

**STABILISATION AND ASSOCIATION  
BETWEEN  
THE EUROPEAN UNION  
AND CROATIA**

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**Brussels, 11 May 2010**

— The Stabilisation and Association Council —

**UE-HR 1953/10**

**COVER NOTE**

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Subject: Sixth meeting of the EU-Croatia Stabilisation and Association Council  
(Brussels, 23 March 2010)

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Delegations will find attached the position paper of the European Union tabled on the occasion of the 6th meeting of the Stabilisation and Association Council between the European Union and Croatia.

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**SIXTH MEETING OF THE**  
**EU-CROATIA**  
**STABILISATION AND ASSOCIATION COUNCIL**  
**(Brussels – 23 March 2010)**

**POSITION OF THE EUROPEAN UNION**

The European Union welcomes the holding of the sixth meeting of the EU-Croatia Stabilisation and Association Council. The EU considers that this meeting of the SA Council provides a timely opportunity to review Croatia's progress in the preparations for membership, following the publication in November 2009 of the Commission's Progress Report.

**Item 3 Relations under the Stabilisation and Association Process**

**3.1 Accession Strategy, in particular in the light of the Accession Partnership  
and of the Commission's 2009 Progress Report**

The EU notes that accession negotiations with Croatia have progressed significantly and are entering their final phase. The EU commends Croatia for the considerable efforts it has made over the past year, and the good progress made, in particular in meeting the benchmarks set in the negotiations. Overall, at this stage, out of 35 chapters, the Accession Conference was able to open thirty, and to provisionally close seventeen.

Building on the progress already made, Croatia must continue its reform efforts, in particular in key areas such as judiciary and public administration, the fight against corruption and organised crime, respect for and protection of minorities, including the return of refugees, prosecution of war crimes and in pursuing further economic reforms, to build up a convincing track record in these areas.

The EU recalls that Croatia's progress towards the conclusion of the negotiations depends in particular on its completion of the necessary political, economic, legislative and administrative reforms. In this light, addressing the above reforms, as well as meeting all outstanding benchmarks in time will be essential for Croatia if it is to meet its objective to conclude accession negotiations in 2010.

The EU encourages Croatia to increase attention to further transpose and implement effectively the *acquis*, in order to be able to meet the obligations of membership in good time. The EU reaffirms that the pace of negotiations continues to depend in particular on progress made by Croatia in fulfilling the conditions laid down, including fulfilment of opening and closing benchmarks and the requirements specified in the Negotiating Framework, which cover inter alia the fulfilment of Croatia's obligations under the Stabilisation and Association Agreement and the implementation of the revised Accession Partnership.

#### **- Political criteria**

As regards the judicial system, a large volume of new legislation was adopted, in line with the key Accession Partnership priority in this area. However, significant challenges remain. In particular, even though progress was made in reducing the case backlog, this still remains large, thus having a negative impact on citizens and hampering the development of business activity. The new Law on misdemeanours, the new Civil Procedure Code, and the amended Law on courts have contributed to reducing the inflow of new cases, but the length of procedures remains excessive. Croatia should put in place significant efforts to fully implement its action plan for judicial reform, to ensure proper and full execution of court rulings, to rationalise the court network and to establish and implement an open, fair and transparent system for the appointment, training, including initial training, evaluation and disciplining of judicial officials. An adequate mechanism for the monitoring of judicial reform is necessary for improving post legislative scrutiny. This should include improving administrative capacity.

The EU notes that Croatia continued its efforts to reform its public administration, including by adopting a new Law on General Administrative Procedures and by establishing a new post of Minister for Administration within the Government. However, public administration reform has so far not received sufficient political attention. Major weaknesses in administrative procedures remain and implementation of the new Law on General Administrative Procedures must be given particular attention, not least as regards the required amendments to relevant by-laws and regulations. The revision process of the State Administration Reform Strategy has yet to start. The Decentralisation Strategy has not been adopted, due to a lack of engagement at the political level. The EU recalls that a professional, accountable, transparent and independent public administration is an essential basis for the successful implementation of the *acquis*. The EU calls on Croatia to urgently undertake a clear political commitment towards reforming and modernising its public administration and to sustain further efforts in this area, so that this political commitment translates into concrete actions.

The EU notes that some results are being achieved in investigating corruption and organised crime in Croatia, in particular through the work of the Office for the Prevention of Corruption and Organised Crime (USKOK). A National Police Office for the Fight Against Corruption and Organised Crime (PNUSKOK) has been operational within the General Police Directorate since February 2009. The EU welcomes the initial results achieved by USKOK in 2009 in a number of prominent cases. However, corruption remains prevalent in many areas. While the total number of corruption cases investigated so far has increased, the actual number of prosecutions remains low. Significant further efforts are needed to proactively prevent, detect, effectively prosecute and judge corruption, especially high level corruption, and organised crime. Croatia will need to build up a convincing track record of convictions against corruption and organised crime. Preventive measures should be further pursued including increased transparency of public administration, improved rules on the financing of political parties, greater accountability for corruption and improved handling of conflicts of interest. A culture of accountability for corruption and conflict of interest is lacking. The EU calls on Croatia to ensure more effective inter-agency coordination and monitoring of anti-corruption efforts, to ensure that the legal framework is uniformly implemented and enforced, and that all available tools effectively deployed. The EU urges increased efforts to effectively tackle the financial aspects of criminal activity in a more developed manner.

The EU stresses that more efforts are needed to tackle intimidation and threats against journalists, in particular with regard to the effective prosecution of perpetrators.

The EU notes the generally good cooperation of Croatia with the International Criminal Tribunal for the former Yugoslavia (ICTY) on the majority of requests while reiterating that full cooperation remains essential in line with the Negotiating Framework. The EU welcomes the creation of a new inter-agency task-force, but notes with regret that the Prosecutor of the ICTY has not yet been able to report substantial progress regarding the request for certain key military documents. The EU calls on Croatia to take the necessary steps to complete a comprehensive and credible investigation into these issues without further delay. In this context, the EU confirms that close attention will be paid to this matter throughout the negotiations, and that it will return to the issue, *inter alia*, in the discussion of the draft opening Common Position of chapter 23. Furthermore, the EU recalls the importance it attaches to this issue and reaffirms its intention to carefully monitor developments.

As regards prosecution of war crimes trials in Croatia itself, the EU notes that Croatia continues to be active in trying war crimes cases on its own initiative, and that a more balanced approach is emerging. However, the EU underlines that further important improvements in the conduct of war crimes trials in Croatia are still necessary, in order to ensure fully unbiased, impartial trials as well as tackling impunity, and to improve witness protection. Acknowledging the considerable workload, the EU stresses the importance that Croatia draws up a strategy for uninvestigated cases as follow-up to the Action Plans on War Crimes Accountability.

As regards refugee return, the EU welcomes the overall progress achieved as regards reconstruction of housing. However, a number of obstacles to sustainable return of Serb refugees remain, most notably housing for former tenancy rights holders. The EU urges Croatia to step up its efforts towards addressing the issues of repossession of occupied property, pension rights convalidation, and the ensuring of the economic and social conditions for sustainable refugee return.

The EU notes that the situation of minorities continues to improve. The EU welcomes the continued political integration of minorities in Croatia and the high-level commitment to this issue. The EU notes however, that numerous problems remain, such as discrimination in the public sector at the local level. Good progress has been made as regards inclusion of the Roma minority, with several initiatives undertaken. However, most Roma remain excluded from mainstream Croatian society and face difficult living conditions, notably due to endemic unemployment. Also, Serbs and Roma continue to face discrimination in different areas of public life and employment. The EU calls on Croatia to ensure that real improvements on the ground are achieved, by effectively implementing the relevant legal framework, in particular the constitutional law on the rights of national minorities, and by encouraging a spirit of tolerance towards minorities.

The EU notes that civil and political rights continue to be reasonably well respected in Croatia and legal protection for economic and social rights is partially guaranteed. However, the EU underlines that implementation of women's and children's rights and protection against all forms of discrimination needs to be improved in practice, including with respect to dealing with hate crimes. In spite of the new Law on Legal Aid beginning to be implemented in February 2009, difficulties remain in access to justice, due to the complexity of procedures and limited budget for legal aid.

The EU notes that the procedures for the adoption of the Association Council Decision on the participation of Croatia to the Fundamental Rights Agency, which is pending since a long time, are about to be completed. The EU looks forward to the swift adoption and implementation of this Decision.

The EU welcomes progress made in the area of regional cooperation and encourages Croatia to continue its efforts towards good neighbourly relations, which remain key. The EU welcomes the Arbitration Agreement reached between Croatia and Slovenia on 11 September, that was signed on 4 November 2009 and ratified by Croatia on 20 November 2009. The EU invites Croatia to continue working on finding mutually acceptable definitive solutions to all pending bilateral issues with neighbouring countries, especially as regards border issues, and to pursue efforts aimed at reconciliation among citizens in the region. The EU reiterates the importance of regional cooperation and good neighbourly relations in the process of moving towards the European Union. Also, Croatia should strive with the other countries in the region to address the regional impunity gap, in particular by negotiating mutual extradition agreements covering war crimes cases.

## **- Economic criteria**

The EU notes that Croatia is a functioning market economy. The country should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

The EU welcomes that broad political consensus on the fundamentals of a market economy has been maintained, but notes that the government's approach to economic policy and reform has sometimes lacked a strategic medium-term orientation. The EU notes that the global financial and economic crisis severely affected Croatian economy which went into a deep recession in 2009. The macroeconomic policy response has by and large been appropriate. On the basis of a sound reserve position, monetary policy contributed successfully to financial stability through the provision of foreign exchange liquidity. In reaction to mounting fiscal pressures, efforts were made to re-balance the budget and to contain the budget deficit, but further fiscal consolidation efforts are necessary in view of financing constraints. Structural reforms will be essential to ensure sustainability of public finances, including in the medium-term.

Moreover, imbalances in the trade and current accounts and a high external debt imply potential risks to macroeconomic stability, which require a prudent policy stance.

Private sector initiative remains hampered by inefficiencies in public administration and the judiciary, in particular by the low efficiency of the Courts, which ensures the enforcement of property and creditor rights. In order to encourage private investment, the EU invites Croatia to improve its business environment, in particular the efficiency of the administrative and judicial systems as well as the regulatory framework. The EU encourages Croatia to review its austerity measures in so far as economic conditions improve.

Finally, the EU welcomes the timely submission of the sixth Pre-accession Economic Programme 2010-2012 at the end of January 2010.

## - Acquis

Croatia has improved its ability to take on the obligations of membership. Preparations for meeting EU requirements are moving forward at a steady pace and alignment with EU rules is generally high. However, significant efforts are still needed in order to reach full alignment. In most areas there has been progress, both in terms of legislative alignment and of administrative capacity, but Croatia should continue its efforts towards meeting EU accession requirements.

In the field of free movement of goods, there has been significant progress, in particular with the alignment in the field of medicinal products, including the transposition of the Transparency Directive, in the field of Old and New and Global Approach product legislation, as well as on horizontal measures. Further efforts are still needed to ensure the effective implementation and enforcement of the *acquis*.

As regards right of establishment and free provision of services, substantial progress was made, notably in the field of mutual recognition of professional qualifications and postal services. Several restrictions to the provision of services were eliminated. However, the EU notes that further efforts are needed, including in creating a regulatory favourable climate to the provision of services and in completing the reform of (professional qualifications for) regulated professions.

Good progress has been made in the area of public procurement. Croatia should focus on the proper and effective implementation of the Public Procurement Law and relevant implementing legislation. The EU underlines the need to pursue effective anti-corruption at all levels of the system, in particular with regard to functional implementation of the legislative framework in place, so to ensure greater transparency and efficiency. Administrative capacity should be improved at all levels of the system.

Concerning competition, significant progress can be noted in particular with regard to the adoption of the Competition Act and the tendering of the shipyards in difficulty with a view to their restructuring through privatisation. However, further efforts are needed in order to complete the restructuring of the shipyards.

The EU notes that significant progress has been made on taxation. Croatia adopted several pieces of legislation, which have significantly increased the level of alignment with the *acquis*. The EU welcomes the introduction of a single excise duty rate on cigarettes, applied from 1 June 2009, which has brought full compliance with the SAA. Efforts should be continued to bring further alignment and ensure the necessary capacity to implement the *acquis* upon accession.

Croatia has made progress in agriculture and rural development, notably with the adoption of the Implementation plan for the establishment of the Integrated Administrative and Control System (IACS) and the Paying Agency (PA), and the preparation of the implementation plan for the Common Market Organisation. However, major efforts are still necessary to establish the Paying Agency, to implement the Integrated Administrative and Control System and the Land Parcel Identification System. The absorption capacity of EU funds under the pre-accession Rural Development programme (IPARD) has to be substantially increased, otherwise Croatia risks losing the attributed EU financial allocation. Although there is some progress, further efforts are needed to ensure a smooth transition from the national direct payment system to the Common Agricultural Policy to be implemented as of accession.

Good progress has been made as regards food safety, veterinary and phyto-sanitary policy, in particular with regard to the adoption of implementing legislation, the establishment of a fully aligned control system, as well as a national programme for upgrading establishments for food and feed of animal origin as well as animal by-products. Further efforts are needed to finalise transposition and implementation of the EU *acquis*, the implementation of the national programme for the upgrading of establishments and the strengthening of the control and inspection services.

Concerning fisheries, Croatia has made good progress, in particular with regards to the setting up of a the administrative and operational control capacity, the alignment of structural-, market- and other state aid measures as well as the setting up of the institutional framework for the implementation of the European Fishery Funds (EFF). Nevertheless, Croatia needs to step up its efforts in the areas of fleet management, inspection and control, structural action and state aid.

With regard to energy, the EU notes that there has been good progress, notably on the internal energy and gas market, on energy efficiency, as well as on nuclear safety and radiation protection. However, efforts are still needed to ensure effective functioning of electricity and gas markets and to strengthen the regulatory authority, as well as to continue to build up levels of oil stocks (in line with the transitional arrangement granted to Croatia in the context of its accession negotiations). Croatia will need to make important efforts to meet its agreed target of a 20% share of energy from renewable sources by the year 2020.

With regard to transport policy, the EU notes that Croatia has made some progress. The EU also notes that further efforts are needed both on the legislative side and on improving its administrative structures, in particular in the maritime, railway and civil aviation sectors.

The EU notes that Croatia has achieved good progress in the field of environment, especially in the areas of air quality, industrial pollution control and risk management, and climate change. Considerable efforts are needed to further align with and implement the *acquis* in the water sector and nature protection. Croatia should also undertake substantial efforts to further strengthen its administrative capacity and allocate the required financial resources to be able to implement the environment *acquis*.

In the area of justice and home affairs, the EU notes that Croatia has made some progress, particularly as regards the fight against organised crime, drugs, dealing with trafficking of human beings, and the management of external borders. However, Croatia should undertake significant efforts to ensure effective implementation of the *acquis*, notably with regard to the management of its external borders, upon accession including in terms of human, financial and technical resources.

### **3.2 Bilateral relations under the Stabilisation and Association Agreement**

Following an Interim Agreement in force since 2002, the Stabilisation and Association Agreement with Croatia is in force since February 2005. Implementation of the agreement has largely continued without major difficulty with some exceptions which require close attention as detailed below. Croatia has contributed to the smooth functioning of the various joint institutions. The fifth meeting of the Stabilisation and Association Committee was held in December 2009, preceded by the traditional full cycle of subcommittees in the course of 2009. Meetings of the Joint Parliamentary Committee comprising representatives of the Croatian and the European Parliament took place in February (in Zagreb) and in November 2009 (in Brussels). In addition, the European Economic and Social Committee held two meetings of the EU-Croatia Joint Consultative Committee in Prague in May and in Zagreb in October 2009. The Committee of the Regions organised a meeting of the joint CoR-Croatia Working Group in Brussels in September 2009. The EU welcomes these initiatives which further deepen the dialogue with all sectors of the Croatian administration and civil society.

Concerning competition, significant progress can be noted in particular with regard to the adoption of the Competition Act and the launching of the second round of privatisation tender for the shipyards in difficulty on 15 February 2010. However, further efforts are needed in order to ensure that the restructuring of the shipyards is completed in line with the requirements of the state aid provisions of Article 70 of the SAA.

With regard to the free movement of capital, the EU takes note of Croatia's postponement of the liberalisation of short-term loans up to three months until 1 July 2010, as allowed under the SAA, due to the financial crisis.

In the field of taxation, the EU welcomes the introduction of a single rate of excise duties on cigarettes, entered into force from 1 June 2009, which has brought the system in line with the SAA requirements.

In line with the review clause of Article 29 SAA, the EU welcomes Croatia's indication of its willingness to enter into consultations with the EU during spring 2010. Further trade liberalisation will ease the integration of these sectors into the EU's internal market upon Croatia's accession.

In 2009 Croatia continued its participation in the Community Programmes Customs 2013, Fiscalis 2013, IDABC, Culture, Europe for citizens, the 7th Framework Programme for Research and Technological Development (FP 7), the Competitiveness and Innovation Framework Programme including the Entrepreneurship and Innovation Programme, the Intelligent Energy Europe Programme and the ICT Policy Support Programme, the Community Action Programme for Employment and Social Solidarity (PROGRESS), the Civil Protection Financial Instrument, MEDIA 2007, the Programme of Community action in the field of Health, Marco Polo II and the Civil Protection Mechanism.

Concerning financial cooperation, in 2009 Croatia was granted Conferral of management powers under DIS (Decentralised implementation system) for two out of seven measures under IPA-component V. The EU underlines the need for Croatia to ensure a track record of improved implementation under all IPA components, also both in view of Croatia's ambitions to achieve decentralized management without ex-ante controls by the Commission and to demonstrate readiness for comprehensive amounts of funding under Structural Funds. The EU invites Croatia to keep the Commission regularly informed on any related development. With regard to regional policy, the EU notes that some progress has been made, but also that further efforts are needed both in implementing pre-accession assistance and in preparing for the Cohesion policy. In addition to enhancing the administrative capacity, Croatia should undertake significant efforts to ensure a comprehensive and quality project pipeline.

#### **Item 4 Exchange of views on developments in the Western Balkans and other international issues of common interest**

##### **- Developments in the Western Balkans**

The European Union will proceed to an exchange of views regarding developments in the Western Balkans based on the positions set out in the most recent relevant Council conclusions.

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