

The new IMO book
**“CROATIA AND THE EUROPEAN UNION
Membership Advantages and Challenges”**

SUMMARY

The Institute for International Relations - IMO has published the book „Croatia and the European Union - Membership Advantages and Challenges” which was prepared in cooperation with the Delegation of the European Union to the Republic of Croatia. The book aims to contribute to the successful informing of citizens about the benefits and challenges of EU membership ahead of the upcoming referendum. The book is available at IMO’s website (www.imo.hr). The publication, edited by Sanja Tišma, Višnja Samardžija and Krešimir Jurlin, is the result of work of IMO’s scientists and external experts, experts in particular areas. Foreword to the book was written by Ambassador Paul Vandoren, Head of the Delegation of the European Union to the Republic of Croatia and the Minister of Foreign and European Affairs of the Republic of Croatia, Ms. Vesna Pusić.

The book tries to answer the questions on what are the advantages, possible disadvantages or the key challenges of membership in the EU. In addition to the main negotiation chapters, other issues which will mostly affect the life and work of Croatian citizens are also discussed. During the implementation of this project the research team was led by often emphasized need to present the complex effects of EU membership in a simple and accessible way to citizens. Therefore, key advantages and challenges of the EU membership are summarised at the end of each chapter. The challenges stated in this book are not and should not pose an obstacle for future successful development of the Republic of Croatia.

The key issues discussed in the book are briefly summarised below.

By becoming the member of the European Union on July 1, 2013 the Republic of Croatia should realize the most important foreign policy goal since Croatia’s independence, which took more than a decade of intensive work. The changes resulting from the membership are gradually being recognized in many areas, and by becoming the member of the EU they will develop into a lasting value. As a result of years of harmonization with the *acquis*, European legislation will become our internal legislation. Mutual opening of markets for the movement of goods, services, labour and capital has already in recent years brought visible changes in the implementation of the Stabilisation and Association Agreement. Croatian economy is largely integrated into the EU: 61% of Croatian export and 60% of Croatian import was realised with the European Union in 2010.¹ By becoming the member of the European Union Croatia will officially become part of the internal EU market.

¹ Foreign trade of the Republic of Croatia in 2010 - Final data, Press Release No. 4.2.4. (Central Bureau of Statistics, Zagreb) July 5, 2011

What do citizens, entrepreneurs and society as a whole gain by entry into the EU and what are possible disadvantages and difficulties? Briefly: EU membership brings many opportunities and challenges to which Croatia has to be prepared. The success of the membership is primarily dependent on the willingness to make the most of opportunities and minimize the challenges and risks in each area or sector. Membership opens up great opportunities for entrepreneurs who have ideas, knowledge, innovation and skills, but can be a threat to those who cannot or do not know how to deal with the competitive challenges of a large, open market.

On the eve of the referendum on joining the EU the question is whether the Union to which Croatia is entering is different from the one to which the countries of the previous fifth wave of enlargement have entered. It is undisputed that the overall economic and developmental conditions in the EU during the Croatian accession are significantly different from those that prevailed at the time of the accession of Central and Eastern European countries. The EU is in a turbulent period, and getting out of the recession and overcoming the crisis of the Eurozone are today common priorities of the Union and its member states. It is anticipated that in 2012 the EU expects a period of stagnation, with GDP growth of 0.5%. After that it should begin to grow slowly and could in 2013 reach 1.5% of GDP.² To overcome the negative consequences of the crisis the EU has established strict rules of economic governance based on stronger macroeconomic and budgetary control of the member states and their structural policies in order to avoid repetition of the crisis. Numerous measures are implemented that apply to all EU countries, but the control of the Eurozone countries is in the forefront, with the possibility of sanctions against states that violate the rules. The rules of budgetary discipline are more restrictive, coordination and supervision of fiscal policies is stronger and new procedures for managing the Eurozone are introduced. The stricter rules should be introduced already during 2012 through the intergovernmental agreement for a stronger economic Union.

Therefore, it is unrealistic to expect that Croatian economy will in the short term achieve all positive synergistic effects of membership in the EU, the dynamic economic growth and increased trade and capital flows to the extent that new member states from the last wave of enlargement have achieved. The reason is, among others, that the current very slow exit from recession in Croatia is largely a result of delays in implementing structural reforms. After negative growth rates in 2009 and 2010, in 2012 the European Commission envisages a slight increase in GDP of 0.6% in Croatia, which would by 2013, when Croatia becomes the EU member, reach 1.2% of GDP.³ Positive economic trends will depend largely on the successful continuation of structural reforms, reform of individual sectors and fiscal consolidation, on which Croatia must persist. During the accession negotiations significant reforms have been carried out in all areas, but it is essential to persist in the continuation of these reforms after joining the EU, when there will be no additional external incentives and pressures from the Union.

² Economic and Financial Affairs. European Economic Forecast (European Commission, Bruxelles), Autumn 2011.

³ Ibid., pg. 172-174.

By joining the EU, Croatia gets the opportunity to participate in the EU decision-making system with its voice and attitude, i.e. to be equal in dialogue and decision-making on key issues affecting EU and Croatia. The advantage of membership is certainly better equipped and organized public administration at the service of citizens, legislation which is harmonized with the highest European standards, an independent judiciary which acts professionally and without the impact of policy, reduced corruption, greater security of the country externally and many other positive changes. In doing so, without losing its identity in certain areas, Croatia renounces part of its sovereignty, an example being entry into the EMU in the near future (which will happen only when the conditions are met, at the earliest in 2015).

All this results in considerable compliance costs, strengthening and institution building, which are largely covered through funds from the EU pre-accession assistance programmes. Membership in the EU offers the business sector the opportunity to participate in the market of 500 million consumers where the barriers to free movement of goods, services, labour and capital are lifted. However, every business entity must fight for its position by strengthening competitiveness, which significantly lags behind those in developed countries, thus raising the quality of its products and services.

The answer to the question of what are Croatia's benefits by becoming the member of the EU is particularly important from the perspective of citizens. After accession they will become European citizens. This implies the right of free movement and residence within the territory of all member states without special permits or work permits. In addition, they will directly affect EU policy by voting and standing for elections to the European Parliament by the European citizens' initiative and in other ways.

Furthermore, membership enables mobility and ability to travel without visas and passports, youth mobility through access to the EU programs (Comenius, Erasmus, Tempus, Leonardo da Vinci and others), the possibility of employment in the EU and, in perspective, a higher standard of living. However, in the first years of membership some restrictions related to the employment of citizens are possible in some member states. Namely, in the interim period, some EU countries may keep the obligation of issuing work permits, but such restrictions may in turn be applied by Croatia.

Consumers will benefit from better protection of their rights, better quality control and greater access to information about goods and services on the market. The most important is the quality of food and food safety. In order to use these rights most efficiently it will be necessary to continue informing the public about consumer rights, possibilities of protection and settlement of any disputes.

Citizens, i.e. consumers will benefit the most from Croatia's membership in the EU, while the state both benefits and loses. It partly pays the "developmental" cost of institution building and preparation undertaken to integrate into the EU and due to trade liberalization loses customs revenues, but instead gets the possibility of nomination and withdrawal of substantial funds from the EU funds. The price of most adjustment has already been paid, but some benefits will be seen only in the years to come.

The inflow of funds from EU funds is often cited as the biggest advantage of integrating into the EU, although Croatia, like other new members, will benefit from a new approach to managing the national development policy, which aims to ensure greater effectiveness, efficiency and transparency in spending public investment funds. Furthermore, by becoming the member of the EU the conditions will be created for the use of substantial funds from the Structural and the Cohesion Fund, which exceed the amount of pre-accession funds. The funds from the Structural and Cohesion Funds may become the main source of financing public investments in Croatia. It is planned that in the first six months of membership Croatia would receive from the Cohesion and Structural Funds 687.5 million euros from the EU financial framework for the period 2007 to 2013.⁴ However, the use of EU funds involves meeting a number of conditions related to the ability to use financial resources in a proper and (for regional development) effective manner. Furthermore, Croatia, as the member of the EU, will have to pay a certain amount in the EU budget, whereby it is important that the amount of such payments is less than the funds coming from EU funds. In the first year of membership Croatia is a net recipient of funds, which means that the projected revenues from EU funds are bigger than our payments to the EU budget. Maintaining such a position in the coming years depends primarily on the country's readiness to withdraw funds from EU funds.

As a member of the EU Croatia will participate in the formation of a supranational system of agricultural policy, and will gradually transfer the burden of subsidizing to the EU. After joining the EU the farmers will have better organized farm system with significantly greater total investments, particularly in rural development, which should increase the competitiveness. Autochthonous Croatian products, like opolo, plavac, travarica, pelinkovac, Samobor Bernet, Zadar Maraschino and others will be at the European list of specific products. By joining the EU, Croatia will lose a substantial part of autonomy in the implementation of agricultural policy, but will simultaneously participate in the development of the joint agricultural policy and decision making and advocate for its own interests. If certain products do not meet the traditional alimentary standards (cheese, cream, "butchering" products), they will not be able to qualify for the unique market, but will still be used for personal needs. Implementation of EU legislation therefore should not affect the tradition and production of small Croatian producers of food and other dairy products if they meet the required standards of placement and distribution. On the contrary, such actions should result in better consumer protection and greater possibilities of sale of these products.

Croatian membership in the EU will bring a number of improvements in the environmental field in terms of raising standards, but also in terms of introducing modern infrastructure in the waste and water management systems and air protection. This will result with a reduction of environmental pollution, regulated system of waste management, better water management, air and biodiversity, and ultimately the conservation of the natural beauty of the country. On the other hand, the challenge of membership in the area of environmental protection faces high construction costs of public infrastructure and other investments. For the full implementation of the EU acquis

⁴ Accession Conference at Ministerial level closed negotiations with Croatia: Chapter 33 – Financial and Budgetary Provisions (European Council, Brussels, 12332/11, PRESSE 219) June 30, 2011, pg. 3.

about 10 billion euros will need to be invested over the next ten years. Although much of the costs will be covered from Structural and Cohesion Funds of the EU, part of the investments will be financed through loans, foreign direct investments and Croatia's own resources. It may in the future stimulate growth in utility prices in the domestic market. These are just some examples of advantages and challenges that EU membership brings to Croatia. Contributions in this publication will give a more complete picture, which attempt to cover almost all areas which were negotiated with the EU.

Before making a far-reaching and for Croatia extremely important decisions about joining the EU, one should consider a complete picture, not only the positive effects of membership but also its limitations and challenges, which are discussed in this publication. At the same time one should be aware that Croatia is a relatively small country with less than 1% of the EU population and it must be open to neighbours and the world. EU member states are Croatia's most important trading partner. With them Croatia realises more than 60% of foreign trade. Thus, Croatia has already achieved a high degree of economic integration with the EU, and in the monetary field it is highly "Europeanized" country. Compatibility with the *acquis* and EU standards should contribute to the prospect of stronger Croatian participation in the internal market with 500 million consumers and inflow of investments, and this is also an essential prerequisite for sustainable growth of the Croatian economy.

Compliance with the *acquis* and institution building compatible with the EU system is a necessity that certainly carries high costs, but they are largely the costs of the finalisation of economic transition. The scenario for the achievement of full compatibility with the EU although remaining out of the integration in case of a negative outcome of the referendum is also possible (e.g. Norway), but in that case Croatia would not have access to European funds, which are invaluable in terms of development. Such an outcome also makes it impossible to actively participate in the development of European policies and the development of new European values. Therefore, Croatian membership in the European Union does not really have equally valid alternatives.