



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20 April 2004
COM(2004) 257 final

COMMUNICATION FROM THE COMMISSION

Opinion on Croatia's Application for Membership of the European Union

C. SUMMARY AND CONCLUSIONS

Croatia submitted its application for membership of the European Union on 21 February 2003.

In accordance with the provisions of Article 49 of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Croatia's request for membership.

Croatia is preparing for membership on the basis of the Stabilisation and Association Agreement signed on 29 October 2001 and the Interim Agreement which entered into force in March 2002.

In preparing its Opinion, the Commission has taken into account the "Thessaloniki Agenda for the Western Balkans" adopted by the European Council of June 2003, where the EU stated *"that the pace of further movement of the Western Balkans countries towards the EU lies in their own hands and will depend on each country's performance in implementing reforms, thus respecting the criteria set by the Copenhagen European Council of 1993 and the Stabilisation and Association Process conditionality"*

The Copenhagen European Council of June 1993 stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

In assessing progress in these areas, the Commission has taken into account the capacity of Croatia's administrative and legal systems to apply and enforce the *acquis* in practice.

The Commission has also taken into account the Stabilisation and Association Process conditionalities which were defined by the Council on 29 April 1997. These include co-operation with the International Criminal Tribunal for the Former Yugoslavia (ICTY), regional co-operation and other related issues.

The method followed in preparing this Opinion is the same as used in previous Opinions. The Commission has analysed both the present situation and the medium term prospects. In drawing up its recommendation on the opening of the accession negotiations, the Commission has paid particular attention to Croatia's existing capacity to fulfil the political criteria.

1. POLITICAL CRITERIA

Croatia has stable democratic institutions which function properly respecting the limits of their competences and co-operating with each other. The 2000 and 2003 elections were free and fair. The opposition plays a normal part in the operation of the institutions.

There are no major problems over assuring the rule of law and respect for fundamental rights. However, Croatia needs to take measures to ensure that the rights of minorities, in particular of the Serb minority, are fully respected. Croatia should speed up the implementation of the constitutional Law on National Minorities and accelerate efforts to facilitate the return of Serb refugees from Serbia and Bosnia and Herzegovina. Croatia needs to make substantial improvements in the functioning of the judicial system. The effectiveness of the fight against corruption needs further strengthening.

Croatia's cooperation with the International Criminal Tribunal for the Former Yugoslavia has improved significantly in the past months. In April 2004, the Prosecutor stated that Croatia is now cooperating fully with ICTY. Croatia needs to maintain full cooperation and take all necessary steps to ensure that the remaining indictee is located and transferred to ICTY in The Hague. Croatia remains committed to regional co-operation; sustained efforts are needed in this area. In particular to resolve border issues with neighbouring countries in line with international standards for dispute settlement, and issues arising from the unilateral declaration of the protected "Ecological and Fishing Zone" in the Adriatic.

2. ECONOMIC CRITERIA

Croatia can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses.

In Croatia, there is an increasing political consensus on the essentials of economic policies. The Croatian economy has achieved a considerable degree of macroeconomic stability with low inflation. Enhanced economic stability and structural reforms undertaken so far permit the working of market mechanisms. This holds in particular for the liberalisation of prices and trade as well as for privatisation, albeit to a lesser extent. Croatia is characterised by a relatively well educated labour force and good road transport and telecommunication infrastructure. The country has a well developed banking sector and a competitive tourism industry. Croatia's economy is already well integrated with that of the EU.

However, the working of market mechanisms still needs some improvement. In particular, the performance of the judicial sector needs to be enhanced and high administrative burdens as well as incomplete systems of cadastre and land registry need to be addressed. Enterprise restructuring and privatisation has been slower than expected and some large state and formerly socially-owned enterprises still play an important role in the economy. In particular the shipbuilding and agriculture sectors need to be modernised. The necessary reforms of the fiscal and social security systems as well as the public administration are not yet completed and fiscal consolidation needs to be vigorously pursued. Full integration in the single market and the adoption of the *acquis* would, at this stage, cause difficulties for a number of sectors in withstanding the competition within the single market. Addressing the identified weaknesses should contribute to higher investment and growth, thereby enhancing Croatia's competitiveness.

3. CAPACITY TO TAKE ON THE OTHER OBLIGATIONS OF MEMBERSHIP

Croatia's ability to take on the other obligations of membership has been evaluated according to the following indicators:

- The obligations set out in the Stabilisation and Association Agreement, particularly those already in force under the Interim Agreement which relate to areas such as the free movement of goods, competition and intellectual and industrial property rights;
- Progress in adoption, implementation and enforcement of the *acquis*.

The ratification process of the Stabilisation and Association Agreement with Croatia has not been completed. Croatia has made progress in applying the Interim Agreement although due attention needs to be paid to the respect of the deadlines set out therein. Croatia has also taken important steps towards complying with future obligations of the Stabilisation and Association Agreement (SAA).

Croatia has made significant efforts to align its legislation with the *acquis*, particularly in areas related to Internal Market and trade. These efforts need to be continued vigorously. Administrative capacity is uneven and enforcement of legislation needs to be improved. Croatia needs to continue legislative alignment while at the same time strengthening administrative and judicial structures that are necessary for the effective implementation and enforcement of the *acquis*.

If it continues its efforts, Croatia should not have major difficulties in applying the *acquis* in the medium term in the following fields: Economic and Monetary Union; Statistics; Industrial policy; Small and medium-sized enterprises; Science and research; Education and training; Culture and audio-visual policy; External relations; Common foreign and security policy; Financial and budgetary provisions.

Croatia will have to make further efforts to align its legislation with the *acquis* and to effectively implement and enforce it in the medium term in the following fields: Free movement of capital; Company law; Fisheries; Transport; Energy; Consumer and health protection; Customs union; Financial control.

Croatia will have to make considerable and sustained efforts to align its legislation with the *acquis* and to effectively implement and enforce it in the medium term in the following fields: Free movement of goods; Free movement of persons; Freedom to provide services; Competition; Agriculture; Taxation; Social policy and employment; Telecommunications and information technologies; Regional policy; Justice and home affairs.

For the environment, very significant efforts will be needed, including substantial investment and strengthening of administrative capacity for the enforcement of legislation. Full compliance with the *acquis* could be achieved only in the long term and would necessitate increased levels of investment.

CONCLUSION

- Croatia is a functioning democracy, with stable institutions guaranteeing the rule of law. There are no major problems regarding the respect of fundamental rights. In April 2004, the ICTY Prosecutor stated that Croatia is now cooperating fully with ICTY. Croatia needs to maintain full cooperation and take all necessary steps to ensure that the remaining indictee is located and transferred to ICTY. Croatia needs to make additional efforts in the

field of minority rights, refugee return, judiciary reform, regional cooperation and the fight against corruption. On this basis, the Commission confirms that Croatia meets the political criteria set by the Copenhagen European Council in 1993 and the Stabilisation and Association Process conditionalities established by the Council in 1997.

- Croatia can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses.
- Croatia will be in a position to take on the other obligations of membership in the medium term, provided that considerable efforts are made to align its legislation with the *acquis* and ensure its implementation and enforcement. However full compliance with the *acquis* in the field of environment could be achieved only in the long term and would necessitate increased levels of investment.

In the light of these considerations, the Commission recommends that negotiations for accession to the European Union should be opened with Croatia.

To assist Croatia in the preparation of accession negotiations, a comprehensive screening exercise would need to be undertaken. Furthermore, the Commission recommends that the EU develops a pre-accession strategy for Croatia and is preparing the necessary proposals to this effect.

This Opinion is accompanied by a draft European Partnership for Croatia which identifies the priorities which it needs to address in preparing for accession. The Commission will report regularly to the Council on the progress made by Croatia on its preparation for EU membership.

ANNEX I - STATISTICS

If not explicitly stated otherwise, data contained in this annex are collected from the Central Bureau for Statistics (CBS) of Croatia.

The data presented below have been compiled as far as possible using EU definitions and standards, which in some limited cases differ from national practices. This may occasionally give rise to differences between the data presented here and those presented in other chapters of the Opinion, which are generally based on the reply of Croatia to the questionnaires sent in July 2003.

The methodological notes explain the contents and particularities of statistical data presented in this Annex. Data correspond to the information available as of January 2004.

BASIC DATA

	1998	1999	2000	2001	2002
	in 1000				
Population (as of 30th June)	4501.0	4554.0	4381.0	4437.0	4443.2
	in km²				
Total area	56542	56542	56542	56542	56542

2001 population data are based on the census conducted on 31 March 2001.

DEMOGRAPHY

	1998	1999	2000	2001	2002
	per 1000 of population				
Natural growth rate	-1.2	-1.5	-1.5	-1.9	-2.4
Net migration rate (including corrections)	9.8	4.1	5.3	3.8	1.9
	per 1000 live-births				
Infant mortality rate	8.2	7.7	7.4	7.7	7.0
Life expectancy :	at birth				
Males:	...	...	...	71.1	71.2
Females:	...	...	...	78.1	78.3

Age Structure	as % of Total Population				
- people aged under 15	19,9	19,8	19,8	17,0	16,7
- people aged between 15 and 64	67,8	67,9	67,7	66,9	67,2
- people aged 65 or over	12,3	12,4	12,5	15,6	16,1
	in 1000s				
International migration					
- Immigration, total	51,8	32,9	29,4	24,4	20,4
- Emigration, total	7,6	14,3	6,0	7,5	11,8

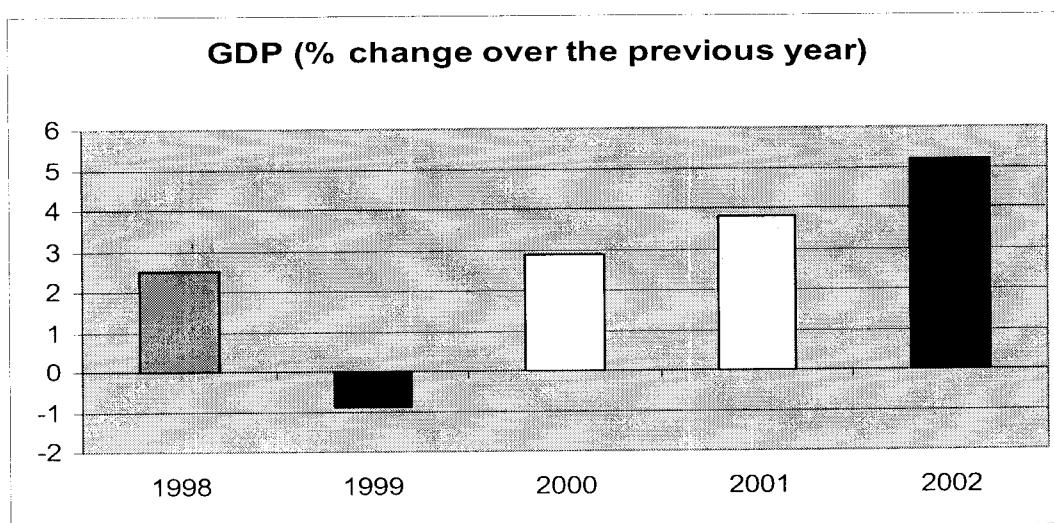
NATIONAL ACCOUNTS

	1998	1999	2000	2001	2002
	1000 Mio Kuna				
Gross domestic product at current prices	137.6	141.6	152.5	162.9	176.4
	Mio ECU/euro				
Gross domestic product at current prices	19281.4	18543.5	19976.3	21811.5	23820.0
	ECU/euro				
Gross domestic product per capita at current prices	4,283.8	4071.9	4501.7	4915.3	5367.9
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	2.5	-0.9	2.9	3.8	5.2
Employment growth	0.1	-1.5	-1.7	0.5	0.8
Labour productivity growth	11.02	4.42	9.62	8.01	5.67
	in Purchasing Power Standards				
Gross domestic product per capita at current prices	7,575	7,509	8,085	8,618	9,266
	% of Gross Value Added b)				
Structure of production					
- Agriculture A;B)	9.4	9.8	9.0	9.1	8.2
- Industry (excluding construction) (C,D,E)	25.0	24.6	24.7	24.3	23.4
- Construction	6.7	5.3	4.6	4.9	5.3
- Services (G-Q)	59.0	60.4	61.9	61.8	63.2
	as % of Gross Domestic Product				
Structure of expenditure					
- Final consumption expenditure	85.5	85.4	84.9	83.6	82.1
- household and NPISH	60.1	58.9	60.1	60.0	60.1
- general government	25.4	26.5	24.8	23.6	22.0
- Gross fixed capital formation	23.3	23.3	21.8	22.9	24.8
- Stock variation	0.7	-0.3	-1.6	1.6	2.1
- Exports of goods and services	39.6	40.9	47.1	49.1	45.9
- Imports of goods and services	49.2	49.3	52.3	54.7	54.9

For 2002, the data correspond to the sum of quarterly accounts.

The last official data for GDP by PPP is 8267 \$ for the year 1999. The calculation was made by the OECD and published in their publication "Purchasing Power Parities and Real Expenditure", 1999 benchmark year. The next official data for Croatia will be for the year 2002. PPPs for non EU Countries are only available every three years and intermediate years have to be estimated, usually by the international organizations. In this case, the missing data has been estimated by the CBS.

Stock variation for 2002 is a preliminary estimation. The final figure will be available when the calculation of the GDP for 2002 will be completed.

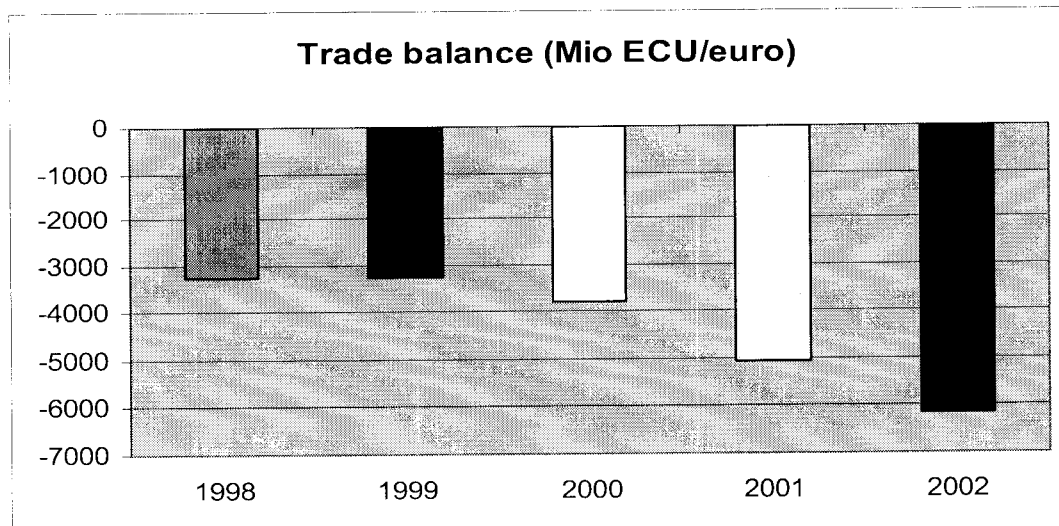


EXTERNAL TRADE

	1998	1999	2000	2001	2002
	Mio ECU/euro				
Trade balance	-3,269	-3,256	-3,775	-5,031	-6,139
Exports	3,920	3,999	4,822	5,214	5,188
Imports	7,189	7,255	8,597	10,245	11,327
	previous year=100				
Terms of trade	101.2	100.3	107.1	98.9	99.5
	as % of total				
Exports with EU-15	47.7	48.9	54.4	54.1	52.9
Imports with EU-15	59.3	56.6	55.4	57.1	55.8

The values of exports, imports and balance of trade for the years 1998 and 1999 have been calculated on the basis of the exchange rates of the Croatian National Bank, situation as on the last day of the year. The exchange rate for the year 1998 was 1 EUR equals 7.3291 Kuna and for the year 1999 it was 1 EUR equals 7.679009 Kuna. For the period 2000 – 2002, the values have been re-calculated in EUR according to current daily exchange rates of the Croatian National Bank (middle rate) valid on the day customs duties are levied.

Terms of trade have been calculated on the basis of the exports and imports values expressed in USD.



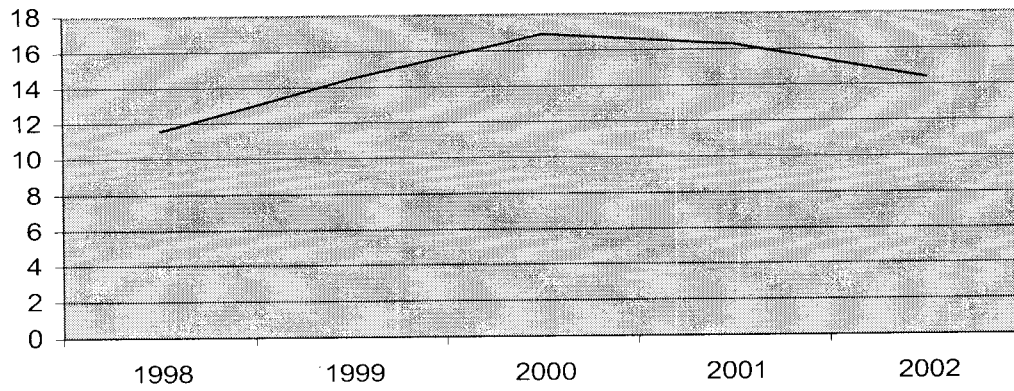
LABOUR MARKET

	1998	1999	2000	2001	2002
% of population					
Economic activity rate (15 - 64)	62.8	60.2	62.2	62.2	62.9
Employment rate (15-64), total	55.3	53.2	51.3	51.8	53.6
Employment rate (15-64), male	61.7	60.2	57.4	59.0	60.1
Employment rate (15-64), female	49.4	47.7	45.5	44.9	47.4
% of total					
Average employment by NACE branches					
- Agriculture and forestry	16.5	16.7	11.7	15.5	14.9
- Industry (excluding construction)	23.5	23.9	22.7	23.1	23.0
- Construction	6.7	6.6	5.9	6.3	6.6
- Services	53.3	52.9	59.4	55.0	55.4
% of labour force					
Unemployment rate, total	11.6	14.5	17.0	16.3	14.4
Unemployment rate, males	10.7	13.5	15.9	14.4	13.3
Unemployment rate, females	12.6	15.7	18.2	18.7	15.8
Unemployment rate of persons < 25 years	31.0	39.2	43.1	41.7	34.4
% of all unemployed					
Long-term unemployment share	46.0	50.2	53.6	55.3	53.1

Unemployment rate by NUTS III region	% of labour force				
County of Zagreb			20,0	23,0	24,4
County of Krapina-Zagorje			17,1	19,4	20,5
County of Sisak-Moslavina			27,4	32,2	35,0
County of Karlovac			31,1	33,1	32,9
County of Varaždin			17,6	17,8	18,2
County of Koprivnica-Križevci			16,9	18,4	21,0
County of Bjelovar-Bilogora			27,2	28,9	31,3
County of Primorje-Gorski kotar			18,9	19,8	18,9
County of Lika-Senj			25,5	27,9	30,9
County of Virovitica-Posravina			26,2	28,7	32,9
County of Požega-Slavonia			26,0	27,9	29,5
County Slavonski Brod-Posavina			33,7	34,5	36,3
County of Zadar			31,4	32,2	33,0
County of Osijek-Baranja			28,7	30,8	32,4
County of Šibenik-Knin			36,4	38,8	39,6
County of Vukovar-Sirmium			37,7	40,1	40,8
County of Split-Dalmatia			29,1	30,1	30,8
County of Istria			15,2	14,9	14,9
County of Dubrovnik-Neretva			24,4	24,9	26,3
County of Međimurje			19,3	19,1	19,8
City of Zagreb			11,6	13,3	13,9

Unemployment rate on county level (NUTS III) given according to administrative sources as of 31 March, so data are no comparable with unemployment rate from LFS. Data on county level exclude persons in employment in police and defence.

Unemployment rate (% of labour force)



INFRASTRUCTURE

	1998	1999	2000	2001	2002
	in km per 1000 km ²				
Railway network	48.2	48.2	48.2	48.2	48.2
	km				
Length of motorways	330.4	381.6	410.6	428.8	454.9

INDUSTRY AND AGRICULTURE

	1998	1999	2000	2001	2002
	previous year = 100				
Industrial production volume indices	103.7	98.6	101.7	106.0	105.4
Gross agricultural production volume indices	110.1	98.8	88.7	108.5	107.7

STANDARD OF LIVING

	1998	1999	2000	2001	2002
	per 1000 inhabitants				
Number of cars	222.2	233.5	256.8	269.4	280.1
Main telephone lines	349.4	360.3	329.9	401.9	411.3
Number of subscriptions to cellular mobile services	39.3	79.3	253.8	390.1	572.4
Number of Internet subscriptions	8.7	16.5	33.8	53.8	83.5

Subscriptions to cellular mobile services include both prepaid and post-paid users.

Internet subscriptions include subscribers via modem and via leased lines.

TERTIARY EDUCATION

	1998	1999	2000	2001	2002
	in % of total age group (18-24)				
Participation rate for persons aged 18 to 24	27.3	26.1	28.2	29.5	31.6

The figures about tertiary education are calculated as percentage of enrolled students in tertiary education divided by total population aged 18-24. The total number of population aged 18-24 is (with exception of 2001) estimated