% to 30%, are levied on the six different tax bases

** Unweighted average

The system of income taxation in Croatia is in line with EU recommendations and no special action will have to be taken in this area. However, attention might need to be paid to a significant difference in the share of collected income tax in total tax revenue which has ranged around 10% in the past several years in Croatia, compared to the EU average of around 25%. The introduction of another tax rate as the highest rate (45%) two years ago was accompanied by a simultaneous introduction of new tax breaks, reductions and deductions, so a question remains as to full efficiency of the collection of this type of tax.

Profit Tax

Profit tax harmonisation in the EU has received much more attention. Emphasis has been laid on the prevention of harmful tax competition and market distortion with the aim of promoting the economic activity and global competitiveness of the European Union. The goal is to prevent tax revenue loss and to promote an incentive tax system for all economic activities. Two Directives dealing with the taxation of companies' profits have been adopted so far, also known under their shorter names Parent-Subsidiary Directive and Mergers Directive. The

purpose of the former Directive is to rule out the possibility of double taxation of dividends paid to a parent company in another Member Country. From Croatia's standpoint, incorporation of the norms contained in this Directive into its legislation is not advisable before the country acquires EU membership status, or else Croatia would waive its right to dividend taxation in favour of dividend taxation in the home country of a foreign investor in a Croatian company. The situation is similar in the case of the Mergers Directive, and the recommendation for its application is the same. Namely, its incorporation into the Croatian tax system today would facilitate take-overs of Croatian companies by foreign companies and not involve the principle of reciprocity.

The recommendation for the profit tax rate is to reduce it. This has been done in Croatia. From 35% in 1994, the profit tax was cut to 20% in 2004. The profit tax rate in Croatia is considerably lower than in EU Member Countries, with the exception of Ireland which has a lower profit tax rate.

The share of profit tax in total tax revenue in the past several years has stood around 5% on average, which is slightly below the EU average (6.2%).

Recently most of the new Member Countries have made plans to introduce a lump sum taxation of profit and cut the profit tax rate to below 20%. The Slovak Republic has already introduced a 19% lump sum income and profit taxation. Austria too, led by the Slovak example, has been preparing to cut its profit rate from 34% to 25% to keep its competitive edge in Central Europe.

TABLE 4 Profit Tax Rates in 2002

Country	%	Country	%
Austria	34	Ireland	16
Belgium	39	Luxembourg	22
Denmark	30	The Netherlands	34.5
Finland	29	Portugal	30
France	33.3	Spain	35
Germany	25	Sweden	28
Greece	37.5	Great Britain	30
Italy	36		
EU Average 15**	30.6	Croatia	20

Source: IBFD, 2002 ** Unweighted average

INDIRECT TAXES

The most significant and the most numerous harmonisation activities have taken place in the area of indirect taxation. The free functioning of the Internal Market requires efficient taxation in the form of value added taxes and excise duties that will fully meet the needs of businesses and households and at the same time provide sufficient revenue for individual countries' budgets.

Value Added Tax

The harmonisation of legislation in the area of value added tax has been determined largely by the Sixth Directive, as the most important document laying down all the essential elements of value added tax. The Croatian Value Added Tax Act is also based on the same Directive.

In its definition of the scope of VAT liability, its base and its rate, the Croatian VAT Act is in broad compliance with the Sixth Directive. Under this Directive three rates are prescribed: the standard minimum rate of 15%, one or two reduced rates of a minimum of 5% for goods listed in Annex H of the Directive, and a zero VAT rate. The Croatian VAT legislation, based on a single rate system, with a zero VAT rate and a VAT prepayment refund reserved for exports, only is theoretically even more consistent than the Sixth Directive. However, it also contains certain inconsistencies such as that which involves a discriminating provision regarding institutionally prescribed tax exemption for banking and insurance companies' services. In this segment, the provisions of the Croatian legislation needs to be brought in line with the provisions of the Sixth Directive.

TABLE 5 Standard VAT Rates

Country	2002	Country	2002
Austria	20	Ireland	21
Belgium	21	Luxembourg	15
Denmark	25	The Netherlands	19
Finland	22	Portugal	17
France	19.6	Spain	16
Germany	16	Sweden	25
Greece	18	Great Britain	17.5
Italy	20		
EU Average 15**	19.47	Croatia	22

Source: IBFD, 2002

** Unweighted average

Excise Duties

General arrangements for products subject to excise duty and their holding, movement and monitoring (92/12/EEC, 92/108/EEC, 94/74/EC, 96/99/EC), regulate the taxation in the EU of alcoholic beverages, tobacco products and petroleum products although a number of other products are also subject to excise duties in EU Member Countries. The Member Countries may keep the existing or impose new excise duties on some other products, provided that cross-border traffic in such products does not necessitate special customs procedures and that the free movement of such products is ensured (and their exemption from excise duties) in cross-border traffic between the Member Countries. Their free movement is conditional upon the existence of customs warehouses and appropriate customs/tax documentation accompanying such products in cross-border traffic. The basic principle followed is taxation of such products in the country of consumption at the rates used in that country. The arrangements lay down the minimum rates although there are significant differences in other rates between the Member Countries which cause considerable difficulties in cross-border traffic (cross-border shopping, smuggling). While harmonisation aims to equalise tax structures, tax rates still remain largely unaligned. The differences in the rates between the individual countries range between 2.1:1 for lead-free petrol, 9.1:1 for alcohol, and 4.6:1 for tobacco products.

Despite the adoption of a number of documents on harmonisation (a Committee on Excise Duties has also been set up for the purpose of implementing common policy), greater efforts will need to be made in this area in the future, especially in the light of the new countries joining the EU, to reduce the obvious differences in tax structures between the countries to the smallest possible level.

The system of excise duties in Croatia is for the most part harmonised with EU requirements and, once required by the country's accession to the EU, its full harmonisation with EU standards will be relatively simple. The exception is the rates which are below the minimum prescribed by the EU (except for excise duties on beer). The announced increase in excise duties in Croatia cannot find justification in their approximation to EU rates, if the share of revenue from excise duties in total tax revenue and in GDP is compared.

TABLE 6 Share of Revenue from Excise Duties in 2000

	in total tax revenue	in GDP (%)
EU	10.3	4.2
RoC	18.9	4.8

Source: Revenue Statistics, OECD 1965-2001,

Ministry of Finance of the Republic of Croatia, Monthly Statistical Review 79/02

The share of revenue from excise duties in GDP is close to the EU average, while its share in total tax revenue is almost 80% higher than the EU average. An increase in the prices of petroleum products caused by a larger tax burden could lead to numerous price increases of various goods and services.

CONCLUSION

It can be said in conclusion that, as far as the Croatian tax system is concerned, Croatia should not have any major difficulties in the process of its adjustment to EU requirements. However, in the process, Croatia will need to remain alert to the current developments in the tax systems in other countries, particularly those closely competing with Croatia, and their attempts to attract foreign capital and win a part of the European market through the combination of lower taxes and lower wages. There are also limits to tax competitiveness, as lower taxes alone, without efforts to reduce the role of government in the economy and achieve a stable political environment in the country, will fail in attracting investors and increasing Croatian competitiveness.

Certain parts of this document were taken from Arbutina H., Kuliš D., and Pitarević M., 2003. Croatia's EU Accession – Challenges of Economic and Legal Adjustment

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Croatia on its way into the European Union

Possibilities, challenges and traps

I am honoured and delighted to be able to contribute to this special edition of *Privredni Vjesnik* on the relations between Croatia and the European Union. Even more so given the fact that only some days ago the European Council decided to open accession negotiations with Croatia early in 2005.

What possibilities and challenges does this exactly bring for Croatia? What obligations does it entail and what are the issues that Croatia needs to pay particular attention to in order to become member of the Union?

First, I should like to underline that the decision of the European Council is indeed a success for Croatia and its endeavours towards assuming the obligations of membership. Moreover, it is also a clear signal to other states of the Western Balkans that, provided they make political and economic progress within the framework of the Stabilisation and Association Process, they clearly have a possibility to start negotiations themselves and eventually become members of the Union once they will have fulfilled the accession criteria. This political strategy, established at the Thessaloniki European Council in 2003, is thereby bringing its fruits.

In view of this, the satisfaction in Croatia with the fact that the accession negotiations will be open in early 2005, is understandable. The legacy of the war Croatia was exposed to, has not been an easy point of departure. It has played a significant role. Had the war not taken place, I am sure the decision on the opening of negotiations could have been taken earlier.

The main challenge for Croatia is now to organise itself thoroughly for the negotiations to start. In order to do this properly, it should pay particular attention to the areas that the Commission emphasised as potentially problematic or where progress needs to be improved.

On political criteria, the progress will be regarded through the issues emphasised by the European Commission in its Opinion. These include above all full cooperation with the ICTY as well as regional and bilateral co-operation with the countries in the region that prefers dialogue to any unilateral decisions. Croatia also needs additional efforts in the field of minority rights, refugee returns, judiciary reform and the fight against corruption.

Economic criteria are generally speaking the strong point of Croatia. It is already now well integrated with the Union economies, it has relatively well educated labour force and developed services sector. Nevertheless, market mechanisms need to be improved and enterprise restructuring and privatisation accelerated. Also, there is a number of sectors that will face considerable difficulties with the entry into the internal market. Therefore relevant measures need to be taken to overcome these problems.

As regards the capacity to take over the obligations of membership, Croatia will need to focus essentially on the internal market areas and the administrative capacity therein to implement the EU legislation. This is however a case very similar to that of the countries that joined the Union in 2004. >From my personal experience, I think that among these areas free movement of persons and goods are particularly demanding for both reasons of political sensitivity and large amount of, at times, very technical legislation. Apart from the core internal market field, major negotiation areas will inevitably concern agriculture, regional policy and environment. The first is tricky for the complexity of its legislation, the last particularly demanding because of the important financial consequences of the environmental legislation for both public and private sector. Also, increasing attention needs to be paid to the justice and home affairs where every acceding country needed to make particularly significant efforts during the negotiations.

Croatia can learn a lot from the negotiations of the 2004 accession. The solutions that have been adopted there could be useful also to Croatia.

How long will the negotiations take? It is difficult to reply to this question. The position of the Commission is rather clear on this: as long as it takes for the country to fulfil the criteria. Of course, the decision of the Council on accession of a new Member State is eminently political but it is fully based on concrete negotiation results. And I can only repeat what President Prodi said when the Commission adopted its Opinion on Croatia in April: "The Commission will offer all the support to Croatia it can, but how far and how fast Croatia will advance towards the EU membership, will remain in its own hands."

This is also the main trap for Croatia as it has been for every other candidate country. It is namely the country itself that determines the pace of the negotiations and the timetable for its accession. While in the 2004 enlargement this may have been conditioned by the specific circumstances of having ten countries that negotiated in parallel their membership, it will apply even more so for Croatia.

2004 will be crucial for Croatia to prepare thoroughly for the accession negotiations. I wish you every success with this historic and all-encompassing undertaking.

Janez POTOČNIK
Member of the European Commission

In addition to strengthening the economy so that it can cope with the competition pressures and market regulations of the European Union, as well as with the adoption of the entire *acquis communautaire*, Croatia needs to strengthen its justice system and administrative capacities in order to fulfil the political and administrative criteria laid down for all candidates acceding to the European Union.

The goal of judicial reform, as one of the priorities of Government policy in the strategy of accession to the European Union, is to modernise and increase the efficiency of the judicial authorities, so that the justice system can respond to the needs of all citizens through the timely and efficient resolution of lawsuits. Judicial reform will create a higher level of legal security, resulting in less business risk for undertakings, and will have a direct effect in the rise of domestic and foreign investment.

The malaise of the justice system caused by structural problems and non-investment in justice in the last 50 years has resulted in an epidemic of a million and a half unresolved lawsuits, additionally reflected in the slowness of legal procedures.

In curing the symptoms of the inefficient justice system, the Ministry has set a goal of clearing the backlog of lawsuits in three years, for the achievement of which the Ministry has prepared a number of measures. The redistribution of ongoing cases from overburdened courts to the less burdened ones has been made possible by the amendments to the Act on Courts, and the implementation of this measure has been begun by the transfer of 16,000 cases from the Municipal Court in Zagreb to other municipal courts. By expanding the authority of judiciary advisors and simultaneous employment of judiciary advisors in courts with the biggest backlog, the preconditions have been set for relieving the judges, who thus become managers of judicial proceedings. Responsibility for the work of the judicial bodies will be strengthened by an increased surveillance of the administration of justice, and by taking citizens' complaints into consideration. The system of intervention measures will be established next year, including an additional engagement of personnel and capacities for the most overburdened courts, with the aim of directly decreasing the backlog of cases.

Resolving the backlog of cases will enable the establishment of a stable justice system; however, structural changes are needed for its maintenance, related to the rationalisation of the justice system, to infrastructural investment,

with a special emphasis on the project of transferring the first instance justice authorities from Zagreb to a location encompassed by the project Justice Square, to the continual professional and practical training of judges through the newly founded Justice Academy as a precondition for their further progress, to the improvement of the internship system, to the computerisation of the justice system and to the creation of a unique networking system connected to the Ministry, including a system for processing files in the courts and the establishment of a new statistical data system on court operation.

Apart from structural problems, the duration of court proceedings also contributes to a large number of new lawsuits each year, and in 2003 there were about 2.5 million cases in process in the Croatian courts. By stimulating alternative ways of resolving lawsuits through settlements, conciliation and arbitration, this pressure could be significantly reduced. The value of civil lawsuit proceedings in which the state is the defendant amounts to 8.5 billion kunas, with 2.5 billion kunas in lawsuits where the state is the plaintiff. The state could contribute to clearing the backlog in the courts through settlements, wherever possible, and stimulate other parties to attempt to solve their cases by alternative methods.

The disorganised situation in the land registry department endangers legal security, obstructing the operation of businesses. By merging the land and cadastral registries, the speed and reliability in the process of issuing land registry data will be increased. The introduction of licensed land registry officers capable of reaching decisions in land registry procedures, with the right to appeal resolved by a judge, will further speed up this process.

The possibility of rapid payment by debtors has exceptional importance for enterprise. The state itself has difficulties in obtaining payment of its outstanding claims, which amounted to 1.8 billion kunas in 2003. Amendments to the Enforcement Act will enable public notaries to issue decisions on enforcement based on valid documents, and courts will participate in resolving these issues only after an appeal from this decision. Such a system will relieve the courts and speed up enforcement procedures. Within the framework of the justice reform, projects to increase the efficiency of bankruptcy proceedings have been planned; moreover new amendments to the Bankruptcy Proceedings Act will additionally contribute to this. The reform also lays down other legal amendments in order to simplify foundation of companies and the monitoring of lien, which will in turn enable easier access to loans, usurious interest would be eliminated and proprietary law harmonised with the European Union directives.

All of the measures described, including the fight against corruption, should ultimately achieve legal security for investment and business. In order for

Croatian regulations harmonised with the *acquis communautaire* to be implemented in practice, the development of an efficient justice system harmonised with European standards is mandatory.

Vesna Škare-Ožbolt
Minister of Justice

THE BOULOGNE DECLARATION

Turning point in high education development

During the celebration of 900 years of Bologna University in 1988, the *Magna Charta Universitatum* was signed confirming the institutional autonomy and academic freedom of the University, becoming the basis for further development of the responsibility of universities and governments regarding higher education. In 1998, during the celebration of 800 years of the University of the Sorbonne, when the ministers of France, Germany, Italy and Great Britain signed the Sorbonne Declaration, it was a significant indication of the need for an organised intergovernmental action to create the European Higher Education Space. The Sorbonne Declaration recognised the challenges and steps to be taken in this field, emphasising the need for free circulation of students and professors on the European continent. In 1999 the Bologna Forum was convened, adopting a joint declaration of the European education ministers, signed by 29 countries. This declaration represents a turning point in the development of European higher education.

The Bologna Declaration claims that the process of Euro-integration has developed an awareness in the political and academic public of the need to create a better and more influential Europe, especially in its intellectual, cultural, social, scientific and technological dimensions. The Europe of knowledge is recognised as an irreplaceable factor of development for a stable, peaceful and democratic society, adapting its citizens for the challenges of the new millennium. The Bologna Declaration encourages a number of countries to achieve the following goals within the first decade of the third millennium:

- adoption of a system of easily recognisable and comparable academic levels, and introduction of diploma supplements,
- adoption of a system based on two educational cycles, undergraduate and graduate (the first lasting at least three years and the second leading to the level of master and/or doctor of sciences).
- introduction of a system of credits like the European Credit Transfer System (ECTS),
- the promotion of mobility of students and teachers, researchers and administrative officials,
- the promotion of European co-operation in quality protection,
- the promotion of the European dimension in the development of curricula, inter-institutional co-operation, mobility and integrated programmes.

The countries signatory to the Bologna Declaration undertake to reform the structure of their own higher education systems in a convergent way. The Declaration is not only a political statement, but also a commitment showing readiness for a joint action programme, with the goal of attaining the global competitiveness of European higher education. At the meeting of ministers from European countries in 2001 in Prague, Croatia joined the Bologna Declaration. The Prague Conference defined further actions according to the goals of the Bologna process: whole-life education has been promoted, the concern for higher education institutions and students is emphasised, the promotion of the attractive European area of higher education is stressed, the need for a permanent monitoring of processes is emphasised for education based on science, and the organisation of differences with the main issue – quality as the process basis.

The role of the University of Zagreb in the implementation of the Bologna process in Croatia

By joining the Bologna Declaration Croatia confirmed its aspiration for integrating into the processes of harmonisation of the European systems of higher education. However, the University of Zagreb had been taking steps previously as well, corresponding to those at European universities, which also lead to the harmonisation process and the Bologna Declaration. Thus Zagreb University's Committee for Introducing the Credits System was founded in 1997, in 1998 a special issue of the publication "Sveučilišni vjesnik", "Croatian University for the 21st Century" (vol. 44) was issued, and the pilot project of introducing the credits system created, work on which took place in 1999 as well. In the year 2000 a special number of the publication "Sveučilišni vjesnik" was published entitled "International Co-operation in Higher Education – ECTS" (vol. 46), numerous seminars were held at faculties and at other Croatian universities. The following year the University of Zagreb published a strategic development document "Step Forward 2001" (emphasising the commitment of the University to the Bologna process), ECTS has been introduced into faculties, a poll was conducted about how informed the students of our university were regarding ECTS, and the National Council for Higher Education initiated a debate on the Bologna Declaration. Based on a request of the National Council for Higher Education, a committee within the Commission for Scientific, Professional and Artistic Operation of the University of Zagreb Senate studied the aims of the Bologna Declaration for the needs of Croatian higher education institutions in a document entitled "Implementation of the Bologna Declaration in the Transformation of Higher Education", adopted after a debate in 2002. In the same year the Commission for the Reorganisation and Development of University Studies was founded at the University, also in charge of monitoring the Bologna process. The Commission proposed a subproject in 2003 entitled "Reorganisation and Development of University Studies", encompassing curricular changes, an increase in the quality and efficiency of studies, the repositioning of higher education in society, international co-operation, and recognition of studies

from the EU. In the year 2004, a poll was conducted about programmes of studies with the possibilities of planned programme reforms at the University of Zagreb, and guidelines for the reorganisation of studies are being prepared.

The University of Zagreb also participated in numerous meetings and conferences about the Bologna process: the Alps-Adriatic Rectors' Conference on ECTS (Osijek, 2000), "National Education System and the Search for a Common European Identity", organised by Europe House (Zagreb, 2000), "Harmonisation of Higher Education with Europe" organised by the University of Split and the Committee on Education, Science and Culture of the Croatian Parliament (Split, 2001), "Education and Science Days" organised by the Committee on Education, Science and Culture of the Croatian Parliament (Zagreb, 2002), Austrian-Croatian Science Days "Towards the European University Network" (Zagreb, 2002), UNESCO-CEPES Project: "Regional University Network on Governance and Management of Higher Education in SEE" (Zagreb, 2004) and a number of others. From 2002 to 2004 a project of the University of Zagreb is ongoing, entitled "Development of Quality Assessment in Higher Education" (head Prof. D.Sc. Helena Jasna Mencer, University Rector) – TEMPUS QUASIS, with the participation of other Croatian universities as well; the contractor is Technische Universität, Wien, and the universities of Milan, Vienna, Leuven, Erlangen and Barcelona are participating, as well as the agencies FINHEEC, Flemish International Council, Agencia per la Qualitat del Sistema Universitari a Catalunya.

References for the implementation of the Bologna process within technical university studies

Significant associations for engineering education have issued opinions and references regarding the Bologna process - CESAER (Conference of European Schools for Advanced Engineering Education and Research – 50 leading European technical universities) and SEFI (European Society for Engineering Education and Research – 250 European universities from 38 countries). These references have been received with respect and had a special influence in all significant conferences regarding the Bologna process.

The initial reference suggests that every reform of technical university studies must ensure the preservation of the special competence that graduate engineers have had until now, while a possible compromise for the purpose of harmonisation with other parts of the higher education system is not acceptable in relation to the Bologna Declaration. It has been emphasised that in scientifically oriented (university) programmes the students (as a rule) study for two cycles (5 years) where the completion of the first cycle should result in a formal diploma, which is a precondition for proceeding to the second cycle in the same or a similar programme of studies at the same or another university. References indicate that the

associate-degree type of studies is necessary, and must be organised independently of universities as studies within the first cycle focused on practical knowledge and capabilities. It is emphasised beyond doubt that universities must promote a top-quality scientific and research operation, competitive on the European level. A special emphasis is given to doctoral studies, which must be based on top-quality research by the doctoral student, and should not be treated simply as the third cycle of formal higher education. It is stressed that criteria for entering appropriate professions following the first and second cycle of engineering studies must be based on the professional competence that students achieve, and not on a formal adding-up of ECTS credits.

Institutions of engineering higher education are exposed to competition on the global market for students, employees and the employment of undergraduate students, and this is why the references insist that at all planning levels quality and excellence must be positioned first. It is further emphasised that engineering educational institutions have a special responsibility for ensuring the high quality of their own programmes, based on a comparison with the network of relevant institutions; the accreditation of engineering educational programmes has been stressed in particular from the relevant accreditation institutions on the transnational level.

Representatives of 12 technical faculties of the University of Zagreb, gathered in the Commission for the Reorganisation and Development of University Studies at technical faculties, agree with the above listed references. For the purpose of harmonising technical university studies with the Bologna process, they have also given additional references to the University of Zagreb Senate. It was recommended to focus on basic professional knowledge both in the undergraduate and graduate studies, by introducing comprehensive basic subjects that students from several faculties could attend. The reference indicates that gradual focusing on the profession should follow only towards the end of the undergraduate studies, while specialised training must be encompassed by the graduate specialised studies.

The significance of doctoral studies in the Bologna process

Doctoral studies play a central role in the implementation of the Bologna process today. It is precisely the quality of doctoral studies that will be crucial in the differentiation of European studies, thus defining the possibility of accessing European scientific funds. An extensive EUA (European University Association) project has been initiated recently, which should result in the reform of doctoral studies on the European level. The University of Zagreb has a long tradition in joint research programmes, the organisation of scientific conferences, and especially in the organisation of graduate programmes of studies, offered to students from

other universities in Croatia and abroad. The University plans to participate in joint programmes of doctoral studies to be organised regionally or on the European level; these programmes will significantly increase the quality of studies, student mobility and co-operation in scientific projects, and improve the existing legislation. The University of Zagreb has applied for the project of the European doctoral programme with the topic "Language Communication and Cognitive Neuroscience".

The European Conference on the harmonisation of doctoral programmes in the field of medicine and health care has been held in Zagreb in April 2004, organised by the Faculty of Medicine of the University of Zagreb, where a joint declaration was reached. The Conference participants from 26 European universities reached a consensus on the need to involve reviewers of doctoral dissertations from other universities, defining conditions that a candidate must fulfil for a doctoral dissertation, the need to organise classes within the doctoral studies, and the need for developing joint programmes of doctoral studies from different universities and states, especially for the purpose of connecting the European area of higher education and the European research area.

Aware of all these facts the Commission for the Reorganisation and Development of University Studies proposes the harmonisation of doctoral studies at the University of Zagreb with those in the most developed European and international universities. The Commission urges that doctoral studies become regular studies, and proposes the employment of doctoral students at the university for a limited time, to participate full time during their studies in all stages of the scientific work and the undergraduate classes. According to this proposal, students of graduate studies would be junior research assistants financed by the Ministry of Science, Education and Sports, doctoral students financed from the resources of the higher education institutions or associate-degree colleges and students financed by different national and international agencies or private industries as well as students who finance their graduate studies on their own. Specialised studies of different duration have also been proposed where students would obtain relevant certificates.

Future steps

Although numerous activities have been initiated for the purposes of harmonisation with the Bologna Declaration, a whole range of further steps need to be taken as soon as possible: to define faculty diploma supplements which will enable recognition of some studies, of studies in general and recognition of undergraduate and graduate studies. Every profession or discipline, in co-operation with its professional associations (encompassed by European associations) and the same professions in European universities, must discuss the differences and adapt programmes for

the purpose of convergence and harmonisation. Professions must define the competence and capabilities that a professional needs to master. Teaching methods differ by professions, and methods of knowledge assessment need to be defined. It is essential to insist on quality assurance. All Croatian universities will have to join the reform of the syllabus and introduce the system of credits of convergent - harmonised programmes. In the process of the syllabus and credits reform, attention must also be paid to the promotion of mobility within Croatian universities. In the process of internationalisation, emphasis must be put on the exchange of teachers, students, researchers and administrators. The mobility will consolidate the European dimension of programmes, diversification in the sense of becoming more attractive, and ensure quality. Awareness of respecting diversity (cultural, linguistic, educational) needs to be developed, as well as an openness enabling competition and co-operation. A crucial element in the European area of higher education is whole-life (permanent) learning: Europe must be constructed on a knowledge-based society and economy. In Croatia as well, whole-life learning must represent a strategy necessary for challenges and competition, the application of new technologies, improvement of social cohesion, equal opportunities for all, and the quality of life.

Helena Jasna Mencer, Nada Čikeš and Branko Jeren
University of Zagreb

Clash between Croatian fishing industry and EU market**The greatest challenge so far**

Croatian fishing industry, as almost all export economy, had, has and will have a lot of problems with marketing of its products to the European Union countries. Achieved quotas for the export of fresh and tinned fish are virtually as big as the export to the CEFTA countries was which in the meantime have become the European Union member states. Those quotas for reared and bred fish represent hardly 15% of current mariculture production, for European standards quite modest percentage, while fish tins quotas makes 20% of production realized in fish industry during last year.

I would like to point out that Croatian fishing industry is the only one having positive export balance within the agro complex. The export of tuna fish worth 8 million euros is the main export item. Nevertheless, total export is at the level of one billion kunas. In a country that overestimates its national currency rate for at least 20%, industries as fishing industry haven't got any chance for development so Croatian fishing industry has today been brought in all its segments to the margins of existence. Fleet with approximate vessel age of over 40 years is completely worn out. Factories, those that survived the war (4 out of 9) have out of date technology. The whole sector has been additionally burdened with political problem emerging after introduction of ecologic fishing zone, and blackmails of Slovenia and Italy just before obtaining AVI. The AVI itself is a paradigm of our acceptance of already defined attitudes that all candidates have to adopt before actual admission to the European Union.

At the same time acceptance of unity without reserve renouncing sovereignty in various areas of economic, social, political and even ecological behaviour should be awarded, in rather close future, with admission to that institution above nations.

In the country of frustrated national awareness it is not so easy to give up any of the segments of the sovereignty achieved after centuries, for the benefit of rather uncertain future. By the time Croatia gets ready to enter the Union, the funds so firmly counted on by Poland and ten member transitional company of new Union member states will be significantly exhausted. Europe counts on 20 billion euros inflow from those countries in the period between 2004 and 2006, with concurrent investment of 40 billions in the same period. The number of household farms, whose integral part is also fishing industry, will increase from current 7.5 to 17.5 millions.

33 Those familiar with Europe predict that at least one generation of balancing should pass by or
34 in other words, “reconciliation” of east and west.

35 Unfortunately, due to well-known political problems, we have been outran by the countries
36 that are decades behind the Croatia in their degree of technological development and general
37 mindset of the nation ready to accept the admission to the elite.

38 However, the adaptation to Europe will be the hardest for Croatia and will have high
39 economic and social price exactly because of our mentality and still not enjoyed enough
40 hardly achieved national identity.

41 This is the turning point for Croatian fishing industry and maybe the greatest challenges in its
42 thousand year existence lie ahead of it. On one side, impoverished sea, and with it severely
43 limited catch of wild fish species, and on the other side mariculture in expansion as the only
44 substitute for non quality species in the catch. Huge pressure of inhabitants on the land line
45 and islands as well as the fact that only 40% of inhabitants of this rocky land area are linked
46 to public sewage refers to the potential disastrous pollution of water sources and the sea. Thus
47 all works at the Adriatic must be in line with strategic elements of its protection. Croatian
48 agriculture and fishing industry are faced with significant changes. The European Union
49 gives at our disposal pre-admission funds that will facilitate adaptation, but the approach to
50 the development strategy of that part of the economy should be fundamentally changed. But,
51 it is certain that in the sector of primary agricultural production in the integrated Europe we
52 have small or no chance at all. What could give good results is intensive production in
53 vegetable and fruit growing, olive growing and viticulture, as well as ecologic production of
54 indigenous highly finalised products.

55 With regards to fishing industry, the situation is entirely different. Regulation of joint
56 European fishing policy is based on the thesis that fish resources are biologically undividable
57 and common while European globalists often talk about inexistence of “traffic lights” under
58 the sea or about the fact that fish do not carry any national flag. It would be acceptable under
59 the condition of the same level of development among coastal countries. The rights for sea
60 exploitation are regulated by international sea rights. From the very beginning the Union has
61 insisted on the need of single policy for fish resource management, at the level of all member
62 states including under the same concept the non member states with which the EU shares
63 fishing sea.

64 The truth is that despite all endeavours to harmonise regulations application, to grant access
65 to fish infrastructure and single organisation of fish market to all, joint fishing policy of the
66 EU has failed, and live riches in the Union seas are brought to the level of complete
67 devastation. That policy is unsustainable for long term. With belief in hopes expressed by the
68 EU political leaders that expansion of national fishing rights in Mediterranean sea to
69 international waters would make management more efficient, Croatian parliament has
70 declared ecological fishing zone.

71 Reduction of fishing efforts has resulted in leaving tens of thousands of fishermen without
72 job, closing of hundreds of companies, coastal and island communities that owe their
73 existence to a great extent to fishing, have become socially and demographically endangered.

74 That is all result of failed fishing policy of the European Union, and short sighted measures
75 of resource management that resulted in uncontrolled expansion of fishing fleet and
76 eventually in devastation of fish resources. Thus, such aggressive Italian and Slovenian
77 reaction to the act of declaration of fishing zone by Croatia should not be surprising.

78 Though significantly impoverished, waters around epicontinental line still give to Italian fleet
79 of 800 vessels a cake worth 200 million euros per year. That is why they try to postpone as
80 much as possible the beginning of its application on October. Since the creation of Croatian
81 state they have caught fish worth around 3 billion euros from the area of 23 000 km.

82 Imagine what Croatian fishing industry could have done with that money. Thus the
83 application of ecologic fishing zone is not only political but also important economic problem
84 and precondition for any agreement on the common sea. That agreement must not by all
85 means be trilateral (Slovenia – Italy – Croatia) but exclusively on the line the Union –
86 Croatia. Finally, in fishing industry as in entire economy Europe must not be the goal, but
87 only means for valuation of one's own goods. The value of goods in the Adriatic sea is far
88 more bigger than the relations of all political sets in the past 14 years towards it.

89

90 < Miro Kučić

The role of market competition rights and policy in rapprochement processes to European Union

With Stabilisation and Association Agreement made between Croatia and EU member states, Republic of Croatia has made the first step towards establishment of close and permanent relations, based on reciprocity and mutual interest. They will enable formalisation and further strengthening with final goal – membership in political and economic union of the “old continent” countries. With this Agreement, apart from political criteria, Croatia has assumed a set of obligations on modification and adaptation of legal and economic system in line with standards and rules of European Union. The market competition protection comes among priorities as well. In other words, until enforcement of the Agreement, preceded by ratification of the member states, the Temporary Agreement on trade and related issues has been in force (since the beginning of 2002) covering regulations on trade, market competition, intellectual, industrial and trade property, whose implementation could not be postponed.

In the area of market competition protection the Agreement, i.e. Temporary agreement, has established that agreements between entrepreneurs, decisions of small business organisations and harmonised practice among entrepreneurs, having as a goal or effect disablement, restriction or disruption of market competition; leading position abuse of one or more entrepreneurs on the territory of Croatia or Union as a whole, or in their significant parts and all state aid that disrupt or threaten to disrupt market competition by favouring some entrepreneurs or products over others, does not comply^{1[1]} with proper application of Agreement to the extent it could affect the trade between Croatia and the Union.

^{1[1]} article 35 of *Temporary Agreement* (article 70 of *Stabilization and Association Agreement*)

The Agreement also imposes an obligation of foundation of operational independent public body for market competition protection, with authorities necessary for implementation of system of state aids. That body will approve of the programmes of state aids, individual incentives and order the return of illegally assigned state aids.

Furthermore, with Agreement Croatia has assumed the obligation of gradual approximation of its existing laws and future legislation to the legal EU rules (acquis), and the approximation will, especially in its early stage, focus on basic parts of the EU rules (acquis) referring to internal market and other trade related areas.

By the Agreement Croatia is bound to apply the rules for market competition protection and to almost instant approximation of legislation in the area of market competition and state aids to the Union legislation. Assuming the obligation to apply the Union market competition rules, Croatia is also obliged to apply the «interpretation instruments accepted by Union institutions», which include secondary legislation of the Union bodies on market competition, but also on judicial practice i.e. judicial decisions, especially of European Court of justice.

Before detailed presentation and analysis of implementation of taken obligations and conditions in the area of market competition, we shall try to shortly explain what justice and policy of market competition in the EU is and why the Agreement has given priority to it, beside regulation of mutual trade relations between RC and the EU, with respect to harmonisation and adaptation of Croatian legislation to the EU rules, and application of the rules in force in the EU.

The EU market competition rights and policy

In line with the EU law, market competition includes the policy of market competition in its narrower sense (anti-trust) and control over state aid, so the EU law includes rules and procedures for disablement of activities against market competition by companies (limiting agreements between entrepreneurs and leading position abuse) and for prevention of Governments to give state aids disrupting market competition at internal market. Generally, the rules of market competition are directly applied in the Union area, and the Union member states have to co-operate with Commission in their implementation.

The policy of market competition protection is included in Union activities, in line with article 3, since its foundation, i.e. since the Foundation Agreement in 1958, as part of policy turned towards creation of economic integration among member states. Such economic integration could be achieved only by strengthening of internal market as key aspect of common Union market, and elimination of all barriers standing on the way to trade among member states.

Thus the role of market competition policy, as the instrument for creation of single market, is of extreme importance for understanding the EU competition rights. It distinguishes and makes the EU competition rights unique in relation to competition rights of any other country, even within the member states themselves.

Namely, the EU competition rights are subjected to two goals: protection of competition among entrepreneurs and, more demanding and complex: creation of single European market. The latter has often dictated the development of legislation and the EU market competition practice (p.ex. vertical limitations).

As the Union developed and ripen it became obvious that competition rights and policy had central role and place in that development. Basically, the EU competition rights regulate the following:

- prohibition of agreements between entrepreneurs that affect or could affect the trade among member states, and having as a goal or resulting in prevention, limitation or disruption of market competition within single market (article 81, EC Foundation Agreement),
- prohibition of leading position abuse of one or more entrepreneurs on joint market (article 82 of the Agreement) ,
- prohibition of giving state aid approved by member states, disrupting or threatening with disruption of market competition by favouring particular entrepreneurs or production of specified goods (article 87 of the Agreement),
- prohibition of measures contrary to the Agreement, in particular with article 12 and articles 81 to 89, referring to public companies and companies with special or exclusive rights by member states.

The mentioned provisions from the EC Foundation Contract referring to market competition are appropriately included in the Stabilisation and Association Agreement.

Protection of market competition in the Republic of Croatia

The Law on Protection of Market Competition enacted in 1995 has for the first time regulated that issue in Croatia, while Agency for the Protection of Market Competition was founded in 1997, as independent and autonomous legal person with public authorities.

Though the mentioned Law contained rules on market competition protection, founded on basic rules of EC competition rights, in particular articles 81 and 82 of the EC Foundation Contract, it nevertheless did not follow the achievements and solutions of modern European legislation. Thus after the Agreement was made and the priority obligation assumed for complete approximation of regulations in the area of market competition to the EU rules, in July 2003 Law on Market

Competition Protection was passed, and his application has started on October 1, 2003.

The Law has brought a lot of novelty in the field of substantive law and procedures, and authorised the Government of Croatia to pass by-laws on Council's recommendation that will provide for further and continuous approximation of market competition to the EU legacy.

The Law refers to all forms of prevention, limitation or disruption of market competition in the territory of Croatia or outside its borders if the effects are felt on the territory of Croatia, unless otherwise regulated by specific regulations for the protection of particular products or services. For example, for the area of banking or for the most part telecommunications, since those activities are also in the part of market competition, there are specific regulations.

Following the model of the Union market competition rights, the Law emphasises in particular rules relating to agreements among entrepreneurs, leading positions and limited activities and rules concerning concentration among entrepreneurs.

The Agency for Market Competition Protection is designed by the Law for administration and professional activities in the area of market competition protection. Agency is a legal person with public authorities that independently and autonomously delivers business within scope of work and has authorities regulated by the Law, and it is responsible to Croatian parliament. Agency is managed by five member Council with one acting as a president of the Council. Professional service of the agency manages administrative and professional activities of market competition protection as conducting a process on individual issues, development of draft by-laws and so on.

Since the Law generally regulates specific issues, for their detailed elaboration by-laws are passed. So far the Government of Croatia has passed regulations recommended by the Council for market competition protection: regulations on

establishment of competent market, on collective exclusion of agreement between entrepreneurs who do not work at the same production i.e. distribution level, on agreements of little value and on ways of application and criteria for entrepreneur concentration assessment.

After passing of all by-laws envisaged by the Law, the process of approximation and adaptation of legislation in this area will be mainly finalised. However, since it is the question of «live» legal issues that are subjected to changes and modifications in the Union as well, following and adaptation of Croatian legislation will be continuous and constant process and task until admission to the Union. The other task would be application and implementation of adopted rules in a way that will affect the establishment of market economy in which the same rules will be applicable to all economic subjects on Croatian market regardless of their market strength and power. In this respect the utmost responsibility would fall on the Agency for Market Competition Protection.

State aids

State aids are integral to Union market competition rights and policy. Passing the Law on State Aids (Official Gazette, NN no. 47/03) and State Aids Decree (Official Gazette, NN, no. 121/03), during 2003 the state aid system was established following the model of the EU system, and the Agency for Market Competition Protection is an independent body responsible for approval, control of implementation and return of state aids.

The relation towards state aids in the EU is regulated by the EC Foundation Contract, which considers as a state aid each state intervention that:

- is allocated from state funds,

- gives economic benefit (advantage) to particular entrepreneur, sector or region,
- is selective because it disrupts the balance between particular entrepreneurs and their competition,
- affects competitiveness and trade among member states.

The above interventions are prohibited by the Agreement, and general prohibition of allocating state aids generates from the belief of the legislator that uncontrolled favouring of chosen companies or sectors in individual member states could jeopardise the functioning of single market, reduce economic welfare and entrepreneurs' efficacy. Uncontrolled allocation of state aids would by all means influence the existence of the ineffective at the expense of more effective entrepreneurs, the postponement of structural changes, slowing down of productivity and retardation of European economy competitiveness.

In defining the notion of state aid, Croatian law has followed the provisions of the EU Foundation Contract. Thus all actual or potential expensed or decreased state incomes allocated by state aid donor, that disrupt or could disrupt market competition by giving market benefits to state aid recipient, regardless of the form of state aid, are considered to be state aid.

Prohibited state aids are those disrupting or potentially disrupting market competition by giving market benefits to state aid recipient, especially to the extent it could affect the realisation of internationally assumed obligations of the Republic of Croatia. Thus it refers primarily to Stabilisation and Association Agreement, and then to obligations assumed with entering the World Trade Organisation.

In its first annual report on state aids in the Republic of Croatia for 2003, that Agency prepared and delivered to Parliament for adoption, and to European

Commission according to Agreement obligations, the state aids are presented following the methodology in force in the EU.

State aid in the Republic of Croatia makes 3,2% gross domestic product, or 2,1% without agricultural aids, while in the EU it makes 0,56% GDP or 0,39% without agriculture (data for 2002).

The aid structure is also very different. In Croatia only 6,9% of aids refers to horizontal aims (research and development, environmental protection, small and medium entrepreneurship, employment, professional education, etc), in relation to 51% in the EU. Aids to specific economic sectors – transport, tourism, shipbuilding – make 51,2%, and in the EU around 21%. Those data show that harmonisation of state aid system with the EU system, considering legislation harmonisation, is far easier and simpler job than the one that follows. And that is harmonisation of aims/structures of state aids, that we have to raise to a level and scope which can be summarised as «smaller but more quality aids» as key part of the effective market competition required from member states by the European Council in Lisbon 2000. Thus, it is the question of an objective achievable only if state aids donors, bodies of central state government and local self government, understand and accept new state aid system established by the Agreement, and then by the Law on State Aids.

Conclusion

Market competition, including state aids in the process of rapprochement to the EU, is of extreme importance for timely preparation of Croatian entrepreneurs for business conditions in force at single European market. But approximation of Croatian legislation to the EU legacy whatever its importance could not be and is not the goal by itself. It is necessary to provide for simultaneous proper

application of that legislation by continuous strengthening of Agency for Market Competition Protection and appropriate preparation of Croatian legislative system to demands of those legal issues.

Furthermore, raising the consciousness and level of knowledge as well as information level of Governmental and other state bodies on importance and role of market competition rights and policy for further development of market economy in our country, its role in building of Croatian entrepreneurs' competitiveness, is equally if not more important than approximation of legislation to the EU legacy in that field.

Olgica Spevec
President of the Council for Market Competition Protection

How far have we got in harmonising laws and regulations?

Harmonisation of Croatian laws and regulations with the *acquis communautaire* is one of the requirements that the Republic of Croatia has to satisfy in achieving its target, i.e. full EU membership.

The main priority is the harmonisation of the Croatian laws and regulations in the field supporting economic reform – the “internal market”. The harmonisation of legislation began when the Stabilisation and Association Agreement (SAA) was signed, with priority issues as the starting point.¹ One of the characteristics of this process is the gradualness of implementation. Not only is this reflected in the timeframe of implementation, but also in the established stages and approach, of which the first one comprises fundamental fields of the internal market. The following stage embraces trade and relevant issues, while the third one, as the closing stage of this process, includes all other parts of the *acquis communautaire* specified in the SAA. The SAA has, therefore, set the frame for the legislation harmonisation process that ought to start working in practice by means of the appropriate measures. With a view to fulfilling the assumed commitments, the Implementation Plan for the Stabilisation and Association Agreement² has been adopted, as well as the National Programme for the Integration of the Republic of Croatia into the European Union, which was adopted a little later in 2003 for the first time. Taking the criteria for EU membership³ as a starting point, this document defines “European affairs”, including the elaborated normative activities within a one-year cycle. On the basis of this document, the legislation harmonisation process is co-ordinated on an annual basis and the needs of the institutional framework necessary for its implementation are defined.

The Opinion of the European Commission on the Croatian application for EU membership⁴ raises “the question of the capacity of Croatia to assume membership commitments, i.e. the *acquis communautaire* as established in the Contact, secondary legislation and EU policies.”⁵

After analysing the total of 29 chapters of the *acquis communautaire* within the framework of chapter III – Capacity to assume commitments deriving from membership, the European Commission assessed the Republic of Croatia as a country that had made great efforts to harmonise its laws and regulations with the *acquis communautaire*, particularly in the fields related to the internal market and trade. According to the general assessment, strengthening of administrative capacity to implement the legislation is to be made more dynamic, which is actually a must in the successful harmonisation of legislation. Taking into account the chapters of the *acquis communautaire*, on the basis of which the National Programme is being drafted from a legal aspect, and pursuant to the current legislation harmonisation process, the European Commission believes that in the medium term Croatia should not encounter any

¹ Stabilisation and Association Agreement, Art. 69 - 74

² Since 2004, the SAA Implementation Plan has been a part of the National Programme for the Integration of the Republic of Croatia into the EU

³ The criteria for EU membership is the basis for the structure of the National Programme

⁴ Published on 20 April 2004

⁵ Opinion of the European Commission on the Croatian application for EU membership, COM(2004) 257 final draft

significant difficulties in applying some of the parts of the *acquis communautaire*.⁶ In respect of other fields, such as free movement of capital, consumer and health protection, customs duty, taxes, and commercial law, the European Commission believes that Croatia will have to make significant and continuous efforts not only to harmonise but also to implement its laws and regulations. This assessment is significant from the aspect of the possible duration of negotiations for EU membership. In other words, membership negotiations are held in conformity with the 29 chapters of the *acquis communautaire*⁷, which makes this assessment indicative in terms of the time and content of the future negotiations.

Proceeding from the activities of legislation harmonisation in the field of the internal market, in the following short and medium-term period, Croatia must make further efforts to harmonise and implement its laws and regulations in the selected fields as follows:⁸

free movement of goods – with regard to this field, further harmonisation of legislation is expected in the field of technical legislation, food safety and public procurement. After the adoption of the framework, horizontal laws⁹, the following step will include the further transfer of the directives of the “new” and “old” approach into the Croatian laws and regulations, as well as the establishment of the institutional framework in the field of accreditation and standardisation. The adoption of the Food Act¹⁰ was the first step made by Croatia in the integral harmonisation of its laws and regulations with the Community law. A new model of the official food quality control was established pursuant to which veterinary and sanitary inspectors also perform the quality control that was formerly strictly under the competence of the State Inspectorate’s economic inspection. Furthermore, the Croatian Food Agency has been legally established with the competence of risk analysis, i.e. assessment, notification and co-ordination of risk management activities with regard to the medical validity of food and animal food. Public procurement is one of the first fields in which Croatia implemented the systematised harmonisation of legislation. Although this field has only been partially harmonised with the *acquis communautaire*, Croatian laws and regulations “*have been significantly following EU regulations*”¹¹, while further harmonisation with the latest EU Directives¹² in this field is expected by the end of 2004.

⁶ Statistics, industrial policies, financial and budgetary provisions, science and research, education and training, culture and audio-visual policy.

⁷ Out of 31 (the 2 remaining chapters that are not subject to negotiations are Institutions (30), and Other (31))

⁸ The stated fields have only been selected as examples and they do not represent the chapters of the internal market in their entirety (author’s remark)

⁹ Metrology Act (Official Gazette No. 163/03), Accreditation Act (Official Gazette No. 158/03), Act on Technical Requirements for Products and Conformity Assessment (Official Gazette No. 158/03), Standardisation Act (Official Gazette No. 163/03), Act on General Product Safety (Official Gazette No. 158/03)

¹⁰ Official Gazette No. 117/03

¹¹ Opinion of the EC, p. 58

¹² Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors;

Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

free movement of persons – following the Act on the Ratification of the Convention on the Recognition of Qualifications Concerning Higher Education in the European Region¹³, Croatia adopted the Act on the Recognition of Foreign Qualifications.¹⁴ This Act regulates the procedure and defines the requirements for the recognition of foreign educational qualifications, as well as parts of education, study periods or passed examinations, all in order to adopt the principles of the Lisbon Convention. Also, there is a difference introduced between the technical and academic recognition of a foreign educational qualification. In the field of social insurance, Croatian laws and regulations include all branches of social insurance also regulated by the *acquis communautaire*¹⁵, which implies that there is no unfavourable treatment of foreigners in respect of Croatian nationals. One of the crucial legislative measures in this field adopted in 2003 is the Aliens Act.¹⁶ This Act regulates foreigners' residence, the granting of visas, employment, the issuance of work permits and their annual quota. The categories of foreigners that, pursuant to the SAA, do not require a work permit¹⁷ have also been established, as well as *business permits* with the aim of allowing free movement of foreign workers in the Republic of Croatia that run their own business or make income as freelancers, etc.¹⁸ In its assessment of the conformity of regulations in this chapter, the European Commission emphasises the Croatian obligation to achieve complete conformity with the *acquis communautaire*, particularly in the fields of mutual qualification recognition, access to higher education, rights of residence, election rights and non-discrimination of workers migrating from EU Member States.

free provision of services and movement of capital – these chapters include banking and other financial services, non-financial services (law practices, notaries public, rights of establishment...), services provided by insurance companies and companies for the trading of stocks, firm representation, services in the information society, the protection of personal data, current payments, and prevention of money laundering. Generally speaking, these chapters are primarily defined by the Croatian National Bank Act¹⁹ and furthermore by the following Acts: Bank Act²⁰, Savings and Loans Cooperatives Act²¹, Insurance Act²², Act on Mediation and Representation in Insurance²³, Act on Building Society Saving and Government Incentives for Building Society Saving²⁴, Securities Market Act²⁵, Act on the Takeover of Joint Stock Companies²⁶, Investment Funds Act²⁷, Act on Compulsory and

¹³ Lisbon, 11 April 1997

¹⁴ Official Gazette No. 158/03; its application is postponed until 1 July 2004 by the Regulation of the Government of the Republic of Croatia on the amendments to the Act on the Recognition of Foreign Qualifications (Official Gazette No. 198/03)

¹⁵ Regulation 1408/71

¹⁶ Official Gazette No. 109/03

¹⁷ For example: key personnel in a company (defined by the SAA), founders, procurators, board members and supervisory board members in a company performing activities (that do not imply employment and last for a maximum of three months per year), university professors invited by Croatian universities, etc.

¹⁸ Art. 95

¹⁹ Official Gazette No. 36/01)

²⁰ Official Gazette No. 84/02

²¹ Official Gazette No. 84/02

²² Official Gazette Nos. 9/94, 20/97, 46/97, 116/99, 11/02)

²³ Official Gazette No. 27/99

²⁴ Official Gazette Nos. 109/97 and 76/99)

²⁵ Official Gazette No. 84/02

²⁶ Official Gazette Nos. 84/02 and 87/02 and 120/02

²⁷ Official Gazette Nos. 107/95, 12/96 and 114/01

Voluntary Pension Funds²⁸, Foreign Exchange Operations Act²⁹, Civil Obligations Act³⁰, Electronic Commerce Act³¹, Electronic Signature Act³², Personal Data Protection Act³³, Act on the Prevention of Money Laundering³⁴ and National Payment System Act³⁵. The aforementioned acts include to a certain extent the normative contents of EU directives, taking into account that some provisions will become subject to harmonisation and application as of the day of accession to the European Union.³⁶ Furthermore, free movement of capital regulates the right of acquisition of real estate ownership for foreign natural and legal persons, and this is also one of the fields to be subject to harmonisation with the *acquis communautaire*. In the coming medium-term period, national legislation and its supervisory framework will be subject to further harmonisation and an increase in implementation capacity, as well as to the completion of the money laundering prevention system. By the end of the year Croatia plans to proceed with the harmonisation of legislation in the field of savings deposit insurance, interest, insurance, and firm representation.

company law – with regard to company law, the European Commission believes that Croatia must ensure complete transparency of the register of companies and must try to reduce the duration of the company registration procedure. The field of the harmonisation of Croatian company laws with the *acquis communautaire* are the provisions of the following directives: First (68/151/EEC), Second (77/91/EEC), Third (78/885/EEC), Sixth (82/891/EEC), Eleventh (89/666/EEC), Twelfth (89/667/EEC) and the latest Thirteenth Council Directive on company law, as well as the Council Regulation on the European Economic Interest Grouping (2137/85).³⁷ The harmonisation is partial, but only to the extent to which the provisions, strictly relating to EU Member States, have not been implemented in the Act on Amendments to the Company Act, and the provisions whose application has not yet been completely appropriate and whose number is basically irrelevant. With regard to the part, for example, relating to the provisions of the First Directive on company law, there has been further harmonisation of the provisions regarding the right of third parties to have access to information stated in the company register. Also, the provisions of the Company Act relating to the implementation of the provisions of the Third Directive on company law regarding company integration have been updated, as have the already implemented provisions of the Eleventh and Twelfth Directives on company law. The greatest modifications in respect of the

²⁸ Official Gazette Nos. 49/99, 63/00, 103/03)

²⁹ Official Gazette No. 96/03

³⁰ Official Gazette Nos. 53/1991, 73/1991, 111/1993, 3/1994, 107/1995, 7/1996, 91/1996, 112/1999 and 88/2001

³¹ Official Gazette No. 173/03

³² Official Gazette No. 10/02

³³ Official Gazette No. 103/03

³⁴ Official Gazette Nos. 69/97 and 117/03

³⁵ Official Gazette No. 117/01

³⁶ For example, provisions of the Bank Act whereby the operation of branch offices and the provision of banking and other financial services by EU Member States' banks are regulated

³⁷ The Company Act that became effective as of 1 January 1995 is a broad example of the harmonisation with the *acquis communautaire* since it is based on the equivalent German act already including relevant regulations of the *acquis communautaire*. By adopting the Act on Amendments to the Company Act on 14 March 2003 (effective as of 1 January 2004) Croatia took a significant step in modernising its company law in line with the experience and practice of the countries with a developed market economy, i.e. EU countries. In addition, amendments to the Company Act, i.e. its harmonisation with the relevant EU regulations, created grounds for Croatian companies to adjust themselves to the "rules of the game" that they will have to face if they wish to operate in the EU Member States by establishing daughter companies, i.e. the "rules of the game" that will become the legitimate legal framework of their conduct once Croatia becomes a full member of the EU.

1995 Company Act in terms of harmonisation of Croatian laws and regulations with the *acquis communautaire* have been made by means of harmonisation with the provisions of the Second Directive on company law, and immediately afterwards with the Sixth Directive on company law whereby a whole new chapter, regulating company classification, was implemented in the Company Act, and by means of partial harmonisation with the provisions of the Council Regulation on the European Economic Interest Grouping whereby an Economic Interest Association was included in Croatian company law as a special form of a company. In terms of company establishment, the greatest modification refers to the increase in the minimum stock capital necessary for the establishment of a joint stock company. The Corporate Management Code of the Company Act, the adoption of which is expected by the end of the current year, needs to be added to the aforementioned.³⁸ The future Code is expected to take into account corporate management rules issued by the OECD³⁹ and revised this year, the positive experience of countries with a developed capital market, as well as appropriate studies on corporate management rules elaborated within the framework of and for the needs of the European Commission (EC). In a certain manner the aforementioned also implies the harmonisation of Croatian company laws with European law in the field of corporate management rules.

The harmonisation of legislation can never be considered as the mere copying of Community regulations. It is important to emphasise the great significance given to respecting the national legal system in the process of harmonising Croatian laws and regulations with the *acquis communautaire*. The adjustment of the legislation would most certainly be impossible without the appropriate and simultaneous construction of new institutions, or the restructuring of existing institutions, and the reform of justice and government administration. The requirements that the integration process places before the government administration in Croatia are clear: they are contained in the so-called Madrid criteria, and the principles of the European administrative space. The European administrative space implies a series of principles⁴⁰ applied in the organisation and functioning of the government administrations of the Member States.⁴¹ Therefore, the strengthening of administrative capacity as a continuous process represents a central element and an indicator of success in both approaching and maintaining EU membership.

The number of remaining commitments with regard to the harmonisation of legislation is one of the most frequently asked questions. The membership negotiations will begin with screening⁴². The main target of this procedure is the assessment of the conformity of national legislation with EU regulations to the extent that will enable the free adjustment of the future member state to the *acquis communautaire* after accession to the European Union. In the fields already harmonised with the *acquis communautaire*, what will be tested is the capacity of the national structures and procedures to implement the *acquis*.⁴³ In the fields not

³⁸ The Act on Amendments to the Company Act has set standards for the adoption of such a code in the new Article 272a. Having drafted this code, the Republic of Croatia will be included in the group of countries that apply special rules of corporate management.

³⁹ Organisation for Economic Co-operation and Development

⁴⁰ ...although they are not an integral part of the *acquis communautaire*

⁴¹ These principles are grouped in the following units: reliability and predictability, openness and transparency, responsibility, rationality and efficiency of the government administration.

⁴² Analytical review and assessment of the national legislation.

⁴³ "capacity to implement"

completely harmonised with the *acquis*, the methods and timetable for achieving full conformity will be assessed. If the achieved level of conformity is not satisfactory, this issue will be transferred to the negotiation procedure.

The status of the national legislation after the screening has been completed will be the basis for the elaboration of the negotiating positions and agreements about the dynamics of harmonisation. All these fields, revived in the form of proposals of legislation and subordinate legislation, with the accompanying timetable for their adoption, will be included in the National Programme. The aim is to dynamise all necessary activities in order for the Republic of Croatia to be ready for full EU membership as of 2007. There are no speculations about the date when the Republic of Croatia will become a full EU member since the achievement of such a target does not strictly depend upon its actions and capacities, but mainly upon the EU decisions on the dynamics and scope of the EU accession process. However, it is our intention to take all possible steps to ensure an organised, planned, efficient and, of course, fast approach and final accession to the European Union.

Tamara Obradović, Assistant Minister for European Integration
Božo Prelević, senior advisor in the Ministry for European Integration

TRADE ASPECTS OF THE STABILISATION AND ASSOCIATION AGREEMENT

Unfavourable tendencies deepened

The free trade zone between the Republic of Croatia and the European Union established by the Stabilisation and Association Agreement has been implemented for three consecutive years on the basis of an interim agreement. The interim agreement regulates precisely trade issues and related provisions. The creation of the free trade zone has been implemented asymmetrically, as Croatia continues to use the completely free, no-tariff access to the EU market, with the obligation of gradually opening its market for products originating in the EU in the transitional period of five years. As of 1 January 2007 all industrial products will be exchanged free of tariffs both ways, and a high level of liberalisation will be achieved in the sector of agricultural and food products.

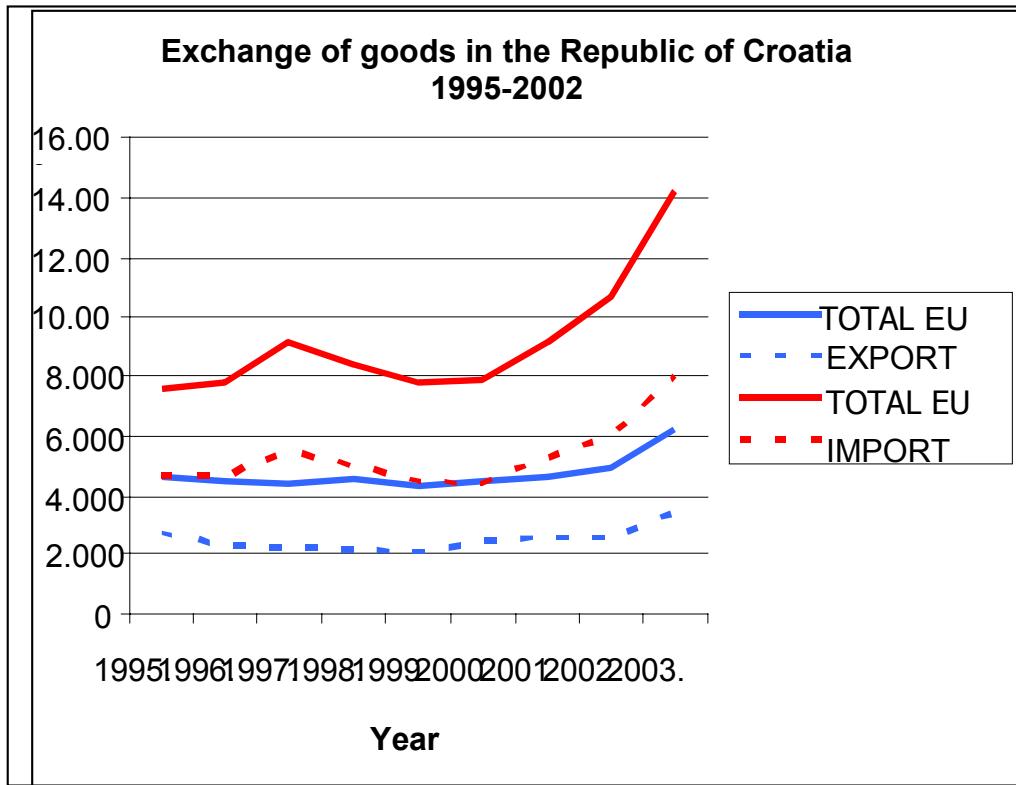
The EU is traditionally the most significant trade partner of Croatia, with a share of about 55% both in export and in import. Despite favourable trade benefits that the EU has granted Croatia since the early eighties, initially within agreements concluded with the former state, then in the framework of autonomous annual trade benefits, and finally by the completely free access to the EU market encompassed by benefits laid down by the stabilisation and association process implemented in the SAA, Croatia has not been successful in retaining, let alone increasing, its share in the EU market. It was more profitable to export into the market of the former eastern block in the eighties, and to place products in the Yugoslavian market. In the early nineties, the production of goods decreased by half due to war and war damage, and also as a result of transitional and privatisation processes, while the latter half of the nineties has been marked by a cessation of war operations in neighbouring countries, and Croatian export has focused mainly on these countries, primarily BH, but also Serbia-Montenegro.

Croatian export to the EU has thus been stagnating for a number of years, revolving around the figure of 2.5 billion dollars. While other countries of Central and Eastern Europe more than doubled their exports to the EU in the last decade, the Croatian share in the EU market has decreased from 0.34% in 1993 to only 0.19% in 2001. Simultaneously, imports increased significantly in comparison to exports, and the trade deficit with the EU amounts to 60% - 70% of the total Croatian trade deficit. Overall Croatian exports are also marked by stagnation, revolving around 4.5 billion dollars for years (the high growth rates of exports and imports in 2003 should not be misinterpreted, since this is the result of a significant dollar devaluation, from an average annual value of 7.86 HRK in 2002 to 6.70 HRK in 2003, i.e. a 15% fall). A certain shift of focus to other destinations has been observed, mainly through an increase of export to neighbouring countries like BH and Serbia-Montenegro.

Croatia has liberalised its external trade in a very short time, on a wider scale by joining the WTO, and regionally by concluding a large number of agreements on free trade, including the interim implementation of the SAA. This has significantly improved the placement of Croatian goods in the markets of over thirty countries; however, for the time being there are no indicators that this opportunity has produced any results. This is particularly true of Croatian exports to the EU, where traditional advantages of Croatian products have “melted away”; and owing to the lack of “greenfield” investment and transfer of knowledge and skills, as well as to the generally insufficiently stimulating business environment, new, sophisticated products have not been created. Without initiating production and creating new products, as well as increasing competitiveness, Croatian exports do not have much chance of increasing.

On the other hand, by the liberalisation of external trade, competition on the domestic market has intensified significantly, imports have escalated, and the deficit resulting from the exchange of goods is increasingly harder to cover by the surplus from the services sector, seriously endangering the external solvency of the country.

The facts of the total exchange of goods of Croatia in 2003 show that negative trends from previous years have deepened further, and imports again increased in comparison to exports, resulting in an escalating deficit. Although exports to the EU have increased by 4.4 points in 2003, this is probably the result of a significant devaluation of the dollar, used as the indicator in official statistics. It is still too early for the 2004 forecasts, but it is worth mentioning that in the first quarter of this year, for the first time after a long period, the export growth rate has surpassed the import growth rate, including in the EU exchange segment, but with a lower intensity than average.



Industrial products

Most of the exports to the EU have been generated by the industrial sector, with a share of about 97% in 2000 and 93% in 2003. Although on a small scale, the export of agricultural and food products to the EU has been increasing dynamically, from 70.4 million in 2000 to 233.3 million in 2003, resulting in an overall larger share of exports to the EU.

Croatian industry still does not show a structural shift towards a modern and sophisticated production, and this is reflected in the total export structure, and within it the exports to the EU. Croatian exports are based on the traditionally strong sectors in both production and raw material, in which Croatia previously had comparative advantages, like in the production of clothes, wood products, leather products, transport (ships and boats), electrical appliances and machines. However, the share of most of the listed products is gradually decreasing in

exports to the EU, particularly clothes, shoes and wood products, shown in detail in the table below.

**THE MOST SIGNIFICANT EXPORT PRODUCTS TO THE EU COUNTRIES -
STRUCTURE**

HS Chapter	NAME	2003	2002	2001	2000	1999
89	SHIPS, BOATS	14.3	12.0	15.5	12.3	5.4
62	CLOTHES, EXCEPT KNITTED AND CROCHETED	8.1	10.0	10.2	11.3	15.7
85	ELECTRICAL APPLIANCES, ACCESSORIES AND PARTS	10.4	9.2	7.2	7.7	7.2
61	KNITTED OR CROCHETED CLOTHES	8.3	8.2	7.5	6.7	7.5
44	WOOD AND WOOD PRODUCTS	6.2	6.3	6.3	7.2	8.5
84	MACHINES	5.9	5.9	5.5	5.5	5.0
64	SHOES AND SHOE PARTS	4.4	5.4	6.2	6.2	8.0
27	MINERAL FUELS AND LUBRICANTS	4.4	4.6	5.7	5.6	4.0
94	VARIOUS PRODUCTS (FURNITURE)	4.2	3.9	3.8	3.2	3.8
39	PLASTIC MATERIALS AND PRODUCTS	3.5	3.9	4.2	5.6	6.7
29	ORGANIC CHEMICAL PRODUCTS	2.1	3.7	2.7	4.1	4.2
73	IRON AND STEEL PRODUCTS	2.7	2.9	2.6	2.5	2.8
76	ALUMINIUM AND ALUMINIUM PRODUCTS	2.1	2.8	3.0	3.6	2.7
	Export to the EU	100%	100%	100%	100%	100%

Source: Central Bureau of Statistics, analysed by the Croatian Chamber of Economy

At the time when the Croatian export of textile and clothes was burdened by quotas, the export of these products amounted to a third of the Croatian exports to the EU, whereas it has decreased by half today. The agreement on textiles according Croatian textile and clothes products a completely free access to the EU market has been implemented for four years now, but without the expected results. Moreover, the export of these products is far below the average growth rates for export to the EU. Competition in the EU market is increasingly fierce, and when the EU abolishes quotas for the import of textile and clothes that it has had for years with certain countries, in accordance with the textile agreement of the WTO on 1 January 2005, which is practically tomorrow, competition will be

merciless, endangering the position of the Croatian textile industry in this market even further.

Agricultural and food products

Since the end of 2000 exceptionally favourable tariff preferences have been applied in the EU to agricultural and food products originating from Croatia (and other countries encompassed by the stabilisation and association process). These products are imported into the EU without tariffs and quotas, with the exception of three groups of products - beef, wine, fish and fishery products, for which preferential tariffs are applied according to quotas. However, an increase in the export in this period has been observed only in sugar, while the amount of export for all other products and their structure has not changed in comparison to previous years. Since the export of sugar was related to unfounded certificates of origin issued in some cases, to which the EU responded with appropriate countermeasures, the export of sugar will probably decrease in 2004 in relation to the two previous years, as is already indicated by data obtained for the first quarter of 2004.

Tariff quotas for the three groups of products mentioned earlier were not the real obstacle for the export of these products as they remained unused, with the exception for the fish sea bass (100% used). The quota for wine has been utilised up to 50%, and a somewhat smaller percentage was utilised for canned fish. The export of baby beef is minor in relation to a decade ago, when this was a significant export product of Croatia.

Of the total amount of agricultural and food products exported, only about 25% - 30% is exported to the EU. Alongside a dynamic import of agricultural and food products from the EU, the negative balance in the exchange of these products with the EU is constantly on the increase. Exposure of this sector to foreign competition is a result not only of decreased tariff protection but also of the

import of highly subsidised EU products. Most complaints in this respect were voiced by domestic cheese producers, since the import of subsidised cheese from the EU and other European countries has been doubled, where domestic producers cannot compete with prices, paying a much higher price for milk. In negotiations about Protocol 7 the agreement was achieved that subsidies to the entire export of cheese from the EU will not be applied in relation to Croatia, which will decrease the competitive pressure on domestic producers.

It is worth mentioning that after the expansion of the EU, agricultural and food products originating in Croatia have a completely free access to the markets of new member states, as opposed to the symmetrically established concessions in former contracts on free trade with these countries. Accordingly, Croatia has a chance to increase the share of its agricultural and food products in its entire export to the EU. More favourable opportunities have been created for a wide range of products like chocolate, dairy products, meat and meat products, fish products, milling and bakery products, drinks, cigarettes etc.

Conclusion

Despite exceptionally favourable trade benefits, Croatian export to the EU market is gradually falling behind, in its inability to compete successfully with products not only from transitional countries, but from the whole world. The expansion of the EU by ten new countries will further strengthen its internal market. Due to the abolition of tariff and non-tariff barriers, trade between the acceding countries and previous members will grow further. These trends could result in the shift of trade in relation to third countries outside the EU borders. Croatia and other countries who have a very favourable non-tariff access to the EU market based on the stabilisation and association process, could be less affected by this than other “third” countries of Europe, but this again depends on the competitiveness of Croatian exporters in using these advantages.

The expected increase in productivity and decrease of individual costs, as well as continual privatisation, will make the acceding countries more attractive for the inflow of foreign investments, which could negatively influence countries outside the borders of expanded Europe. Even if foreign investments in these countries do not subside, negative effects on the structure of foreign investments are possible as well as a deterioration in their sectoral imbalance. In order to decrease the possible negative effects, it is necessary to strengthen crucial presumptions for attracting foreign investments.

It must be mentioned that even at the last **Interim Meeting** held on 26 May 2004 in Zagreb, no decision on including Croatia in the Pan-European cumulation of origin was reached, having a further negative influence on Croatian exports to the EU, and moreover discouraging EU partners from co-operation with Croatian companies. Furthermore, involvement in the Pan-European cumulation of origin is one of the elements of a desirable investment climate and stimulating business environment for countries integrated into the European free trade zone.

And finally, one of the significant elements of competitiveness in relation to transaction costs in trade with the EU is the conformity of technical legislation and norms, which also contributes to simplifying trade and improving access to the market. Article 73 of the SAA encourages Croatia to undertake necessary measures for a gradual harmonisation with the technical legislation of the Community and the European standardisation, metrology and authorisation, as well as with procedures for the conformity assessment, and intense activities must be undertaken in this respect.

Biserka Pauković
Croatian Chamber of Economy

New initiatives

Sensitising the public to the necessity to export

Croatia is one of the few European countries that does not have an association whose task is the promotion and representation of the interests of Croatian exports. Far be it that one association can solve all the problems exporters have, but its non-existence is still indicative of the lack of our awareness of the importance of exporting. In talks with business people, bankers, representatives of the authorities or with common people, the most common answer is a rhetorical question: "Why export when we are fine like this". This is probably one of the reasons why exports from Croatia in the past ten years or so have been stagnant, while imports have been increasing at a double-digit rate. Unfortunately, that answer is not only wrong, but in the long term is dangerous for the economic stability of Croatia.

National prosperity is the task of every country, of every government, but it is also the social responsibility of every management. For a country the size of Croatia, a synonym for prosperity is - exports. Due to a lack of capacity for an economically viable production of large numbers of goods and services which are necessary to meet standards, small markets are necessarily oriented towards imports, and the goods which are imported in the long term cannot be paid for from the sale of national treasures or additional indebtedness, but only by selling its own, competitive goods and services abroad. A question clearly arises here - what does it mean to export competitively? The answer is very simple: it means to export without direct incentives and losses. Just over 20% of total exports from Croatia are achieved by companies which have had not only incentives, but losses as well, for years. This fact in itself suggests that the Croatian economy is in great difficulties.

What should we do to increase exports? This question has been answered, not only in Croatia, but also in the whole world, by a number of studies, analyses, suggestions and similar documents, which are available, almost free of charge, to anyone who wishes to study them. So why aren't we increasing our exports?

The answer is very simple. It is not sufficient to know **what**, which is surely necessary, but it is much more important to know **how**. The most graphic example is the building of large ships in Croatia. No one can deny that it is clear what needs to be done in Croatian shipbuilding. What needs to be done is a ship at a price, deadlines and quality defined by contract. But how to build a ship and not have a loss at the end of the year, acknowledging all the problems which shipbuilding is burdened with, is apparently known in only one of our

shipyards. It would be wrong to conclude that the other shipbuilders do not know how. The right conclusion is: "Croatian shipbuilding needs to know how to help solve the problems that have been accumulating over the years."

Croatian exporters do not intend to hide the situation of Croatian exports from the public, but at the same time they also do not intend to dramatise it.

The fundamental aims of the activities of the Association of Croatian Exporters are:

- promotion of Croatian exports, Croatian products, goods and services;
- stimulating Croatian exports in all forms and in all markets;
- promotion of the business quality of Croatian exporters;
- constant analysis of and attention given to the Government's proposals that have an effect on Croatian exports;
- taking all necessary actions to hear the opinion of Croatian exporters before bringing decisions connected to exports;
- the creation of a legal and public system to enable members to state their opinions and proposals which have a direct effect on improving Croatian exports ;
- the promotion of competitiveness of Croatian goods and services with the aim of achieving long-term exports without increasing indebtedness, with a realistic increase in personal incomes;
- application of European norms and standards in business;
- raising the awareness of Croatian citizens about the necessity to export, the significance of exports for the overall economy of Croatia, as well as their contribution to the betterment of all the citizens of the Republic of Croatia.

If we objectively view the problems of exports through the eyes of a company, we are free to say that there are internal and external obstacles to increasing exports.

Some of the internal obstacles are the unwillingness of management to undertake the export adventure, the lack of information about the opportunities to export and about export markets, the lack of foreign language knowledge, the disregard of cultural barriers, and the lack of knowledge and experience in exporting. It is the duty of enterprises and their management to overcome these obstacles.

The better education of experts oriented towards exports and participation in the costs of their education, favourable loans for exports, profit tax exemption for exported goods, promotional activities connected to exports, more favourable loans for the preparation of production, participation in the development costs of export products, the taking on of exchange risks, the

easier acquisition of tender guarantees and other bank guarantees, insurance policies, arranging imports into one's own country with the aim of protecting domestic production, especially production that leads to active exports, etc., are just some of the mechanisms used by all of the countries of the world, with the ultimate objective of increasing exports. To solve these external obstacles, help is needed from the state and the Government of the Republic of Croatia.

Only through the systematic and dedicated work of everyone in the chain responsible for exports can we expect a more significant increase, and with this, growth in the standards of Croatian citizens. If the Association of Croatian Exporters even partly succeeds in achieving the said goals, and first and foremost in sensitising the Croatian public to the necessity to export, then it can be said it has accomplished its mission.

Darinko BAGO
President of the Association of Croatian Exporters

Croatia and the EU
Ante GAVRANOVIĆ, editor

Without reserve, but without alternative as well

I belong to a circle of people considering themselves assured eurorealists. Thus, I do not expect "milk and honey" flowing after our admission to the big European family. On the contrary, I am aware of the fact that only "sweat, work and renouncement" could give us true legitimacy in that society and the most important part of our job is just ahead. Though I never liked big words, neither as a journalist I ever bragged about with them, at the moment of Croatia's nomination for future full admission to European Union I have had an impression that it is a historical event and turning point for our country.

Why? There is no country entering EU that expressed a wish to get out of it. There is no country entering this family that has weakened since. On the contrary, it has strengthened in economic, political and social way. The best examples are Ireland, Spain, Portugal and Greece. After all, Erhard Busek, Chief Coordinator of Stability Pact for the Southeast Europe and the man who directly managed the project for admission of Austria to the Union, has once said: "Yes, Austria lost 60.000 working places upon entering the EU, but the loss was compensated by 120.000 new working places."

That is that fascinating difference and part of the vision I also want to believe in when Croatia is in question and its future position within European Union. I understand individual sceptics. I understand fear from the unknown. I understand fear from being unprepared to accept criteria and standards that seem almost unacceptable in current balance between Croatian economic forces and its condition. But, there is no place for pessimism. Let's refer to Clausewitz, extraordinary strategist who used to say: "There is only one decisive victory - the last one". I believe we shall not lose that battle!

Thus, I have to admit, I do not understand to some extent paranoid fear by Eurosceptics, who think about interrelations in exclusively static manner, and do not try to visualize dynamic intercourse and behavior that will give Croatia its (right) place in the EU. Anyway let's recall that ten years ago Croatia significantly stood out from many countries that have entered European Union on 1st May this year. War and postwar problems have send us away from economic success, only temporarily I hope, that some former CEFTA countries achieved. From macroeconomic point of view even today, despite all, Croatia achieves better results than some of those countries. With diligence and reasonable economic policy of growth and development it should not make any insurmountable barriers. After all, relatively quick return of trust to Croatian tourism (that, by the way, no one expected) made us believe that "miracles happen". Why shouldn't we believe in another one?

It was really malicious that on the day the official Croatia's nomination for EU was confirmed, front pages of our newspapers talked about disastrous falling of interest for Croatia's admission to the EU. It is likely that no one has thought of political significance of such message (based on sample of 600 people). Has anyone reasonable asked a question: what alternative do we have?

Stories about us following the examples of Switzerland or Norway (which are not the members of the EU and are quite well off) are bedtime stories for small children, not serious

people who think about longterm perspective of their country. We should show more understanding for geopolitical and economic position of our country. Outwitting on "damage to national interests" is also one of the endless stories taking us back, and not opening clear perspectives. However, Croatia must open towards future.

Officialy confirmed nomination means that we have (finally) crossed Rubikon, no matter how dramatically it may sound. Now, all particles of Croatian society have to work hard wholeheartidly and show ability, but also necessary selfconsciousness. Because it is the self consciousness we need to clearly show that Croatia can, wishes and wants its place in the union of European peoples. Without reserve, but also without any alternative.