Report on the strategy paper on progress in the enlargement process

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PURPOSE: Presentation of the 2005 progress report concerning **Croatia.**

CONTENT: This report provides a balance sheet of the progress made by Croatia with regard to the Copenhagen fundamental criteria:

1) political criteria: Croatia faces no major difficulties in meeting the political criteria for membership. Problems which had arisen in relation to fully co-operating with the International Criminal Tribunal for the former- Yugoslavia (ICTY) have since been solved. Croatia has continued to make progress overall but further sustained efforts are required in a number of important areas. There has been progress in the judiciary, including the adoption of a judicial reform strategy and various procedural and organisation improvements – the challenges faced in the field will, nevertheless, require continued attention in particular regarding the large overall case backlog and the need to ensure proper enforcement of judgements. There have been improvements in the prosecution of war crimes trials, but an ethnic bias against Serb defendants persists. As far as corruption is concerned, the Report notes that there has been some progress in setting up the necessary legislative and institutional framework but that corruption remains a serious problem in Croatia.

In the field of Human Rights, the position of minorities has in general continued to improve. In certain key areas, however, Serbs and Roma continue to face discrimination and the need to improve their situation is an urgent priority. The Report does note that a Roma strategy is being implemented but that major challenges lie ahead. On the matter of regional integration it would appear that there has been good progress on refugee return in terms of repossession and the reconstruction of housing. However, a number of foreseen deadlines have not been met. On-going efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated. Along a similar vein it has been noted that Croatia has made progress in the area of regional co-operation both in terms of improvements in bilateral relations with neighbouring countries as well as regional initiatives – such as participating in the South East Europe Energy Community treaty.

One matter of serious concern remains the question of cross-border issues and the open property-related questions. The matter on non-cooperation on property issues contributed to the postponement of the start of accession negations. The situation has, in the mean time, improved paving the way for the Council to conclude that the outstanding condition for the start of accession negotiations had been met.

2) **economic criteria:** The Report concludes that Croatia can be regarded as a functioning market economy and should be able to cope with competitive pressures and market forces within the Union – provided that it continues implementing its reform programme. Stability-oriented macro-economic policies have contributed to a relatively low inflation and stable exchange rate. Significant budget and current account deficits have been reduced and some measures have been taken to enhance expenditure control in health care and in the pension system. In addition, the privatisation process has regained some momentum in 2005 and business and land registration procedures have been simplified. The banking sector continues to grow. Road infrastructure has improved due to strong investment in the motorway network and progress has been made in liberalising the telecommunication sector with positive effects on infrastructure development, following the entry of private service providers. Croatia's economy is already

well integrated with that of the EU and regional trade integration has strengthened. In spite of this some problem areas remain. They relate to significant external and fiscal imbalances which could pose a risk to macro-economic stability.

3): meeting European standards: As regards Croatia's ability to assume the obligations of membership, Croatia has made some progress mainly in terms of legislative alignment with the acquis in areas such as free movement of goods and public procurement and in the field of information society. Progress has also been good in the field of education and culture and in foreign, security and defence policy. Croatia needs to continue legislative alignment across the board, however, while at the same time strengthening administrative and judicial structures that are necessary for the effective enforcement of the acquis. In many cases enforcement is weak and administrative capacity remains uneven. In particular, increased efforts will be needed to align legislation with the acquis and to effectively implement and enforce in the following fields:

- Free Movement of Capital,
- Company Law,
- Information Society and Media,
- Fisheries,
- Transport,
- Energy,
- Consumer and Health Protection,
- Customs Union and
- Financial Control.

Croatia will need to make considerable and sustained efforts to align legislation with the acquis and to effectively implement and enforce it in the following fields:

- Free Movement of Goods,
- Public Procurement,
- Freedom of Movement for Workers,
- Rights of Establishment and Free Movement of Services,
- Financial Services,
- Competition Policy,
- Agriculture and Rural Development,
- Food Safety,
- Taxation,

- Social Policy and Employment,
- Regional Policy,
- Judiciary and Fundamental Rights, and
- Justice, Freedom and Security.

To conclude significant efforts will be required in the area of Environment, including substantial investment and the strengthening of administrative capacity for the enforcement of the acquis.