

9 February 2007

Screening report

Croatia

Chapter 30 – External relations

Date of screening meetings:

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Bilateral meeting: 15 September 2006

I. CHAPTER CONTENT

The *acquis* in this field consists mainly of directly applicable EU legislation which does not require transposition into national law. This EU legislation results essentially from the EU's multilateral and bilateral commitments in the trade field, as well as from a number of autonomous trade measures. In the area of export credits and dual-use goods, some directives require transposition into national legislation.

In this context, applicant countries are required to progressively align their policies towards third countries and their positions within international organisations (e.g. WTO, OECD) with the policies and positions adopted by the European Union and its Member States.

In the area of humanitarian and development policy, Member States need to comply with EU legislation and international commitments and ensure the capacity to participate in the EU's development and humanitarian policies.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

Croatia indicates that it can accept the *acquis* regarding external relations and that it does not expect any difficulties to implement the *acquis* by the time of accession.

Croatia is prepared to align its legislation where necessary and assume the EU's commitments in this field by the time of accession.

Croatia is prepared to adopt upon accession all the *acquis* linked to the Common Commercial Policy. Croatia declares also that it will provide for adequate capacities so as to secure its participation in the EU's Common Commercial Policy as well as in the EU's development and humanitarian policies.

II.a. Common Commercial Policy

The trade policy of Croatia is determined by its membership in the WTO, the Stabilisation and Association Agreement (SAA) with the European Communities and its Member States as well as by its regional (CEFTA) and bilateral commitments. In this last respect, Croatia is presently a party to eight free trade agreements, including the SAA.

Concerning WTO membership, Croatia benefits from a transitional period ending in 2007 for its final bound customs duty rates on certain agricultural products. Regarding services, Croatia has undertaken commitments in 11 sectors. Upon accession to the EU, the Croatian "schedule of specific commitments in the Trade of Services" will be amended in the part referring to the common commercial policy of the EU, whilst the part of the Croatian schedule falling within the Member States competency will be built into the schedule of specific commitments of the EC and its Member States. In view of a specific request from Croatia, the Commission is prepared to provide assistance in this context. Regarding the Government Procurement Agreement (GPA), Croatia undertook to start, after its accession to the WTO, negotiations for its GPA membership but has not started them yet.

The Trade Act represents the main legal basis regulating the external trade policy of Croatia. It will be maintained until Croatia's accession to the EU.

Unlike the EU, Croatia has no "Trade Barriers Regulation". Croatia states that it is fully prepared to apply Council Regulations (EC) 3286/1994 and 356/1995 on trade barriers at the time of accession.

The trade defence instruments (anti-dumping, countervailing and safeguard measures) in Croatia are based on WTO rules and are largely similar to the rules applicable in the EU. In the area of trade defence measures, Croatia declares its readiness to apply the relevant Council Regulations on trade defence instruments, including the measures enacted pursuant to such regulation.

Croatia does not grant autonomous preferences but is a beneficiary of the Generalised System of Preferences (GSP) schemes of other countries (Australia, Canada, Japan, New Zealand, the USA, Russian Federation, Ukraine, Belarus and Kazakhstan). Croatia states that it will be ready to fully adopt the *acquis* related to the EC GSP scheme at the time of accession. Preparations in this context are ongoing – the business community, government representatives and relevant institutions are in a process of being familiarised with the EC GSP.

On textiles, imports are subject to customs duties only (i.e. no quotas or surveillance measures). Croatia has no textile agreement system with third countries. Croatia confirms that it will apply the entire EC textile trade legislation upon accession.

Export credits

Since 1998, the state-owned Croatian Bank for Reconstruction and Development (HBOR) has been carrying out export credit finance and insurance activities on behalf and the account of Croatia. One of the principal tasks of the HBOR is to support the country's exports; Croatia guarantees for its borrowings and insurance cover. All substantial details concerning the work of HBOR, e.g. types and conditions of export transactions which may be insured, the minimum own risk of the insured etc., are laid down in the existing legal framework.

Croatia states that it is planning to align with the EC legislation by repealing the existing legal framework on the HBOR. The new legislation aims for ensuring compliance with the EC legislation by establishing competence of the government to legislate in this field. The new legal framework will contain provisions to the effect that HBOR shall insure non-marketable risks on behalf, and for the account of the State, and that the government shall adopt a new regulation on export credit insurances. Subject to the approval of the Croatian Competition Authority (CCA), the government and the final adoption by the Parliament, HBOR as insurer aims to act in accordance with the *acquis* by mid-2007. As regards the premium rates applied by the HBOR, Croatia is prepared to align its level with the prescribed EU rules for minimum premium from the date of Croatia's EU Membership.

Dual-use goods

According to the definition laid down in the Croatian legislation, dual use items mean “items, including software and technology, that may be used to civilian and military ends and goods that may be used for non-explosive purposes, but that may also in any manner facilitate the production of nuclear weapons or other nuclear explosive devices”. In the last years, Croatia has largely aligned its legislation on dual use goods with the legislation of the EC. The legal framework, including e.g. ordinances on the application form for issuances of export licence, has been prepared in compliance with the *acquis*. Croatia has committed itself to adopt by the end of 2006 a new regulation on the list of dual-use items in accordance with Council Regulation No 394/2006 of February 2006. An amendment is underway to align Croatian legislation with the EU Joint action CFSP 401/ 2000. This Joint action defines that legislative acts of Member States must contain basic principles regarding firstly the control of technical assistance involving persons crossing the Croatian border, and secondly includes dual use technologies aimed at a military end use.

The Ministry of the Economy, Labour and Entrepreneurship (MELE) is responsible for the export control as regards dual-use items. It issues export licenses pursuant to a proposal of a committee consisting of representatives of almost all ministries and the intelligence service, which runs a check of the end user. The existing legislation prescribes the so called “catch-all” control system, which is not primarily based on the control list but on the end use or the end user. This means that export licenses are also necessary for the export of goods not listed when the MELE informs the exporter that the goods could be used for the production or proliferation of chemical, biological or nuclear weapons. Croatia has taken a number of measures in order to implement the legislation, for instance seminars for civil servants and employees of the industry sector. With the aim of improving the transparency, the Croatian government intends to establish a website with instructions for exporters. Croatia is, however, aware that further improvement is needed, namely with regard to the training of workers employed in the export control of strategic goods.

Croatia states that on the date of the accession to the EU, it will apply the common dual use control system of the EU and the existing Act will be repealed. Prior to accession, Croatia intends to adopt a new Act which will determine a responsible authority for implementing the *acquis* in this field as well as measures for its normal and effective implementation.

II.b. Bilateral agreements with third countries

Croatia currently applies Free Trade Agreements (FTAs) with the EU, Albania, Bosnia and Herzegovina, Moldova, Montenegro, Serbia, UNMIK/ Kosovo, Turkey and EFTA countries. Furthermore, Croatia is a member of CEFTA¹ (Central European Free Trade Agreement). These FTAs cover trade with 38 partners and over 80% of foreign trade is carried out within this framework.

Since 1992, Croatia has signed 36 agreements on trade and economic cooperation with 35 countries. Besides neighbouring countries, Croatia applies currently such agreements with, for instance China, India, Indonesia, South Korea, South Africa and Turkey. The objective of these agreements is to create favourable conditions for long-term trade and economic cooperation.

Croatia has concluded bilateral agreements on the promotion and reciprocal protection of investments with 21 EU Member States providing guarantees for the protection of foreign investments. Croatia has also concluded 34 Bilateral Investment Treaties (BITs) with non-EU countries (e.g. Argentina, Canada, China, India, South Korea, Turkey and the USA).

Croatia confirms that upon its accession to the EU, it will apply the trade agreements that the EU has with third countries. Croatia states that it is ready to bring all its international agreements in conformity with the *acquis*. For trade and trade related agreements, this implies the denunciation, by the date of accession of all bilateral or regional Free Trade Agreements with third parties. It also implies the termination or the modification of trade and trade related non preferential agreements, to bring them in line with the relevant *acquis*. Croatia confirmed that it was ready to undertake this commitment. It also indicated that it is presently preparing all the necessary steps to bring the above mentioned BITs in line with the *acquis* by its accession to the EU. Finally, Croatia indicated that all newly concluded agreements will include provisions regulating the withdrawal from the agreements in view of EU membership.

¹ On 19 December 2006, Croatia has signed the agreement to modernise the CEFTA agreement and enlarge it to the other countries of the region. The other parties were the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the former Yugoslav Republic of Macedonia, the Republic of Moldova, the Republic of Montenegro, Romania, the Republic of Serbia and UNMIK/ Kosovo (UNSCR 1244). On 1 January the Republic of Bulgaria and Romania have become Member States of the EU and therefore withdrawn from the CEFTA Agreement.

II.c. Development policy

The Croatian government currently has no official development policy but it certainly performs various activities which can be considered as a form of development assistance and it is in the process of designing a specific strategy. This strategic approach aims at complying with the commitments and taking account of the objectives that the EC and its Member States have approved in the context of the UN. The establishment of an "Interdepartmental Working Group for Development Assistance Policy and Advancement" by the end of the year 2006 will be the first step towards building up the administrative capacity necessary to formulate and to implement this strategy. This working group will initially consist of all line ministries, the relevant offices of the Croatian government, the private sector and NGOs (NGOs have carried out a limited number of development projects). Besides, Croatia intends to establish a special department for International Economic Cooperation within the Ministry of Foreign Affairs and European Integration (MFAEI). This department will closely cooperate with the Interdepartmental Working Group.

The existing forms of development assistance have focused mainly on countries in the region. As one of the few examples of development assistance beyond the region Croatia undertakes several capacity building activities for and with Afghanistan.

Currently, there is no institution to which the government of Croatia has delegated the task of collecting data on development aid or a uniform mechanism for calculating the value of assistance offered. However, the MFAEI has indicated it has taken the first steps by collecting data for 2005 and the first half of 2006 and calculating their estimated value. This will be a task for the above-mentioned future department. The Croatian government aims at fulfilling its commitment to achieve the 0.17% Official Development Assistance (ODA) -GNI target by 2010 (the target of the countries that have joined the EU since May 2004).

II.d. Humanitarian aid

Humanitarian aid in Croatia is defined as "material and financial means as well as psychological assistance provided to victims of natural and other disasters". Aid is distributed through the National Protection and Rescue Directorate (NPRD) as well as through NGOs like the Croatian Red Cross and Croatian Caritas. The NPRD is established as a state administrative body in Croatia whose activities include preparing, planning and managing operational forces and coordinating the activities of all parties involved in protection and rescue. The Croatian government intends to make NPRD the leading organisation in this area; this aim corresponds with the EU wish of having one single competent body. Furthermore, Croatia plans to establish a department for humanitarian aid in the Ministry of Health and Social Affairs.

The volume of humanitarian aid which Croatia provided over the last six years is low in comparison with EU member states of similar economic development. Croatia is preparing for the future development of humanitarian aid in form of guidelines, legal acts and implementing acts: these measures aim at defining a national strategy in line with the EU policies and a more precise determination of the competence of the state bodies. It is also envisaged to define standards and procedures in the field of humanitarian aid more clearly. As already mentioned, Croatia is also preparing for the nomination of a single responsible and independent body.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Croatia has reached a satisfactory level of alignment with the *acquis* in the field of external relations. It has clearly identified what steps are to be taken and is therefore on the right

track to meet its EU obligations upon its accession. However, efforts to further align with the *acquis* need to be maintained and improved in certain fields. With regard to the bilateral agreements, Croatia will have to start aligning its international agreements with the *acquis* early, as this is time and resources intensive.

Regarding the development policy and the humanitarian aid, the Commission welcomes the Croatian Government's start with setting up the administrative capacity and encourages the Croatian Government to further the centralisation of responsibilities for development cooperation within one line ministry. The Commission wishes to underline the importance of the European Consensus for development adopted in December 2005, which constitutes the most comprehensive and up to date presentation of the EU development policy objectives, visions and values.

The Commission stresses the need for Croatia to set up a proper ODA accounting system, an essential step for the achievement of the 0.17% ODA/ GNI target in 2010. In this respect, the Commission encourages Croatia to gradually increase the funds made available for development cooperation. The Commission stands ready to provide the necessary technical advice to Croatia.

III.a. Common Commercial Policy

Overall, Croatia should be able to apply the EU Common Commercial Policy at the time of accession, provided it reinforces its administrative capacity in this field.

Regarding its future trade policy changes (e.g. tariff changes), Croatia will have to consult with the Commission more closely and more regularly, before operating such changes. In general, Croatia is expected to align to EU position on trade and trade related areas in international fora.

With regard to the legislation on export credits, Croatia has identified what needs to be done to align with the *acquis*. The preparations for the new legal framework in Croatia - in line with the ongoing preparations for legislative changes in the EU - are well on track. It is expected that Croatia will meet the criteria in this field by the time of accession to the EU. However, the new framework still needs to be adopted.

As regards the export control of dual-use goods, the Croatian legislation is to a large extent aligned with the *acquis*. Council Regulation 394/2006 on the control of exports of dual-use goods and technologies was adopted in February 2006; in this context Croatia should be able to have its legislation aligned shortly and it should furthermore be in a position to align with the amendments presently under consideration in the EU regarding Council Regulation 1334/2000 setting up a Community regime in this field. Full alignment, however, will only be possible at the time of accession.

Croatia needs to adapt its legislation to the EC rules regarding the possibility for exporters to change the end-user: While in Croatia the exporter of dual-use products can change the end user within five days of the application, in the EU such a change requires a new application.

Croatia has made some progress in setting up the administrative capacity at ministerial level to deal with dual-use issues. Nevertheless, Croatia needs to substantially improve its administrative and control capacity in this field so as to make sure that dual-use exports which do not meet the criteria, are rejected. There is room for improvement regarding the staffing (currently seven employees) and the intra-ministerial cooperation (at present, two sections in two different directorates). An inter-ministerial committee ensures the coordination at state level in this field. However, the implementation of the legislation needs to be improved and Croatia needs to make

further efforts to gain more expertise in this area. Croatia is aware of the existing shortcomings in this field and has started to address them.

III.b. Bilateral agreements with third countries

As regards bilateral agreements with third countries, Croatia will have a considerable workload to bring into conformity all its international agreements with the *acquis* by the time of its accession to the EU. Croatia is aware of the tasks in this field and has clearly identified the issues at stake. The European Commission will monitor the progress of Croatia in this field through regular consultations.

III.c. Development policy

As Croatia only recently started its transformation from a development aid recipient country to a donor country, it has so far only achieved a limited level of alignment with the *acquis* in this field. Croatia is currently not able to quantify the value of allocations spent on development projects and needs to develop a methodology. Overall, Croatia has very little experience in terms of strategic approaches and concrete projects in the field. The total amount of ODA is presently rather low and needs to be expanded significantly in order to meet the declared 0.17 % ODA-GNI aim by 2010. However, the Croatian government has taken the first steps to become a more active player in the field of development policy. In the forthcoming year, the Croatian government should be able to implement the institutional framework and the legal frame which is considered necessary for the achievement of the EU and UN development policy goals. Croatia has to increase its efforts so as to gain more expertise in this area. More recently, Croatia has started to address the existing shortcomings in this field and should therefore be able to fully participate in the EU development policy by the time of accession.

III.d. Humanitarian aid

In this field Croatia has so far only achieved a limited level of alignment with the *acquis*. The future development of humanitarian aid in Croatia requires several changes with regard to institutional issues. The status needs to be clarified of the "National Protection and Rescue Directorate" as an independent body of the government. Croatia needs to establish one single body that is dealing with humanitarian aid. Furthermore, Croatia will have to define its objectives for humanitarian aid measures and put them in line with the EU objectives. For example, the Croatian definition of humanitarian aid should include "man made disasters"; in addition, Croatia needs to define more clearly that such aid measures are exclusively based on need. The financial resources available for this aid are rather limited and need to be considerably expanded. Implementation and coordination of humanitarian aid measures need to be improved. Recently, Croatia has become aware of these shortcomings and should now begin to address them.