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Screening report

Croatia

Chapter 20– Enterprise and industrial policy

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I. CHAPTER CONTENT

The *acquis* under the enterprise and industrial policy chapter consists largely of **policy principles** and policy recommendations which are reflected in communications, recommendations, and Council conclusions. These are also subject of consultation forums and exchange of good practice measures. Enterprise and industrial policy comprises **policy instruments**, including financial support and regulatory measures, as well as **sectoral policies**, including recommendations for more targeted enterprise policy review/analysis and consultations. Overall, EU enterprise and industrial policy is strongly driven by the renewed Lisbon strategy for growth and jobs.

By establishing general **policy principles**, EU enterprise and industrial policy seeks to promote the formulation of competitiveness enhancing enterprise policies and industrial strategies. These are geared towards speeding up structural adjustments, encouraging an environment favourable to business creation, domestic and inward foreign investments, promoting the development of small and medium-sized enterprises (SME), entrepreneurship and innovation. More specifically, EU SME policy is characterised by policy recommendations and joint policy review mechanisms such as the European charter for small enterprises process as well as a common SME definition.

Enterprise and industrial **policy instruments** comprise Community programmes to provide financial support for competitiveness (including improved access to finance), innovation and information society (notably through the Multi-Annual Programme for SME (MAP) until 2006, and the Competitiveness and Innovation Programme (CIP) from 2007-2013). It also includes Directive 2000/35/EC combating late payment in commercial transactions, which Member States need to transpose into national legislation.

Through its enterprise and industrial **sectoral policies**, the EU promotes a more targeted analysis of the competitiveness of specific sectors and the launch of specific initiatives such as the creation of high-level groups, policy forums, studies and expert panels in certain sectors as well as networking initiatives.

The implementation of enterprise and industrial policy requires adequate administrative capacity at the national, regional and local level, including efficient consultation and cooperation mechanisms for a quality and effective policy formulation and implementation.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Croatia and the discussion at the screening meeting.

Croatia indicated that it can accept the *acquis* regarding enterprise and industrial policy. Croatia indicated that it does not expect any difficulties in implementing the *acquis* by accession.

II.a. Enterprise and industrial policy principles

Croatia has prepared a number of economic policy and strategy documents (National programme for EU integration, Pre-accession Economic Programme, National Development Programme, Strategic Framework for Development, Economic and Fiscal Policy Guidelines etc.) stemming from and driven largely by its engagement with the EU (pre-accession

process), the IMF (stand-by arrangement) and the World Bank (programmatic adjustment loan - PAL) and. These policy documents currently provide Croatia's economic policy framework aiming at ensuring macro-economic stability, promoting growth and development, enhancing structural reforms and strengthening overall competitiveness (including through privatisation and restructuring, SME support, research and innovation).

However, Croatia has so far not prepared a comprehensive industrial policy strategy paper yet but aims to do so by the end of 2006. At 20 % of GDP, Croatia's industry is comparatively small, and across several sectors it is in strong need for restructuring.

Upon the initiative of business, Croatia established the National Competitiveness Council in 2002 including representatives from government, trade unions, business and academia. The main tasks of this advisory/consultative council are to strengthen the dialogue between the public and private sector, to coordinate research into the country's competitiveness (bi-annual competitiveness report) and to make recommendations (e.g. '55 recommendations' report of 2004).

Croatia has introduced the concept of one-stop-shop through its HITRO.HR programme, which aims at improving business services and simplifying the businesses' dealings with the administration. This has for example allowed reducing the company registration procedure from an average of 3-4 weeks to 5 days, according to Croatian data. Within the framework of this programme, a fully fledged 'better regulation/deregulation' strategy is planned. In June 2006, Croatia introduced an on-line crafts registration service, 'e-crafts', as well as the 'Business Navigator' web system, which includes information on business services for small and medium enterprises in a single place.

Croatia is implementing a number of innovation programmes with the most important one being the Croatian Programme for Innovative Technological Development (HITRA) supporting industrial R & D measures. Institutions relevant for the innovation policy include for example the technology council, the business innovation centre of Croatia (BICRO) and the Council of the Croatian innovation system. Croatia plans to establish an Innovation Relay Centre within the Croatian Chamber of Commerce by 2007.

In relation to SME policy, the Small Business Encouragement Act establishes a Croatian Agency for Small Business (HAMAG), which mainly runs financial incentives schemes, and it establishes the Croatian SME definition already largely in line with the EU definition (a further revision of the act in the second half of 2006 aims at full alignment). Croatia participates in the European Charter for Small Enterprises process. In this context, the country has recently been commended for some particularly positive results, amongst others, with regard to education for entrepreneurship, business support services and cheaper/faster start-ups. Through the SME Promotion Programme, Croatia supports the improvement of the business environment (e.g. better regulation, entrepreneurial zones etc.). Croatia is part of the EIC (Euro-Info-Centres) network.

Croatia runs consultation mechanisms for the formulation of enterprise policy on an ad-hoc and not permanent basis. It is worth noting that Croatian business representatives take part as permanent external members in parliamentary working committees (i.e. the Committee on the Economy, Development and Reconstruction etc).

The main players involved in formulating and implementing enterprise policy are: Ministry of economy, labour and entrepreneurship, and line Ministries such as those in charge of science/research, education, tourism/transport, environment, agriculture; Agency for Small Business (HAMAG); FINA (state agency for business support running the HITRO scheme); Croatian Privatisation Fund; Croatian Bank for Reconstruction and Development;

Investment Promotion Agency; various councils (dealing with competitiveness, science & technology, education); various economic chambers and other business representative organisations.

II.b. Enterprise and industrial policy instruments

With the entering into force in August 2005 of the framework agreement on participation in Community Programmes, Croatia has initiated the process for participation in a number of Community programmes (e.g. 6th Framework Programme for R&D, Intelligent Energy Europe, etc.). It has signed a number of memoranda of understanding for the participation in specific programmes. Due to the short period remaining, Croatia is not taking part in the Multi-Annual programme for SMEs, but it has observer status in the Enterprise Programme Management Committee. Croatia gained experience in the implementation of projects under the EU's CARDS programme. In July, it initiated the official procedure for participation in the EU's Competitiveness and Innovation Programme (CIP) from 2007-2013. Croatia carries out specific training measures to prepare for the involvement in the CIP programme. According to the Croatian authorities, co-funding for the participation in Community Programmes until 2007 is secured.

Croatia has gained experience with implementing financial incentives schemes for enterprises notably through the 'incentives for success' programme (i.e. financial support for SME in tourism), the credit guarantee scheme run by the Agency for Small Business (HAMAG) and the loan and export credit insurance schemes for SME of the Croatian Bank for Reconstruction and Development (HBOR).

Croatia is transposing the EP and Council Directive 2000/35/EC on combating late payment in commercial transactions through a multitude of legal acts. Relevant provisions in the most important act, the Civil Obligations Act, enter into force in 2008.

II.c. Sectoral policies

Croatia applies a fully-fledged strategy in the strongly growing tourism sector, which, at 19.4% of GDP, is the country's single most important sector. In comparison, the overall industrial/manufacturing sector has a share of 20% of GDP. Furthermore, Croatia has prepared a strategy for the wood and wood processing industry.

Croatia has indicated its intention to finalise its overall industrial strategy by the end of 2006. This will include an analysis of specific characteristics and needs of individual sectors. Furthermore, Croatia is preparing a strategy for the development of the textile and clothing industry, which is to be finalised by the end of 2006.

Policy measures in support of enterprises in general or more specifically for SME (e.g. enterprise zones, research grants, etc.) mostly do not have a sectoral focus. The exception is the tourism sector and the wood processing industry, which benefit from more targeted support programmes (e.g. the 'incentives for success' programme, financial support for SME in tourism and in the wood processing industry).

In relation to its steel industry, Croatia has committed itself to produce a National Restructuring Programme (NRP) but has not delivered yet on this commitment. Work on the finalisation of the NRP, piloted by a high-level commission, is ongoing.

In relation to its shipbuilding industry, the Croatian government adopted a decision in December 2005 to establish a high-level group for the preparation of a draft national

restructuring programme and individual business plans for the Croatian shipbuilding sector. This group is being supported by independent consultants in their work.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Croatia has reached a satisfactory level of alignment with the *acquis*; it needs to finalise its industrial strategy and improve its capacity to assess industrial competitiveness and improve policy analysis and formulation with a more sector focus. It has to finalise its national restructuring programmes for the steel and individual business plans for the shipbuilding industries (see also chapter 8 competition policy). Croatia needs to complete full alignment with EC Directive 2000/35 on combating late payment in commercial transactions.

III.a. Enterprise and industrial policy principles

Croatia has produced a large number of policy documents relevant for business, which already largely respect/meet the EU enterprise and industrial policy principles. It has produced neither a comprehensive industrial strategy yet nor a detailed analysis of individual sectors. Croatia has indicated it would do so end 2006. This would increase the consistency, coherence and efficiency of policy formulation and implementation and facilitate/improve its coordination.

Croatia has a fair but growing capacity to analyse industrial competitiveness, which should be further developed. Policy consultation with business exists although only on an ad hoc basis.

Croatia's SME definition is largely in line with that of the EU.

III.b. Enterprise and industrial policy instruments

Croatia has not taken part in Community Programmes to date but it has taken adequate measures to prepare for full participation, i.e. signing of framework agreement and individual memoranda of understanding, general expression of interest for CIP programme, initiating of specific training measures, committing funds for co-financing. Relevant ministries have departments dedicated to EU programme management, which have already gained some experience with the Community CARDS programme. Accordingly, Croatia should be in a position to take part efficiently in relevant programmes in the short run. Croatia will have to demonstrate its capacity for an effective coordination of relevant ministries in the context of participation notably in the CIP programme.

Croatia has largely transposed the EP and Council Directive 2000/35/EC on combating late payment in commercial transactions; the only point requiring clarification is the issue for organisations representing enterprises and taking actions before national courts (Art. 3.5 of the Directive). Due to the variety of national transposing measures, a concordance table showing the different national transposing rules (including their translated texts) needs to be presented during the negotiations.

III.c. Sectoral policies

Croatia has a reasonable but growing capacity to assess the competitiveness of individual sectors and to formulate adequate enterprise policy measures in response to this analysis. The overall industrial strategy to be finalised in mid 2006, as reflection of this growing capacity, will need to be thoroughly assessed by the Commission. Overall, Croatia needs to

enhance its capacity to analyse sectoral competitiveness and formulate adequate and more focussed policy measures.

Croatia has a satisfactory capacity to take part in different EC sector-focussed initiatives such as high-level groups and other consultation forums.

There are a number of sectors in Croatia which are in urgent need of restructuring, notably the steel and shipbuilding industries as well as some restructuring in the chemical sector. The country will need to produce and to implement vigorously national restructuring programmes and relevant individual business plans primarily for the steel and shipbuilding sectors as soon as possible (see also screening report on chapter 8 competition policy).