

# Croatian Accession to the European Union : The Challenges of Participation

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**Edited book / Urednička knjiga**

*Publication status / Verzija rada:* **Published version / Objavljena verzija rada (izdavačev PDF)**

*Publication year / Godina izdavanja:* **2006**

*Permanent link / Trajna poveznica:* <https://urn.nsk.hr/urn:nbn:hr:242:947475>

*Rights / Prava:* [Attribution-NonCommercial-NoDerivatives 4.0 International/Imenovanje-Nekomercijalno-Bez prerada 4.0 međunarodna](#)

*Download date / Datum preuzimanja:* **2024-11-28**



*Repository / Repozitorij:*

[Institute of Public Finance Repository](#)

**CROATIAN ACCESSION TO  
THE EUROPEAN UNION**

**The challenges of participation**

**Fourth volume**



# **CROATIAN ACCESSION TO THE EUROPEAN UNION**

**The challenges of participation**

**Fourth volume**

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**Katarina Ott**

**Institute of Public Finance  
Friedrich Ebert Stiftung  
Zagreb, 2006**

*Publishers*

Institute of Public Finance, Zagreb, Katančićeva 5  
<http://www.ijf.hr>

Friedrich Ebert Stiftung, Zagreb, Praška 8  
<http://www.fes.hr>

*On behalf of the publishers*

Katarina Ott  
Mirko Hempel

*Editor*

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*English copy editing or translation*

Graham McMaster

*Cover design*

Vesna Ibrišimović

*Print run*

600 copies

*Design and printing*

Gipa Zagreb d.o.o., Zagreb, Magazinska 11

ISBN 953-6047-47-0 (Institut za javne financije)(cjelina)

ISBN 953-7043-11-8 (Zaklada Friedrich Ebert)(cjelina)

ISBN 978-953-6047-77-2 (Institut)

ISBN 978-953-7043-21-6 (Zaklada)

CIP zapis dostupan u računalnom katalogu Nacionalne  
i sveučilišne knjižnice u Zagrebu pod brojem 622055.

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## FOREWORD

When the Zagreb office of Friedrich Ebert Stiftung and the Institute of Public Finance publicly presented the third volume of publications within their joint project “EU monitoring” in spring 2005 in Zagreb they could hardly assume or foresee the dynamics that would emerge shortly afterwards.

Eve of March 17, 2005, the date originally scheduled for the official commencement of the negotiations between the EU and Croatia, the EU declared a postponement of the opening of the negotiations due to the lack of cooperation of Croatia with the International Criminal Tribunal for the former Yugoslavia. No new date was set and Croatia found itself in a critical situation regarding its own ambitions to join the EU as soon as possible. The Croatian government, however, despite the difficulties in tracing and capturing General Gotovina and at the same time of resisting the protests of his supporters in Croatia proved its absolute willingness to get the negotiations started. On October 3, 2005, the EU officially opened the negotiations with Croatia. Since then, the screening process has been in full swing, most of the chapters have been opened, some are already closed and Croatia’s overall performance is seen to be remarkably positive, if not impressive.

This publication, the fourth volume entitled *Croatian Accession to the European Union: the challenges of participation* is being published and presented at a time when Croatia faces the real challenges of transforming its society according to EU standards. During the second half of 2006 it became increasingly apparent that there were two pre-conditions for ensuring the success of the highly ambitious project of the political elite. On the one hand, the political classes need to induce a high level of grassroots participation in the accession process. On the other, they have to communicate very transparently the message that, regardless of the requirements for EU membership, the reforms and transformations of society are in themselves beneficial for the country. This includes the willingness to tackle fields and sectors of society where lack of transparency, shortage of implementation capacities, a highly politicised administration, poor management skills and corruption are still present.

Therefore, apart from the regular official reports on the progress of the negotiations by the government and international organisations, we deem it extremely important to continue to present a critical view by independent domestic experts. Two other major issues are also ad-

dressed by the publication. One highlights the importance of regional cooperation and Croatia's future role as a bridging nation in the transfer of know-how to other countries in South Eastern Europe. The other is the need to overcome social exclusion on a large scale by involving all the stakeholders in the planning and implementation of crucial steps in the reforms.

A closer look further north clearly shows that Croatia finds itself in the rather comfortable position of being able to learn valuable lessons from new EU members like Slovenia, Hungary, Slovakia, the Czech Republic or Poland to name but a few. In the second half of 2006, most of these countries are finding themselves in considerable difficulties which can be described as "post-accession-crisis" (Attila Agh). To be in a position to avoid mistakes by exchanging experts and information with the "group of 10" that joined the EU in 2004 is a huge advantage for Croatia and should be exploited on a much greater scale in the months to come.

Through this fourth volume within our joint project "Monitoring the Process of Croatia's Accession to the European Union" we hope to provide a useful contribution to the public debate in Croatia and within the countries of the EU.

Finally, I would like to express my sincere gratitude to all those who contributed to this project, in particular Dr. Katarina Ott, director of the Institute of Public Finance and editor of the book, for her contributions and the excellent cooperation with her Institute, and Prof. Dr. Nenad Zakošek from the Faculty of Political Sciences for his valuable advice and assistance in editing the contributions.

Zagreb, September 2006

Mirko Hempel  
Director  
Friedrich Ebert Stiftung  
Office Croatia and Slovenia

## ACKNOWLEDGEMENTS

As the leader of a project in which the ever-growing group of Croatian experts monitors the preparations for eventual Croatian accession to the EU and the editor of fourth book resulting from this project, I would like to thank numerous colleagues and friends who contributed to the project and the volume.

First I would like to thank the Friedrich Ebert Stiftung Office in Zagreb, its former director Rüdiger Pintar and current director Mirko Hempel for their financial support, constant encouragement and friendly cooperation. Without their support this project would never have been realized.

I would like to thank the authors of this volume as well as of previous books, particularly writers who have contributed to several or even to all four books. Contributing a chapter is not the only task these authors have taken on, for they also regularly give presentations at especially organized and well-attended workshops and participate in workshops of other authors. The EU Monitoring Project is not restricted just to the publication of these books but involves years-long activities on the part of the whole group.

Thanks also go to Graham McMaster who translated some of the chapters from Croatian to English and improved the quality of English language of all the chapters. The same thanks go to Ankica Zerec who translated one of the chapters from Croatian to English and to Krešimir Petković who translated one of the chapters from English to Croatian. Thanks go to all authors who translated their own chapters from English to Croatian or from Croatian to English. These translation-related thanks might seem rather complicated, but so was the process of simultaneously producing the same book in English and Croatian.

I would also like to thank Zlata Babić, copy-editor of all Croatian texts, Marina Kesner-Škreb, author of the glossary, Martina Fabris, editor of bibliographies, Tomislav Kaniški, cartographer, Vesna Ibrišimović designer and Marina Nekić, technical editor of the books. Thanks also go to Saša Jakšić and Marko Slipčević, conscripts doing civilian service with the Institute of Public Finance, who carefully re-read both English and Croatian versions of the chapters.

This year, to the two peer-reviewers for each chapter, most of whom were colleagues from abroad this year, we owe particular thanks.



Last but not least special thanks go to Marina Nekić, my colleague and friend, who all the year round communicates with authors, reviewers, translators and the printing house and manages all related activities such as workshops and media presentation.

Katarina Ott

Editor

## ABBREVIATIONS

ADRIREP	Mandatory ship reporting system in the Adriatic Sea
AMBO	Albania-Macedonia-Bulgaria oil pipeline
BPEGs	broad economic policy guidelines
BTC	Baku-Tbilisi-Ceyhan oil pipeline
CARDS programme	Community Assistance for Reconstruction, Development and Stabilisation
CBRD	Croatian Bank for Reconstruction and Development
CEE	Central and Eastern Europe
CIP	Competitiveness and Innovation Programme
COPA	Committee of Professional Agricultural Organisations
COREPER	Committee of the Permanent Representatives
CSP	Country Strategy Paper
DNV	Det norske Veritas
EAFRD	European Agriculture Fund for Rural Development
EAPs	environmental action programmes
ECJ	European Court of Justice
EEC	European Economic Community
EES	European Employment Strategy
EIB	European Investment Bank
EIF	European Investment Fund
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union

GDP	gross domestic product
GFS	Government Finance Statistics
GNP	gross national product
HGK	Hrvatska gospodarska komora <i>(Croatian Chamber of Economy)</i>
HITRA	Program hrvatskoga inovacijskog tehnologijskog razvitka <i>(Croatian Programme for Innovative Technological Development)</i>
HNS	hazardous and noxious substances
HOK	Hrvatska obrtnička komora <i>(Croatian Chamber of Trades and Crafts)</i>
HUP	Hrvatska udruga poslodavaca <i>(Croatian Employers' Association)</i>
HZZO	Hrvatski zavod za zdravstveno osiguranje <i>(Croatian Health Insurance Institute)</i>
ICT	information and communication technologies
ICTY	International Criminal Tribunal for the former Yugoslavia
IGCs	Intergovernmental Conferences
IMF	International Monetary Fund
IMO	International Maritime Organization
INTERTANKO	International Association of Independent Tanker Owners
IPA	Instrument for Pre-accession Assistance
IPPC	Industrial Pollution Prevention Control
ISPA	Instrument for Structural Policies for Pre-Accession
IWI	International Wellbeing Index
JEG	Joint Expert Group
JRC	Joint Research Centre

LNG	liquefied natural gas
MARPOL	International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 thereto
MEPs	members of the European Parliament
MIP	Multi-annual Indicative Programme
NGO	non-governmental organisation
NRPs	national reform plans
NWI	National Wellbeing Index
OECD	Organisation for Economic Cooperation and Development
OMC	open method of coordination
OPEC	Organization of Petroleum Exporting Countries
PAP	Public Affairs Practitioners
PEOP	Pan European Oil Pipeline
PHARE programme	Pologne-Hongrie: assistance à la restructuration économique
PSSA	Particularly Sensitive Sea Area
PWI	Personal Wellbeing Index
R&D	research and development
REMPEC	Regional Marine Pollution Emergency Centre for the Mediterranean Sea
SAA	Stabilization and Association Agreement
SAPARD	Special Accession Programme for Agriculture and Rural Development
SEAP	Society of European Affairs Professionals
SEESSP	South East European Social Survey Project
SGEI	services of general economic interest
SMEs	small to medium-sized enterprises

SMP	single market programme
SNA	System of National Accounts
SOLAS	International Convention for the Safety of Life at Sea, 1974
SSSH	Savez samostalnih sindikata Hrvatske <i>(The Union of Autonomous Trade Unions of Croatia)</i>
UN	United Nations
UNDP	United Nations Development Programme
USA	United States of America
VLCC	very large crude carrier
VOC	Volatile Organic Compounds
WHO	World Health Organisation
WTO	World Trade Organisation

## Chapter 1

# **CROATIAN ACCESSION TO THE EUROPEAN UNION: THE CHALLENGES OF PARTICIPATION**

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## **ABSTRACT**

This chapter summarizes the findings of the project of monitoring Croatian accession to the European Union. It draws particular attention to the challenges entailed in participation in the accession process and in relations with European countries, irrespective of Croatia's membership status. It tries to answer questions about: the place of Croatia in Europe; the problems of its economy; the nature of its political elite and the views of its citizens, and institutions' capacities to adapt to requirements of modern and open societies. Among the findings one could highlight: First, irrespective of the membership status, there are possibilities for Croatia to participate and even to try to act as leader in some fields (e.g. Adriatic Sea protection) and Croatian experts could participate in and contribute to the discussions of EU-relevant topics (e.g. European citizenship or communicating Europe). Second, high and stable distrust in the EU, rising unwillingness to join the EU and views concerning the EU that are more based on impressions than on utilitarian considerations might lead to a Croatian "no" to the EU in the final moment of decision. However, if the benefits of reforms are reaped even without joining the EU, this does not have to be a disaster for the country, although it could be a serious setback for the political elite. Third, adaptation of the capabilities of Croatian institutions is despite many improvements still the weakest spot. The progress of re-

forms has been limited and characterized by partiality, lack of strategies and still under strong political influences. The key words missing in almost all investigated fields are implementation, enforcement and action plans. As the end of negotiations will more depend on the implementation than on the mere adoption of EU requirements, Croatia should turn to an “as soon as ready” instead of an “as soon as possible” policy.

**Key words:**

European Union, Croatia, accession, reforms, administrative capacity, legal enforcement

## INTRODUCTION

This chapter summarises the findings of the project of monitoring Croatian accession to the EU. It draws particular emphasis to the challenges entailed in participation in the EU accession process and in relations with European countries, irrespective of Croatia’s membership status. It identifies the ideas of the project, gives a brief chronology of the relationship between the EU and Croatia, presents changes in Croatia in last couple of years, details the challenges of participation and ends with some conclusions and recommendations.

The idea of the 2006 project was to try to answer questions for Croatia similar to those that citizens of France asked themselves before the EU constitution referendum: about the place of the country in Europe, particularly vis-à-vis the EU and vis-à-vis the West Balkan; about the problems of the economy, particularly in its efforts to create more jobs, and about the nature of the political elite. To these three questions we added one about the capabilities of Croatian institutions to adapt to the requirements of modern and open societies.

Several or almost all the chapters try to answer the question about the place of Croatia in Europe, comparing its data, policies and institutions with those of EU members, other candidates and West Balkan countries. The results are diverse from high rankings in measurements of perceptions of wellbeing and happiness to huge differences in state aid as a share of GDP. Probably the most obvious problem encountered in almost all the investigated fields is the lack of reliable statistical data. This indicates the necessity of developing a system of collecting and monitoring qualitative and quantitative indicators to enable reliable comparisons with other countries. Comparing the Croa-

tian speed of entry into the EU and the experiences of new members one could conclude that capacity to meet the tight timetable and to draft qualitative reform could lead to poor quality of legislation, insufficient policy analysis, government overload and counterproductive results. However, the chapter on the needs for regional cooperation in protecting the Adriatic Sea shows how Croatia could also act as a leader in proposing joint actions for several EU member and non-member countries. The chapter on European citizenship and the chapter about communicating Europe in which authors from Croatia, not yet the member of the EU, approach topics relevant for the development of EU concepts and practices show that Croatian authors could also contribute to EU discussions.

The problems of the economy are dealt with in a chapter on the Lisbon Strategy, state aid reform and health care policy and reform. Topics posing problems for the most developed countries are even more pronounced in Croatia. Goals are difficult to achieve, but could be used as benchmarks and for learning from the best performers. The main economic problems lie in the slow reforms and privatization processes with high involvement of the state in the economy, inadequate education, administrative and managerial capabilities. Problems can be easily observed in high foreign and public debt, slow results in increasing employment and poor results in decreasing public expenditures.

Instead of dealing with the nature of the political elite, which is partly dealt with in the chapter on lobbying and interest groups and that on negotiation experience, authors were more oriented to the attitudes of the ordinary citizen. One can find them in chapters on quality of life, life satisfaction and happiness; euroscepticism, and the determinants of the support of citizens for the EU. The results show a rather high and stable distrust of the EU, rising unwillingness to join the EU, views toward the EU that are formed more on the basis of impressions than of utilitarian considerations, and dissatisfaction with the standard of living and social conditions. The political elite should be aware of the attitudes of population to avoid unpleasant surprises at the moment of the final decision on joining the EU. If the benefits of reforms can be reaped even without joining the EU, a Croatian “no” for the EU does not have to be a disaster for the country, but it could be a serious setback for the political elite. The findings of the authors, particularly concerning the dissatisfaction with the standard of living and with social conditions, are also connected with economic problems. Implementation of structural reforms aimed at increasing the competitiveness of the economy,



restructuring of social services and improving governance will be necessary to create the conditions for utilitarian assessments.

The capabilities of institutions to adapt to the requirements of modern and open societies – probably dealt with in almost all chapters – are, despite many developments in good directions, still the weakest spot. Almost all authors engaged in this project emphasize the limited progress of reforms, which continue to be made only partially, without strategies and under strong political influences. Normative versus real conformity with EU requirements, poor implementation and enforcement, lack of action plans or implementation instruments with clear obligations, deadlines and reporting systems, poor administrative and managerial capacities, poor leadership qualities, high politicization... One can hardly stop enumerating the problems. As it is obvious that the end of negotiations will depend more on the implementation than on mere adoption of EU requirements, as was the case in the last enlargement, one of the authors simply concluded that Croatia should try to turn to an “as soon as ready” instead of an “as soon as possible” policy.

#### **Box 1 Brief overview of European Union Monitoring Project**

It all started in 2002 at the initiative and with the financial support of Friedrich Ebert Stiftung office in Zagreb. The first book (Ott, 2003) dealt with economic and legal challenges. Major problems found were related to education, public administration, normative vs. real conformity with the EU, building of efficient institutions and a society that respects laws and individual rights.

Awareness of such problems led to the second book (Ott, 2004) dealing with institutional challenges. We stressed that dealing with institutions was not only fashionable, but also important for both the economy and the society, as institutions could influence development, growth and democratization. We said that adjustments were often just normative, bureaucracy was flourishing and laws were often poorly harmonized and deficient. The key issues with or without the accession would be: better and faster application of rules and institutions; quality and depoliticisation of the public administration, particularly the judiciary and institutions for deregulation and liberalization of markets.

As we believed that we were nearing the negotiations, our third book (Ott, 2005) dealt with the challenges of negotiations. We stressed that Croatia’s future could depend on overall preparedness and credibility not only regarding the sole person missing as it see-

med then; developments in Bulgaria and/or Romania; EU attitudes towards Turkey and fatigue of the EU with the last enlargement. We suggested that accession should be used as the process of transformation of the country. We said that a kind of real integration of Croatia in the European space already existed even without the formal accession and that it should be further deepened through the building of institutions and harmonization with modern, democratic societies. We also warned that despite the declarative dedication of Croatian government to join the EU as soon as possible, and despite the encouraging signals from the EU, hesitations in structural and institutional reforms could hamper not only the success of negotiations and delay the accession, but also hamper the transformation of the country into a modern, efficient and democratic state. Unfortunately, some of the views proved to be correct before we even managed to publish the book, when the EU postponed the start of negotiations.

Before planning this fourth book (Ott, 2006) we somehow started hoping that the future EU could probably go more in the direction of a looser, less federalist and more decentralized club than an ever-tighter Union. We also started hoping that the current members would opt for a stronger subsidiarity principle. Member countries would in that case be able to take different approaches towards the issues that would not substantially harm the principles of the free flow of services, goods, labour and capital. If this were so, such an EU could seem more appealing to a small country like Croatia, which could certainly benefit from participating in a common market, but could hardly substantially participate in governing the Union.

## **CHRONOLOGY OF THE RELATIONSHIP BETWEEN CROATIA AND EUROPEAN UNION**

Due to the war Croatia experienced in the early 1990s and its political, institutional and economic consequences in the following years, country lagged behind other Central and Eastern European (CEE) countries in its relationship with the EU. The Stabilization and Association Agreement (SAA) was signed in 2001, Croatia applied for EU membership in 2003 and after numerous ups and downs in the relationship, mostly caused by the clumsy cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), accession negotiations

and the screening stage of the accession negotiations started in October 2005. Less than a year after that, Croatian negotiators were busy and quite advanced with chapters on science and research and on education and culture, which were opened and provisionally closed. All other chapters also went through various stages of multilateral and bilateral screening to fulfilling the requirements for opening the chapters according to the report from the Commission. The most difficult ones were chapters on regional policy and coordination of structural instruments, judiciary and fundamental rights, foreign security and defence policy and finally finance and budgetary provisions that did not even start the first explanatory stage of the screening.

It is true that some chapters are more complicated than others. It is also true that Croatia's intentions are to close the chapters faster than any of the previous candidates. This intention is fuelled first by the high expectations of the population and second by the logical conclusion that country could learn from the experiences of the previous candidates. However, as things in Croatia are changing rather slowly, we could remind ourselves of the conclusions of the Progress Report of the European Commission (2005). After praising the positive achievement of Croatia in the previous period, Commission stated that "fiscal consolidation needs to be further strengthened and effectively backed by structural measures, in particular in the area of subsidies and social transfers... there are complex rules and deficiencies in public administration and courts as well as slow market entry and exit procedures. The enforcement of property and creditor rights continues to be undermined by an inefficient judiciary. State interventions in the economy remain significant and little progress has been made with respect to the restructuring of large state-owned enterprises in particular in the shipbuilding, steel and energy sector. The strengthening of financial discipline of state-owned enterprises remains a particular policy challenge... Croatia needs to address the identified weaknesses and problems with determination".

These statements could be seen as guidelines for the majority of the authors engaged in this project, leading them to approaches they deemed particularly important and interesting.

## **CHANGES IN CROATIA IN THE LAST COUPLE OF YEARS<sup>i</sup>**

### **Economic sustainability**

The briefest facts about the developments in the Croatian economy could be summarized in following way:

- Economic growth is favourable (a 3.8% rise of GDP in 2004, 4.3% in 2005 and 6.0% in 2006/Q1) with predictions of 4.4% for 2006 and 4.5% for 2007.
- Inflation is accelerating from 2.1% in 2004 to 3.6% in 2006/Jan-Jul. and is expected to stay at similar levels in 2006 and 2007.
- The current account deficit is growing (4.9% GDP in 2004, 6.3% in 2005 and 6.5% in 2006/Q1) with unfavourable predictions (around 6% in 2006 and 2007).
- Foreign debt is increasing (80.2% GDP in 2004, 82.5% in 2005 and 87.9% in 2006/Q1) although it is expected to decrease to 81.5% in 2006.
- Total public debt is slightly increasing (46.4% GDP in 2004, 47.4% in 2005 and 47.8% in 2006/Q1) although expected to decrease to around 44% in 2006 and 2007.
- General government budget deficit is showing better results (4.6% GDP in 2004, 3.4% in 2005 and 2.9% in 2006/Q1) although expected to be around 3.5% in 2006 and 2007.
- Tax burden (41.4% in 2004) is slightly but constantly decreasing and coming closer to EU averages, although the structure of taxation substantially differs (indirect taxes are over 50% of total tax revenues in Croatia vs. less than 40% in the EU-25 average).
- Employment growth continues (around 1% per year), and the unemployment rate fell to under 13%.

We could say that macroeconomic trends are generally favourable: above average GDP growth, rising employment, decreasing general government budget deficit, moderate growth of salaries, and slight appreciation of domestic currency. However, inflation, although not alarming, is accelerating. Current account deficit and foreign and public debt are growing, ranking Croatia among highly indebted countries. Policymakers should have in mind that countries like Croatia should aim for much lower public debt targets than those envisaged by the Maastricht criteria (20-40% instead of 60% GDP).

Thanks to the decreased budget deficit fiscal policy could be evaluated positively. However, one could still be puzzled about the pension debt payments bookkeeping and cautious because the positive signs are resulting from revenue increase without any serious results on the expenditure side of the budget. Slow dynamics, poor results and scandals in privatization process are certainly not contributing to the improvement of the fiscal position of the country.

Despite the still high levels of unemployment and despite the realistic expectations that the EU will ask for a transition period for workers from Croatia, the government could start thinking in advance and aiming for a liberalisation of the labour market. Free movement of workers benefits countries that have liberalized that market. It has helped to remedy labour market deficiencies, open new jobs, decrease unemployment and increase economic growth. Only two percent of the EU active population lives and works in other member states and the movement of workers is still slow. That is the reason why an additional number of old member states lately further liberalised their labour markets. The Croatian government approved 2,600 foreign workers in 2004 and only 1,037 in 2006 although the needs for foreign workers are substantially higher. The realistic number of them already working in Croatia could be over 10,000. They are mostly working in shipbuilding, construction and tourism and come from Bulgaria, Romania, Bosnia and Herzegovina, Slovakia and Ukraine. Liberalisation of the labour market could help to bring down the unofficial economy, corruption and criminal activities, give incentives to better quality growth of the economy, and remedy the mismatch of labour supply and demand at the same time as enabling more humane conditions for the increasing number of illegal foreign workers.

## **Administrative capacities**

Changes in the public administration in the last couple of years show limited progress in the application of reforms that continue to be made partially, without strategies and under strong political influences. While the European Commission in 2004 said that initial steps should be taken, in 2005 it required complete enforcement of reform measures. Although no results in administrative capacities building can be seen in the short run, changes of laws about government administration and changes in the number and scope of ministries and various offices and agencies would tend to suggest that they were not driven by ratio-

nalizations, the incentives being found rather in combining the available manpower resources in the most effective and politically rewarding ways. The way in which the public administration is formed, the transparency of its work and respect for access to information are crucial, particularly in the fight against corruption. However, we are still in want of definitions of bodies of the public administration, of a list of government officials and of the information that has to be accessible to the public. Strategy of the reform is still in preparation, which could go some way to explaining the partiality of reforms. The adopted Strategic Framework for 2006-13 (Vlada RH, 2006) defines some of the goals necessary for public administration reform and various new incentives are proposed, but it is difficult to expect the necessary political will for their implementation in the second part of the government term in office.

As a case study for administrative capacity building one could go deeper into the energy sector. The reform of that sector has not been efficient. Delays in enforcement and the necessity of further harmonisation with EU requirements are stated as formal reasons for passing new laws. Croatia accepted the obligations of the energy sector acquis and the parts related to market competition, state aid, environment protection and regional cooperation in that sector, but enforcement is still a challenge. Some improvements are visible, but among the numerous further requirements of the Commission in that field, one should again emphasize overall improvement of administrative capacity for enforcement of laws. New laws formally represent a step forward, but enforcement is still problematic because of the insufficient preparations, weak administrative structure, legal insecurity and strong lobbying. Deficiencies are visible in the unreliability of data, which shows up the weaknesses of the controlling ministry; in lack of funding for newly established administrative structures, which endangers their independence; and in frequent changes of laws raising expectations of further lobby-generated modifications.

The capability of Croatia to use EU regional policies funds shows similar weaknesses. Regional policy is segmented, regulated by various laws, without a strategy for regional development. Numerous proposals of laws and strategies exist, some important steps have been taken, but real documents for enforcement are lacking. All levels of government in Croatia should be aware that the EU can finance our projects but only if we also engage our funds and plan them in advance. That will be impossible without the enforcement of strategies, laws and regulations.

## **The situation in justice, welfare and civil society**

The relationship of Croatia and the EU is developing, and normative harmonization is in full gear. However, normative analyses of the preparedness of a country can not give a complete picture. Harmonisation should be looked upon together with basic requirements of rule of law like the division of power, democracy, political pluralism and independence of courts. Despite numerous achievements in satisfying EU legal requirements, problems still remain redefinition of SAA in the constitutional and legal system, including the possibility of direct application of its provisions by Croatian courts; poor definition of the legal standing of bodies like the Stability and Association Council, and particularly the poor definition and legal standing of decisions made by these bodies. The possibility of changing the constitution in connection with EU membership is still not on the agenda. Substantial changes in legal culture are needed because the constitutional court and the parliament still follow the authoritarian concept of unitary authority. This means that we need an interpretative change of course towards the values of pluralistic democracy.

There have been few fundamental changes in social policy although a number of important initiatives, projects and studies appear likely to have a longer-term impact. The preparation of the Joint Inclusion Memorandum has increased the visibility and role of the EU in social policy in Croatia. The process has involved stakeholder dialogue but has drawn attention to the weakness of such a dialogue and has so far not facilitated inter-ministry or inter-agency cooperation as much as might have been hoped. It has also shown the urgent need for the development of comparable statistical bases. The EU has introduced a benchmark before the relevant chapter on employment and social policy can be formally opened for negotiations. Once again it indicates the need for an action plan to address the strengthening of administrative capacity. Besides the EU, important players in the social policy field in Croatia still are the World Bank and UNDP. That points to the necessity of a stronger role for relevant domestic players in development of the knowledge base and in setting social policy options.

Civil society complains that although some strategies (e.g. related to development of civil society or communication with and information of the public about the EU) do exist, enforcement is questionable, government is yet not ready for the dialogue, a national forum on accession functions is mostly on paper and inclusion of civil society

organizations representatives in negotiations is quite weak. The tight time-framework for negotiations explains the hesitations or unwillingness of government to include more civil society representatives, but the poor capacity of civil society organizations could also be a reason. Civil society faces a particular problem as Croatia is the only country with which the EU did not form a joint consultative committee to cooperate with the European Economic and Social Committee. The Croatian SAA simply lacks such a provision, which points again to our own incompetent approach in negotiations, for all other European Agreements do contain such provisions. Whatever the reason for poor participation of civil society in EU related activities, civil society should not expect the government to do its job, but should if capable, engage on its own and claim the information, the communication and participation possibilities.

## **THE CHALLENGES OF PARTICIPATION**

The following part of the chapter will try to summarize the most important findings of the 2006 project on monitoring the Croatian accession to the EU.

### **Negotiations, communication and lobbying**

Missing the 2004 enlargement process, Croatia is today in a position to learn the lessons of that accession: not only how to negotiate but also how to implement necessary reforms in the best possible way. Success in these endeavours will depend on communication of negotiations and involvement of stakeholders, not only because these concepts are trendy, but because they are important for obtaining better results. The chapters in this group re-examine the issues still questionable even within the EU: communication of the EU as still a developing category, lobbying as a controversial concept, rather undeveloped in Croatia and EU citizenship as one of the least elaborated and concrete EU terms. We could ask ourselves: Who are the citizens to whom the EU is communicated? Do they exist? Are they the citizens of the EU or the citizens of member states? Who is joining, communicating and lobbying?

*Tomislav Maršić* writes about the conflicts of integration speed, democratic control and stakeholder participation in negotiations, look-



ing for trade-offs among these contradictory goals. The Croatian negotiations are streamlined in order to be completed in record time. They concentrate one-dimensionally on executive expertise, reinforcing problems in domestic representation and legitimisation and failing to accommodate to new strategic developments like enlargement fatigue in the EU and eurofatigue in Croatia. Strategic changes in the domestic negotiation set up should be made in order to ensure better representation by the parliament and a less pressured approach to accession.

In contrast to the last enlargement the end of negotiations will depend more on the implementation and less on mere adoption of the EU requirements. Croatia will have to work more thoroughly and the EU will have wider leeway in rating the progress. Accession negotiations are asymmetric because of the overwhelming negotiating power of the EU, but also because of the weaknesses of candidate countries, and that is the fact a candidate should have in mind all the time. The foreseen timetable might depend on a tacit preference for ignoring the widespread euroscepticism within the country and the enlargement fatigue within the EU. Public concerns should be taken very seriously, considering the option of an accession treaty being rejected by the population. Yet the government seems to be pushing through negotiations as fast as possible. The lessons of the rejection of the EU Constitution should illustrate the danger of political elites ignoring adequate electorate representation and failing to generate the legitimacy necessary to engage in large scale reforms.

Focus on quick accession at any cost rests on the presumption that a slower tempo would endanger the transition process. On the contrary, small states lacking the capacity to meet the tight timetable and to draft qualitative reforms could especially risk poor quality of legislation and insufficient policy analysis, government overload and counterproductive results. The persisting need for speed collides with the goals of fostering democracy. The low degree of responsibility vested in parliamentary representatives in the negotiations will lead to temptations to abuse negotiation issues by politicisation instead of problem-focused discussion. The author therefore recommends turning from an “as soon as possible” to an “as soon as ready” policy. The present situation seems to overstrain both the citizens of Croatia and the EU.

It is not EU membership itself, but intense reforms enabled by the window of opportunity that should be used as a self-disciplining instrument. Shortening this period means less time available for designing, sequencing and implementing reforms in a socially bearable way.

It is also necessary to turn away from a top-down to a more bottom-up approach, as legitimacy requires substantive rather than symbolic control of citizens over political processes and their contents. EU issues should be looked upon as domestic issues, since the decisions made in Brussels will sometime override those made in Zagreb, which should become clear to the Croatian parliament. The government should also reconsider the necessity of its “tight grip” and work to render negotiations management more transparent and flexible improving conditions for negotiations at home and lessening rigid control of the process of coordination.

*Petra Leppee Fraize* looks at how the EU, its member states, candidate countries and Croatia communicate European issues to their publics, emphasizing that Europeanisation of communication should be taken into consideration as a way of filling the communication and democratic deficits and of rectifying the lack of the legitimacy of the EU. Communication should focus not only on teaching facts but also on raising popular interest, as an instrument for ensuring the future ability to justify and win support for the integration project. European integration was for a long time considered a project of the European political elite, while citizens showed little interest and were not involved in enlargements, treaties or policies. Consequently people feel remote from the EU and national institutions and the decision-making process. Despite a rather long process of integration, EU communication policy remains a young policy that has yet to be developed. EU communication in Croatia could be looked upon as a tool to acquire support for the final decision on accession but also for better grasp of the advantages of the EU and ways of coping with its disadvantages. Political elites in Croatia should be aware of public opinion and try to communicate better the rights and obligations stemming from membership and the effect of the eventual accession on economic development, everyday life and internal policies and sovereignty. The low support for the integration, both within the EU and in Croatia shows that the communication should be content-oriented and foster public debates. Citizens should be more active in looking for information and checking the performance of their national and EU governments. The EU should take a realistic approach in creating a common sphere for communicating Europe based on more decentralised modes suited to specific political contexts and to the diverse requirements of countries, regions and sectors. The success of communication will depend on the level of decentralisation and on bottom-up approaches. Whether it will in the end

result in greater or lesser support for the EU will depend on the EU results in delivering prosperity (economic growth), solidarity (social dimension, employment, ageing population) and security.

The EU is becoming involved in an increasing number of policy areas and citizens are more and more looking for channels of influence on its policies. *Igor Vidačak* explores the potential of the EU accession process for Europeanisation of domestic public policy shaping, the adoption of new and modern patterns of interest articulation, providing incentives for introduction of an adequate regulatory framework for lobbying and for legitimising the practice in Croatia. Europeanisation might bring not only new knowledge, autonomous sources of EU information and new ways of thinking, but also a reorganisation and redefinition of the role of interest groups in national policy processes, changing perception on good governance and good models of interaction between organised interests and the state. Interest representation and lobbying at EU level may prove to be a very important factor in the Europeanisation of the structures, processes and contents of political decision-making in Croatia and of accepting lobbying as a legitimate democratic practice.

*Snježana Vasiljević* claims that European citizenship needs to be understood as a developing concept that is consequently for Croatia a moving target. She explains the concept and the paradox of European citizenship, its implications on fundamental rights and particular problems for third country nationals. To this day no elaborate theory of European citizenship exists, its nature is limited and it could be looked upon as citizenship as nationality or citizenship as practice. Despite the influences of globalisation and multiculturalism it is still dependant on national approaches towards citizenship. The EU still seems more interested in regulating aspects related to free movement of persons (i.e. workers) than in encouraging social cohesion and placing human rights and anti-discrimination at the centre. For that to happen, the author suggests recognizing European citizenship to nationals of non-EU countries legally living in the EU. But, first of all the EU should clarify European citizenship, what it is and what it could be. Although not a member, Croatia is thanks to its close and rapidly increasing connections with the EU, one of the countries in which the developments of the European citizenship model should be closely observed. The domestic understanding of and involvement in that topic could affect the necessary significant legal and political changes and also the success of negotiations.

## Dealing with euroscepticism

As Croatian political elites have already opted for accession it would be pointless now to discuss whether we should or should not proceed. Croatia is already on the accession path so it should be used for promoting the best of the EU values and a better understanding of EU shortcomings. Improvement of information and communication should contribute to trust-building, both in national and EU institutions, but also to the re-questioning of EU institutions, their regulating powers, decision-making and requirements posed to national institutions. Key words are again information and communication. A reasonable reader must pose a question: What if thanks to better information and communication citizens form even worse views of both national and EU institutions? What if such views contribute to more scepticism and de-alienation of the citizen? This is why predictions of citizen opinion are very important. Political elites should be aware of the attitudes of the population, for after all the work done it might happen that after the EU says “yes”, the Croatian population says “no”. That could be a serious upset for the political elite, although it does not have to be disaster for a country. If acceptance by the EU meant that Croatia had transformed itself into a “by the book” society, the country would in that case reap the benefits of reforms even without joining the EU.

*Aleksandar Štulhofer* deals with the characteristics of popular euroscepticism in Croatia, defined as a combination of distrust in the EU and distaste for membership by the members of public, not by the political elites. While distrust in the EU is relatively stable, averaging 54% during 1995-2005, unwillingness to join the EU was until the end of 2003 below 20%, during 2004 it grew to about 40%, and since 2005 the number of those who are opposed is more or less the same as the number of those who are for joining the EU. Motives of euroscepticism seem to be heterogeneous like exclusive nationalism and its sociocultural, political and economic premises, while the impact of utilitarian motives turned out to be marginal. The lack of trust in the EU partially reflects distrust in national institutions. The usually stated reasons range from bruised national pride (relations with the ICTY), economic fears (the rise in the price of real estate, the import of cheaper agricultural products, the obliteration of indigenous products), to loss of trust in the EU after the problems with the EU Constitution. The author did not find any clear socio-demographic profile for eurosceptics in Croatia. The older and less-educated are more negatively inclined towards

joining, but the effect of both variables is weak. In the case of trust in the EU none of the demographic and socioeconomic indicators has proved significant. Popular euroscepticism is determined neither by human capital nor by personal success or lack of it during the transition. Irrespective of the relatively fluid structure of euroscepticism, symbolic reasons like exclusive nationalism play an important role. The correlation between trust in national institutions and trust in the EU confirms the proposition that citizens make their assessment on the basis of their experience with local or national institutions. It might be the consequence of the lack of information about EU institutions, but in countries with low levels of participation and with little or no belief that citizens can have any influence on the making of political decisions it might be a justification for apathy and opting-out. The author recommends better provision of information, increasing trust in national institutions and creating a counterbalance to exclusive nationalism. Citizen trust in national institutions is strongly correlated with the perception of corruption among civil servants. This means that government should promote increased professionalism, effectiveness and transparency, identifying responsibilities and entailing sanctions against those who break the laws. Counterbalancing exclusive nationalism and strengthening rational attitudes toward the EU is dependent on success in creating conditions for utilitarian assessment. That means regularly repeated recommendations to the government: implementation of structural reforms aimed at increasing competitiveness of the economy, restructuring social services and improving local and national governance.

*Dragan Bagić* and *Ante Šalinović* conclude that on the basis of a utilitarian explanation of support it is possible only relatively poorly to predict viewpoints concerning joining the EU. Principled expectations of benefits and costs are in good part an expression of general impressions about the EU, (dis)trust in the political elite and political views of citizens, and to a lesser extent realistic rational calculations of harms and benefits. One could discuss whether distrust in national institutions might have led those in favour of the accession to expectations that EU institutions might perform their functions in better way than national and that hope was channelled towards the EU? Or has the (dis)trust in national influenced (dis)trust in EU institutions? Whatever the reason for EU euphoria at the beginning and EU scepticism lately, the governing elite should learn the lesson. Views are formed at a relatively superficial level without any great amount of information and more according to impulse than as the outcome of rational evaluation. This might be the result of the low number and low quality of public debates about

the consequences and significance of entry into the EU. The value and political connotations of such a huge social decision should be formed in the process of public debate, but it seems that here we are more in arrears than we are with respect to knowledge of facts about the EU. Unfortunately, it also seems that too much emphasis is placed on historical rather than economic aspects. The authors mention the very important perceptions of the attitude of the EU towards Croatia – treatment of the war, war-crimes, cooperation with the ICTY, relations with other countries of former Yugoslavia – that influence the views of Croatian citizens towards the EU. The popular decision about the accession, much more than a cold and rational decision based on analyzing losses and gains, should be seen as a very complex social and political phenomenon through which various aspects of the social, political and economic reality are refracted.

*Ljiljana Kaliterna Lipovčan* and *Zvezdana Prizmić-Larsen* compare quality of life, life satisfaction and happiness in Croatia and in European countries. Analyses show that Croatian citizen subjective well-being rates fit at the bottom of the EU-15 or at the top of the EU-13. Happiness ratings in Croatia are rather high and constantly going up. Satisfaction with personal life domains shows that the standard of living is the least satisfying, while relationships with family and friends were the most satisfying. Among national domains citizens are the most satisfied with national security and the environment and the least satisfied with social conditions in the country. As it is considered that happiness is correlated with the progress in transition, the fact that happiness in Croatia is higher than in most of the transition countries seems both intriguing and encouraging. Well-being and happiness indicators might also help in evaluating attitudes towards the national and EU institutions, particularly if we have in mind the “delivery factor” of the EU as the influential one for the euroscepticism. Dissatisfaction with standard of living and with social conditions, irrespective of how factually based they are, might indicate that utilitarian factors will become more important in forming the views towards the EU in the course of time.

## **Confronting the difficulties of the Lisbon agenda, state aid and health care reforms**

The problems posed by the Lisbon agenda, state aid and health care reforms are tough even for the most developed countries. As these

problems are even more pronounced in Croatia, any improvement along the suggested lines would mean a move in the right direction. Lisbon goals are difficult to achieve, but they could be used as directions about where to go and how to learn from the best performers.

*Ana-Maria Boromisa and Višnja Samardžija* claim that since the timeframe for implementation of the Lisbon agenda and Croatia's expected accession are almost the same, approaching the Lisbon goals is extremely important for the country. Although they do not constitute additional criteria or economic goals, Lisbon objectives are relevant as they will soon be reflected in EU policies and they should be taken into account in our reform programs and action plans. It is necessary to prioritize and sequence these goals bearing in mind the specific situation, starting position and real possibilities of implementation. The agenda aims to sustain economic growth with more and better jobs and greater social cohesion to respond to global competition with better policies, modernisation of the social model, environmental protection and boosting research and innovation.

The Lisbon goals should also be the goals of Croatia, but the threats faced by Lisbon are also the threats faced by Croatia. The authors single out the disappointing delivery of Lisbon due to goals defined too widely, overloaded agenda, poor coordination and conflicting priorities. Weaknesses are particularly evident in labour markets, showing up as poor creation of jobs, regional imbalances, long-term unemployment and unfavourable demographic trends. Key challenges include increasing employment and labour market performance, sustainability and quality of public finances, improving research, development and innovation, strengthening business environment and increasing skills.

Croatia should have in mind that it will be required to align with more *acquis* than countries that joined previously, that would-be members have to comply more strictly than members and that sequencing will be particularly important, especially when the time horizon for full membership is not known. Although Croatia introduced some of the Lisbon aims and objectives into various strategic documents (regarding science, research, knowledge society, competitiveness, social cohesion and welfare), implementation instruments are missing. There is an urgent need to develop action plans and other implementation instruments with clear obligations, deadlines and reporting system. It is particularly important to develop the system of collecting and monitoring qualitative and quantitative indicators, following EUROSTAT indica-

tors that would enable comparisons with member countries and other candidates. Accelerating the process of privatization and restructuring of state and local public enterprises plus improvements in education would also mean steps in the right direction.

*Ivana Jović* and *Marina Kesner-Škreb* claim that state aid deviates sharply from that in the EU and that Croatia will have to make great efforts to harmonize it. The EU advocates less and better-targeted state aid, which has the least distorting effect on competition, i.e. horizontal aid which helps establishing a level playing field for all undertakings. The state-aid-to-GDP ratio is four times higher in Croatia than in the EU, with the aid being mainly targeted on particular industries. Croatia will have to reform thoroughly or reduce its sectoral aid to the shipbuilding, transport (especially railways) and steel industries, as well as aid for rescuing and restructuring firms in difficulties. It will also have to increase aid to horizontal objectives, improve significantly the transparency of state aid allocation and avoid ad hoc authorizations of aid to rescue certain enterprises. The Government is committed to reducing state subsidies, but greater efforts will be needed first of all in implementing short-term measures to improve transparency, strengthening the administrative capacity of the relevant agency and most importantly the restructuring and privatization of the economy. The shipbuilding and steel sectors are the burning issues, requiring prompt measures. One should again emphasize problems of administrative capacity building, privatization of the economy and decreasing the role of the state in the economy.

Problems facing health care in Croatia according to *Dubravko Mihaljek* are not new or unique. A key factor for the success of health care reform will be the authorities' ability to manage the political economy aspects of the reform. But the technical complexity of health care policy and reform should not be underestimated either. Unfortunately Croatia lacks health care experts capable of making a much more substantive contribution to the reform than has been the case so far and it also lacks the management skills in the health sector to implement the reform. The present model of health care financing will have to be changed in the direction that a significantly greater portion of funding should come from general tax revenue from central and local budgets than from the payroll contributions. Social benefits and costs of the current system of sick and maternity leave allowances should be re-examined and simplified administrative procedures for part-time work introduced. To ensure more effective use of public funds, the introduc-



tion of more competition into health care markets is needed. Public financing does not have to mean a public provision of health care and as in many other countries the health care sector could function as a mixture of public and private providers. For that to happen authorities have to elaborate a consistent framework for private sector involvement in health care. Also a consistent institutional, regulatory and market framework in which private health insurance companies are expected to function and incentives for their developments should be elaborated. Having people participate in bearing the costs of health care is the first step toward a true health care reform. Briefly, health sector is confronted with problems similar to other sectors – the need for privatization, administrative and managerial capabilities, institutional setting building for new procedures and selling reforms to population.

## **The environment: challenges and possibilities**

Environment poses challenges of coping with demanding and expensive EU requirements that are at the same time essential for the future of the country. In the same time the field offers possibilities for Croatia, a country with a long Adriatic Sea coastline connecting a number of countries, to achieve a position as leader in the area of sea protection and induce activities on regional and international levels. In both aspects institutional and administrative capacities will be crucial – from decision making to the final implementation, from strategic thinking to costly, competent, long-time work in numerous aspects of comprehensive environmental field that covers almost all aspects of citizen life.

*Ivana Vlašić and Mirna Vlašić Feketija* claim that transposition of the *acquis*, ensuring its adequate implementation and absorbing the pre-accession funds constitute an enormous task particularly for a small country. The lack of financing strategies and carefully planned timetables for implementation of the obligations sends a clear message that decisions should be made and actions taken immediately. While Vlašić and Vlašić Feketija are worried about the state of the environment Kalliterna-Lipovčan and Prizmić-Larsen state that citizens were the most satisfied with national security and the state of environment. While satisfaction with national security might be understandable for a post-war country, the high satisfaction with the state of the environment might be the result of unawareness of the real state and problems not only in

the country but also on the global scale. Despite the existing strategies and plans, Croatia still lacks applicable documents, specific steps to the fulfilment of what has been envisaged, efficient monitoring and guidance on the management of the possible financial sources. A particular problem is the lack of a well-trained and experienced administration to cope with time-consuming tasks, stringent and rigid EU procedures. EU offers various possibilities of funding, the majority of which will go into water protection and waste disposal. These possibilities should be seen as instruments to improve the environment and to endorse specific economic activities that could be considered a comparative advantage for the country. The overall administrative capacity at national, regional and local levels will determine the level of the absorption of available EU funds. Appropriate staffing policy will be a key to successful institutional-capacity strengthening, which requires a careful development of long term-plans to recruit and train staff. Additional dedication of the decision-making level in the administration to set the priorities as well to the operational level to successfully manage the programmes is needed. At decision-maker level, resolution is required in setting priorities, while at implementation level the same resolution must be applied to the successful management of the necessary programmes. It all revolves around the insufficient administrative capacities and scarce financial resources. As in all other fields, administrative-capacities building seems a more serious problem than financial scarcity.

*Davor Vidas* discusses the need for the designation of the Adriatic Sea as a Particularly Sensitive Sea Area (PSSA) and the Croatian initiative towards regional cooperation in that direction.<sup>ii</sup> The rationale for this inheres in the special features of the Adriatic Sea while the policy context was set by the trends within the EU and by the evolving EU Marine Strategy. The PSSA status could provide a significant regional cooperative framework, in line with EU policy and highlight the awareness of the vulnerability of the Adriatic Sea. Although that sea connects six countries the lengths of their coasts vary, from Croatia stretching over 75% to Slovenia only 0.5% of that coast. The Italian share of the coast is only 15%, but it annually receives 75% of the total commercial ship traffic and 80% of cargo. Italy accordingly accounts for over 75% of ballast water introduction in the Adriatic ports. Although all Adriatic countries certainly should be interested in protection of their own and the common sea, the above figures speak enough about the particular need of Croatia to strive for achieving the best possible protective measures. It is particularly important because of the reliance on and orien-

tation towards tourism, fishing, agriculture and preserving life on numerous islands already facing depopulation. Numerous ideas and plans worked out together with some of the Adriatic countries already exist, but Croatia should take a step further with a concrete proposal for designating the Adriatic Sea a PSSA. Croatian and Norwegian institutions already work on a cooperative project and if everything goes as planned a joint Adriatic PSSA proposal might work out in 2007. This example shows that even without membership status, Croatia could navigate through EU possibilities. EU Marine Strategy Directive is directly applicable only to the EU members and waters covered by their sovereignty or jurisdictions, but member states are required within each marine region or sub-region to make every effort to coordinate their actions with third countries. In this case two members, one candidate and three aspirants might benefit from that requirement and Croatia might make a position for itself as a competent regional player. Of course, it all just might happen, but only with determination, competency and hard work of Croatian government.

## CONCLUSIONS

It is not difficult to imagine the main EU principles such as liberty, democracy and respect for human rights, fundamental freedoms and the rule of law, as well as fundamental social rights and values like pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men as objectives for Croatia. These values at least on paper are recognized by all societies, but it does not harm to repeat them as often as possible. In that sense the EU should be a role model for Croatia. The increasingly frequently recognized motto of the EU "Unity in Diversity" could also be appealing both for joining the EU and for its application within the country. Of course the threats of the EU because of its bureaucratization and overregulation should also not be overlooked.

Fulfilment of Copenhagen political, economic and legal-institutional criteria, at least to the level that would satisfy the EU, would mean that Croatia had reached the goals of a modern, capable and open society, irrespective of the potential EU capability to absorb the 28<sup>th</sup> member. As there exists a kind of consensus that in a long run the EU has achieved more in the economic than in the political sense, as long as the EU delivers economic benefits it will be attractive for current

and would-be members and the economic stance will affect the stance towards further enlargements. It is of course questionable what “delivery” might mean for the EU as a whole and for its members. Any economic slow-downs within the EU certainly would not be propitious for further enlargements. As the institutional structure of the EU has been envisaged for 27 members, Croatia – potentially the 28<sup>th</sup> member – faces a particular problem often overlooked within the country. It seems that in Croatia more emphasis is often put on the decision of France that it will hold a referendum on any new accession *after* Bulgaria, Romania and Croatia. That fact might be comforting, but also the previous institutional constraint (although remediable) should not be overlooked. One should also have in mind various ideas like “modular integrations” or “part-memberships” that could also be envisaged even for Croatia, not only for countries like Belarus or Ukraine. Such inventive EU solutions do not have to be perceived as a tragic outcome for Croatia.

Implications of the findings of this work might be summarized in a following way:

- Comparisons with other countries show different results from high rankings in measurements of well being and happiness perceptions to big differences in state aid as a proportion of GDP. The most important problem encountered is *lack of reliable data bases*, which results in the necessity of collecting and monitoring qualitative and quantitative indicators to enable reliable comparisons with other countries.
- *The economic situation is burdened with the slowness of reforms and privatization, and high involvement of the state*, resulting with high foreign and public debt, dilatory results in increasing employment and poor results in decreasing public expenditures.
- Irrespective of membership when particularly interested and capable, *Croatia could try to give initiatives and use the opportunities available in the EU*, as in the protection of Adriatic Sea.
- Even without membership status, *Croatian experts could contribute to the discussions of EU topics* like communicating the EU or European citizenship models.
- Popular views might become more important than the views of political elites and they should be carefully observed. For that reason *communication, interest representation and citizen participation should be promoted and developed*.
- *Capabilities of Croatian institutions are still the weakest spot*. This means that administrative and managerial capacity building and improving local and national governance will be crucial and even more important than the eventually insufficient financial sources.

- *Croatia needs accelerated privatisation and restructuring* of state and local public enterprises, decreasing state intervention in the economy, restructuring social services, deregulation of markets, particularly of services and more flexible and open labour markets, all aiming at increasing competitiveness of the economy.
- *Improvements in education and training* not necessarily heading to increased expenditures but reforms oriented towards enabling conditions for the long-term modernization of curricula and diminishing the mismatch of labour force demand and supply will be crucial.
- Key words mentioned as lacking in almost all chapters of the book are *implementation, enforcement and action plans*.
- *Depoliticization and political determination, competency and will to undertake substantial reforms and changes* will be crucial, particularly in circumstances when political elites are dominant and citizens apathetic and alienated. This is necessarily connected to a capacity to develop a public administration capable of mastering new procedures and selling reforms to the citizens. Success will depend on leadership that does not produce only plans, agendas and proclamations but visible results in the form of economic growth, a functioning market economy and the capacity to withstand competition on the one hand and a functioning administration that will protect and enhance the values of democracy and the rule of law on the other.

Reforms are always painful and one could expect that for example public sector employees who are extremely protected in comparison with the majority of those employed in the private sector will obstruct changes. They will think twice whether to support changes that might benefit the unemployed or young. The willingness of all citizens – trade unions, employers, pensioners or patients – who will besides their own interests have to have in mind the interests of their children and grandchildren, particularly those already looking for employment and those that will be joining this group in future, their ability to obtain loans and buy apartments, will be crucial. Of course, the courage of politicians to undertake the risk of losing at the next elections will be important too. Without liberalization, diminishing the role of the state in the economy, changed role of the government, redirection of state aid from vertical to horizontal purposes, better education, accepting modern technologies and entrepreneurship in a world characterized by globalization and liberalization of capital and labour markets, Croatia could encounter problems coping with more competitive countries. Briefly said, we need *readiness of citizens to support changes and willingness of politi-*

*cians to undertake the risk, plus a public administration capable of reforming first itself, then the whole public sector.* Faster privatisation not only of big systems like the postal bank or oil industry, but also of numerous state owned shares on all levels of government could accelerate the process. Real emphasis on an efficient judiciary, the fight against corruption and transparency of the public sector, briefly, a *real depoliticization of all aspects of the society*, is needed.

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- \* *The author wishes to acknowledge comments and useful suggestions of peer reviewers. Eventual errors are the sole responsibility of the author.*
- i *This part of the text benefited from inputs of colleagues who closely monitor their fields of interest and expertise and I would like to thank them in alphabetical order: Ana-Maria Boromisa, Mirta Kapural, Ines Kersan-Škabić, Danijela Kuliš, Dubravko Mihaljek, Siniša Rodin, Paul Stubbs, Igor Vidačak and Siniša Zrinščak.*
- ii *As defined by Vidas, PSSA is an area that needs special protection through action by the International Maritime Organization because of its significance for ecological, socio-economic or scientific reasons, and because it may be vulnerable to damage by international shipping activities.*

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## Chapter 2

# ASSESSING THE NEGOTIATION EXPERIENCE: QUICK ACCESSION OR GOOD REPRESENTATION?

Tomislav Maršić\*

## ABSTRACT

This article examines the negotiation phase on two levels: First, it assesses domestic organising, the processes of adopting a negotiating position and the relevant actors involved. By a comparative analysis of the experiences from Estonia, Slovenia and Hungary, “best management” practises will be condensed. These are subsequently applied to Croatian negotiation management in order to identify potential problems. In a second step, the findings will be put into the wider context of the political consequences of the negotiation strategy, providing recommendations for alternative modes of domestic organising. It will be argued that the Croatian negotiation structure is streamlined in order to match ambitions to complete negotiations in a very short time. However, this institutional set-up concentrates one-dimensionally on executive expertise and reinforces problems in domestic representation and legitimisation. It therefore fails to accommodate to new strategic developments like enlargement-fatigue in the European Union and “euro-fatigue” in Croatia.

### **Key words:**

European Union, Croatia, accession negotiations, negotiation team, democratic deficit

## INTRODUCTION

The start of accession negotiations is one of the most complex parts of the accession process to manage politically, because it is the moment when “political realities begin to sink in” (Grabbe, 2003:4)<sup>i</sup>. This paper investigates the negotiation phase, attempting to clarify the processes involved and Croatia’s institutional responses, and also analyses possible problems. The first part of the paper examines the process of the accession talks, since awareness of the structural conditions of negotiations is a prerequisite for further analysis. Subsequently, a comparative analysis of past institutional set-ups is provided, focusing on individual advantages and shortcomings.<sup>ii</sup> The Croatian negotiation structure will be subsequently projected against these findings, identifying potential problem areas in the domestic communication and decision-making chain.<sup>iii</sup> The paper concludes with recommendations concerning the lay-out of the negotiation strategy and alternative modes of domestic organisation.

Accession negotiations from the perspective of the acceding country are governed by different underlying norms.<sup>iv</sup> In this article attention is drawn to the conflicting norms “integration speed”, “democratic control” and “stakeholder participation” which played a prominent role in the experiences of the countries of the last enlargement wave. Their realisation poses a dilemma to policy-makers in weighing normative arguments against each other in order to find a trade-off between these contradictory goals.

As for instance increasing “democratic control” would require the inclusion of more actors (e.g. the parliament) into the negotiation structure, this would have adverse effects on the “integration speed” as coordination processes become more complex. At the same time, increasing the participation of stakeholders in order to raise expertise and networking skills runs at the cost of “democratic control” as these actors are not elected representatives of the public.

Against this background it will be argued firstly that the Croatian negotiation structure is streamlined in order to fit ambitions to complete negotiations in record time. This institutional set-up however, concentrates one-dimensionally on executive expertise, reinforcing problems in domestic representation and legitimisation and also failing to accommodate to new strategic developments like enlargement-fatigue in the EU and “euro-fatigue” in Croatia. This leads to the conclusion that strategic changes in the domestic negotiation set-up should be impleme-

nted, in order to ensure better representation by the parliament and a less pressured approach to accession – a project which means nothing much less than the complete recreation of Croatia’s political system.

## **ACCESSION NEGOTIATIONS: A PROCEDURAL OUTLINE**

Accession negotiations are “bilateral, state-level negotiations”, with the key interlocutors “at home” being the chief negotiators and their teams, and a relatively small number of ministers (Grabbe, 2001:4). They are not so much political but rather technical talks in a sense of “negotiating harmonisation” (Lajh, 2003:9). The strategic basis are the Agenda 2000 program for enlargement (European Council, 1999) and the Accession Partnership (Commission, 2005a), concretely specified in the (yearly) National Program for the Integration of the Republic of Croatia into the EU (MFAEI, 2006).

Real negotiations in the sense of bargaining take place only in three contexts. The largest part of the actual negotiations is carried out “at home” by finding a national position in concert with the societal actors affected.<sup>v</sup> Second, according to the principle “nothing is agreed until everything is agreed” in the end phase of the process, a complete package deal has to be achieved with the implication of budgetary issues. In addition, the candidate has informally to engage in negotiations on open bilateral issues with the concerned member states. Throughout the whole negotiation process the role of public opinion must not be underestimated because it can have a significant impact on a member (or candidate) country’s negotiating position.

In its strategy paper, the Commission (2002:13) states that “accession negotiations are based on the principle that candidates accept the *acquis* and apply it effectively upon accession”. Some exemptions (“transition periods”) are allowed but they have to be “limited in time and scope and be accompanied by a plan clearly defining stages for the application of the *acquis*”. In very rare cases so called “derogations” were put in place which allowed the accessing country long-lasting exemptions from specific regulations of the *acquis*.

Although the Commission negotiates on behalf of the member states, all decisions (such as opening and closing of chapters) have to be made unanimously by the Council. Still, the Commission plays a very important role in negotiations, as its proposal to the Council

often predetermines the latter's "Common Position" – the "answer" to the negotiation position of the candidate.

Usually two position exchanges complete one chapter, although more difficult issues can demand three (or rarely more) rounds. A chapter is closed only preliminarily until all chapters are negotiated. In contrast to the last enlargement wave, the closure of chapters is now seen to depend to a greater extent on the implementation of their contents and not so much on their mere adoption. This qualitative difference means that Croatia will have to work more thoroughly in closing the chapters, while it gives the EU wider leeway in rating Croatia's progress.

The enlargement sessions are held at intergovernmental (or: negotiation-) conferences twice during an EU presidency, one time at the level of deputies (Committee of the Permanent Representatives on the EU side, chief negotiators on side of the candidate) and one time at the level of ministers. In particular, focus is placed on the progress achieved by the candidate countries which is monitored by the Commission through progress reports and peer reviews.

Since the EU is a rigid negotiating partner with very limited space to manoeuvre, the negotiation process is qualified by "conditionality" (the need to meet EU requirements) and "hierarchy" (Grabbe, 1999). It is characterised by a structural asymmetry in bargaining power in favour of the EU, which in the past led to the label "policy-taking instead of policy-making" (Payne, 2003:34). As this asymmetry is not only caused by the overwhelming negotiation power of the EU, but also by the weaknesses of the candidate countries themselves, particular importance is attached to the organisation of the negotiation team. Accordingly, the next section will deal with the question of how three countries, Estonia, Slovenia and Hungary, organised their management with respect to leading negotiations on EU accession.

## **NEGOTIATION MANAGEMENT STRUCTURES IN COMPARISON**

### **Estonian negotiation management**

Estonian negotiation management was characterised by a comparatively flexible and informal structure with a strong overview from the central government (Payne, 2003:30). The negotiation structure was decentralised, with strong line ministries being responsible for the

harmonisation of law, the implementation of the accession agenda and advising the relevant working group of the negotiation team (Drechsler [et al.], 2002). In the course of negotiations, team leadership shifted from the foreign minister to the prime minister, who took over the management of the accession process shortly before the start of the negotiations. This led to a floating centre of policy coordination, split between the prime minister's State Chancellery and the Ministry of Foreign Affairs.<sup>vi</sup> This development also partly originated from the fact that relations with the EU started as international relations and evolved into domestic affairs.

The prime minister directed the whole process and was responsible for coordination at the highest level at a weekly and informal "European meeting" at which the cabinet discussed EU issues. This coordination role varied to a large extent by the self-definition of the respective government and its system and was rather the result of situational factors than a planned move.<sup>vii</sup> A newly established cabinet committee at ministerial level (Commission of Ministers for EU Affairs) acted as a discussion body for preparing negotiating positions to be adopted in government (Brusis [et al.], 2000:5). It was chaired by the prime minister and consisted of the core ministers.

The Office of European Integration was a structural unit of the State Chancellery, subordinate to the prime minister; it coordinated national preparations, mainly providing policy cooperation between the line ministries. The Office chaired the Council for Senior Civil Servants which prepared and approved the presented material and acted as a coordinating body, providing solutions to more complex inter-ministerial issues.

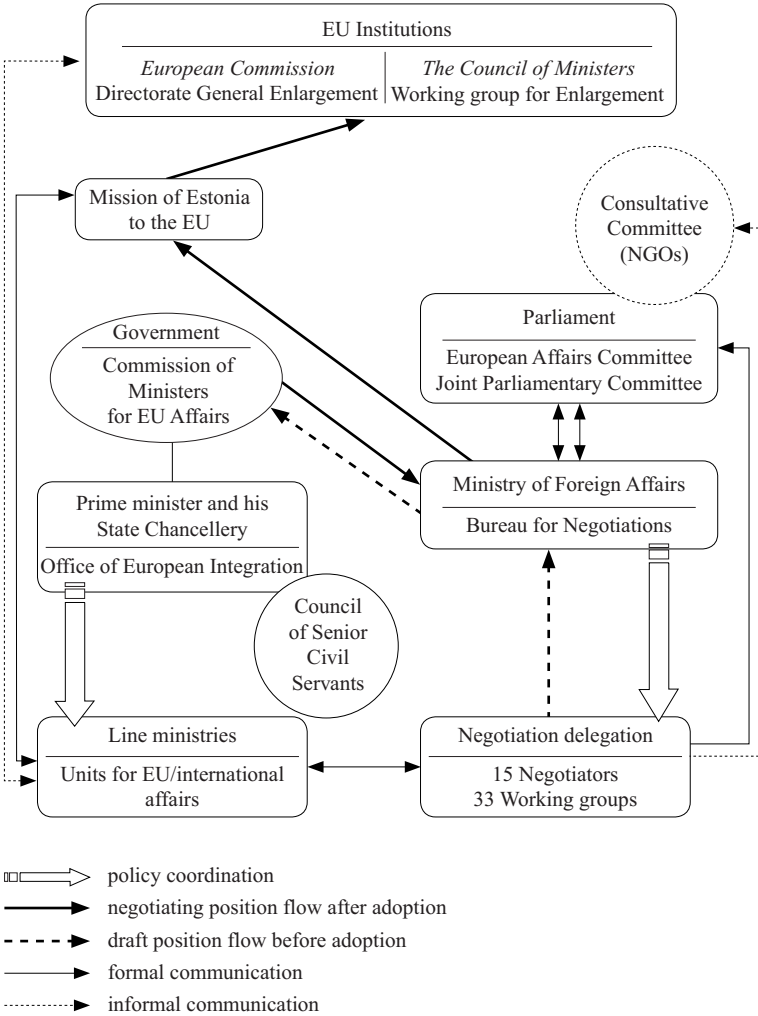
The foreign minister's Bureau for Negotiations was responsible for overall process related coordination and synchronisation of the work of the Negotiations Delegation and the working groups. In the beginning of the process it channelled all communication between the national and the EU level until this was deemed to be counterproductive as it led to time lags and weak contacts between the line ministries and the EU.

The role of the parliament was to provide acceptance and to rubberstamp the government's EU policy. The European Affairs Committee had twelve members from all political parties, in addition to members from all the standing committees.

The mission acted as a vertical channel of information between the EU and the domestic government and hosted attachés from most

ministries, which gave direct tasks to their respective officials. Nevertheless, the mission's relations with interest groups remained weak throughout the process.

Figure 1 Negotiation structure of Estonia



Source: Drechsler [et al.], 2002; Brusis [et al.], 2000; author's illustration

One of the main lessons of the Estonian experience was that the smoothness of the overall coordination was dependent on the general quality of personal contacts at the top of political decision-making structures. Of crucial importance was the direct access of the leader of the Office of European Integration to the prime minister for the authorisation of resolving inter-ministerial conflicts. The particular success factors of the Office as the main horizontal coordination body were its flexibility, small size, openness and speediness in decision-making.

The decentralised approach with strong line ministries helped to avoid creating “islands of excellence” privileging the part of the staff dealing with EU issues leaving the rest with little expertise. At the same time the decentralised system needed very effective coordination as it was at risk of single actors avoiding dealing with issues that could be handled by somebody else.

The above mentioned dual character triggered problems in the exchange of information as some ministerial officials complained about the need for double reporting – to the prime minister’s State Chancellery and to the Foreign Affairs Ministry. In this sense the Estonian example shows that the establishment of informal contacts sometimes proved to be necessary, while at the same time it was recognised that they produce plenty of unrecorded information, which are lost to the organisation when the specific person leaves.

## **Slovenian negotiation management**

Slovenian negotiation management was characterised by high formalisation and high transparency as a consequence of far-reaching integration of societal stakeholders and parliament.<sup>viii</sup> The decision to join the EU was supported by a strong societal and political consensus and did not generate huge controversy at the national level. European integration meant a gradual “internalisation” of EU matters as “domestic matters”, as well as putting the relevant horizontal and vertical coordination structures into place (Fink-Hafner, 2002). The decision to set up the independent Government Office for European Affairs (see below) showed that the key actors did not want to deal with EU integration in a traditional diplomatic sense and put an end to the informal coordinating role of the Foreign Ministry.

The negotiating team was explicitly established to ensure the prevalence of expertise over political or sectoral interest – one core cri-



terion for staff recruitment was the absence of any affiliation to a political party. The team was responsible for the drafting of negotiating positions and consisted of thirty-one working groups headed by senior officials from the relevant ministry or government institution. Negotiating positions were co-ordinated at meetings of all working groups and formulated with extensive support from the relevant ministries. Subsequently, the draft positions were submitted to the government and the parliament for approval. All negotiating positions were fully published.

The prime minister was not very attentive to day-to-day issues but focused on strategic matters. He kept constant contact with the key actors, particularly the relevant ministers at the weekly “European Meeting” and resolved inter-ministerial conflicts.

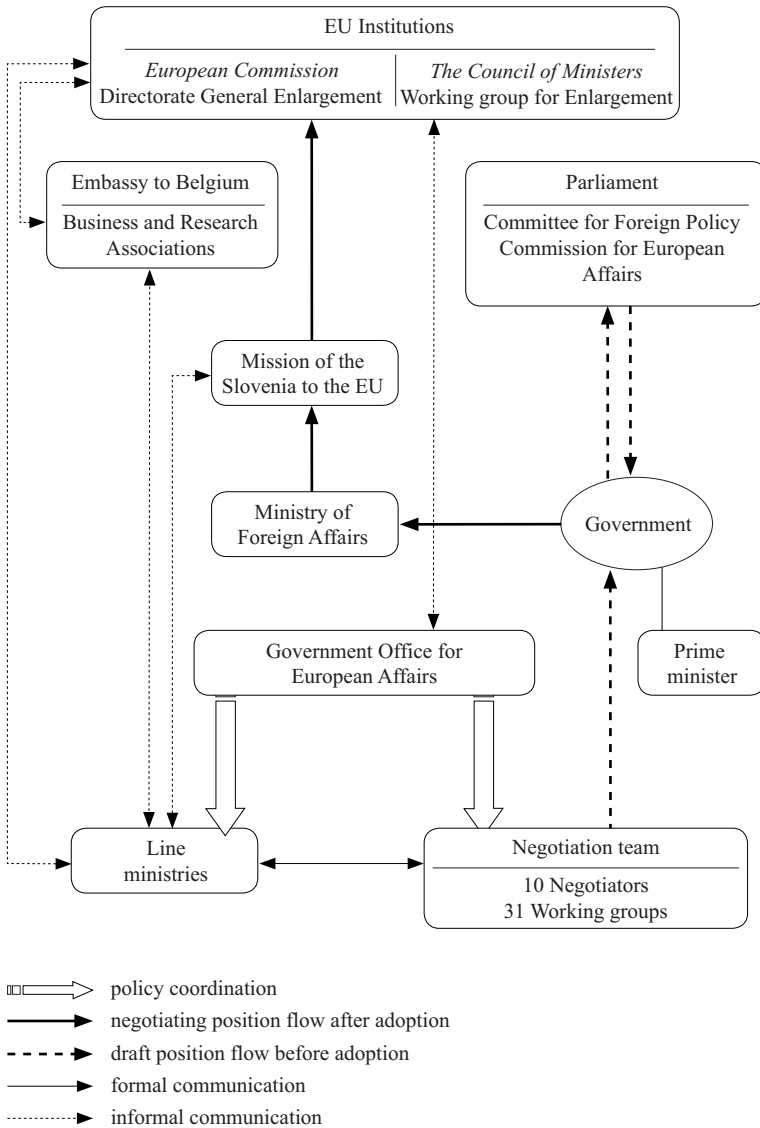
The bulk of the policy coordinating work was carried out by the Government Office for European Affairs, led by a minister without portfolio. While at the beginning it was set up within the Ministry of Foreign Affairs, in course of negotiations it became gradually independent.

The Ministry of Foreign Affairs channelled the document flow between Ljubljana and Brussels through the Mission of Slovenia to the EU. The mission’s experts were predominantly recruited from the line ministries and provided analysis and technical support. The Embassy of Slovenia to Belgium played a rather informal role in the emerging network of the Slovenian Business and Research Association. The latter proved to be an important channel of information and was financially supported by two ministries.

The Parliament had the tasks of aligning Slovenia’s legislation with the *acquis* and debating as well as adopting the proposed negotiating positions after they were discussed by the Parliamentary Committee on Foreign Policy. The Commission for European Affairs engaged in public debate and coordinated EU issues within the Parliament as a whole.

Throughout the accession process, the line ministries remained the main centres of the articulation of national positions, while the main strategic questions fell within the responsibility of the prime minister. The foreign minister acted as formal chief negotiator and set the political guidelines while the “European minister” held rather technical meetings on the progress of the negotiations. Despite the central position of the Government Office for European Affairs, the Slovenian negotiation structure developed a multitude of centres while the line ministries remained in the lead in the formulation of negotiating positions.

Figure 2 Negotiation structure of Slovenia



Source: Fink-Hafner [et al.], 2002; Brusis [et al.], 2000; author's illustration

The formal communication channelled through the Ministry of Foreign Affairs at times proved to be too rigid and gradually led to complementary informal channels of communication, especially between state actors and EU bodies in Brussels. The contacts of the Slovenian Mission to the EU facilitated quicker response to EU demands and became even more significant after accession.

## **Hungarian negotiation management**

The Hungarian accession negotiations were supported by a broad domestic consensus for acceding to the EU in general and for the negotiating positions in specific (Ágh [et al.], 2003). After a change of government in 1998, the negotiation management saw a centralised structure with the Ministry of Foreign Affairs at the core with very little involvement of outside parties or interest groups (Payne, 2003:31)<sup>ix</sup>. The significance of the ministry's leadership was a direct consequence of the relatively minor involvement of the "remote" prime minister. The cabinet seldom discussed accession management in detail – the prime minister was usually only involved in issues with significant impact on daily politics. The ministers were briefed on the negotiations by the foreign minister and handled the details of the policy issues.

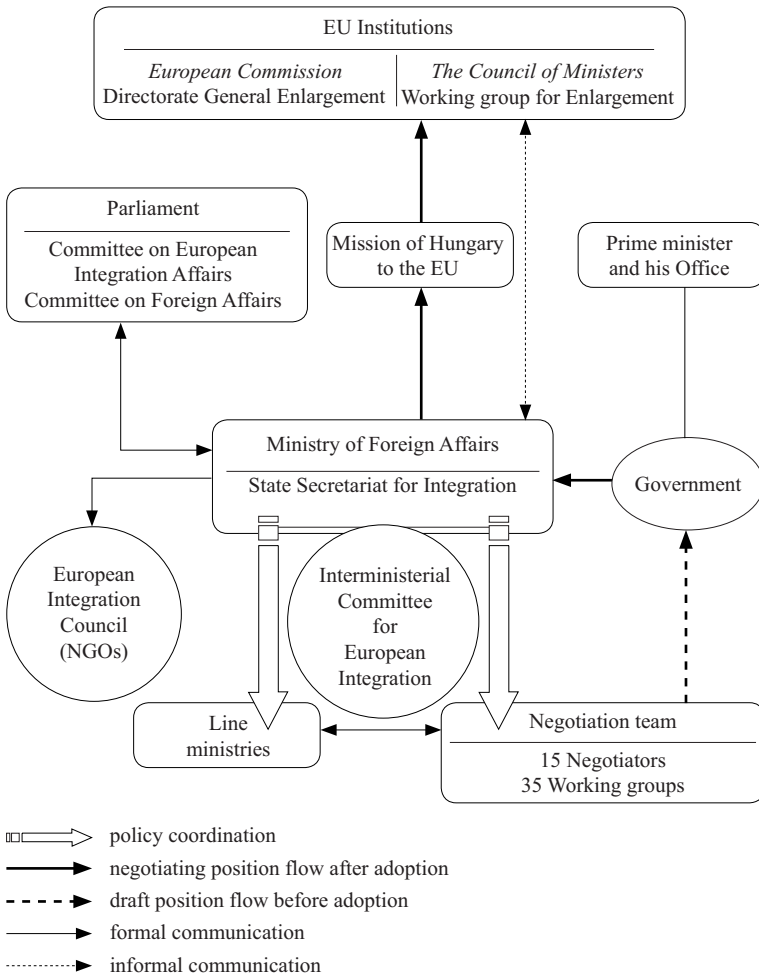
The Ministry of Foreign Affairs coordinated vertical relations with the EU, led the negotiation delegation and reported to the government and the parliament while at the same time it was host to the central bodies in the management of EU business.

The most important such body was the State Secretariat for Integration which became the centre for government decisions as well as single process and policy coordinator of the work of the line ministries<sup>x</sup>. The Secretariat was headed by a state secretary, who was directly responsible to the minister. It chaired the Inter-ministerial Committee for European Integration, which was responsible for coordination at the level of senior civil servants. It was composed of expert groups established according to the chapters of the *acquis* and headed by state secretaries leading the European integration departments in the line ministries.

The negotiation delegation, chaired by the foreign minister, was the formal body charged with handling the accession negotiations. It had twelve permanent members from the Secretariat and senior civil servants representing the most important ministries and state agencies.

Most of the actual negotiations were carried out in an informal way through meetings with staff members and ambassadors of the European Commission and the permanent representatives of the member states. The chief negotiator used a variety of personal contacts with his negotiation counterparts in Brussels and prepared reports for the government based on his assessment of the situation on the spot.

Figure 3 Negotiation structure of Hungary



Source: Ágh [et al.], 2003; Brusis [et al.], 2000; author's illustration

In the so called “European Integration Council” the foreign minister held regular consultations with representatives from trade unions, employers’ organizations, chambers of commerce, etc. (The Hungarian Quarterly, 2001). All ministers were obligated to consult economic and social partners when they formulated positions on matters within their competence.

A Parliamentary Committee on European Integration Affairs was established, which had the tasks of monitoring the harmonisation of Hungary’s laws with the *acquis* and raising public awareness (Besenyey Williams, 2000:13). The committee lacked expert staff and the financial resources to fulfil these tasks and was one of the least influential standing committees in parliament – the idea of transforming it to a grand committee was rejected by Prime Minister Orbán. The Parliament as a whole was not able to perform as a communication channel for organised interests (Ágh, 1999:843).

The principle of “speaking with one voice” resulted in all communication flows passing through the Secretariat thus rendering the Minister of Foreign Affairs, the head of the Secretariat and the chief negotiator the key players. Although the leadership of the Secretariat provided guidance in the process of accession, the Ministry of Foreign Affairs was but a line ministry and as such neither authorized nor empowered to resolve inter-ministerial conflicts. At the same time the “remote” approach of the prime minister depoliticised and professionalised the process (ibid, 107).

## **CROATIAN NEGOTIATION MANAGEMENT: A VIEW FROM CROSS NATIONAL COMPARISON**

The Croatian negotiation structure is, like Hungarian management, highly centralised and is dominated by the Ministry of Foreign Affairs and European Integration (Vlada RH, 2005a).<sup>xi</sup> The structure is characterised by a high concentration of procedural and political power on a limited number of persons at strategic points with a high level of control.

The Ministry of Foreign Affairs and European Integration is an amalgam of the former Ministry of Foreign Affairs and the former Ministry of European Integration, unified in March 2005 in an ad-hoc decision. An interviewee reported that since unification, the ability to co-

ordinate, in the sense of pushing line ministries to draft the necessary legislation, had deteriorated since the speed of legislative harmonisation declined. At the same time civil servants responsible for the coordination of the EU pre-accession funds reported considerable complications in working processes due to the handling of essentially two ministries. Further critics claim that organising accession by the Ministry of Foreign Affairs instead of an extra-resort ministry would send out the wrong message (expert interview). This is consistent with experiences from Slovenia and Estonia, the former having set up a governmental body led by a minister without portfolio and the latter seeing a shift of power from the Ministry of Foreign Affairs to the prime minister in course of accession negotiations.

The minister holds a powerful role as she is directly responsible for leading direct talks within the “State Delegation” while simultaneously chairing the central policy coordinating body (Coordination). The weekly-convening Coordination consists of all ministers, the chief negotiator and the negotiator of the respective field of discussion (without a vote). It is responsible for coordinating the negotiation team and the line ministries and decides by majority voting. The Coordination tackles issues for which no solution has been found at the level of senior civil servants (expert interview).

In view of the experience of Hungary, the Ministry of Foreign Affairs (chair in the Coordination), being only a line ministry, might well lack the authority effectively to find proactive solutions in inter-ministerial disagreements. In countries with a top policy coordination structure at senior civil servant level enjoying direct connection to the (prime) minister (e.g. Slovenia), establishment of the coordination at ministerial level is not an uncommon choice in the context of the negotiation structures evaluated here, but in terms of transparency and stability it is not necessarily the best option. A politicised coordination may work well within an environment of broad domestic support, but can easily be destabilised when this consensus fails. However, it has to be acknowledged that some degree of political control has to be maintained as “negotiations between bureaucracies do not necessarily contribute to the development of shared values as a basis for new governance structures” (Grabbe, 2003:4). In this context the probably most interesting finding from the comparative analysis is that the performance of the similarly streamlined management structure in Hungary with respect to decision making on a negotiating position was comparatively slow (Payne, 2003:33) while relatively quick in Slovenia, where the parliament as an additional veto player confirmed and adopted every draft position.

The prime minister's role to date has been somewhat similar to that of the "remote" prime minister in Hungary, who was involved only in issues with a significant impact on daily politics. He is informed in a weekly cabinet meeting where EU business is the first item on the agenda (expert interview). However, according to the experiences above, with increasing dynamics and a growing agenda the prime minister might see the necessity of becoming more involved in negotiations business.

The negotiating team consists of the fifteen negotiators, the Ambassador of the Mission of Croatia to the EU in Brussels (the mission) and is chaired by the Chief Negotiator and his two deputies. The Chief Negotiator manages the work of the working groups which participate in screening and draw up the draft proposals of negotiating positions. He has a dual role, which includes preparing the positions and negotiating them directly with the Commission and the member states. The 15 negotiators convene in the weekly "negotiators meeting" where the progress of negotiations is discussed (expert interview). As seen in the above examples, the line ministries have a rather indirect but powerful role as their practical expertise results in a leading technical position and high representation among the working group members. Most of the higher-positioned members of the negotiation structure originate directly from the state administration or a state-affiliated agency. Out of fifteen negotiators, eleven come from state institutions, two from the scientific sector and two from economic interest groups. Among the thirty five working group leaders, this ratio amounts to 26:7:1, while one is self-employed (Vlada RH, 2005c). The selection of the negotiators was largely based on criteria of membership in state administration and agencies, and did not exclude those with party alignment, as e.g. in Slovenia. Expert interviews confirmed that in some cases of selecting the negotiators or working group leaders, it was not the person's proficiency level but interpersonal contacts that were the decisive factors. Still, the European Commission has underlined the proficiency of the team on many occasions. Despite signs of party political involvement in the establishment of the structure, it will probably be possible to keep party politics out of the negotiation team. By contrast, a bigger issue will be whether the negotiation team can be kept out of party politics in the long-run (see below).

The Secretariat of the Negotiation Team is the focal point of process coordination and primarily provides technical and administrative support to the State Delegation, the Negotiating Team and the

working groups. It is led by an assistant minister of foreign affairs (directly responsible to the minister) who simultaneously acts as a negotiator. Contacts within the Croatian negotiation structure are strictly channelled through the Secretariat which in some way plays the role of a “dating-service” in finding and connecting the responsible partners between the institutions. It thus acts as network point for horizontal contacts (e.g. between working groups and line ministries) as well as for the vertical communication with EU institutions in Brussels (expert interview).

This system proved to be rigid in Slovenia and Estonia, where it led to time lags and other difficulties in the communication between the national administration and EU civil servants (which the Secretariat seeks to control). The Estonian case revealed that weak contacts between the line ministries or working groups and the EU administration can add to the emergence of isolated “islands of excellence” in the domestic administration. Despite the Secretariat’s determination to keep control of the information flow, direct and informal communication channels evolved between some of the structure’s bodies (e.g. between working group members and civil servants in Brussels), bypassing the Secretariat as a result of pressures of time and the need to simplify procedures.

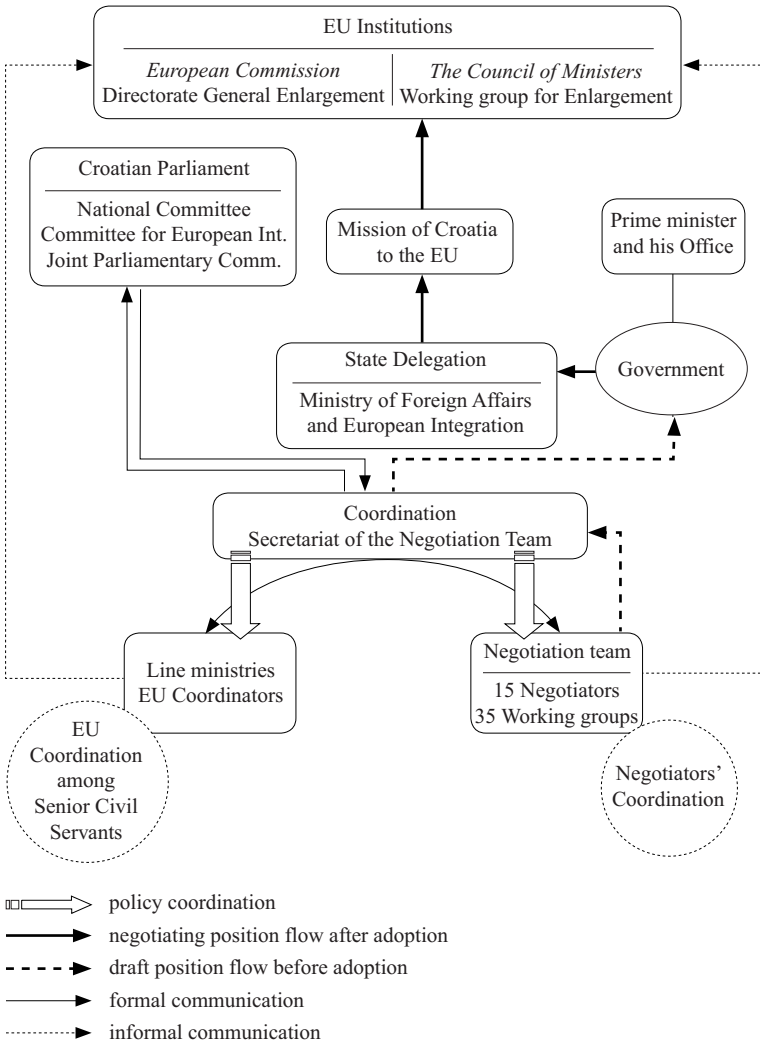
All countries relied on institutionalising a formal or informal body for interest groups, representing union and employer organisations in the negotiation process. This body was in all cases limited to monitoring, spreading information and networking of interest groups with EU institutions in Brussels. In Croatia interest groups are not organised in an extra body, but instead send representatives to the National Parliamentary Committee (however without voting rights). Even though interest groups seem to represent a large deal of the working group members, they are present *within* the structure and thus are “under control” of the dominating state-associated actors.<sup>xiii</sup>

The “National Committee for monitoring negotiations for accession to the EU” set up in Parliament is responsible for supervising and giving guidelines on the drafting of positions. It consists of the presidents of the Committee of Foreign Affairs, the Committee of European Integration, the Committee for Inter-parliamentary Co-operation as well as five representatives from the ruling and five from the opposition parties and decides by unanimous vote. Its additional members, the representatives of the President’s Office, the academic community, the unions and the employer associations have only observer status without any voting rights. The chairperson of the Committee, who is a rep-



representative of the biggest opposition party in parliament, holds regular consultations with the president of the Republic, the prime minister, the president of Parliament, the head of the state delegation and the chief negotiator.

Figure 4 Negotiation structure of Croatia



Source: Vlada RH, 2005a; author's interviews and illustration

Table 1 Key features of the negotiation structures in comparison

	Estonia	Slovenia	Hungary	Croatia
Responsible cabinet figure	Prime and foreign minister	“European” minister (without portfolio)	Foreign minister	Foreign minister
Policy coordinating body	Bureau for Negotiations and Office of European Integration	Government Office for European Affairs	State Secretariat for Integration	Coordination
Process coordinating body	Office of European Integration			Secretariat
Coordination body at senior civil servant level	Council for Senior Civil Servants	Government Office for European Affairs	Inter-Ministerial Committee for European Integration	EU Coordination for Senior Civil Servants (informal)
Status of chief negotiator	Deputy secretary general in the Ministry of Foreign Affairs	Director of a scientific institute	Head of the Mission to the EU	Ambassador in the Mission to the EU
Number of negotiators	15 negotiators	11 negotiators	18 negotiators	15 negotiators
Working groups	33 working groups	31 working groups	31 working groups	35 working groups
Supporting structures	Task Force for Accession Negotiations in the Ministry of Foreign Affairs	Sub-committees supervised by 9 secretaries or under-secretaries of state	Task Force for Integration Strategy (independent advisory body)	Secretariat
Interest group integration	Weak	Strong	Medium	Weak

Source: Lippert, 2001; Bratus [et al.], 2000; author's interviews

While in expert interviews committee members confirmed that the governmental information policy has been to date satisfactory, the chair expressed discontent with the fact that the Committee only receives “governmentally approved” information (Šarić, 2006). The Committee is not designed to play an independent controlling role since some of its members lack competence and dedication (*ibid.*), while the absence of significant technical and analytical capacities means it is impossible to counterbalance dependence on governmental resources.<sup>xiii</sup>

The symptom of a weak parliament is reflected by the tight grip of the Ministry of Foreign Affairs. The structure’s design fits the needs of an ambitious timetable that does not allow for widespread discussion of potentially controversial issues. Yet, it should be kept in mind that flexibility (Estonia) and openness (Slovenia) proved to be important factors in successful negotiations. The concluding section will outline why it might be worthwhile considering a different strategic approach to negotiations, which would enable a more thorough, balanced and integrative approach.

## **CONSEQUENCES FOR THE INTEGRATION STRATEGY: QUICK ACCESSION OR GOOD REPRESENTATION?**

The existing negotiation structure reflects the priorities of the integration strategy, originally devised in the context of government change in 2000, focusing on high integration speed. Since then, however, the background parameters have changed considerably. While then the possibility of joining the EU together with Romania and Bulgaria seemed an ambitious but still attainable goal, this option is not open any more. Still, government and parliament plan to access the EU within a period of time shorter than that recorded by any new members to date.<sup>xiv</sup> Two trends, however, one domestic and one within the EU will put large constraints and question marks on the foreseen timetable.

On the domestic side, there is a silent preference for ignoring the widespread “euroscepticism” among Croatian citizens, while far-reaching reforms will put even more stresses and strains on the population. Whereas in 2000 the levels of public support for European integration were encouraging, today polls show a rather unstable picture. This is

even more striking against the background of increasing trends of euroscepticism which could be observed during the negotiation phase in Central and Eastern Europe (CEE). Therefore, public concerns should be taken very seriously, considering the realistic option of an accession treaty being rejected by the population, as happened for instance in Norway.<sup>xv</sup> Yet, the only prevailing governmental measure to counter this stance seems to be pushing through negotiations as fast as possible.

At the same time, debates within the EU institutions and member states on what is called “enlargement fatigue” reflect the decreasing level of public approval for further enlargement by states from (South) Eastern Europe. One important background reason lies in the unresolved problem of the EU’s internal decision structure still drawing on the EU-15 at the time of the Nice Summit in 2000. While attempts at reform failed with the rejection of the Constitutional Treaty in France and the Netherlands, the EU will first need to adjust its decision-making system to the enlarged Union before it is prepared to admit new members.<sup>xvi,xvii</sup> This is reflected in the debates on “enlargement capacity”, in which voices calling for freezing enlargement after the accession of Bulgaria and Rumania find more and more acceptance.<sup>xviii</sup> Resolving this fundamental problem will require a difficult and probably long process in which public opinion in the member states will play a decisive role. In this context the lessons of the rejection of the Constitutional Treaty as a project imposed “top-down” should illustrate the danger of political elites ignoring adequate electorate representation and failing to generate the legitimacy necessary to engage in such large scale reform.

The overall focus on quick accession at any cost is part of the dominating norms that govern enlargement. This focus rests on the shaky presumption that a slower tempo would endanger the whole transition process. On the contrary, however, especially small states in the past lacked the capacity to meet the tight timetable and to draft qualitative reform. In the case of Estonia “the overload and time pressure were major reasons for the poor quality of legislation and insufficient policy analysis” (Raik, 2004:588), while Ágh (1998) sees the management of EU accession in CEE as “a typical case of state or government overload, therefore it has been [...] politically counterproductive [...]”. The above mentioned development in Croatia, with the Ministry of Foreign Affairs showing signs of problems with coordination capacity through the declining number of laws harmonised should be seen in this context.

At a more basic level the persisting “need for speed” of the accession strategy collides with the goal of fostering democracy (see, among others: Beichelt, 2003) by exerting pressures to streamline the domestic negotiation process, rendering it the “hour of the executive” (Lippert [et al.], 2001:994). Consequently, the democratic deficit<sup>xxix</sup> of the EU institutional system, itself overloaded with executive decision power, weak parliamentary control and long legitimacy chains<sup>xx</sup> (for an overview see: Føllesdal, 2004) is being exported to Croatia – rather silently, in the form of adaptation pressures to the EU decision making process.<sup>xxi</sup> This in turn happens at the risk of sacrificing participation and control of the stakeholders concerned, above all citizens and their parliamentary representatives.

This problem was partially addressed by the establishment of the National Committee.<sup>xxii</sup> As seen above, however, this body has no veto power and rather resembles a “debate club”. This is in line with the Parliament’s “traditional” politically marginalised position in the political system, despite the improvements in the last decade (Zakošek, 2002:90). Its weak integration in the accession process continues this tradition by respective path-dependencies, similar to the Hungarian prime minister’s claim that “in practice it is frequently not the Parliament that is controlling government, but the reverse” (cited after Bes-senyej Williams, 2001:31).<sup>xxiii</sup>

While older member states were able to develop mechanisms of national parliamentary scrutiny of the government incrementally as responses to step-by-step European integration, accession countries like Croatia have to adapt to the political system of the EU in a very short time. This, however, does not leave room for a responsive adaptation of legislative control, as path-dependent institutional processes require a wider time horizon. At the same time, effective national parliamentary scrutiny is the most important institutional mode of controlling the government in order to provide for representation and legitimacy. Effective scrutiny in turn is largely dependent on the domestic political system and the general strength of parliament, which is, as pointed out above, quite weak in Croatia (for a discussion of conditions for effective scrutiny, see Raunio, 2005).

In turn, low degree of responsibility vested in parliamentary representatives in the negotiation process will lead to temptations to abuse negotiation issues by politicisation instead of problem focused discussion. The National Committee’s alleged strength – its political weight reflected by its overwhelming composition of high-ranking party rep-

representatives – might also be its greatest weakness. Party politicians will hardly miss the chance to compete in defending alleged “national” interests when they are not made responsible for real decisions over negotiating positions. This is significantly reinforced by the construction of the National Committee with very limited access to independent expertise and the obligation to reach a unanimous vote.

The conflict potential has already been demonstrated by severe political fights between the two big parties, which led to several announcements of the opposition leader to withdraw support from the National Committee. Considering the still early stage of the negotiations it seems doubtful that party political quarrelling over negotiating positions will not be transported into parliament. These dissensions, together with a widespread popular perception of the legislature as merely a “law-passing machine”, have led to further recoil from “politics” and a reinforcement of ongoing delegitimation trends.<sup>xxiv</sup> Research in this field suggests that euroscepticism among Croatian voters can to a significant part be traced back to distrust in national institutions, especially parliament (Štulhofer, 2006). Its preparedness neither effectively to control the government in the process of negotiations nor adequately to represent the citizens might reinforce this vicious circle and render it a mere “facade of democracy” (Rüb, 2001:47).

In light of these arguments, a change in accession management should be considered; such a change might have the following elements:

- *Turn away from an “as soon as possible” to an “as soon as ready” policy.* Encouraging though an ambitious entry date might be, in the present situation it seems to overstrain both the citizens as well as the Union. It should be kept in mind that it is not EU membership itself that will solve pressing problems, rather the intense reform period enabled by the “window of opportunity” and the unique dynamics of the accession period, which should be used as a self-disciplining instrument. Shortening this period means less time available for designing reforms, for sequencing them and to implement them in a socially bearable way. Eventually rising scepticism in the EU towards further enlargement should not lead to hectic reactions but to a display of determination by more thorough reforms combined with high-level political lobbying.
- *Turn away from a top-down to a more bottom-up centred approach* by installing a parliamentary veto point. It should not be forgotten that legitimacy requires control of the citizens over political proce-

sses and their contents – a control that needs to be “substantive rather than symbolic” (Dryzek, 2000:79ff.). A parliament effectively controlling government could play an important role in channelling the (often diffuse) eurosceptical attitude of many citizens, returning legitimacy and reintegrating a large part of the society in Croatia’s way to the EU. Furthermore, this approach reduces probable, very damaging party politicisation tendencies by making representatives responsible and forcing them to let their words follow deeds.

- *Internalise European Affairs.* In the Croatian political system European integration is still treated like a foreign policy issue where traditionally weak or no legislative control is exerted and the role of the parliament lies mostly in ratifying of international treaties. As the above experiences in the accession process suggest, European integration issues are domestic issues, since the decisions made in Brussels will sometime override those made in Zagreb. Thus, the National Committee in Parliament should be upgraded to a grand committee with open meetings, sector specific sub committees, as well as adequate resources and analytical support.
- *Reconsider the tight grip of governmental control* rendering negotiation management more transparent and flexible. This entails: (i) *Improving conditions for “negotiations at home”* by enhancing systematic participation and integration of interest groups, actors from the field of science or other concerned stakeholders and (ii) *Lessening rigid process coordination* allowing for more flexible contacts between the national and the EU level, thus avoiding the emergence of “islands of excellence”. At the same time all informal communication needs to be recorded in order to avoid loss of information to the organisation.

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\* *I would like to thank Katarina Ott and two anonymous reviewers for improving this article by providing helpful comments and suggestions.*

i *In this paper it is implicitly assumed that accession to the EU is desirable.*

ii *The cases for the comparative analysis were picked on the grounds of a comparative research project “Organising for EU Enlargement: A Challenge for the Member States and the Candidate States (Managing Europe From Home)”, a six-country comparative study on the impact of the EU on structures and processes of national public policy carried out under the EU Framework V Programme (see: <http://www.oeye.net/>). For the purpose of this article a number of studies on candidate states were used to depict accession management in order to benefit from the uniform methodological approach applied in all three cases.*

- iii *For that purpose in-depth expert interviews were held in January and February 2006 with individuals from all levels of the negotiation structure and the National Committee in Parliament, ranging from working group members via high ranking senior civil servants to politicians. The names of the interviewees will not be exhibited in this article but are known to the author.*
- iv *As such, Raik (2004:567) identifies for instance inevitability, speed, efficiency and expertise.*
- v *This is especially underlined by the Hungarian experience where the actual difference between the national and the EU level disappeared in course of negotiations, rendering the EU "another stakeholder (but a powerful one) in the national negotiations in formulating the Hungarian government's negotiating position" (Pálvölgyi et al., 2003:22).*
- vi *In order to structure the cross-national analysis, a difference will be made between process and policy coordination (for similar distinctions, see: Brusis, 2000:12; Davis, 1997:126ff.). Process coordination means the management of procedures and the integration of the most important actors at the specific stage of the negotiation process. Policy coordination entails strategic policy formulation and "political" coordination as maintaining functionality of coordinated bodies.*
- vii *While Prime Minister Mart Laar (in office 1999-2002) had to outbalance a foreign minister who was member of a different party, his successor Siim Kallas was member of the same party as the chief diplomat and thus able to concentrate more on negotiation issues. Still, even in Laar's term, the role of the prime minister continuously increased reaching its peak in 2002.*
- viii *For example, civil society and independent experts were explicitly invited to cooperate in the formulation of the draft positions.*
- ix *In this article, only the management structure relevant for accession negotiations (under Prime Minister Orbán) will be referred to.*
- x *In course of reorganisation in 2002 it was renamed State Secretariat for Integration and External Economic Relations.*
- xi *It has to be noted that at the time of writing this article (February/March 2006) the structure has not yet become fully functional. At the same time, experience with past management forms shows that changes within the institutional configuration can (and probably will) occur within the negotiation process, either through political decisions (e.g. changes in government) or informal developments leading to quasi facts. Yet its theoretical design alone and experiences made during the first screening sessions provide for a clear picture of the structure's core features.*
- xii *According to the report of the chief negotiator to the government (Vlada Republike Hrvatske, 2005b:2), from 1,591 people in the working groups, 701 are "not in the system of state administration". Still, it has to be taken into account that some of the 701 non-civil servants come from scientific institutions, thus leaving the exact origins of the working group members unclear. It might be interesting to note that 869 members alone are dealing with the chapters connected to agriculture.*
- xiii *To date there is only one secretary employed while for the future, five further employee positions are planned (expert interview). Yet, this still will not make up for the lack of supportive expertise.*
- xiv *The government expects to finish negotiations speedier than the candidates from the last round because of policy and institutional learning and the share of the *acquis* already transposed. It plans to close all negotiation chapters by the end of 2007 in order for Croatia to take part in elections for the European parliament in 2009.*
- xv *In Norway's referendum in November 1994 the accession treaty was narrowly rejected (47.7% in favour).*



- xvi *With the rejection of the Constitutional Treaty, also the “Protocol on the Role of National Parliaments in the European Union” was rejected, which provided for stronger information rights, their participation in a “first reading” of EU proposals and a “subsidiarity control” which even included a veto right under certain conditions.*
- xvii *France and Germany already stated their preference for deepening to further enlargement, while Germany showed some signs of a changed approach towards the accession of the “Western Balkans” by applying its concept of a “privileged partnership”, originally invented for labelling its preferred mode of relations with Turkey.*
- xviii *“Enlargement capacity” was to date a merely theoretical aspect of the Copenhagen criteria defining the basic conditions for accession to the EU. This concept played a big role in the amendment of the 2005 enlargement strategy of the Union (Commission, 2005b) by a report from the European Parliament from mid-march 2006 (European Parliament, 2006). There it is stated that the EU is only able to admit new members if they can be integrated as well. According to the report, this situation is not given at the moment. Having in mind the development of the discussion on enlargement, only progress in EU deepening will allow for progress in enlargement.*
- xix *As differentiated by Scharpf (1996), this democratic deficit is being discussed for the European and the national level.*
- xx *The term “legitimacy chain” describes the chain between those making decisions and those being affected by them. Critics point out that this link between the sovereign on national and political actors on EU level is too long and non-transparent.*
- xxi *The mechanisms for this export are emulation (“copying” EU institutions) and conditionality (EU requirements favouring institutional modes that give preference to executives). Examples for a mixture of both are the institutional consequences emerging out of the SAA. Its governing bodies are the Association Council (political decision body governed by high executive officials) and the Association Committee (civil servants from respective ministries) whereas the third body, the Joint Association Parliamentary Committee just makes non-binding proposals to the Association Council.*
- xxii *The decision about the establishment of the Committee was made after few minutes of debate in a late parliamentary session. In a fifteen minutes break the party leaders, the prime minister, the foreign minister and the chief negotiator made the decision behind closed doors and thus gave a blow to representatives who pledged to call an extra morning session in order to discuss the issue extensively (Hrvatski Sabor, 2005c).*
- xxiii *In the context of discussion on countering the democratic deficit on EU and national level, stronger national parliaments (of member states) are usually connected with intergovernmental models of European Integration, which also include strong national governments and a strong Council of Ministers. The opposite model of parliamentarisation includes strengthening European-level actors, like the European Parliament and the Commission. As this article refers to the pre-accession period, arguments for strengthening the national parliament are not supposed to provoke connotations with the intergovernmental perspective.*
- xxiv *In this context, there is evidence that satisfaction with democracy is higher in consensual democracies, where input from opposition parties is included by the government (see Anderson et al., 1997).*

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## Chapter 3

# COMMUNICATING EUROPE: THE CHALLENGE OF EUROPEANISATION OF COMMUNICATION

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The single biggest problem in communication is the illusion that it has taken place.

*George Bernard Shaw*

## ABSTRACT

This paper examines the issue of communicating Europe to the European public, the importance of which has been accentuated by the acknowledged existence of a communication gap in the European Union. The paper looks at the experience and practice in the field of communication and refers to evidence of how the EU, its member states, candidate countries as well as Croatia have so far communicated European issues to their publics. The findings suggest several conclusions. Firstly, the practices resorted to so far have had an impact on the democratic feature of the EU and the public support it has acquired, but also on its practical everyday functioning. Secondly, there are numerous elements that account for the difficulties that exist in making the communication of Europe truly successful. Thirdly, the Europeanisation of communication should be taken into consideration as a way of contributing to the filling of the communication gap. Communication focusing not only on teaching facts but also on raising people's interest about European issues has become an EU policy of growing importan-

ce and a crucial instrument for ensuring the future ability to justify and win support for the European integration project.

**Key words:**

communication, information, democratic deficit, communication deficit, Europeanisation, Constitution (European Union Constitutional Treaty), European Union, Croatia

## INTRODUCTION

From the beginning of the European integration process until the mid 90s, in line with the perception of the EU as an elitist project, communication with the public was marginalised and carried out on an *ad hoc* basis. During the last decade, due to the evolution of the process (increase of EU competences, broadening of its scope of action) and the rise of public awareness, various general and topic-oriented communication strategies were adopted.

So far, communications have not been entirely successful because they were not based on principles of good communication. Instead of focusing on citizens' interests and needs, the EU and its members presented the information they wanted to distribute. At the same time the implementation of communication strategies was inadequate and fragmented.

In recent years, partly due to internal events such as the 2004 enlargement and the Constitutional Treaty (hereafter the Constitution) ratification, communication has become an important item on the priority lists of EU institutions (e.g. the Barroso Commission was the first one to have nominated a special vice-president for communication), of presidencies, such as the Irish, Dutch, and Austrian, as well as of member states.<sup>1</sup> The EU has adopted a new approach to information and communication and introduced specific proposals to enhance openness, transparency, accountability and the participation of European citizens in decisions about the future Europe. Nevertheless, due to various reasons and obstacles, the EU's success in communicating Europe is still limited in scope.

The paper touches upon five communication-related issues. Firstly, it introduces the concept of democratic and communication deficit. Secondly, it stresses the importance of the communication concept and policy. Thirdly, it gives an overview of what the EU, its members

and candidate states as well as Croatia have done so far in this field. Fourthly, it identifies some of the features of communication that often act to its disadvantage and account for its limitations. Finally, it explores the concept of Europeanisation in relation to communication and its potential improvements. In the conclusion the paper draws attention to elements that need to be taken into account when devising and implementing communication strategies. It suggests that Europeanisation is a means to improve the communication of Europe.

## DEMOCRACY AND THE COMMUNICATION DEFICIT

In recent years there have been debates about the concept of *democratic deficit* in the EU. Considerable efforts were put into analysing it and regularly led to the conclusion that an element inherent to this issue is the notion of a lack of *legitimacy* in the EU. The deficit is reflected in the ideas that power holders are not sufficiently accountable, nor are their decisions responsive to public preferences or subject to their scrutiny (de Vreese, 2003; 2004). These discussions worked as a trigger for changes introduced into the development of the EU, such as direct European Parliament (hereafter Parliament) elections back in 1979 or the Constitution's proposal to link the future choice of European Commission (hereafter the Commission) president to results of the Parliamentary elections. These changes were introduced in order to create a more direct link between the formerly European Communities and latterly European Union institutions and the European public.

Today, the EU seems equally to be suffering from a *communication deficit*. Communication is one of the many complex issues that account for the political crisis that Europe is facing at present. In many ways the two deficits are intertwined and exhibit similar symptoms – in order to preserve democratic features and justify its continuous existence, the EU needs to improve communication with its stakeholders, i.e. citizens. Democracy is more than merely giving citizens the possibility to take a decision in a referendum – it is “not a mechanical process of aggregating preferences and determining majority opinion” (Kurpas, Meyer and Gialoglou, 2004:1). Its requirements can only be fully met when complemented by communication. To the extent that European institutions and states provide information, they are well advised to avoid “feeding” citizens knowledge based on propaganda. Instead they



should try and bring European issues home and render them meaningful to people in their daily lives. Above all, raising public awareness concerning the EU seems a valuable endeavour, since it contributes to the legitimacy and sustainability of the project. Thus a basis is created on which the public can form an opinion or even engage in governance in an active and responsible way.

Throughout the EU history there has been evidence of a communication deficit: the *no* votes in the referendums (Maastricht Treaty in Denmark in 1992, Nice Treaty in Ireland in 2001, euro in Sweden in 2003, Constitution in France and the Netherlands in 2005); a record low turnout at the last Parliamentary elections (below 50%) and the 2003 accession referendums (e.g. Hungary 46%); a recorded decline in levels of trust in European institutions (European Commission, 2005:19-20); general support for EU membership and evidence of a rise of negative EU sentiments across Europe not only in traditionally *euro sceptic* countries like Britain and Denmark, but also in founding members such as France and Italy.<sup>ii</sup> Inadequate communication is further reflected in different perceptions of the same concept. For instance, referring to the same Constitution during ratification referendums, French voters argued that under the Constitution their country's power would diminish, while the Dutch were of the opinion that the big countries, like France, would become stronger (Mulvey, 2005). Finally, despite the fact that over the years the citizens' own perception of the extent to which they are informed has become more positive, knowledge-related questions indicate that citizen awareness and basic knowledge about the EU is still very low (European Commission, 2002:86-99).

The communication gap between the EU and its citizens is not new, but today it seems to be greater than ever. As the June 2005 European Council showed, it coincides with a general state of a deep crisis in the EU that goes beyond the need to handle the Constitutional issue. What seems to be a big issue is the EU capacity properly to absorb the ten new member states and the general *enlargement fatigue*. The fact that "old" Europe seems to be saturated by successive accessions partly accounts for some of Europe's current issues, such as the slowing down of the further enlargement process. However, the *fatigue* can also be considered a result of insufficient, unsuccessful and often biased communication in the old member states before enlargement. In addition, people feel remote from the EU institutions and the decision-making process. Voter apathy indicates that the importance of Community decisions and their impact on a national policy is not yet established facts

among citizens. Views differ on how to resolve the problem of reconciling global competitiveness and innovation with social security and environmental sustainability. There is a sense of uncertainty about the finality of the European project and a virtual collapse of a shared, common view on what the basic purpose and objectives of the EU should be (Palmer, 2005). All this puts the issue of communication at the heart of the European crisis.

## IMPORTANCE OF COMMUNICATION

The importance of communicating Europe is multifold. Firstly, lack of proper and continuous communication can have an impact on the democratic concept of the EU, resulting in the low turnout at Parliamentary elections. Another result comes in the form of practical repercussions in the everyday functioning of the Union, such as the dilution of the Constitution ratification process, blocking the future efficient functioning of the organisation.

Secondly, the right to information, freedom of expression and communication among citizens and power holders are at the heart of democracy in Europe and underpin political systems at the European and national levels.<sup>iii</sup> In line with these principles, all European citizens have the right to fair and full information about the EU, to access information in their own language, to express their views, to be heard and to have an opportunity for a dialogue with the decision-makers. After all, EU decisions have impacts on various areas of public life and accordingly merit close public scrutiny and involvement (Kurpas, Meyer and Gialoglou, 2004:2).

Although sometimes used as synonyms, there is a clear distinction between information and communication. Information is a one-way flow of facts and figures whereby a certain policy or particular measure and their implementation are presented (often associated with a *top-down* approach). Communication, on the other hand comprises information presented in the form of key messages adapted to particular audiences, and requires an interactive approach. In the EU context this two-way process is reflected in the fact that Brussels both *disseminates* and *receives* information.

Thirdly, communication is crucial for the provision of the kind of knowledge about the EU capable of bolstering support for the institution. As the first Irish referendum on the Nice Treaty showed, the

anti-EU camp had successfully taken advantage of the lack of knowledge by putting forward a simple but powerful line: *If you don't understand it, say no*. As European issues are increasingly becoming salient, holding referenda may become a new trend. Ignorance of the electorate can prove risky to future political decisions. This holds true whether a referendum relates to a given state or to a group of states. France, for instance, plans to hold a referendum on every enlargement after the accession of Croatia; the recent no-votes in the referenda concerning the Constitution affected supporters and opponents equally strongly.

Fourthly, communication is a tool with which to win support for certain measures that have been adopted and to enhance the chances of their successful implementation. There is a growing trend of public protests and referendums for the expression of views and decision making on issues such as membership, key policies, endorsement of treaties and constitutional documents. In this context public opinion has become an important benchmark for political decisions and is often likely to be incorporated in policy making (de Vreese, 2004:3). It can be noted that resort to direct democracy rather than reliance on parliamentary representation and dissatisfaction with party politics are evident trends in almost all European countries. This may, therefore, not be an EU-specific problem, but it still underlines the general value of communication – communication matters, because public opinion does. The challenge put before communication is to facilitate exchange, the learning process and dialogue (European Commission, 2006:13).

It can be debated whether there is a direct correlation between communication policies and public support for the EU. One could also contest the assumption that a well-informed citizen would necessarily be pro-EU. Nevertheless, for the sake of argument, our working hypothesis is that a (good) communication strategy and sound knowledge will tend to make the EU more acceptable.

## **Communicating Europe in the European Union**

Although the project is over 50 years old, and was initiated by democratic Western European states, an analysis of information and communication policy in the EU shows that the process of integration was not really communicated until relatively recently. The circumstances in which the project was launched (the aftermath of the Second World War, the beginning of the Cold War) enabled the integration pro-

cess to start without any direct popular influence or approval. Over the course of time, European cooperation had a positive effect on economic and political stability. All of a sudden, citizens were encouraged to require information about national politics and to be involved in the national decision-making process. However, for quite some time European integration was considered a project of the European political elite, while citizens showed little interest in European issues and were not involved in the development of different integration aspects (enlargements, treaties, policies, etc).

After the initial negative Danish referendum on the Maastricht Treaty, stronger emphasis was put on “getting Europe across”. The idea was to stimulate a debate on Community matters, improve public participation in the decision-making process and strengthen public confidence in European administration. However, until the mid 90s the creation and implementation of policy related to communicating Europe was mainly within the remit of European institutions, and their approach to activities was limited. Once a special Press and Communication Directorate-General was created, the Commission brought its capacities for the analysis of public opinion and the press, for the design and implementation of information campaigns and day-to-day political communication together under one roof.

The first impetus to fostering communication came at the time of creation of the monetary union when *Communication on the Information Strategy for the Euro* was adopted in 1998. The communication, explaining the reasoning behind a common European currency and the mechanisms for its introduction, was rather successful. It adopted a decentralised implementation approach and adapted information to the specific characteristics of individual countries and target groups. By contrast, the *Communication Strategy for Enlargement for Period 2000-2006* (2000) failed to define any specific concrete actions to be deployed, which left EU representations, member states and candidate countries on their own to devise communication tools. In 2002 the *Information and Communication Strategy for the European Union* called for a coherent and comprehensive EU information and communication policy. It envisaged the EU capacity to formulate messages focused on priority issues and to disseminate them in partnership with the member states. Taking into account the problem of persistent ignorance about and indifference towards EU affairs, the *Laeken Declaration on the Future of Europe* (2001) called for a deeper and wider public debate on the future of the EU. As a result, a Convention was convened

and was charged with drafting a new treaty.<sup>iv</sup> The text of the Constitution incorporated a number of measures to improve democracy in the EU. A greater role was assigned to both national and European parliaments and the concept of European citizenship was given greater weight.<sup>v</sup> This was perceived as an unusually open and transparent incentive to undertake a broad public discussion about future Europe. Obviously, the Convention had failed fully to meet the criteria of successful communication, since Europe soon faced two rejections and several postponed ratification procedures. These have contributed to the present EU political crisis and provoked a new debate in Europe's communication policy.<sup>vi</sup>

In June 2005 European Council launched a *reflection period*, aiming at "clarifying the content of the European project and infusing it with a fresh political impetus to push reform forwards" for months to come (De Clerck-Sachsse, 2005a). Modernisation of the Commission's communication service and practices was outlined in the *Action plan to improve communicating Europe by the European Commission* (2005). Three principles underpinning the new plan were: not just informing but also *listening* to the citizens and taking their views into account; *communicating* in an understandable way how EU policies affect everyday life and what added value they bring; and "*going local*" by adapting messages, channels and messengers to national and local audiences and their concerns. Additional focus was put on strengthening the Commission's representations in the member states. In October 2005 the so-called *Plan D for democracy, dialogue and debate* was launched. This communication action plan encourages, structures and directs ongoing debates about Europe at the Community and national level on the basis of an additional "d", *decentralisation*, since the main responsibility for effective debating lies with opinion multipliers at the state, regional and local level. The most recent *White paper on European Communication policy* (February, 2006) serves as a consultation paper intended to engage stakeholders to express their views and send comments on the tabled proposal until July 2006 in order to jointly shape Europe<sup>vii</sup>. The White Paper identifies five areas in which joint action, based on the principles of inclusiveness, diversity and participation, should be taken: defining common principles, empowering citizens, working with the media and new technologies, understanding European public opinion, and doing the job together. With a view to success in its objectives, the paper even envisages framework documents such as a non-binding *Charter on Communication*, which would define citi-

zens' rights to be fairly and fully informed on European issues, or a voluntary *Code of Conduct on Communication*, which would bind various EU actors to respect good practices of communication.<sup>viii</sup>

The results of various communication activities at all levels and the outcome of national debates will serve as input for the adoption of a concrete *Road Map*. The map would define the modalities of further action for the future Europe in the Constitutional context.

## **Communicating Europe in member states and candidate countries**

As regards the EU member and candidate states, studies demonstrate that countries take an individual approach to communication, their success rates differing accordingly (Brnčić, 2005). Following the initial rejections of the Maastricht and the Nice Treaty, Denmark and Ireland respectively successfully combated inadequate information and popular ignorance by launching intensive and extensive campaigns. After a long period of a low-profile communication, the Netherlands today bases its communication on decentralisation and a network of governmental and non-governmental organisations that adapt target-oriented activities. In contrast to the decentralised method of communication in Finland and Sweden, after accession to the EU Austria reduced its information and communication activities, eventually bringing about a drop in public support. During the pre-accession period, Cyprus, partly due to its focus on internal political issues, neglected the importance of communication, while Slovakia, despite its elaborated strategy and invested financial resources, failed to make use of these advantages. Slovenia was considered to have given a successful example of a transparent and coordinated process of communication. Hungary invested a lot of effort and money into cooperation with the media and developing specialised information for different target groups. Malta created the *Malta Information Centre*, an independent institution whose neutrality, expertise, awareness of citizens' needs, good cooperation with the media, budget and involvement in the overall negotiation process contributed to the success of the communication strategy. It is worth describing briefly two examples of one more and one less successful communication strategy.

For the purpose of preparing the citizens of Ireland for the second referendum on the Nice Treaty, a National Forum on Europe was

created. Various national and European figures – Irish government officials, European and national parliamentarians, representatives from civil society and academics from across the EU and beyond – used the forum as a framework for a debate about the EU and Irish membership in the Union. The openness of the Forum to the public enabled the citizens to get actively involved and its value lay in the creation of conditions in which a national body was able to discuss matters relevant at both the national and the European level. People became aware that deliberations about the issues at stake were of great importance to their future and that their decisions could have a wider impact that extended across the national borders (Brnčić, 2005). In addition, in 2002 an extra impetus to communicating Europe came from a civil society campaigning organisation called the Irish Alliance for Europe (Laffan, 2004). A “coalition of the willing and the available”, with only two employed people and a group of volunteers conducted qualitative research. Their aim was to analyse what had gone wrong during the first referendum and to anticipate issues that could prove salient in the near future. The Alliance invested a lot of effort into creating a new, energetic and highly visible image, whilst their good media team made sure the Alliance got sufficient media coverage. The idea was to conduct a positive campaign, but also to counteract the arguments of the “no” side. The Alliance supplied speakers and participants for the meetings held by the Forum and was committed to having people on the street. Its credibility derived from its ability to combine the experience of older people with the energy and talent of the young, and a willingness to debate the big issues of integration as well as the technical details of the Treaty.

Hungary used to have a fairly long tradition of political and public support for the integration process. Just three months before a decisive referendum on the accession in 2003, however, eurosceptical attitudes became widespread, causing a decline of support. Not only were the former government communication strategies ineffective because of shortages of resources, but the referendum campaign was late in being launched (mid-March 2003) and was then conducted in a centralised manner. And then the elite and the mass media failed to use the long accession process to teach the general public at least the EU basics. The signing of the Constitution in Rome and the Parliament’s approval of the current Commission were the first two European events ever, in the history of the Hungarian media, to have become headlines in the country’s quality press. Neither the centralised communication campaign before the referendum, nor the competition of the political

parties facing the first European elections in Hungary in 2004 managed to get people involved in the ongoing intellectual dialogue and political debates about the future of Europe (Hegedüs, 2004). Furthermore, during the negotiations with the EU, public discourse was mostly limited to the timing and the conditions of accession. Discussions about the needed adjustments focused on the socio-economic and legal dimensions, while the issue of “political harmonisation” was largely neglected. In the name of “objectivity”, the news media often described accession in terms of a simplistic and rather technical dichotomy of the advantages (benefits) and disadvantages (costs) (ibid., 2003). Finally, as a consequence of the domestic political struggle, little space was left for deeper intellectual and rational debates, and the citizens maintained their euro-pessimistic stereotypes.

## COMMUNICATING EUROPE IN CROATIA

Given the fact that EU membership is one of the two main strategic foreign policy objectives of Croatia, the country faces communication challenges similar to any EU member state or candidate country. Communicating Europe is not only an obligation but also a tool to acquire the support needed for the final decision on EU accession. There is an increasing public interest in the substance and possible implications of Croatian accession in the EU. As the process develops, tasks and information needs put forward by citizens are becoming more concrete. Consequently, in January this year a revised *Communication Strategy* for the period 2005-2007 was adopted.<sup>ix</sup> The aim was to adjust EU-related information and communication activities to new public needs and bring changes to the approach to communication policy. The provision of information to the public was invigorated with the aim of reaching as large an audience as possible (through TV shows, for example). A sectoral approach to specific target groups according to their interests was developed and new activities were initiated in line with the dynamics of the negotiation process; one such initiative was the launch of a new website related to accession negotiations.<sup>x</sup> In addition, a National Forum was established in order to encourage a public debate about Croatian accession to the EU at all levels of Croatian governance and within society until the referendum day. By including ministers, parliamentarians, the business sector, academics, regional representatives,



NGOs and students the Forum provides for a variety of views as well as specialised contributions to the debate.<sup>xi</sup>

A comparison of the results of the twelve public opinion surveys conducted since the year 2000 reveals the evolution of public opinion.<sup>xii</sup> In the period between 2000 and 2003, the EU was generally perceived as being, in the light of the past, a desirable option and support of citizens for EU membership was rather constant (72-79% in favour). Support decreased to 51% when Croatia acquired candidate status and reached its lowest point in June last year (42%) upon the delayed opening of the accession negotiations. Over the years, then, belief among Croats that EU membership will bring about general and economic progress and a higher standard of living has declined and is now held by less than a half as against over two thirds earlier.

These surveys fail to offer explanations as to why general support has decreased over time. For this purpose, more thorough research is required. An analysis would most likely confirm that some of the reasons are general and similar to those other countries experienced before joining the EU. In the accession process, people's focus shifted from abstract symbolism to the concrete and often painful realities of membership. In addition, one would certainly find country-specific issues that have had negative effect on public opinion polls, such as the special protocol later added to the Stabilisation and Association Agreement, increased international pressure regarding cooperation with the International Criminal Tribunal for the former Yugoslavia, traditional production of cream and cheese and the sale of real estate to foreigners.

The latest round of public opinion surveys conducted in December 2005 showed that almost 49% of citizens support the idea of Croatia acceding to the EU, as opposed to 44% who do not. The participants thought that EU information in the media, the most common source of knowledge about the Union, is still limited.<sup>xiii</sup> Opinion-makers should make use of these findings and respond to people's priority concerns reflected in the surveys, such as the effect of the accession on economic development and everyday life, the rights and obligations stemming from EU membership as well as the impact of membership on Croatian internal policies and its sovereignty.

The objective of communication is eventually to "create" a well-informed citizen prepared to make a final decision concerning accession to the EU in a referendum. In recent years these efforts have by and large been complemented by a growing number of diverse activities initiated and carried out at the regional and local level, as well as by the thriving civil society in the country.

## FEATURES OF COMMUNICATING EUROPE

Never before has the EU paid so much attention to communication and transparency as today. Paradoxically and ironically, the generally low support for the EU comes at a time when awareness of communication issues seems to be very high on the Brussels agenda. The Constitution, which had its origin in a feeling that the EU had become remote from its citizens, has ended up alienating some of them even more (Reynolds, 2005; De Clerck-Sachsse, 2005b). There are several features of communication that may account for this fact and that should borne in mind when developing, implementing and assessing communication.

- *Policy still undeveloped.* Governments have traditionally ratified EU agreements in their parliaments, assuming a majority would vote in favour (Keohane, 2004:1). For years they have lacked a coherent and sustainable communication strategy and have assumed that feedback from the public would be positive. Therefore, there was very little need for explaining, listening and the anchoring of EU issues in contemporary national politics. As a consequence, people are still not used to forming a view about something they know little about, while the EU and European governments are not used to “selling the story” to their citizens.
- *Objective of communication.* Communications are rarely clear about *the goal* they want to attain. Is the purpose of communication to have half a billion EU citizens informed about EU facts? Or is it to make citizens become more active and participative in EU life? Do we want to make people understand the EU or to make them love it? Not only is the “Union’s message” poorly spelt out, but in addition it is often difficult to avoid making various messages sound like propaganda. The Dutch referendum has shown that it is counterproductive simply to try and win people over, because “the EU is not a branded product, but aspires to be a democratic political enterprise that citizens may decide not to like, even if they are properly informed” (Kurpas, Meyer and Gialoglou, 2004:3). Communication should not be only objective-oriented (gaining support), but content-oriented (fostering public debates). Positive outcomes at referenda or high support expressed in opinion polls surveys may well be the ultimate objective of the EU and its member states. However, they do not necessarily prove that communication has essentially been suc-

cessful. Communication should not aim solely at teaching facts but also at raising people's interest in European affairs.

- *Who communicates Europe?* Since EU governance is multi-level – European-wide, national, regional and local – there is no exclusive ownership over the European project and thus none over communication policy. All levels of governance should be able and willing to take up their share of responsibility for communication and to cooperate.<sup>xiv</sup> The Commission can induce reform steps, set up an overall framework within which more specific communication policies can be developed, and generate information and core messages that are universally applicable.<sup>xv</sup> The importance of national parliaments in this field is significant, since citizens identify themselves more easily with them than with the European Parliament. However, EU issues still play a limited role in election campaigns since politicians are rarely elected on the basis of their European positions. Some argue that the present EU crisis originates at the national level and is due to national methods of dealing with the EU (Seidenfaden, 2005:75). In practice, national governments often take the credit for favourable results, but use Brussels – EU institutions or other member states – as a scapegoat for unfavourable outcomes. According to some, member states have little interest in communicating the benefits of the EU. The absence of communication from them serves to preserve the public impression of the powerful nation state and increases their room for manoeuvre at the negotiation table and in the preparatory stages of decision-making (Kurpas, Meyer and Gialoglou, 2004:4). Media, often considered more credible than politicians and a key resource of information, are a powerful mediator and a vital opinion-maker among the public. Over the years, the frequency and spread of coverage of EU affairs across a variety of sections in newspapers have increased. Nevertheless, the quality, relevance and objectivity depend to a large extent on expertise, cooperation with the government in providing information and the role of media as an honest catalyst of information. Finally, the responsibility partly lies with the public, which needs to be active in exploring and looking for information. “Hunger for knowledge has to imply that one is prepared to walk to the store cupboard oneself and not to be expected to be spoon-fed by a flunkey” (Sainley Berry, 2006). The public appears to be receptive to EU intentions to interact more with citizens (47% would like to be more involved), although only around a quarter (26%) of citizens feel involved in European affairs (European Commission, 2005:38).

- *Domestic or European issue?* Politicians often play domestic politics with European issues. For instance, election campaigns for European Parliament are still fought predominantly over national rather than EU issues, while 2007 presidential candidate ambitions seem to have triggered a division in the French socialist party with respect to support for the Constitution. On the other hand, during national elections European matters may be high on the campaign agendas (the example of French presidential elections in 2002). The domestic political realm plays an important role both in forming opinion about the EU and in voting in European issues. Due to lack of knowledge the electorate may often be influenced by government performance and is likely to formulate views on the basis of the closest to what it knows – national political considerations (Keohane, 2004:3; de Vreese, 2004). EU-related themes, even when they are commonly identified in most countries, are often immediately framed in a national context. Different issues dominate the debate in different countries, since different issues are high on the agenda in different national contexts (Kurpas, 2005). Even irrelevant issues may then become salient and divisive. This was the case with the matter of defence policy during the Irish referendum on the Nice Treaty even though defence provisions did not affect Ireland’s neutrality. The French and the British cannot agree whether there is too little or too much of “social Europe”. The Spanish benefit from structural funds, while the Dutch complain about their budgetary contribution. But in such cases, at least, the problems are perceived as being “European” and a sense of their apartness from domestic issues is maintained. A greater problem occurs when people use the EU frame as an opportunity to “let off steam” and express dissatisfaction with their national governments. While doing so, they indirectly affect things on scale much larger than the national.
- *Referendum.* There seems to be a growing tendency to hold referenda where public preferences can be articulated, as a way to work around the democratic deficit and communication gap. However, some have contested the appropriateness of using a referendum in the EU context. Some Europeans are more acquainted with having a say in EU-related decisions, while others like the Dutch and the Belgians had their first referendum ever.<sup>xvi</sup> Often, the consequences of an individual referendum go beyond the country in which it is held – a French *no* had an affect on other Europeans who had basically no possibility of participating in the French debate or influencing French public opi-

nion. How democratic is it to rely on a referendum that rejects what a large number of countries and political institutions, including the government and parliament of the no-vote country, agreed to? To a certain extent referendum is a tool for testing the ability of national politicians to convince the electorate that national interests can effectively be represented within the deeper and enlarged Union (Crum, 2005). It is also a “notoriously unsubtle instrument” forcing voters to give a *yea* or *nay* on issues of immense complexity (Closa, 2004). Referenda in the EU context have their advantages and disadvantages: they may make governments’ decisions more plausible and justifiable, but they may also have a negative spillover effect across borders. Therefore, except in Ireland where there is a constitutional obligation, a decision to hold a referendum is essentially defined by political factors. Due to their unpredictability, those who decide to hold them must seize the opportunity that referenda offer by running active campaigns to convince European citizens of the EU’s merits (Keohane, 2004:5).

- *Easier to promote no.* Those who advocate the EU out of conviction or because they have been actively and directly involved in the process must understand that the merits of the EU may not be self-evident to half a billion EU citizens. The pro-European camps appear to be weaker in sending out a clear message and to have greater difficulty in mobilising supporters compared to the eurosceptics whose strong calls for withdrawal from the EU or downgrading of EU competences better reach out to people. The anti-EU camp is often more active and uses its opponent’s failure to communicate as a way to dismiss initiatives as unacceptable. In addition, there is something in the political dynamic of an EU referendum campaign that favours the *no* side. The parties in the European integration context are divided along anti-integrationist – pro-integrationist lines. A growing cleavage not across, but rather through the party spectrum has taken the place of the classic left-right divide. This forms unusual alignments of parties in the *yes* camp who in other circumstances would engage in sharp political debate (Seidenfaden, 2005:70; Closa, 2004:4). This new ideological cleavage can significantly shake up national politics and leave voters confused.
- *Speaking with one voice.* Today Europe finds itself amid divisions between the EU and its members over the future political course of the Union, questions of how much further the EU should deepen and enlarge, deliberation concerning how to proceed with the Constitu-

tion. The inability to find a common stance has made *speaking with one voice* and an attuned communication policy hard to attain, even within institutions where more coherency could be expected (e.g. the Commission). As long as national override the European interests the public will hardly be convinced to give unanimous support to certain EU initiatives. “What interests the Poles is what will come out of Poland, not the future of the Union as a whole” (Beunderman, 2006).

- *Communica(c)tion*. Partly, a gap between elite and public opinion stems from their different concerns and the perception of policies that should be Europeanised and areas in which power can be conferred on the EU (de Vreese, 2004). The gap certainly cannot be filled only with communication. It requires a switch from symbolism (EU flag, anthem, currency or the Internet .eu domain) to practicalities and should be complemented with actions that deliver concrete results. The issues that are bothering EU citizens have greater variety and more subtle nuances than covered by the line between *yes* and *no*. European citizens are concerned about issues such as further enlargements and the effects of cheap Eastern labour on the European market, the fear of loss of sovereignty and the emergence of a super-state. Europe is felt to be too liberal and market-oriented and to have undermined western European welfare standards. Then there are issues such as the reduced share in the representation of old member states in EU institutions due to the last enlargement; contributions to the EU budget are perceived as bringing little in return. National influence is felt to be marginalised, and immigrants are increasingly resented. Therefore, successful communication must necessarily reflect and address priority concerns, and convince people that the EU guarantees and improves the quality of life and work. The effects of modernisation and globalisation have brought about new challenges. In order to become more tangible to people, the EU needs to deliver in three priority areas: prosperity (economic growth, competitiveness), solidarity (social dimension, employment, ageing population) and security (justice, terrorism).
- *Understand your public*. Knowledge, interest and public support for European integration is influenced by many factors. Political involvement and the socio-economic situation, clarity of communication and accessibility of information, adaptability of sources to users and the political situation at a given moment explain why certain elements prevail over others in different settings.<sup>xvii</sup> An illustrative calculation

shows that EU society has stratified into layers (social classes based on education and employment) and divided into sectors (government, agriculture and business, for example). This in turn produces around 100 groups of citizens in each country, whose different information needs have to be met accordingly (Sainley, 2005).

## EUROPEANISATION OF COMMUNICATION

The term Europeanisation is an increasingly popular concept in both public discussion and literature and has been attributed a range of definitions.

Firstly, Europeanisation is defined as *an increase of crossborder public and private issue-formation in Europe*, where the increase can mean more new issues (volume) and more intensely contested issues (contents) (Schendelen, 2003:30-40). It can originate from a public or private, European or a domestic dimension (EU, European federation, national ministry or a regional trade association). It also occurs in two opposite directions: from the European to the domestic level (an issue created in the EU or another country) or vice versa (an issue created at home). The outcome is either a binding decision or a policy proposal made by the EU; a private agreement which may be made among companies from various countries; the issue may remain where it originated, or even simply disappear.

Secondly, Europeanisation defined in relation to the *impact that European policy has upon the public policy of the member states* entails two steps. First is the decision- and policy-making at the EU and second their incorporation in the discourse, political structures and public policies at the domestic level (Bulmer and Radaelli, 2004:4). Europeanisation in the sense of transformation of national politics comprises both legal and institutional obligations. This evolves in line with European rules and standards, objective changes in economic structures, interests of individuals in European affairs and less tangible aspects such as subjective changes in beliefs, values, expectations and identity (Emerson, 2005).

Thirdly, another area where Europeanisation seems to be slowly anchoring is European administration. Here Community law gradually affects its basic principles, such as the process of opening up careers and working conditions for civil servants across Europe. These processes may serve as a foundation for the future creation of a European

administrative space. Administrative cooperation among states outside the scope of Community competence could thus have an impact in terms of social intercourse, the development of common methods and approaches and the invention of new instruments (Mangenot, 2005).

Further, for instance, the Europeanisation of a truly European political culture would entail European political parties in the Parliament developing their local bases better and national parties cooperating across frontiers.

The process of Europeanisation has two dimensions: a *vertical*, representing a connection between the EU and respective national levels, and a *horizontal*, which represents a connection among the different national publics themselves (Kurpas, 2005). *Vertical Europeanisation* entails national and regional public spheres paying more attention to EU issues, concomitantly with adequate continuity, depth and differentiation. The Europeanisation of national debates could help clarify how national representatives engage in multi-level European governance and explain that decisions are arrived at with the active and constructive participation of national representatives. The Europeanisation of communication could use a great deal of support from a more substantive Europeanisation of policies. This entails anchoring EU policies into a country's political, economic and social life on an everyday basis which in turn should allow European (external) affairs to be perceived as domestic (internal) issues. Strengthened cooperation, firmer inclusion of the European dimension into the national level (vocational training for national and regional multipliers, school curricula) and treating EU politics as items with more domestic relevance could contribute to a better linking between the national and the EU dimension. The vertical flow of information between the EU and the member states has improved in recent years, but there is still lack of consistency. European developments usually only make headlines when national leaders are meeting in Brussels or when a moment of celebration (enlargement) or crisis (directive on free movement of services) can be reported.

Today the public sphere within which political life and debates take place in Europe is by and large the national sphere. *Horizontal Europeanisation* in this context would entail that national and regional spheres create genuine transnational debates and communicative exchange across national borders. This process is at present relatively weak and still limited. If developed over time, it could eventually create a common *European public sphere* where debates across national publics foster mutual understanding and an EU civic awareness (Kur-



pas, 2005; European Commission, 2006:4-5). Ideally, increased linkage of different national public arenas with each other and with the EU level, and an opportunity for a European debate to unfold would also lead to a better mutual understanding among Europeans. To a certain extent, the existing positive examples of this dimension are, for instance, the existence and activities of transnational European lobby and interest groups (e.g. Committee of Professional Agricultural Organisations, COPA) whose common goals in the EU arena gather different stakeholders beyond national frontiers. This dimension can be further fostered by initiatives such as that which envisages the possibility for one million people to sign a petition against a certain EU decision. A failed attempt of Europeanisation is reflected in the inability to establish a Europe-wide referendum on common European issues such as the Constitution. Arguably, if referenda had been held closer and not according to individual national timetables, this could have helped create a more pan-European debate on the issue instead of making referenda debates mainly national in their content. The horizontal connection of the different national publics has made some progress, but Europeans still discuss things too often in “national isolation”. Although they face many of the same problems, they often do not compare each other’s solutions in a broader public debate, let alone discuss them with each other.

A common European approach in communication is challenged by various factors. For instance, since the new generations in the “old” Europe have been born “into” the already existing framework of European integration, it is therefore more difficult to communicate what it provides them. Furthermore, different concerns in different states make it more difficult to create an efficient common communication approach and leaves room for misperceptions and misinterpretations. Finally, the Europeanisation of communication is also blocked by the lack of a common vision of Europe, of *finalité* of the integration process and of true Europeanisation of politics. As Mazucelli (2005) notices: “The Dutch referendum is a true reflection of the popular reality that is *an uncertain idea of Europe*. As the expression of a people, this vote is also the chance for us to revisit those images of Europe’s project, some of which we have come to take for granted, and others that we are only beginning to see.” This is a reality that makes the Europeanisation of communicating Europe communicating a moving target (Laffan, 2004).

It is important to add that the creation of a common European public sphere does not imply application of a uniform, one-size-fits-all

approach. As already mentioned, an ongoing critical and truly public discourse at the European level is difficult to attain due to various hindrances. Some of them are a variety of national interests, absence of a common language or the fact that people are accustomed to their own traditional sources of information. Nevertheless, some degree of Europeanisation is justified by the fact that the present European political system is that of joint decision-making, whereas European citizenship is a social as well as a legal reality. Political legitimacy is no longer created solely by national governments or electorates, and “disconnected” national actions are increasingly out of place in Europe (Meyer, 2005). Therefore, a realistic and desirable approach is to create a common European sphere based on a more *decentralised* model suited to specific political contexts and adapted to the diverse requirements of countries, regions, localities and sectors. In addition, the fact is that party systems, interest groups and media are still firmly anchored in the environment of the respective nation states (Nicolaidis and Weatherill, 2003:121-122). Therefore the model also needs to be *denationalised* in the sense that actions are based on common principles and coordination across the continent (European Parliament, 2004). In this way national public spheres do not have to be considered as obstacles to be overcome, but rather as the building blocks of a European public sphere (Kuras, 2005).

## CONCLUSION

The European integration process brings changes in living and working conditions to all parts of European society. The success of its membership or accession depends, among other things, on knowledge and understanding of the European system, institutions and laws, as well as on public support. Communication is, therefore, becoming a crucial EU policy in changing times when general dissatisfaction with how Europe functions is deeper and more comprehensive and as such sweeps over the whole continent.

After years of a rather passive communication strategy, with the rise of eurosceptic sentiments and the general public awareness of European integration, the EU today faces a communication deficit. In recent years it has therefore taken steps to re-build a sense of public ownership of the EU and acknowledges that decision-makers must listen better, explain better, and connect with citizens.

One of the features of communicating Europe is that to the extent that European issues appear on the agenda at all, what may initially be a common European issue often becomes entirely dominated by the rationale of national politics and is seen by most citizens from a national perspective. Yet, since many of the policy decisions that affect daily life for people in the EU are taken at a joint European level, the EU can no longer afford to stay remote from people nor can it ignore the fact that an individual country's decisions often have a bearing on other EU citizens.

Therefore, communicating Europe as a joint European project has to have a common, complementary approach. Yet, its success will largely depend on – apart from coordination, financial and human resources – the level of its decentralisation. An efficient share of responsibility and a collaborative interplay between different levels and key players of EU governance may prevent the focus and implementation of activities from becoming “too national”, and help integrate EU affairs into a local context.

Communication should be clear, comprehensible and adjusted to the specificities of different countries and groups. For this purpose the EU needs a comparative analysis of communication mechanisms in order to assess what channels and content of communication work for whom. However, most of all it should be policy-led and backed up by European performance. Legitimacy in the public eye can only be conveyed through outcomes and what the EU can deliver. Communication can only be as good as the policies it wants to communicate and it cannot be a substitute for policy failures. It should be considered as a continuous and sustainable dialogue that should keep raising and maintaining awareness and interest in European issues. This should not be limited only to a pre-accession period or in cases of imminent referenda, nor should it be carried out by means of short-term, top-down information campaigns.

A critical public system of communication exists at the national, but not at the EU level. In order to revive people's awareness of the European dimension of the integration process, Europeanisation may help. Nevertheless, what may work against it is the tradition where governance is ultimately dictated by national interests and is shaped in particular national circumstances. Any effort at the EU level can be pushed into the background by a single current domestic aspect in any member state. Therefore, the main task for European communication

and national communications is to find the best possible way to reconcile and interact successfully.

If the communication problem is not solved, the EU and national governments may find themselves in a perpetual crisis of ability to convince their citizens to approve of particular European actions and more generally to embrace or even constructively engage in EU governance as a whole. This in turn may call the future justifiability and viability of the whole European integration project in question.

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- \* *All opinions and views expressed in the article are personal and do not reflect the views of the Ministry of Foreign Affairs and European Integration. The author would like to thank the referees who anonymously reviewed this paper.*
- i *The Treaty Establishing a Constitution for Europe is often referred to as the (EU) Constitutional Treaty or the (European) Constitution.*
  - ii *According to the Eurobarometer results (July 2006), the percentage of those considering the EU membership a “good thing” in Denmark is 65, while in France it is 49 (the EU-25 average is 55), see [[http://ec.europa.eu/public\\_opinion/archives/eb/eb65/eb65\\_first\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_first_en.pdf)].*
  - iii *Article F of the Treaty on the European Union establishes as a general principle that the Union should respect human rights and fundamental freedoms; Article II-71 of the Charter of Fundamental Rights of the European Union states that “everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers. The freedom and pluralism of the media shall be respected”.*
  - iv *For the integral text, see: [<http://europa.eu.int/eur-lex/lex/JOhtml.do?uri=OJ:C:2004:310:SOM:EN:HTML>].*
  - v *Not less than one million citizens who are nationals of a significant number of member states may take the initiative of inviting the Commission, within the framework of its powers, to submit any appropriate proposal on matters where citizens consider that a legal act of the Union is required for the purpose of implementing the Constitution (Article I-47:4).*
  - vi *Other aspects that demonstrate the current EU political crisis are enlargement fatigue, difficult negotiations for the financial perspective 2007-2013, dissatisfaction with the euro.*
  - vii *The Commission’s White Papers are documents containing proposals for EU action. In some cases they follow a consultation process launched by a Green Paper.*
  - viii *The connection between the White Paper, the Plan D and the Action Plan: the Plan D invites EU citizens to get involved in a wide-ranging discussion on the EU during the reflection period; the White Paper does not ask for people’s views on the EU but on how to set up a long-term communication partnership between EU players; the Commission’s Action Plan concerns only improvement of the Commission’s communication.*

- ix *Communication strategy aimed at informing the Croatian public about the European Union and preparations for membership (the first one was adopted in 2001 for the period until the end of 2004). Available from: [<http://www.nn.hr/sluzbeni-list/sluzbeni/index.asp>].*
- x *<http://www.eu-pregovori.hr/default.asp?jezik=2>. For the Ministry of Foreign Affairs and European Integration's communication activities, see: [[www.mvpei.hr](http://www.mvpei.hr)].*
- xi *So far, four National Forums have been organised: "Let's talk about Europe" (2004), "Bologna process and reform of high education" (2004), "Sovereignty and national identity in the EU" (2005), "Youth mobility in education and employment" (2006).*
- xii *Since mid-2000, every 6 months the Ministry in cooperation with the GfK – Centre for Market Research conducts rounds of public opinion research and analyses the attitudes of Croatian citizens towards the EU and the process of Croatia's accession. Results from the latest round available from: [[http://www.mvpei.hr/ei/download/2006/01/31/omnibus\\_prosinac\\_05.ppt](http://www.mvpei.hr/ei/download/2006/01/31/omnibus_prosinac_05.ppt)].*
- xiii *No relevant information or no information at all 54%; satisfactory and fairly adequate information 42%.*
- xiv *For a more detailed proposition of concrete steps for each group of communication actors with the aim of contributing to solving the problem and reaching out to EU citizens – EU institutions, member states, regional authorities, media, academics – see Kurpas, Meyer and Gialoglou (2004:3-6).*
- xv *Apart from having limited financial and human resources, the Commission's competences are fragmented among numerous directorates and departments, whose different interests may not always be easy to transpose into a coherent EU communication policy.*
- xvi *For a table of EU referenda, see: [[http://europa.eu.int/constitution/ratification\\_en.htm](http://europa.eu.int/constitution/ratification_en.htm)].*
- xvii *There has been progress in "passive communication" at EU level (more available, understandable and useful information on Europe website). However, as much as internet-based communication has the advantage of giving access to a larger number of citizens and being cost-efficient, it suffers from several shortcomings: redundancy, the organisation of on-line content, the nature of information and the ultimate scope of reach in relation to the percentage of internet users in Europe.*

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## Chapter 4

# LOBBYING AND CHANNELS OF INFLUENCE OF CROATIAN INTEREST GROUPS IN AN ENLARGED EUROPEAN UNION

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### ABSTRACT

This paper analyses opportunities for and challenges of representing interests and the lobbying of Croatian interest groups in the decision-making processes at the European Union level. Taking into account the predominant trends and channels for the representation of interests in the competitive environment of the enlarged EU, as well as the experiences of new EU member states, the logic of access and influence of interest groups from Croatia on the EU policy-making procedures in the pre-accession period will be highlighted. The paper draws attention to the potential of the EU accession process to act as a catalyst for the Europeanisation of domestic public policy shaping and the adoption of new and modern patterns of interest articulation. It also provides incentives for considering the introduction of an adequate regulatory framework for lobbying, as a basis for legitimising the practice in Croatia.

### Key words:

lobbying, interest groups, European Union enlargement, Europeanisation, Croatia

## INTRODUCTION

The accelerated dynamics of the European integration process in the late eighties gave strong impetus to the proliferation of interest groups<sup>1</sup> at the EU level. The EU institutions headquarters is characterised by an increasingly competitive environment for lobbying. With approximately thirteen thousand lobbyists, Brussels is the second largest centre of lobbying activity, after Washington, where the number of lobbyists is twice as big. The explosion in the number of lobbyists working in Brussels over the past decade reflects the increasing number of policy areas the Union is becoming involved in – and hence the number of organisations affected by its decisions and that accordingly want to influence the policy-making process. The spectrum of lobbying actors seeking to influence key EU decision makers is rather wide, ranging from companies, trade associations, employers and trade union associations, NGOs such as environmental or consumer protection associations to national ministries, local and regional administration and public agencies. Lobbyists do not come to Brussels only from all levels of member and candidate states but also from other countries like the USA, Japan and other parts of the world. Often European Commission, Parliament and Council officials act as lobbyists themselves.

The EU 2004 enlargement taking in 10 new member states has changed the lobbying rules for everyone with a stake in the EU policy-making processes. Generally speaking, the new, more complex environment of the enlarged EU requires lobbyists to develop even more advanced strategies for each particular legislative and policy initiative and to provide for adequate human and financial resources. In addition, there is a growing emphasis on the need for tighter control of lobbying activities – both for lobbyists and EU institutions. The European transparency initiative launched by the European Commission announced more stringent rules for all actors involved in lobbying in Brussels. The purpose of the initiative is to strip away the secrecy from the lobbying activities in Brussels, to put additional pressure on the EU institutions and lobbyists to become more open and aspire to even higher ethical standards, as well as to promote lobbying as legitimate component of democratic policy processes in the EU.

This article seeks to explore the predominant trends in and channels for the representation of interests in the enlarged EU and to analyse the logic of access and influence of interest groups from Croatia on the decision-making procedures at EU level. On the basis of the expe-

riences of new EU member states, ex-candidate countries, the potential impact of the EU accession process on the Europeanisation of national policy-making arenas and the adoption of new, modern patterns of interest articulation and lobbying will be highlighted. Also, the paper will analyse to what extent it is justifiable to introduce a better regulatory framework for lobbying in Croatia, in accordance with best practices of various EU member states.

## **PREDOMINANT TRENDS OF INTEREST REPRESENTATION AND LOBBYING AT THE EUROPEAN UNION LEVEL**

One of the main conclusions of the research on the European system of interest groups carried out since the beginning of nineties is that the institutional architecture of EU policy-shaping has a crucial influence on the organisation and articulation of interests at the Union level.<sup>ii</sup> In general, interest groups at the EU level have been largely conditioned by the unique multi-level system of governance and particularities of the EU decision-making processes. The adoption of EU public policies includes a range of subnational, national and supranational layers of government, while their complex mutual interaction provides for multiple points of access to decision-makers. Due to this multi-layer character of the policy-making process and the diffusion of centres of powers among different institutions, it is difficult for each group to build a dominant position or privileged relationships with institutions in this process. Economic and political importance, the scope of membership, representativity, adequate human and financial resources, internal cohesion and organisation, expertise and informedness, lobbying skills and strategies – these are only few factors that determine the potential influence of interest groups in the EU (Sidjanski, 1995; Greenwood, 2003).

Since the beginning of nineties, the phenomenon of the fragmentation of the system of interest representation in the EU policy-making processes has gained in importance. In addition to an abundance of so-called Euro-groups – umbrella European interest organisations, other patterns of interest representation are becoming increasingly significant – due to the assumption that they are more flexible, more efficient and less expensive. In that context, the common feature of the

predominant trends in interest representation is that they bypass the existing European umbrella associations (Grande, 2001). Apart from national interest groups and associations, which are increasingly active at a European level, there is a growing trend of creating smaller, informal clubs, forums and ad-hoc coalitions – particularly among business interest groups. As these groups are generally very selective in choosing their members<sup>iii</sup> and focus on achieving very particular objectives, they usually reach a consensus more easily and tend to be much more efficient in their activities. The next trend concerns individual companies and especially the big multinational companies that lobby European institutions directly, emerging as important political actors in the EU – particularly since the establishment of the single market in the middle of eighties (Bouwen, 2002). The proliferation of professional lobbyists in Brussels is an additional significant tendency to have emerged during the nineties. These are PA/PR agencies, law firms, commercial consultancies, which enable their clients, usually big firms, to receive very targeted information and strategic advice without having to open permanent representative offices and go through the long process of consensus building within an umbrella group. The increase in the number of specialised, technical and expert interest groups (Weisbein, 2001) is a response to a growing need for a much more specialised type of information. In this regard, it should be emphasised that an accelerated technological development contributes to a greater efficiency of interest groups, due to the possibility of shortening the process of consultation and using member expertise. The already present diversification is even more emphasised by the regionalisation and decentralisation of the activities of the EU, which leads to a greater presence of representative of regions and regional interest groups in Brussels and Strasbourg.

Broadly speaking, the pronounced pluralism, diversity of interests and a number of other tendencies in EU interest group activities demonstrate the emergence of new European social structures. In that sense, we can already speak about a transnational European system of interest groups, about a transnational European society, which is being developed in parallel with national, regional and local societies through communication networks connecting people and their organisations.

## REGULATORY FRAMEWORK FOR LOBBYING IN THE EUROPEAN UNION

The large increase in lobbying activity and the proliferation of lobbyists in Brussels, the growing attention of the EU institutions to public perception and the trust of citizens, as well as the need to demystify lobbying and enhance its transparency are among the most important incentives for developing a regulatory framework for lobbying, at the level of the lobbyist community as well as at the level of the target lobby structures, i.e. EU institutions and their officials. Despite the progress achieved during the past decade in this area, lobbying activity at the EU level has not yet been sufficiently regulated, in comparison with that in the USA or some EU member states. This is partially due to the Commission's reluctance to introduce the stricter formal measures that might discourage organised interests from active involvement in the EU policy-making processes, and also to the need to gain support for the process of European integration and deal with the problem of the democratic deficit.

Proposals to introduce an accreditation system for interest groups, similar to that existing at the Council of Europe and the UN have never met with the approval of the Commission. The often-quoted Communication of the Commission in 1992 emphasised that the "general policy of the Commission is not to grant privileges to special interest groups, such as the issuing of entry passes and favoured access to information, nor does it confer on associations an official endorsement by granting them consultative status". In the same document, the Commission justifies that approach by the need to maintain an open dialogue with all interested social actors<sup>iv</sup>.

On the other hand, the Commission has tried to encourage self-regulatory measures within the lobbyist community. On the basis of the minimum requirements set in the Annex of the 1992 Communication, the Commission has proposed to interest groups that they should draft their own codes of conduct in the process of lobbying. A certain number of interest groups gathered around two umbrella organisations – Society of European Affairs Professionals (SEAP) and Public Affairs Practitioners (PAP), have drafted a Code with twelve principles (largely drawing on the EC proposal) to which its signatories should adhere in communicating with the EU institutions<sup>v</sup>. In February 2004, SEAP announced tighter sanctions for breaching Code principles – following strong criticism of inappropriate lobbying methods used by choco-

late manufacturers in the European Parliament<sup>vi</sup>, as well as the growing dissatisfaction of civil society organisations at the lack of transparency and ethics in representing certain corporate interests. This was realised by the adoption of the revised Code which was presented to the public in February 2005. The most important changes in the new Code relate to the introduction of sanctions – from verbal warnings to exclusion from SEAP, the obligatory education of SEAP members about the new Code as well as the establishment of a special committee which would monitor the conduct of Code signatories.

While there is a wide spread belief that the current code should become legally binding, some argue that is not necessary as far as its dispositions are consistently being respected and put into practice – referring to the assumption that is in the interest of lobbyists themselves to maintain good relationships with the EU institutions and not to be suspected of bad practices.

Although still weak, the level of regulation of lobbying at the European Parliament is still much better than at the European Commission or the Council. For more than six years, a series of initiatives for the introduction of a regulatory framework for lobbying in the European Parliament have been launched without success. The final agreement was made in 1996 when the new code of good practice for lobbyists was introduced as an annex to the Rules of Procedure of the Parliament<sup>vii</sup>. The Code is composed of ten points and requires lobbyists to abstain from any activity that might imply inappropriate access to information and references to formal relationships with the Parliament in dealing with third parties.

Lobbyists, defined as people who wish to enter Parliament frequently to provide members of the European Parliament (MEPs) with information relating to their parliamentary duties, in their own interests or those of third parties, are required to register and are granted special passes<sup>viii</sup> which distinguish them from occasional visitors.

The new amendments of the Rules of Procedure also regulate the problem of financial interests. For example, MEPs are obliged to submit a detailed declaration on their professional activities, and their assistants are also asked to report other paid activities they undertake. The reason a consensus on lobbying regulation has taken so long to be found probably lies in the longstanding national differences of political culture and the diverging cultural and judicial attitudes towards lobbying in general.

Taking into account the current lack of transparency of lobbying activities, the new commissioner for administrative affairs and fight against fraud, Siim Kallas, launched the European initiative for transparency which aims at encouraging more responsible conduct on the part of the officials of the EU institutions as well as more open and transparent activities by lobbyists<sup>ix</sup>. There are three key components of the initiative. The first requires a stronger involvement of member states and deals with the proposal to improve information on beneficiaries of EU funds, especially on EU agricultural subsidies and EU structural funds payments. The second component is focused on stepping up the ethical standards and accountability of EU institutions, with special emphasis on the members of the European Parliament and officials of the Commission. The third concerns the increased transparency of the activities of lobbyists and the need for disclosing the interests they represent, their mission and the sources of their financing. By the beginning of May 2006, the Commission published the Green Paper which opened public debate on the transparency of lobbying. The document makes three proposals in that area: a voluntary registration system run by the Commission with incentives for lobbyists to register; common codes of conduct for all lobbyists developed by the lobbyist profession and possibly consolidating and improving the existing codes; and a new system of external monitoring and sanctions for cases of incorrect registration and/or breach of the code of conduct. The main criticism of the Green Paper is related to the lack of credible incentives for the registration of lobbyists, the failure to propose mandatory rules for disclosing full details about funding and the inadequate solution of the problem of employment of the Commission officials in the private sector after leaving their duty (*the revolving doors phenomenon*)<sup>x</sup>.

Several new EU member states opted for regulating lobbying activities by special legally binding acts. Lithuania and Poland were the first countries to introduce special laws on lobbying, which largely draw on the model accepted in the USA (Wiszwaty, 2005). The Hungarian Lobbying Act was finally adopted in February 2006, after years of unsuccessful attempts and disputes caused by the first draft of the law. Lobbying acts have been proposed, for example, in Ireland and Italy, but did not meet sufficient support of the governments of those countries. Germany and Great Britain have been usually mentioned among the old EU member states that have introduced a certain regulatory framework for lobbyists and interest group representatives in the Parliament. Bundestag Rules of Procedure implement a system of



mandatory registration of interest groups that want to represent their interests at Bundestag or Federal Government institutions. The content of the Register is published and updated once a year in the Official Gazette. In 1996 Great Britain introduced a code of conduct for parliamentary deputies which regulates their interaction with lobbyists. A similar proposal has been under consideration in Slovakia.

Generally, current global trends open up new possibilities for better regulation of transparency and monitoring of lobbying activities in other EU member states as well. While considering the problem of regulating lobbying in the EU, it should be stressed that the regulatory tendency has not been focussed on eliminating the phenomenon, rather on fighting corruption and introducing a clear set of lobbying rules. As the open competition of interest groups is an important component of democratic policy processes, lobbying regulation should aim at raising the awareness of the accountability of all the participants of democratic decision-making and the transparency of the process.

## **CHANNELS OF INFLUENCE ON EUROPEAN UNION POLICY-MAKING PROCESSES**

The development of the multi-level system of governance and the new institutional architecture with a growing number of public actors and institutions have considerably changed the target structures (Grande, 2001) and possibilities of influence of interest groups on the policy-making processes in the EU. The new differentiated institutional environment of the EU provides interest groups with a wide spectrum of potential channels of influence on the shaping of public policies. Generally speaking, two major channels of influence might be pointed out: national and European (or Brussels) – each of them implying an interaction with a series of institutional and political actors the importance of which depends on the modalities of decision-making processes.

Interest-group lobbying through national channels of influence depends largely on the role of the national level bodies and member states in the decision making in certain areas, as well as on the openness of national institutions to interaction with organised interests. According to Greenwood, the main factors determining the European, Brussels strategy of lobbying are: (i) the level of competence of the EU and supranational institutions in the relevant field; (ii) the role of the

Commission in initiating the policy proposals and enhancing the development of the EU interest groups settled in Brussels; (iii) presence of formal institutionalised structures for representing interests such as consultative committees and (iv) the need for networking and gathering the information.

Results of some research projects show that the national strategy and the use of national channels of influence dominated until the adoption of the Single European Act which paved the way for the creation of the EU Single European Market. With successive revisions of the Founding treaties and the progressive extension of the EU competences and the strengthening of supranational or Community methods of decision-making, the European, that is Brussels, strategy of interest groups started to gain importance.<sup>xi</sup> In the absence of reliable indicators and a methodological framework, it is difficult objectively to identify and assess those two main channels of influence in the strategies of interest groups. Nevertheless, various actors clearly show different preferences and patterns of action with respect to certain lobbying strategies. Empirical research conducted among British business and trade associations shows that 42% of these associations opt for national channels of influence, 27% use the services of European umbrella interest groups, 17% decide to lobby directly in Brussels, while 11% of them rely on individual activities of enterprises (Bennet, 1997). The research showed, among other things, that human and financial resources usually prove to be crucial in selecting the type of strategy, and it is the financially stronger groups with the biggest number of members that tend to use European channels more often.<sup>xii</sup>

On the other hand, according to the research carried out among a great number of German, British, French and European umbrella trade associations during 1998 and 1999, most trade associations follow a double strategy of European interests representation (Kohler Koch and Quitkatt, 1999). Sixty-nine per cent of all interviewed national trade associations focus on both European and national institutions, while only 18% of them still follow only the national approach. The same research shows that even European trade associations follow the double strategy by maintaining regular contacts with European and national political institutions. Also, 62% of European trade associations have continuous contacts with their national governments, 42% develop cooperation with their national parliaments, and 41% contact their national regulatory agencies. These data clearly confirm the assumption that the progress of the process of European integration makes the process of inter-

est representation more complex, requiring interest groups to develop a multi-dimensional strategy of parallel action at several political levels and the use of multiple channels of influence. The already existing complexity of the concept “channels of influence” has been made even more complex by the fact that EU member states and EU institutions are not only targets and objects of interest representation but also their subjects, since they actively participate in lobbying for various policy initiatives.

In general, due to the role of the Commission in proposing legislative initiatives and the dependency of that institution on the input of external interests, the Commission has been considered the first target of lobbying at the EU level. In its early stages, the policy-making process implies the possibility of influencing the definition of the problem at stake, creating an adequate contextual framework and drafting the content of new policies. This allows interest groups with specialised, technical knowledge to gain a privileged position, especially in cases when the Commission does not have enough resources and depends on organisations that enjoy almost a monopoly on a very special type of information and expertise. The European Parliament is generally considered as the second important institutional target of interest groups. This is mostly due to its openness, stronger democratic legitimacy and natural orientation to outside organised interests, but also due to its power as co-legislator in certain policy areas. The third pillar of the EU institutional triangle and an important lobbying target is the Council of Ministers which has a final say in decision-making processes. Clearly, at the very end of the legislative process, it is very difficult to exert any influence, as most key questions have been already defined and each intervention would actually imply changes in positions taken by certain institutional actors.

The growing numbers of experts dealing with interest representation dynamics at the EU level describe the interaction between the interest groups and the EU institutions as a process of exchange of information and analyse the logic of access as an important component of potential influence on policy-making procedures. According to Bouwen (2002), a potential level of access of certain interest groups to EU institutions may be explained by the theory of supply and demand of the so-called “access-goods”. In other words, the access of interest groups to policy-making processes is largely dependent on their capacities and potential to provide various forms of access goods to the EU institutions (Bouwen, 2003). Access goods comprise information of key im-

portance for the Union agenda setting and policy shaping: specific expert knowledge in the subject matter of decision-making processes, needed for preparing an effective and realistic legislative act; information about the encompassing interest and needs of the sector in which the private actors operate in the European internal market and which is likely to be affected by a decision taken (European encompassing interest), and information about the legislative situation in the respective member states, and the related needs and interests of certain sectors in domestic markets (European domestic encompassing interest).<sup>xiii</sup>

In order to gain access and a potential influence, interest groups use different forms of lobbying and try to position themselves as providers of specific expertise, depending on the needs of certain institutions. This encourages the development of the informal exchange process based on supply and demand principle which enables access to those agents who are the most able to adapt to the institutional needs for external input. Theoretical and empirical research outlines lobbying as a political exchange which implies that both public and private actors behave rationally and in their own interest. Such a system of interest representation, based on the exchange of information and influence within a closed circle of expert elites leaves little room for contributions of new participants.

## **LOGIC OF ACCESS OF CROATIAN INTEREST GROUPS TO EUROPEAN UNION DECISION-MAKING PROCESSES**

During last several years, as a response to a number of political and economic factors, Croatian interest groups have increasingly started to develop their activities in a new, European context. The signature of the Stabilisation and Association Agreement, the opening of new EU programmes of financial aid, continuous strengthening of economic cooperation with the Union, gaining the status of candidate country for EU membership and the opening of the EU accession negotiations – these are only some circumstances that have contributed to a gradual strengthening of the European dimension in the strategies of Croatian interest groups.

The process of EU accession has also brought to the surface a number of challenges facing interest groups from Croatia in their ad-

aptation to a new, more demanding and dynamic environment for interest representation and lobbying at EU level. As in other countries of Central and Eastern Europe (Perez-Solorzano, 2005), there is still a pronounced lack of clear strategies, skills and organisation, lack of understanding of the rules and standards for interest representation developed in Western democracies, and finally the lack of understanding of the concept of lobbying and the possibilities it may provide. This is mostly due to the old patterns of behaviour and mindset characterised by passivity and expectations that the Government will offer solutions for certain social problems (Bežovan, 2004). Even business actors, often considered an avant-garde of sectoral interest representation, often meet difficulties in building fundamental lobbying skills (IMO, 2004).

Responding to the need to change the patterns of action, adopt new strategies and develop modern lobbyist skills, interest groups with stronger financial and human resources focused on strengthening communication, networking and exchange of know-how with their partner organisations from the EU, gradually developing a more proactive attitude towards decision-making processes at the EU level.

A literature review in the field of representation of interests of the countries of Central and Eastern Europe at the EU level (Fink-Hafner, 1994; Perez-Solorzano, 2002) illustrates several possible channels of influence of those countries in the EU decision making during the pre-accession period: national government bodies and diplomatic missions, opening own interest representation offices in Brussels and collaboration with related umbrella European interest associations.

## **Possibilities and constraints of national channels of influence**

In the beginning of the nineties, at the very start of the process of political and socio-economic transition, the only legitimate representatives of the interests of Central and Eastern Europe in the EU were national governments and parliaments. Clearly, state institutions were the most important channels of influence of interest groups on the EU decision-making processes – since they had at their disposal more advanced communication networks and are key interlocutors with the EU institutions during the accession negotiations process and the process of legislative adjustments.

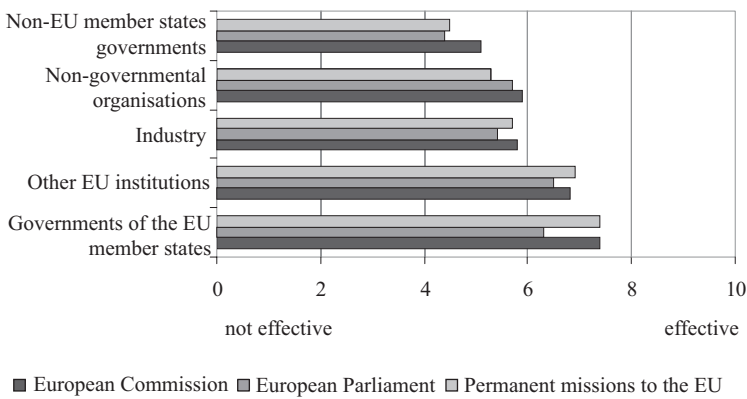
As for lobbying in the EU accession negotiations of Croatia, interest groups face several problems which make difficult the choice of national state bodies as adequate channels of influence on the outcome of the negotiations process. Although a relatively big number of organised interests from Croatia have been involved in the work of the negotiating teams in certain areas, the process remains predominantly elitist and does not leave space for contributions from a wider circle of organisations interested in certain chapters of the acquis<sup>xiv</sup>. Working groups that prepare the negotiating positions for each chapter base their work on very technical and specialist background. The composition of these groups is made public only after the official start of the screening process of individual chapters – on the day of the explanatory screening session in Brussels. The access and potential influence of interest groups on the negotiations process is largely made difficult by an ambitious target date of the EU accession set by the Government, which implies an accelerated dynamics of negotiations and absence of public debate on specific negotiating positions. This reflects the aspiration of the Government for the legitimacy resulting from the expected satisfaction of key actors in society and citizens by the final outputs of negotiations (*output legitimacy*), and its indifference to input legitimacy – which would be based on participation and contribution of a wider circle of interested organisations in the process of the accession negotiations.

The predominant focus on national government institutions and diplomatic representations as possible channels of influence at the EU level is rather paradigmatic also for other countries of Central and Eastern Europe that have recently acceded or are on the path to gaining full-fledged EU membership. Some analysts (Fink-Hafner, 1994) emphasise the tendency in post-socialist countries of Central and Eastern Europe to rely solely on diplomatic, government channels to communicate with different actors and institutions involved in the EU policy-making processes, which reflects the lack of culture of dialogue and political communication in those countries. In the context of lobbying for Croatian interests in the EU, the dominance of diplomatic communication channels might be justified by the present level of integration of Croatia into the EU structures, which does not provide sufficient incentives for a wider involvement and the use of all available channels of influence.

The research conducted by the agency Burson-Marsteller among the high officials of the European Commission, members of the European Parliament and representatives of the permanent missions of EU

member states to the EU showed that these institutions attach little importance to the lobbying of the governments of non-member countries (Burson-Marsteller, 2005). The findings of this research are important because they show that the potential influence of governments outside the EU is very limited and interest groups can hardly rely on them to represent their interests at the EU level.

*Figure 1 Attitudes of the European Union institutions on the effectiveness of lobbying*



*Source: Burson-Marsteller (2005)*

On the other hand, according to the same research, governments of the EU member states have been scored as the most effective lobbyists in Brussels. In this sense, it is justifiable to focus attention on diplomatic and lobbying communication channels in the EU-25 capitals. In doing so, the possibilities and constraints of lobbying for political and economic interests should be taken into account. According to the position of the key representatives of the European Commission in Croatia (Wunenburger, 2005), lobbying for political interests in the pre-accession period is effective only if it is supported by well-supported data on the real reforms made in the field of the adoption of EU standards, real achievements and potential for future EU membership. On the other hand, diplomatic lobbying for economic interests often causes doubts about the selection of priorities for realisation of particular Croatian economic interests, without real analysis and objective criteria which

might justify privileged access of different private enterprises and interests.

## **Opening interest representation offices in Brussels**

With the progress of a country's EU accession negotiations, more sophisticated forms of pluralist interest representation start developing. In that regard, interest groups from Croatia are increasingly claiming a more active role in the interaction with the EU institutions, closer cooperation with partner organisations at the EU level and a small number of them decide to open their own interest representation office in Brussels. A growing trend of opening interest representation offices in the EU headquarters indicates the development of a new "parallel diplomacy", new forms of direct representation of interests of various sectors and actors in society.

The Croatian Chamber of Economy was among first to recognise the advantages of a physical presence in Brussels. Its representation office in Brussels was opened as early as 2000, in parallel with the majority of similar representation offices from Central and Eastern European candidate countries that started EU accession negotiations at the time. After gaining candidate-country status, Croatia was given the possibility to use a wide spectrum of pre-accession aid programmes, which was an additional incentive for a number of institutions to take a more proactive approach towards decision-making structures at the EU level. In 2005, the Croatian Chamber of Crafts and Trades also opened its office in Brussels, within the premises of their counterpart umbrella organisation – UEAPME. It was in the same year that Istria County finally realised a few year old initiative for the County's representative office in Brussels. Regional interests soon became strong advocates of a stronger lobbying presence in Brussels and the example of Istria County is to be followed by the Osijek and Baranja County, as well as by the City of Split in cooperation with the County of Split and Dalmatia. In view of successful Polish and Hungarian examples, there were recently discussions on the possibilities for opening a representative office of Croatian NGOs in Brussels.

The dominance of economic and regional interest representation offices in Brussels is a phenomenon common to most Central and Eastern European countries that have already entered or are on the path to gaining full EU membership. In some countries, such as Slovenia,



Hungary and Romania, economic representation offices represent in the same time the interests of the research and science sector.<sup>xv</sup> Representation offices of cooperatives, NGOs, consultancies and PR agencies are also present, but to a much smaller extent.

In general, the benefits of opening one's own representative office might be linked to several main aspects: comparative advantages and better positioning in the sector in which the organisation works, more direct contacts with relevant actors and possible business partners, networking and development of better cooperation with related organisations, building capacities of organisations in terms of transfer of know-how, skills, better access to information on the possible EU funding sources and potential changes of relevant legislative acts, but also the possibilities of stronger influence on European media present in Brussels<sup>xvi</sup>.

In addition, better networking and presence at the European level provide interest groups from Croatia with a source of legitimacy in national and supranational contexts. Empirical evidence from Slovenia shows that closer cooperation with EU interest groups has been usually presented in domestic circles as a proof of the maturity, respectability and "Europeanness" of those groups (Fink-Hafner, 1997).

Apart from a number of advantages and opportunities stemming from the opening of a representative office in Brussels, several potential challenges should also be taken into account when considering the potential sustainability of such an initiative. Of course, the most obvious are financial challenges, since the stability and efficiency in running a representative office in Brussels requires a continuous and steady inflow of financial resources. Representative offices from Croatia and other countries of Central and Eastern Europe have fewer human and financial resources, a more diverse and less informed client base, less-developed contacts and sources of information, but also a more demanding mission due to the fact that their countries, clients and constituencies are passing simultaneously through two very complex processes – transition and integration into the EU.

The experience of the Croatian Chamber of Economy indicates the continuous problem of the lack of interest and the insufficient knowledge and skills of those that should primarily benefit from services of the interest representation office in Brussels (Martinović, 2004). In other words, capacities of Croatian interest groups to absorb and adequately use new possibilities provided through the opening of an interest representation office in the EU are still limited. Therefore, one of

the most important challenges that current and future interest representation offices will need to meet is the necessity of continuous education and transfer of know-how and skills acquired in Brussels among their own constituencies.

## **Networking with European umbrella interest associations: prospects and challenges**

Experiences of Croatian interest groups in the field of networking and interest representation at the EU level indicate several dominant trends and problems. First, economic interest organisations – such as employers associations, chambers of commerce and chambers of crafts and trades as well as trade unions (such as HGK, HOK, HUP, SSSH) are much more advanced in regard to the level of development of contacts with related umbrella organisations active at the EU level. Second, for some organisations, especially for associations of public interest, it is the lack of horizontal cooperation and networking at national levels that hampers better collaboration with counterpart European umbrella associations. Additional obstacles include insufficient information about the benefits of membership and enhanced communication with these umbrella organisations, as well as the lack of financial resources necessary for covering membership fees in these organisations.

Given the fact that interest groups from Croatia, as well as from other countries of Central and Eastern Europe, do not work in a sufficiently motivating environment for the development of lobbying activities and skills at national levels, membership in European umbrella associations could be considered a unique opportunity for gaining experience and learning from partner associations from developed Western European democracies.

In analysing European umbrella interest associations as potential channels of influence of Croatian interest groups, the new circumstances in which those associations operate after the last and biggest EU enlargement should also be taken into account. The admission of new, very heterogeneous groups from new member states as full-fledged members of umbrella organisations implies a number of internal organisational difficulties and strategic doubts. European umbrella associations must adapt their internal operative structures and working methods to new members from Central and Eastern Europe and their

requirements or interests may sometimes diverge from those of current members (for example in the field of agriculture). In those circumstances, it is challenging to maintain the internal cohesion of the group and credibility in relations with the EU institutions. In addition, these organisations have been faced with increased financial costs, a growing need for networking and internal communication and the related language/communication challenges, the necessity of opening new branches in capitals in new member states and dealing with a number of problematic issues specific for the environment in which new member states work. In other words, European interest groups face the problem of enlargement of the club similar to those facing member states in the context of the new EU enlargement.

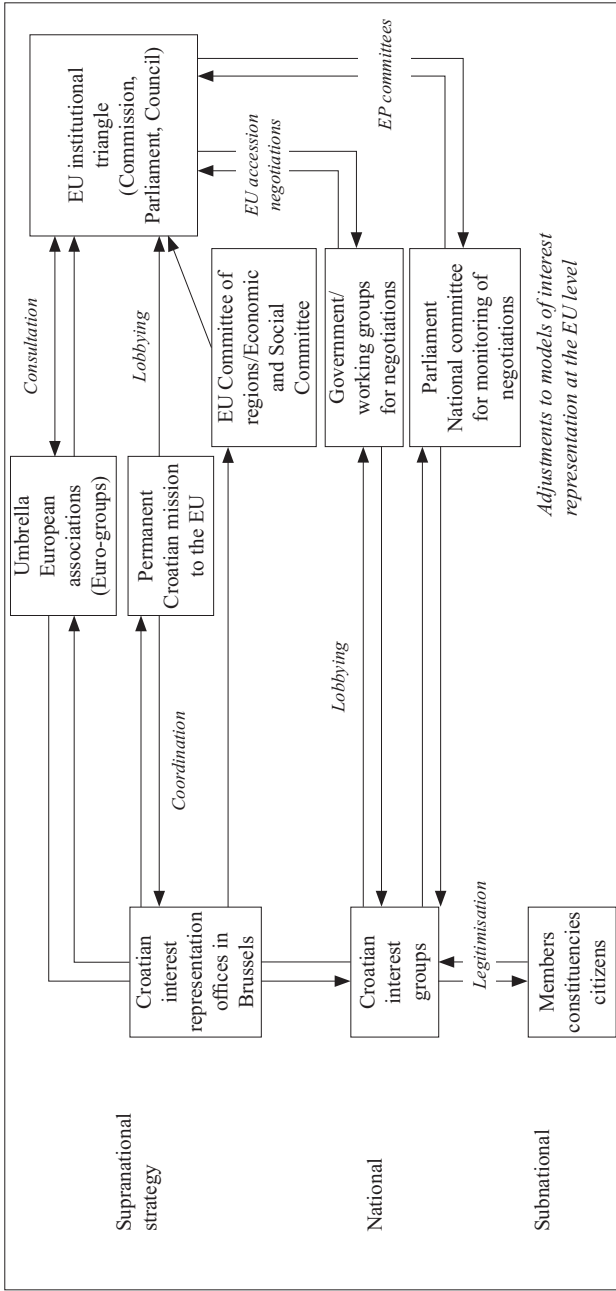
Newcomers expect access to all benefits of club full membership (influence, networks and contacts, human resources, offices), while their capacity for contribution to the work of the club remains questionable (Perez-Solorzano, 2002). Although due to their representative character and the density of their membership European umbrella associations often have privileged access to EU institutions, the mentioned difficulties decrease their potential for timely reactions on key developments in the legislative process and for being able to have an impact on EU policy shaping.

From the perspective of Croatian interest groups, the necessity to defend their own specific interests through structures that aim to advocate more general interests of an umbrella association with 25 and more full members remains a challenge. Their area of activity will also be rather narrowed down due to the pronounced tendency of umbrella associations to put their own “EU identity” before a particular sector’s identity which often causes the impression that Euro-groups do not care for specific sectoral or national interests.

## **Towards developing multi-level lobbying strategies**

Considering the growing proliferation of the lobbyist scene in Brussels after the last and biggest enlargement round, the resulting changes in structures of the key personnel of the EU institutions as well as the announced changes of the mechanisms and dynamics of the decision-making process, lobbyists are facing an even more complex and competitive environment.

Figure 2 Multi-level strategy of Croatian interest groups in the process of European Union accession



Source: adapted from Perez Solorzano (2002)

The complexity of the lobbying environment requires Croatian interest groups to develop new strategies that involve a simultaneous activity at national and supranational level. The model of multi-level, multi-dimensional strategy of action implies parallel representation of interests and lobbying at several political levels and various channels of influence, but also a legitimate, responsible and active relationship towards constituency, clients or beneficiaries and that is still a challenge for a great number of Croatian interest groups.

Among the most important challenges interest groups are facing in that respect are the lack of human and financial resources, the need for more advanced knowledge about the structures and methods of decision-making processes at the national, and especially at the EU level, weakly-developed lobbying skills, inadequate level of foreign language proficiency, the highly technical and bureaucratic character of the EU adjustments, and also the lack of time for consultation with members due to the routine practice of adopting most so-called “EU laws” through the urgent government and parliamentary procedure.

Regardless of the expected difficulties, most authors stress that the lobbying game in the EU should remain open for new actors, so that European system of interest groups does not turn into a hermetic, elite system. A more proactive European lobbyist activity by Croatian interest groups even in the pre-accession period is considered a potential catalyst of transformation of the model of interest representation and policy paradigms at national levels which may lead to the gradual institutionalisation and acceptance of lobbying as a legitimate democratic practice.

## **TOWARDS EUROPEANIZATION OF POLICY PROCESSES AND LEGITIMISATION OF LOBBYING IN CROATIA**

Empirical research conducted among Slovenian interest groups in the pre-accession period (Fink-Hafner, 1998) shows that European networking enables interest groups from candidate countries to establish contacts with EU officials, learn more intensively about European problems, political culture, decision-making methods and conflict resolution. New experiences and perspectives opened through networking with Euro-groups are usually considered valuable for two main rea-

sons: (i) strengthening of the tradition of democratic political culture in countries that are still in the process of consolidation and (ii) learning and adjustments of the candidate countries to the predominant political culture at the emerging, supranational EU level. European Union networking has been recognised as a channel for importing new knowledge, new ways of thinking, expert assistance, free of charge information and results of expert analysis from the EU to candidate countries.

It has also been recognised that the context of Europeanisation<sup>xvii</sup> brings not only new knowledge, new autonomous sources of European information and new ways of thinking, but also the reorganisation of interest groups from transition countries of Central and Eastern Europe following the model adopted by the related organisations from the EU, but also the changes of perception of sound policies and good models of interaction between civil society and governmental actors in the legislative process. The mentioned impact of Europeanisation also has political implications since it contributes to the European empowerment of domestic interest groups in national policy arenas. The influence of European networking has been especially important for strengthening capacities of interest groups in the phase of official agenda setting of Government and Parliament, and in promoting participatory type of political culture of interest groups.

The case of Slovenian interest groups, as well as the results of other similar research carried out in the past few years, indicate that cross-border networking and collaboration of European organisations of civil society are becoming an important factor of the Europeanisation of the structures, processes and content of political decision making in candidate countries in the Union (Grabbe, 2001), as part of the wider process of adjustments of these countries on multi-level decision-making processes and the introduction of European standards in particular areas.

In view of the predominantly negative perceptions related to lobbying, it is assumed that better regulation in this area would contribute to the gradual acceptance of lobbying as a legitimate democratic practice in Croatia. Such an assumption is grounded on the best-practice examples in several EU member states and also on dominant trends in EU policy-making processes.

The necessity of introducing a regulatory framework for lobbying could be justified by the need to improve the transparency of that activity, and introduce the public and interest groups to lobbying concepts, methods and practices. Due to the lack of any tradition of lobby-

ing in Croatia, a number of prejudices and stereotypes have been created around the concept. Therefore, it is to be expected that the introduction of a public register of lobbyists at Parliament, as well as of tighter rules and codes of conduct for lobbyists and parliamentary deputies and/or public administration officials, would contribute to the better perception and legitimisation of lobbying as a common democratic practice in Croatia.

On the other hand, the progress towards regulation of lobbying might be considered as a possible output of proactive investment of efforts of professional lobbyists and experts into the promotion of lobbyist profession and lobbying as such. Namely, the trend of over-regulation which is usually not accompanied by adequate implementation is still rather pronounced in Croatian policy processes, partly due to the ambitious EU accession agenda of the Government which implies an enormous and urgent legislative and regulatory dynamics. Such an environment does not leave much space and time for the maturing process that would enable the legitimisation of lobbying. In addition to the upholding and promotion of the practice and profession of lobbying, the necessary preconditions for the effectiveness of a regulatory framework for and the legitimisation of lobbying should be, on the one hand, the fight against corruption, and on the other, the modification of electoral law which, in its present form, entails a high level of party discipline and makes the majority of lobbying efforts directed towards individual deputies almost a waste of time.

Debates on the necessity to introduce more stringent regulation of lobbying at the EU level showed that professional lobbyists generally oppose the idea of enforcing tighter rules in the field. Arguments in favour of this attitude have been primarily drawn from the basic understanding of lobbying as a less institutionalised model of interest representation or rather as an informal process which can hardly be precisely defined and placed within a rigid normative framework (van Schendelen, 2002). Some countries failed to adopt a legislative act on lobbying mostly due to the fact that it was impossible to agree on a clear and unambiguous definition of subjects and objects of lobbying and methods that might be encompassed by that notion. In this sense, the laws on lobbying adopted in Lithuania, Poland and Hungary are interesting examples that are worth analysing, particularly in terms of influence on the development of lobbying practice and its better legitimisation in the public of those countries.

On the whole, the modernisation of policy processes and the foreign policy challenges, particularly the EU accession process, entail the necessity of harmonising lobbyist practices in Croatia with some good European standards in the area. For the regulation and gradual legitimisation of lobbying in domestic policy arena may be considered as a pre-condition for successful lobbying in international forums. Such attitudes follow to a great extent the logic of thinking of a number of authors (Young and Wallace, 1997; Greenwood, 2003, etc.) that consider the patterns of action of organised interests in the EU as largely conditioned by the national environment and modalities of positioning of interest groups in the national context.

## CONCLUSIONS

Procedures and patterns of interest articulation at the EU level are unique and closely related to the particularities of the political system of the Union. The complexity and dynamics of mutual relations between the EU institutions and supranational, national and subnational actors, pronounced diffusion and fragmentation of the decision-making process, variability of positions of different actors of the political system depending on the relevant sector or area, and a number of other institutional particularities of the European model of non-hierarchical, multi-level governance, have many implications for the models of interest representation and the development of the lobbying system at the EU level. Differentiated institutional environment of the EU provides interest groups with a wide spectrum of potential channels of influence on the policy-making, while each particular lobbying channel implies interactions with a series of institutional and political actors the importance of which depends on the modalities of decision-making process.

In those circumstances, the entry and positioning of interest groups from Croatia requires the development of a multi-dimensional strategy of parallel action at several political levels and channels of influence, along with maintaining a legitimate, responsible and active relationship with their constituencies, members or clients. Notwithstanding a number of deficiencies and limitations of the mentioned national and supranational channels of influence, a more proactive approach to the EU has important implications on the process of learning and the efficient adaptation of Croatian interest groups to the highly populated,



heterogeneous and competitive lobbying environment of the enlarged EU.

Experiences of other countries of Central and Eastern Europe show that the context of Europeanisation does not only bring new knowledge, autonomous sources of European information and new ways of thinking, but also a reorganisation and redefinition of the role of interest groups in national policy processes, changing perception on good governance and good models of interaction between organised interests and the state. In that sense, interest representation and lobbying at EU level may prove to be a very important factor in the Europeanisation of the structures, processes and contents of political decision-making in Croatia, and of accepting lobbying as a legitimate democratic practice.

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- \* *The author would like to thank the referees who anonymously reviewed this paper.*
- i *Political science has not yet provided for a consistent and precise definition of the term "interest groups". For the purpose of this work, interest groups will be understood as "organisations, not including political parties, which have a direct influence on the process of policy making". That definition draws on the dominant approaches to the analysis of complex EU interest groups system and enables us to take a sufficiently comprehensive approach for studying that topic. Sometimes, the notion "organised interests" will be used synonymously since it has become a commonly used term in the field of European studies – to respond to the need of analysis of EU interest representation which comprises also groups such as corporations, consultancies and law firms that provide lobbying services but are not perceived as member organisations with clear constituency.*
- ii *See Schmitter and Streeck (1991); Greenwood [et al.] (1992); Mazey and Richardson (1993); Van Schendelen (1993); Hayward (1995); Greenwood (1997); Wallace and Young (1997).*
- iii *For example, the European Round Table of Industrialists gathers around fifty heads of major European industrial sectors, exclusively on invitation.*
- iv *Some authors argue that the Commission initiative CONECCS is actually the beginning of the accreditation system of the European Commission. See web page: [http://europa.eu.int/comm/civil\\_society/coneccs/index\\_en.htm](http://europa.eu.int/comm/civil_society/coneccs/index_en.htm).*
- v *The source text of the Code can be found on the following web page: [http://europa.eu.int/comm/secretariat\\_general/sgc/lobbies/code\\_consultant/codecon\\_en.htm](http://europa.eu.int/comm/secretariat_general/sgc/lobbies/code_consultant/codecon_en.htm).*
- vi *The vigorous lobbyist tactics of some members of the European associations of chocolate producers (especially Association of the Chocolate, Biscuit and Confectionary Industries of the EU – CAOBISSCO and Confederation of the Food and Drink Industries of the EU – CIAA) made the parliamentary committee for scientific and technological options assessment withdraw the report which analysed the cases of deaths of small children caused by choking on the plastic toys that can be found in some chocolate products. The vice-president of the mentioned parliamentary committee and member of the European Parliament, Eryl McNally, called that decision irresponsible in the extreme and a direct result of intensive pressure from the man-*

- ufacturers, almost to the level of harassment. More information on the mentioned “affair” can be found in the article *Lobbyists seek to add teeth to their code of conduct*, [www.euractiv.com](http://www.euractiv.com); March, 15 2004.
- vii For the original content of the Code, see the Annex 9 of the Rules of Procedure of the Parliament, <http://www.europarl.eu.int>.
- viii According to the data from the year 2005, the annual number of passes (accreditations) delivered by the Parliament amounts to 4,800.
- ix More information available at the following web page: [http://ec.europa.eu/commission\\_barroso/kallas/transparency\\_en.htm](http://ec.europa.eu/commission_barroso/kallas/transparency_en.htm).  
See also the article *Brussels lobbyists to come under tighter scrutiny*, [www.euractiv.com](http://www.euractiv.com), March, 7 2005.
- x Among flagrant cases of the “revolving doors” phenomenon is the example of the former British commissioner for trade, Leon Brittan. Soon after leaving the Commission, he was appointed chief consultant for WTO affairs in the law firm Herbert Smith, and also vice-president of the investment bank UBS Warburg, assistant director in the firm Unilever and president of the lobbying agency IFSL which represents interests of the British financial sector in the EU.
- xi It is estimated that approximately 80% of all economic and 50% of all political decisions made by the EU member states are shaped, implemented or directly influenced by the EU. See for example Van Schendelen (2002).
- xii Greenwood identifies other possible circumstances that may have an impact on the positioning of interest groups with regard to particular channels of influence, such as eventual changes in the composition of national government and their openness for interaction with interest groups, progress of information and communication technologies and better access to information via Internet and general progress in the implementation of a more coherent EU policy of access to information, etc. See Greenwood (2003:34).
- xiii Bouwen identifies two crucial factors that determine the encompassing nature of an interest group – a clear demarcation of its organisational domain and its representativity or scope of membership.
- xiv According to the Report on the progress in the EU accession negotiations, presented by the chief negotiator, Mr. Vladimir Drobnjak, at a special Government session held on 22 December 2005, the negotiations structures include representatives of 53 associations (unions, networks), 6 economic interest associations, 9 chambers of commerce, 9 trade unions, etc. The Report emphasises the involvement of a great number of experts outside public administration as an “essential and distinctive feature of Croatian negotiations structure”.
- xv See for example the representative office of the Slovenian Business and Research Association (SBRA) in Brussels, [www.sbra.be](http://www.sbra.be).
- xvi It is estimated that around 500 journalists, reporters from various European media, are working in Brussels.
- xvii According to Radaelli, the concept of Europeanisation could be defined as the “process of construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms, styles and ways of action, but also shared beliefs and norms that are first defined and consolidated in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures and public policies” (Radaelli, 2000).

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## Chapter 5

### THE CONCEPT OF EUROPEAN CITIZENSHIP

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#### ABSTRACT

The recognition of European citizenship by the Treaty on European Union (Treaty of Maastricht) introduced a novel legal institution into the European construction, hitherto unknown in international law. Its historical importance and nature will be analysed through different perspectives. The analysis of the structure of European citizenship reveals main advantages and disadvantages of the current concept. However, in its current form, it offers a very limited list of rights. Until recently, citizens' rights were neglected and invisible at the level of the European Union. This is especially visible in the policies towards the candidate and accession countries, which are obliged to follow certain human rights standards in order to meet the conditions for membership. The importance and meaning of European citizenship for third country nationals has been emphasised over the last few years.

#### **Key words:**

European Union, European citizenship, citizens' rights, human rights, nationality, third country nationals, future of Europe

## INTRODUCTION

The recognition of European citizenship by the Treaty on EU<sup>i</sup> introduced a novel legal institution into the European construction, hitherto unknown in international law.

This paper will in its first part give a definition, a survey of the historical importance and analysis of the citizenship concept. The nature of citizenship will be observed through the debates over its meaning and content.

Legal literature usually calls the concept of European citizenship plastic and empty in its context. That is especially visible if we observe the legal structure of the concept, which is mainly oriented to the free movement of persons and political rights. In analysis of the structure of European citizenship from a legal point of view, this paper will reveal the main disadvantages and gaps in the current concept.

Through an historical background and analysis of establishment of European citizenship, the paper will explore the position of European citizenship yesterday, today and tomorrow. Despite several legal changes of the primary European law (Treaty on EU, Treaty on establishing the European Community, Treaty of Nice and Treaty establishing a Constitution of Europe), the EU institutions have themselves emphasised that European citizenship needs to be understood as a developing concept.<sup>ii</sup>

The paper will also reveal that until recently, citizens' rights were neglected and invisible at the level of the EU. Market freedoms and market integration have been crucial in the discussions and legal documents of the Union. Free movement of persons opened up a place for new debates on the concept of European citizenship. At present, European citizenship rights are not only of great importance, but are on the way to becoming the sole basis for enjoyment of a number of rights in Community law, without further reference to a person's status as a citizen (Kochenov, 2006:216). In addition to free movement of persons and legal changes of European law, in the last part of the paper, the position of third country nationals will be analysed.

Even though there are a lot of positive implications of the concept, this paper makes a contribution to further discussion on the credibility of the concept first introduced by the Treaty on EU. More research is needed to detect gaps and offer possible solution to this problematic issue (Meehan, 1993; Everson, 1996; Shaw, 1997; Kostakopoulou, 1998; De Burca, 2002).

## THE CONCEPT OF CITIZENSHIP

### Historical background

The idea of citizenship came into being many centuries ago. In the ancient city-state of Athens, citizenship was granted to males of certain classes. Citizenship was also granted to a few foreigners and freed slaves. Citizenship meant that a man could vote, hold office, serve on committees and juries, and do military service. He was also expected to share the work of government. Women, slaves, and practically all foreigners were protected under the law but had few of the rights and privileges of Athenian citizens.

Citizenship was also important to the people of ancient Rome. Roman citizens often took part in their government. Roman citizenship was extended to foreign soldiers serving in the army and to men of conquered lands. By A.D. 212 almost all of the men in Roman provinces, except slaves, were citizens. After the fall of the Roman Empire, in 476, the idea of citizenship became less important for many centuries. The feudal system spread through Western Europe in the Middle Ages. This system was based on services and loyalty to a superior in exchange for his protection.

By the 1600s some kings had made many small states into nations. The common people no longer owed allegiance, or loyalty, to the nobles in their immediate region. Their first allegiance now was to the king. They began to take pride in their whole country. They also began to feel that they should have a voice in their country's government. As these changes took place, people started thinking of themselves as citizens of a nation as well as the loyal subjects of their king.

The French Revolution of 1789 represented one of the biggest changes in the history of human rights. After a series of four mini-revolutions from May to July, the Declaration of the Rights of Man and of the Citizen was released on the 26<sup>th</sup> of August, 1789. Furthermore, the French Revolution brought about a head-on clash between church and state. Napoleon Bonaparte reached a peace of sorts with the church, which was brought under state tutelage, but left alone as long as it confined itself to spiritual matters. The arrangement did not last and amid renewed anti-clerical militancy the Third Republic decreed the separation of church and state. The law of separation meant strict official neutrality in religious affairs. The French state could not allow any proselytizing in public buildings – least of all in schools, where the citizens



of tomorrow were being taught. The insistence on schools as religion-free zones goes to the heart of the French idea of citizenship. The Republic has always recognised individuals rather than groups: a French citizen owes allegiance to the nation, and has no officially sanctioned ethnic or religious identity (Hancock, 2002:2). The concept of citizenship is a relatively young one. Prior to the French Revolution neither the concept of nation nor that of citizen as we know them, was in existence.

## **Definition of the concept**

Since the 1990s, citizenship has become one of the key issues of the political debate. The notion of citizenship is changing at a great pace because of the major economic, social and political changes that occurred while the 20<sup>th</sup> century moved into the 21<sup>st</sup>. Ever since the classical ages (Greece, Rome) the concept of citizenship has been in a process of constant evolution.

Citizenship can be defined as a legal and political status that allows the citizen to acquire some rights (e.g. civil, political, social) as an individual and acknowledge some duties (e.g. taxes, military service, loyalty) in relation to a political community, as well as the ability to participate in the collective life of a state. The latter right arises from the democratic principle of the sovereignty of the people. Citizens of Spain, the United Kingdom, France, Portugal or the United States have a series of rights, granted by their constitutions, but also have obligations, with regard to their national community. In a democratic state, the citizen must fulfil those obligations since they were passed by the representatives they have voted in, using one of the main political rights of the citizen, the suffrage. Citizenship is restricted to people who legally satisfy the conditions for becoming a citizen of a state. People that live in a territory but lack the status of citizen are deprived of the rights and duties that citizenship involves. Every state has laws to regulate the way an individual can acquire its nationality, that is to say, citizenship of that state. This concept of citizenship dates back to a historical period initiated with the great liberal revolutions in the late 18<sup>th</sup> century. It is a notion characterised by the pre-eminence of the nation-state as a political community that comprises individuals. Citizenship is tantamount to nationality.

In the broadest sense, citizenship can be defined as setting the terms for the institutionalised relation between citizens and polity/community. This set of institutions includes shared principles of justice, social and cultural norms and rules that establish the procedures of political participation, and day-to-day practices of citizen participation in the polity/community. Citizenship then entails the entitlement to belong to a community that has the right and the obligation to represent community interests as a sovereign vis-à-vis other communities and vis-à-vis the citizens. This model of a relationship between two entities, namely the individual subject or citizen on one side, and the representative of a sovereign entity (Queen/estate/nation-state) on the other, has provided modern history with a basic pattern of citizenship. It follows that at least three elements need to be considered in the conceptualisation of an ideal-type citizenship. These are the individual, the polity/community, and the relation between the two. Any study of citizenship needs to refer to these three elements in one way or other. They therefore represent the three constitutive elements of citizenship (Wiener, 1998:22).

## **Conceptual debates over citizenship**

Citizenship means different things in different contexts. The concept has remained a much-contested one, particularly today, and no complete or elaborate theory of citizenship exists (Turner, 1990; Tilly, 1995). For some, the most basic aspect of citizenship includes the notion of membership in a community or in a nation-state (Barbalet, 1988; Brubaker, 1989; Vogel, 1991; Kymlica and Norman, 1994). For others, citizenship comprises an understanding of intersubjectively shared practices that contribute to democratic changes of and within a community (Habermas, 1994; Kratochwill, 1994). Taking conceptual and historical approaches to citizenship into account, two general statements about citizenship can be made despite conceptual differences. First, it is possible to state that citizenship is about rights, access, and belonging, wherein rights include Marshall's triad of civil, political, and social rights; access indicates the conditions of access to political participation; and belonging means rootedness in a community. Second, most scholars agree both from a conceptual and a historical perspective that analyses of citizenship are in one way or another linked to the state or the nation-state respectively. That is, talking about citizenship invariably involves the notion of stateness (Barbalet, 1998; Turner, 1990).

## THE PARADOX OF EUROPEAN CITIZENSHIP

### The road toward the launching of European Citizenship

The right of free movement of persons inside the Community was introduced in the constituent Treaty of Rome, establishing the European Economic Community (EEC), signed in Rome in 1957.<sup>iii</sup> This freedom did not appear bound to any citizenship concept but rather it was closely linked to the conduct of an economic activity. In consequence, the right of residence was accorded to workers and their families, linked to the right to exercise a labour activity in another member state of the EEC.

Although in a meeting of the European Council, held in Paris in 1974, the necessity to grant special rights in the EEC to the citizens of the member states was put forward, it was only in 1976 when the Tindemans Report was issued that it was put into practice. Then for the first time, the object of proceeding beyond a common market and creating a community of citizens was clearly proposed.<sup>iv</sup> This report, edited by the Belgian prime minister at the request of the Summit of Paris 1974, had no success with governments, though it had an important influence in later steps towards integration. In a chapter entitled Europe of the Citizens Tindemans proposed the enactment of different measures that made perceptible, by means of outward signs, the rise of a European awareness: unification of passports, the disappearance of border controls, the common use of the benefits of the social security systems, the accreditation of academic courses and degrees.

In 1976 a second step took place when elections to the European Parliament by universal suffrage were conducted. Although Parliament's competences were meagre, for the first time, one of the key elements of citizenship, democratic participation, appeared. Later on, after the Fontainebleau Council in 1984, a Committee of Europe of the Citizens, presided over by the Italian Euro MP Adonnino, was established.<sup>v</sup> This committee approved a series of proposals that were seemingly unambitious but nevertheless led to the constitution of a European citizenship.

More audacious was the Project of Treaty of European Union, passed by the European Parliament, in February of 1984, and presented by the Euro MP Alterio Spinelli (Spinelli Project). In spite of its restraint, the Single European Act (1986) hardly included any of the Spi-

nelli project proposals, although it adopted, and that is fundamental, the objective of a political EU.<sup>vi</sup> In this manner, a few years later, two intergovernmental conferences were convened to reform the treaties. One of them focused on the Economic and Monetary Union, the other one on political union.

A meeting of the Rome Council in October 1990, in the course of establishing the Intergovernmental Conferences (IGCs) guidelines, introduced the notion of European citizenship, as an essential element of the Treaties reform, and with some characteristics and similar rights to those that were later included in the Treaty on EU or Treaty of Maastricht.<sup>vii</sup> It was the Spanish delegation that first presented to the IGCs, in October 1990, a document on European citizenship. After diverse negotiations, and with the enthusiastic support of the European Parliament that passed two favourable resolutions in 1991, the Treaty of the EU came finally to institutionalise European citizenship.

## **European citizenship and European supranational statehood**

These common understandings of citizenship were dramatically challenged when citizenship was established within a supranational context in the Treaty on EU in 1993. The Union is not a nation-state. Nonetheless, citizenship policy making has been part of European Community, now Union, politics for over 20 years and “citizenship of the Union” has been defined in the Treaty on EU according to Article 8. Since the ratification of the Treaty on EU in 1993, citizens of the Union have enjoyed a series of rights that will be discussed later in this text.

This newly institutionalised link between the citizens of the Union and the EU as a polity differs in many ways from the familiar citizen-polity relation as established in nation-states over the past two centuries. The euro-polity is a political arena without fixed boundaries or a centralized political structure; instead it has been characterized as a multi-level polity with a weak core that cannot claim the legitimate monopoly of force over a population within a bounded territory (Caporaso, 1996; Marks and McAdam, 1996; Hooghe and Marks, 1997).

Placing citizenship in a supranational context instantly provoked debates over its political and conceptual implications (Closa, 1995; Preuss, 1995; Habermas, 1994; O’Keeffe and Twomey, 1993; Hobe, 1993; Shaw, 1997; La Torre, 1997). If such a political entity, which is

best defined as a polity in the making, offers citizenship rights despite the fact that a national state is not the final goal, then the questions at hand are: What does Union citizenship entail? How have Union citizenship rights been established? Is the EU proposing rights, access and belonging as national states do? The questions lying at the centre of these discussions are first, whether or not citizenship remains a valid concept at a time when multiple issues of governance are practiced beyond state level and when an awareness of difference contributes to push for new ways of representing a multiplicity of identities (Young, 1989; Turner, 1990; Held, 1991; Meehan, 1993; Kymlica, 1994; Tull, 1995). Furthermore, can citizenship be meaningfully applied as an organizing principle that institutionalizes the relation between citizens and the polity/community in a democratic way, providing both just and equal access to participation for the citizen and setting the terms for legitimate governance? Secondly, does the unprecedented establishment of citizenship within a supranational framework indicate a qualitative leap forward towards a notion of statehood in the EU (Hobe, 1993; König and Pechstein, 1995)?

Together these questions pose a tremendous challenge to familiar understandings of both citizenship and statehood. If citizenship has a meaning as a component in the process of modern state-building, then its application in a non-state context suggests the notion of European supranational statehood. However if the euro-polity is not going to develop the institutional characteristics of a modern state despite the introduction of Union citizenship, then we need to shed light on the paradox of citizenship in a non-state and ask: what is the meaning of Union citizenship?

The crumbling structure of the nation-state involves a complex process of shifting boundaries and polity restructuring. This process includes new models of policy making in emerging polities such as the EU. If it is true that citizenship has a crucial role in process of polity formation, then such changes involve a possible reconfiguration of citizenship to bind complex levels of identities (subnational, national and supranational) in new forms of political community (Linklater, 1996:97). It is this role of citizenship as more than an organizing principle, in fact as an identity-generating practice with community-building capacity that has emerged from the history of modern state-making as a powerful, if much contested idea. To this day, no fully worked-out theory of citizenship exists. The visible emergence of a supranational "European" citizenship has led to a renewed debate over the question

of whether citizenship as nationality is a precondition for polity formation, or whether citizenship as a practice contributes to identity-building as the glue of a new polity on citizenship have mostly referred to citizen identity by using the terms of “national identity” or “nationality”, that is, by simply adding either an adjective or replacing it with a noun to clarify its meaning. Both are derived from the term “nation” which is a construct itself (Tully, 1995:29). However, it does not go without saying whether or not this attachment to a nation is reflected in citizenship identity. As identities are multiple and dependent on context, we cannot assume one identity as a hegemonic constant but need to show how it came to the fore in the first place. If the terms national identity and/or nationality were used in a meaningful way, they would have to reflect citizens’ identity at a particular time and place, that is, express actual allegiances of citizens.<sup>viii</sup> However, as nationality is often used synonymously with citizenship, the interchangeable use leads scholars to fall into the trap of taking the construct for real. It is then important to note that the term national identity often wrongly appears as a *sine qua non* for the establishment of citizenship (Anderson, 1993:6). Nationality becomes easily reified once the distinction between constitutive and historical elements is not respected. Accordingly, to take the decline (or increase) of national identity as an indicator for citizenship has led to assumptions which may lead to wrong conclusions because they are part of the powerful construct of “nationality” itself. Although the nation-state continues to be the key element of the world political map, changes are taking place that portend an evident challenge to this kind of political organisation.

Two major transformations are calling in question the role of the contemporary state-nation and the concept of citizenship that it embraces. Firstly, globalisation, that is to say, the fact that the central and strategic economic activities are integrated on a world scale through electronic webs of capitals, goods, and information exchange. A key element of this globalisation is the development of the Internet and the information society. This globalisation of markets is the decisive factor that has impelled the last step in European integration, the Economic and Monetary Union. The nation-state is less and less able to cope with the challenges of globalisation. Secondly, the existence of more multicultural societies, which breaks up the theoretical homogeneity of nation-states. Regional or national diversity (Spain, Belgium, United Kingdom) and multiculturalism and multiethnicity brought about by

growing immigration are key aspects of the new European society. European citizenship will rise from this new European society.

The institutions of the EU itself and some socio-historical studies have pointed out that union citizenship needs to be understood as a “developing concept”.<sup>ix</sup> It is not only that the concept is “developing” but is also a “dynamic” one. As O’Keeffe (1994:106) observes, “the importance of the Treaty on EU citizenship provisions lies not in their content but rather in the promise they hold out for the future. The concept is a dynamic one, capable of being added or strengthened but not diminished. This understanding involves an approach to citizenship not primarily from a topical and analytical viewpoint but from a contextual perspective instead. Meehan (1993:80) has characterized the difference in approach in the two perspectives as stemming from a “minimalist” and “dynamic” understanding of citizenship respectively. The minimalists base their evaluation of Union citizenship predominantly on a positivist rights approach, the impact of new policy options and opportunities on citizenship as an organizing principle of communities (Meehan, 1996:81). Strictly legal interpretations thus stand in contrast with socio-historical analyses, which claim that Union citizenship entails more than rights, that citizenship is more than the sum of its parts. They suggest that the substance of citizenship is not only derived from the stipulation of rights according to the principles of law, but it also contains context specific meaning which has been developed through social, political and cultural practice (Garcia, 1993; Turner, 1990; Soysal, 1994; Conover and Hicks, 1996; Calhoun, 1996).

It is, of course, possible that the term “European citizenship” can be used as a collective term to describe the laws on citizenship of the member states. However, such a term has no clear content in itself. Citizenship in national terms varies considerably amongst the countries, above all concerning acquisition of citizenship and the legal consequences. In certain member states it is quite easy to become a citizen; in others it is harder. Many individuals are affected by the obvious inequities and differences arising due to the fragmented laws on citizenship. No uniform rules on citizenship exist in the EU countries, nor do common rules on how a citizen of the Union may obtain citizenship of a member state other than his country of origin. Differences between the laws on citizenship in the various member states are reflected directly in the citizenship of the Union.

Thus, some of the problems concerning citizenship of the Union are connected to national citizenship in the EU countries and the great

differences which exist between the national concepts of citizenship. Differences between the concepts of citizenship in the EU, which have arisen due to various political and legal transitions, can clearly be distinguished. One of the main weaknesses of the citizenship of the Union is its lack of independence, due to the fact that citizenship of the Union is totally founded on the fragmented national concepts of nationality. The possibility of becoming a citizen of the Union varies according to where in the Union that person lives. A means of overcoming these differences, and thereby strengthening citizenship of the Union, would be to harmonise the laws on citizenship in the member states. Harmonisation would, at present, be politically impossible.

To sum up, despite the continuous efforts of building a “European” model of citizenship based on the modern blueprint, the Union is neither a centrally organized polity nor does it follow state-centric types of policy making. Instead it is developing a polity without a centre. Citizenship practice related to this polity/community has generated a fragmented type of citizenship. Union citizens direct demands towards the member states and to the Union as well; they may belong to a local community of one member state (in terms of their social, cultural, economic and political activities) and at the same time to a national community of another member state (legal/national ties and political activity). Thus, “European” citizenship does not supersede national identities. Instead, it has evoked multiple identities as citizenship practice has involved a growing number of target groups, such as workers, wage earners, students, etc. and created access to certain social rights, new voting rights, a “European” Passport, changed rules of border crossing and practices to contribute to create a feeling of belonging.

## **IMPLICATION OF EUROPEAN CITIZENSHIP FOR FUNDAMENTAL RIGHTS**

### **Fundamental rights of European citizens**

According to the Article 17 of the Treaty establishing the European Community, every person holding the nationality of a member state of the EU is a citizen of the Union. Citizenship of the Union supplements national citizenship without replacing it. From the very wording of Article 17 and the history of its drafting, one is tempted to con-



clude that Union citizenship is nothing but a corollary of nationality of one of the member states.<sup>x</sup> Citizenship always attaches to member state nationality. In one judgement the European Court of Justice (ECJ) made clear that member states, and member states only, may determine the creation and abolition of nationality.<sup>xi</sup> They may, however, not put restrictions on it if another member state has already granted nationality.

Citizenship of the Union is made up of a set of rights enshrined in the EU Treaties, additional to those of national citizenship. In concrete terms, it gives all nationals of member states the following rights:

- the right to move and reside freely within the EU;
- the right to vote for and stand as a candidate at municipal and European Parliament elections in whichever member state an EU citizen resides;
- access to the diplomatic and consular protection of another member state outside the EU;
- the right to petition the European Parliament and to complain to the European Ombudsman;
- the right to contact and receive a response from any EU institution in any one of twenty languages;
- the right to access Parliament, Commission and Council documents under certain conditions;
- the right to non-discrimination on grounds of nationality within the scope of Community law;
- the guarantee of fundamental rights as upheld by the European Convention on Human Rights and the Charter of Fundamental Rights of the EU;
- protection against discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation;
- equal access to the Community civil service.

The question is how one can become an EU citizen. Any person who holds the nationality of an EU member state is automatically a citizen of the EU. The question of whether an individual possesses the nationality of a member state is settled solely by reference to the national law of the member state concerned. Thus it is for each member state to lay down the conditions for the acquisition and loss of nationality. Creating an ever-closer union among the peoples of Europe is the first aim to be mentioned in the EU Treaties. The concept of EU citizenship has been developed gradually. Though free movement of people has existed since the foundation of the Community in 1951, it was confined to workers. In 1986, the Single European Act set out to create

a Europe without internal frontiers. The concept of European citizenship is enshrined in the Treaty establishing the European Community (Articles 17-22 and 255). The Maastricht Treaty, signed in 1992, aimed to strengthen the protection of the rights and interests of the nationals of its member states through the introduction of citizenship of the Union. Union citizenship confers on every Union citizen the fundamental and personal right to move and reside freely without reference to an economic activity. With this Treaty also came additional voting rights and extra consular protection.

The Treaty of Amsterdam, signed in 1997, extended citizens' rights by introducing a new anti-discrimination clause on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Amsterdam also reinforced the free movement of people by integrating the Schengen Convention into the Treaty.

The Treaty of Nice, signed in 2001, confirmed citizens' rights. It facilitated, for example, legislating relating to free movement and residence by introducing the qualified majority for the decision-making in Council. The majority of Europeans are not well or not at all informed about their rights as EU citizens.<sup>xii</sup>

In addition to the rights attached to the citizenship of the EU that are explicitly mentioned in the Treaties, there is a whole series of fundamental rights which stem from the EU Treaties, the case-law of the Court of Justice of the European Communities, the Council of Europe's Convention on Human Rights and the constitutional traditions of the member states. These rights have been assembled into a single, simple text called the Charter of Fundamental Rights of the European Union<sup>xiii</sup>, which was proclaimed by the Commission, the Parliament and EU leaders just before they signed the Treaty of Nice in December 2000.

The Treaty of Nice contains a declaration calling for a deeper and wider debate about the future of the EU. This debate was launched at the beginning of 2001, in view of the next treaty due to be signed in 2004. The issues at stake include the demarcation of responsibilities between the EU and the member state, the status of the Charter of Fundamental Rights, simplification of the Treaties and the role of the national parliaments in the institutional architecture of the EU. As a contribution to this debate, in July 2001 the Commission adopted a White Paper on European governance<sup>xiv</sup>, setting out a vision of a Union made more relevant to its citizens. Examples of the proposals made are a clearer division of powers among EU institutions, a simplification of EU legislation and a clearer definition of policy objectives.

EU citizens still encounter real obstacles, particularly in exercising their right of free movement. In December 2003 the Council of ministers reached the common position on the Commission's amended proposal on the right of citizens of the Union and their family members to move and reside freely within the territory of the member states, aimed at clarifying and simplifying the rules on the right of entry and residence in any of the EU member states.<sup>xv</sup>

## Limitations of citizens' rights

The EU has long faced a problem: as the Community has shifted from common market to Union, with certain attributes of a state, it needs a people who are its members, who identify with its objectives, and with whom it has a relationship. The principle of citizenship introduced by the Treaty on EU was intended to create this link between nationals of the member states and the European Union (Barnard, 1999:383). Even though the first intention of the Treaty of the European Union was to create a link between nationals of the member states and the Union, since then a little has been done in bringing citizens closer to the EU. Citizenship of the Union does not replace the citizenship of a member state and the rights and duties listed in the Treaty of Amsterdam are simply not enough in obtaining a full membership in the Union. This argument could be supported by quoting Marshall (1950:40) who argued that "citizenship involves full membership of the community which has gradually been achieved through the historical development of rights, starting with civil rights (basic freedoms from state interference), political rights (such as electoral rights) and, most recently, social rights, including rights to health care, unemployment insurance and old age pensions – the rudiments of a welfare state". According to the fact that a European citizen is defined as one holding the nationality of a member state, the concept as such is exclusionary. The concept excludes *a priori* any third-country national.<sup>xvi</sup>

Since the list of rights contained both in the Treaty on EU and Treaty establishing European Community is rather poor and very limited, there is no doubt that the list of citizenship rights serves its purpose. The first express use of citizenship to extend the rights of Union citizens was the judgment in the case of *Martinez Sala v. Freistaat Bayern*.<sup>xvii</sup>

Article 13 of the Treaty establishing European Community was designed to foster citizenship of the Union. It has an important role to play in this evolutionary process, where the emerging concept of citizenship is complex and multi-faceted, involving relationships between individuals, their own and other states and the Union. However, legislation alone is not enough. Furthermore, individuals will primarily enforce any right provided by legislation adopted under Article 13 their own state or any other state to which they have moved. Here lies a further paradox: rights intended to foster a commitment to the Union are actually being exercised against the member states. This highlights the complex nature of citizenship (Barnard, 1999:385).

Weiler (1996:30) claims that simply adding new rights to the list, or adding lists of new rights, has little effect. Rights are taken for granted; if you managed to penetrate the general indifference towards the European construct by waving some new catalogue or by broadcasting imminent accession to the European Convention on Human Rights and Fundamental Freedoms, the likely reaction would be to wonder why those new rights or accession were not there in the first place.

Human rights have a place in the discourse of citizenship. The concept of European citizenship established by the Treaty of Maastricht is an example of how citizenship rights can be scattered across the Treaty. However, this catalogue of citizenship rights is exceedingly limited and hardly comparable with domestic conceptions of citizenship and it does not have an independent status since the member states decide who are their nationals, and not the EU. Yet, there is still a question whether citizenship rights will bring citizens closer to the Union or not. But given how things stand, developing political means of control is more central to European citizenship than piling on new human rights. The major problem of European citizenship is giving it meaning, actually developing some measure of shared understanding about what it can and should (and should not) mean.

It has to be pointed out that only rights developed by the citizenship context are political rights. However, there are some difficulties in exercising these rights, so we come to the conclusion that they are weak in their content. The political dimension of EU citizenship is underdeveloped. The instruments for participation in the public life of the Union are lacking as this public life itself, as distinguished from the public life in the member states, is virtually non-existent: a weak Parliament, next to no direct access to the European courts, and so forth. Furthermore, Jessurun d'Oliveira (1994:126-148) emphasizes that

rights of political participation are weak, whilst social rights evidently are non-existent. Furthermore, the EU does not represent a shared public realm in any meaningful sense of the term. Following the arguments mentioned above, there is certainly a concern that the concept of European citizenship introduced by the Treaty of Maastricht does not offer very much in terms of protection of fundamental rights. It must be stressed that the whole problem of European citizenship is not only the problem of which rights are incorporated or left out of the concept. Probably, the real problem of the Community is the absence of a human rights policy with everything this entails: a Commissioner, a Directorate-General, a budget and a horizontal action plan for making effective those rights already granted by the treaties and judicially protected by the various levels of European courts. Most of those whose rights are violated have neither the knowledge nor the means to seek judicial vindication. The EU does not need more rights on its list or more lists of rights. What are mostly needed are programmes and agencies to make rights real, not simply negative interdictions which courts can enforce (Weiler, 2002).

Consequently, there is a legitimate question whether the citizenship chapter should be broadened or whether it would be better to broaden the definition of citizenship? From my perspective, simply adding a broader definition will not make any improvement. On the other hand, adding more rights to the list could cause a negative effect in terms of diminishing rights that already exist. This problem deserves special attention in the literature and more research is still needed in order to provide possible solutions.

## **CITIZENSHIP TOMORROW**

### **Towards a European citizenship for third country nationals**

A culture of rights accessible to third country nationals is slowly emerging at EU level. As early as 1984, the Economic and Social Committee had called for Community intervention in relation to the resident status of third country nationals. At the time however, member states were very reluctant to consider interference with what they regarded as their exclusive competence. With Maastricht cooperation on migra-

tion-related issues a new institutional structure was provided: the third pillar. While the first pillar, i.e. the provisions contained in the Treaty on establishing the European Community, was characterised by supranational decision-making procedures, the third pillar only provided the basis for intergovernmental cooperation. The new third pillar provided that policy activity concerned with third-country nationals was of “common interest” and therefore should be the subject of cooperation (Picard, 2004:70). Despite the gross inadequacies of the third pillar system, lessons had been learned about what could be done at supranational level and the policy instruments provided by the Treaty of Maastricht proved that there were sufficient grounds amongst member states to go further in the process of developing new initiatives. In 1997, the Treaty of Amsterdam made migration issues important for the Community by incorporating a new title on visas, immigration, asylum and free movement of persons. The EU institutions were given competence to define conditions.

Indeed, during the post-Maastricht phase there had been increasing recognition that insufficient attention had been paid to the role of third country nationals in EU labour markets. The new EU powers constituted a major change as EU institutions had only been loosely associated under the old Maastricht third pillar. The Commission, which emerged as the big winner of the institutional reshuffle, used its newly acquired right of initiative to play a very pro-active role on migration related issues. It issued a number of proposals, the most significant of which was the 2001 proposal, for a directive on the status of long term resident third-country nationals.

Recent years have seen progress in terms of political will. In 1999, the Tampere Council concluded that the status of long-term-resident third-country nationals should be approximated to the status of member states nationals, i.e. with a set of similar rights.<sup>xviii</sup> It is in the right of free movement that citizenship is most developed.<sup>xix</sup>

Arguably, economic considerations have achieved precedence over the “patriotic” elements of citizenship in the EU. Critics have expressed concerns that the Treaty of Amsterdam merely provided for flanking measures to ensure free movement. There is a clear attempt in the Treaty establishing a Constitution of Europe to enhance the political and social rights of non-nationals and the inclusion of the Charter of Fundamental Rights of the Union is to play an important role in the representation of migrant interests in EU law. The Charter was initially

promulgated as a declaratory act and was annexed to the Nice Treaty in December 2000.

By enshrining a common set of rights and values, the Charter, it is thought, will make the Union more palpable to its citizens. The Charter ignores the interface between national and EU citizenship: fundamental rights apply to all individuals, including non-nationals having regard to their nature as humans rather than as citizens of a given state.

In June 2002, the Seville Council further acknowledged the importance of the contribution by third-country nationals to economic, social and cultural life. To put this rhetoric in practice was one of the major challenges for the Convention on the Future of Europe. The Constitutional Treaty represents a notable attempt at enhancing a culture of rights accessible to all.<sup>xx</sup>

Individual membership of the EU is unlike traditional models of citizenship. Its nature is complementary nationality of one of the member states as an essential prerequisite. Although modern economies rely more and more on an immigrant labour force a significant number of this force is left out of the benefits of EU citizenship due to divergent nationality laws in the member states. It is still early in the process of integration for a postnational citizenship, namely one based on criteria other than the nationality of one member state, such as legal residence. The Treaty establishing a Constitution of Europe does not change the complementary nature of EU citizenship; citizenship of the Union shall be additional to national citizenship. However, in a bid to make EU citizenship more credible, the EU has for the past ten years adopted a culture of rights, mostly applicable to EU nationals but also to a limited extent to third country nationals residing in the EU on a long term basis.

The Treaty establishing European Community has been amended to insert new Title IV, Visas, Asylum, Immigration and Other Policies Related to Free Movement of Persons which follows on from Title III, Free Movement of Persons, Services and Capital. Title III contains provisions on the free movement of workers, the right of establishment and service provisions which apply to nationals of the member states and their family members of any nationality.

Here too is the base for movement of third-country national employees of service providers sent by their employer to fulfil contracts for services in other member states. The new Title in part applies to Community nationals whose position is already regulated to a great-

er or lesser extent by arrangements between the Community and third countries (Guild, 2001:296).

The reference to the nationalities of the member states is important. It states clearly the limited nature of EU citizenship. It links back directly to one of the framework “constitutional” provisions of the Treaty of Maastricht itself, Article F (1) Treaty on EU: “The Union shall respect the national identities of its member states, whose systems of government are founded on the principles of democracy.”<sup>xxi</sup>

How, then, could and should European citizenship be constructed? What should be the political attributes forging the linkages that must flow, at the European level, from citizen to public authority? How should a European demos be understood? Does it exist? Can it exist? What are its implications for European identity?

Since citizenship depends on nationality, the nationals of accession countries will only be EU citizens after accession. This means that the fundamental right of free movement granted to EU citizens cannot yet be invoked by nationals of these countries, including citizens from Croatia.<sup>xxii</sup>

Rights of citizens from accession countries as third country nationals in the EU are regulated by international treaties. The most important instruments in this respect have been association agreements between the EU and third countries. Examples of these agreements are the Europe Agreements and Stabilisation and Association Agreements (Reich, 2001:20).

Citizenship under Union law contains a bundle of different rights like freedom to look for work, right to take residence where desired, possibility of family reunion and so on. Obviously, these rights have not yet been extended to the nationals of countries of the Europe Agreements. This depends on the status of the accession countries themselves, and has to be negotiated in the respective Treaties. The Commission has put forward certain proposals on whether the *acquis* should be taken over immediately in favour of the citizens of the new member states or not.

However, by preparing a “constituent project”, the Convention on the Future of Europe by drafting the Treaty establishing a Constitution of Europe is going to have to examine the question of EU citizenship. Under Title II, Article 5 of the Treaty establishing a Constitution of Europe:



“Every citizen of a member state is a citizen of the Union; enjoys dual citizenship, national citizenship and European citizenship; and is free to use either as he or she chooses; with the rights and duties attaching to each.

This article sets out the rights attaching to European citizenship (movement, residence, the right to vote and to stand as a candidate in municipal elections and elections to the European Parliament, diplomatic protection in third countries, right of petition, right to write to, and obtain a reply from the European institutions in one’s own language).

The article establishes the principle that there shall be no discrimination between citizens of the Union on grounds of nationality.”<sup>xxiii</sup>

In order to encourage social cohesion, it is essential to place human rights and anti-discrimination at the centre, as an integral part, of all Community policies and to include among the fundamental values of the EU respect for minorities and cultural diversity. Recognising European citizenship to nationals of non-EU countries legally living in the EU satisfies all these requests. Granting full European citizenship to the nationals of third countries would enable them to vote and run for office in municipal and European elections just like European citizens who reside in a different member state than their own. It would also enable them to live, study, work or retire in the EU country of their choice, in the same way European citizens are able to. Extending EU citizenship to the nationals of third countries legitimises a de facto form of citizenship that is already expressed through the exercise of social, trade union or cultural rights. This de facto citizenship must be matched with legal citizenship (Shaw, 1997:22).

To grant the same rights to all the people who reside on EU territory, regardless of their nationality, is to recognise the legitimacy of their presence and participation in the cultural, social, working and political life of the EU. It is a way of asserting the will to live in a democracy and to defend the indivisible and universal values of human dignity, freedom, equality and solidarity on which the EU is founded.

## CONCLUSION

“The traditional, classical vocabulary of citizenship is the vocabulary of the State, the Nation. European citizenship, on this view is to people, what European Monetary Union is to currencies. To some – both europhiles and eurosceptics – this is exactly what European citizenship is about. It should not surprise us that both europhiles and eurosceptics can hold a similar view of what European citizenship is about. We have long understood that often the debate between these two extremes is not a debate of opposites but of equals – equals in their inability to understand political and social organisation in non-statal, national terms. The introduction of European Citizenship to the discourse of European integration could, however, mean not that the telos of European integration has changed, but that our understanding of citizenship has changed, is changing, or ought to change” (Weiler, 2002:35).

To date there is very little knowledge about the efficiency of the EU citizenship model. Moreover, we still do not know what actually this model implies and how it will be implemented at the level of the individual state. There are a lot of questions that should be answered in order to understand the advantages and disadvantages of this model and what “Union citizenship” is and could be. An extensive search of the literature has failed to identify studies that have examined these particular questions. There are very few studies which have tried to identify possible solutions but they do not offer us an unambiguous answer. Much research is still needed to go beyond present knowledge, which is insufficient to give us a proper explanation. Moreover, European citizenship is no longer a symbolic institution and the mirror image of “market citizenship”. It is thus unfortunate that much of the relevant literature in the 1990s did not recognise that the value of European citizenship existed not so much in what it was, but in what it ought to be. As an institutional designer and agent of change, the European Court of Justice has succeeded in institutionalising European citizenship that is, in giving meaning and value to it, thereby establishing new institutionalised norms which will impact on and modify national legal culture. Ultimately, better understanding of the European citizenship model and the fundamental rights protection within its scope is of great importance for the future implications of this model on third countries and their nationals. Croatia is one of those European states in which the application of this model could cause a significant change from the legal and political point of view. Therefore, all the questions raised do need answer-

ing. In this respect, let us hope that this study will be able to contribute to the further analysis of EU citizenship policy and to the understanding of the concept of supranational citizenship and democracy.

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- \* *The author would like to thank the referees who anonymously reviewed this paper.*
- i *Treaty on the European Union. Available at: [http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002M/pdf/12002M\\_EN.pdf](http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002M/pdf/12002M_EN.pdf).*
- ii *Treaties are available at: [http://europa.eu/abc/treaties/index\\_en.htm](http://europa.eu/abc/treaties/index_en.htm).*
- iii *Available at: [http://europa.eu/abc/treaties/index\\_en.htm](http://europa.eu/abc/treaties/index_en.htm).*
- iv *Available at: <http://www.eu-history.leidenuniv.nl/index.php3?c=11>.*
- v *Available at: <http://www.ena.lu/europe/19801986-enlargement-south-single-europe-an/fontainebleau-european-council-1984.htm>.*
- vi *Available at: [http://europa.eu/abc/treaties/index\\_en.htm](http://europa.eu/abc/treaties/index_en.htm).*
- vii *Available at: <http://www.historiasiglo20.org/europe/ciudad europea.htm>.*
- viii *For a definition of the concept of nation, see Anderson (1993:3) “it is imagined political community – and imagined as both inherently limited and sovereign. It is imagined because the members of even the smallest nation will never know most of their fellow-members, meet them, or even hear of them, yet in the minds of each lives the image of their communion.”*
- ix *The term “developing concept” is used by the European Commission. See: European Commission (1995) and European Parliament (1996).*
- x *Article 17: “1. Citizenship of the Union is hereby established. Every person holding the nationality of a member state shall be a citizen of the Union. Citizenship of the Union shall complement and not replace national citizenship. 2. Citizens of the Union shall enjoy the rights conferred by this Treaty and shall be subject to the duties imposed thereby.”*
- xi *This is in accordance with the Micheletti – judgement of the ECJ handed down in 1992 parallel to the adoption of the Treaty of EU (Case C-369/90), Micheletti v. Del-gación del Gobierno en Cantabria, [1992] ECR I-4239.*
- xii *Ten years after the creation of citizenship of the EU, a “Flash Eurobarometer” public opinion survey carried out by the European Commission in October 2002 reveals that only one fifth of the Europeans feel that they are well informed about their rights as Union citizens. One third knows what Union citizenship means. Eight per cent know what the Charter of Fundamental Rights of the EU is. A high 60% know that Union citizenship is acquired automatically by having the nationality of a member state. Ninety per cent know that Union citizens can work in any member state. The Irish and the Finns are best aware of the rights of Union citizens while UK citizens are the worst informed. The survey concerned three main subjects: awareness of the concept of Union citizenship, understanding of the meaning of Union citizenship and information received about Union citizenship. Available at: [http://ec.europa.eu/justice\\_home/fsj/citizenship/fsj\\_citizenship\\_intro\\_en.htm](http://ec.europa.eu/justice_home/fsj/citizenship/fsj_citizenship_intro_en.htm).*
- xiii *Available at: [http://ec.europa.eu/justice\\_home/fsj/rights/charter/fsj\\_rights\\_charter\\_en.htm](http://ec.europa.eu/justice_home/fsj/rights/charter/fsj_rights_charter_en.htm).*
- xiv *Governance in the EU: A White Paper. Available at: [http://ec.europa.eu/governance/governance\\_eu/white\\_paper\\_en.htm](http://ec.europa.eu/governance/governance_eu/white_paper_en.htm).*
- xv *Available at: [http://ec.europa.eu/justice\\_home/fsj/citizenship/movement/fsj\\_citizenship\\_movement\\_en.htm](http://ec.europa.eu/justice_home/fsj/citizenship/movement/fsj_citizenship_movement_en.htm).*

- xvi *“This link between citizenship and nationality has prompted the criticism that the concept of citizenship is exclusionary: citizenship rights are for those who belong and not for outsiders. Thus, citizenship is defined in terms of the statist concept of nationality which starkly draws the line between those who are included and benefit from the (albeit limited) rights of citizenship and those, in particular legally resident third-country nationals, who are excluded” (Barnard, 1999:385).*
- xvii *Martinez Sala v. Freistaat Bayern [1998] ECR I-2691. The case concerned a Spanish resident in Germany who was out of work claiming a German child-raising allowance. Under German social security law her application was refused because she still was not in possession of a valid residence permit. The Court did not accept this limiting condition to access to child allowance. A reading of Article 8 on Union citizenship in conjunction with Article 6 on non-discrimination puts her under protection of the Treaty which cannot be denied by reference to the absence of a permanent residence permit. In its free judgement discussing citizenship, Skanavi v. Chryssanthakopoulos, the ECJ refused to discuss the application of the Article 8 which was considered to be residual (Skanavi case C-193/94, Skanavi v. Chryssanthakopoulos, [1996] ECR I-2253).*
- xviii *Available at: [http://ec.europa.eu/justice\\_home/glossary/glossary\\_t\\_en.htm](http://ec.europa.eu/justice_home/glossary/glossary_t_en.htm).*
- xix *In landmark judgements such as Grzelczyk, Baumbast and D’Hoop, the ECJ established that Article 18 (1) of the Treaty establishing the European Community confers directly upon every Union citizen the right to move and reside freely across the member states. Exercise of that right is subject to the limitations and conditions laid down under community law – which, as regards economically inactive citizens, refer especially to the requirements of “sufficient resources” and “sickness insurance in respect of all risks”. Moreover; provided they are lawfully resident within the national territory, economically inactive migrant Union citizens are entitled to equal treatment with own nationals in accordance with Article 12 – though the member state may be entitled to restrict access to social benefits to those with a “real link” with the host society (Dougan: 89-107). See the ECJ cases C-184/99, Grzelczyk [2001] ECR I-6193; Case C-413/99 Baumbast [2002] ECR I-7091; Case C-224/98 D’Hoop [2002] ECR I-6191.*
- xx *Available at: <http://www.ecre.org/seville/sevconc.pdf>.*
- xxi *See more at: <http://eiop.or.at/eiop/texte/1997-003.htm>.*
- xxii *This means that the fundamental right of free movement granted to EU citizens by virtue of Article 18 Treaty establishing the European Community and by the specific provisions on free movement of persons namely Article 39 on workers and Article 43 on establishment cannot yet be invoked by nationals of these countries.*
- xxiii *See more at: <http://european-convention.eu.int/docs/sessPlen/00369.en2.PDF>.*

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## Chapter 6

# **EUROSCEPTICISM IN CROATIA: ON THE FAR SIDE OF RATIONALITY?**

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### **ABSTRACT**

This paper deals with the characteristics of euroscepticism in Croatia, defined as a combination of distrust in the European Union and distaste for membership. An analysis of the dynamics of the two dimensions shows that initially these two factors did not coincide, but that after 2004 they converged. Starting off from a theoretical model according to which the attitude to the EU is affected by both utilitarian or pragmatic as well as ethnic-cum-nationalist (symbolic) factors, the analysis of data collected at the end of 2003 on a probabilistic national sample draws attention to the heterogeneous motives behind euroscepticism, which calls into question the effectiveness of any single intervention strategy. Exclusive nationalism and its socio-cultural, political and economic premises have been confirmed as an important source of euroscepticism. As against symbolic motivations, the impact of utilitarian motives on the attitude to the EU turned out to be marginal, but it is not clear to what extent this result is the consequence of methodological constraints. The data also show that lack of trust in the EU partially reflects distrust in national institutions. The paper concludes with a brief list of recommendations, focused particularly on ways of increasing trust in both national and EU institutions.

**Key words:**

European Union, euroscepticism, attitudes towards accession, public opinion, trust in the European Union, trust in national institutions, Croatia

**INTRODUCTION**

The last five years have seen a marked decline in the desirability of joining the EU in Croatian public opinion.<sup>i</sup> Unlike the views of the political elite – that is, most of the political parties, including the two biggest – fewer than 50% of Croatian citizens now support EU accession (Gfk Hrvatska – Omnibus, 2006). This dissipation of enthusiasm must be alarming for the Government and the Parliament, who have proclaimed entry into the EU the core of the country's foreign policy objectives.<sup>ii</sup> This is particularly striking if we bear in mind the fact that a little more than two years ago, the great majority of Croatian citizens shared the views of the politicians.

A number of press commentaries and analyses have been written on the reasons for the reduced support for accession. Although we are still waiting for detailed empirical studies, several explanations of the dynamics described have been put forward. The reasons range from bruised national pride (the issue of the extradition of a suspected general to The Hague) and the strengthening of the appropriate symbolic resistance, via economic fears (the rise in the price of real estate as a result of demand from foreign purchasers, the import of cheaper agricultural products, the obliteration of indigenous products and the like), to loss of trust in the whole of the EU project after the shipwreck of the European Constitution in France and Holland. Most commentators have stated several reasons behind the fall in the support for EU accession, emphasising the complexity of the situation as well as the questionable success of any attempt to reverse the trend.

In this short paper, I shall attempt to throw light on the growth of euroscepticism in Croatian public opinion, analysing particularly the dynamics of support for Croatia's joining the EU, and trust in the EU. Although it handles an issue that has already received a fair share of debate, the advantage of the paper is in its use of empirical analyses founded on a nationally representative dataset. On the other hand, it is precisely here that the shortcoming of the proposed analyses inheres. Unfortunately, the research study (*South East European Social Survey*

*Project*; SEESSP-A and SEESSP-B) was not designed to measure, or test out public opinions to do with the EU.<sup>iii</sup> From this point of view, the indicators that are available are anything but ideal.

The first part offers a definition of euroscepticism and sets forth the current state of knowledge concerning the symbolic and material interests that affect its dynamics. In the second part I outline the dynamics of two basic dimensions of euroscepticism in Croatia; the rise in the disinclination to joining and the relative stability of the lack of trust in the EU. The lack of association between the two dimensions in the period prior to 2004 is discussed, as well its occurrence in 2004. The third section is devoted to an analysis of the social-demographic profile of local eurosceptics, and to testing the relative influence of symbolic and materialistic factors on the basic dimensions of euroscepticism. The last, fourth, part puts forward a debate that places the findings in the context of the debate on the rational (pragmatic) and irrational (symbolic) bases of euroscepticism in general. The paper ends with a brief list of recommendations founded upon the results of the analyses carried out with the aim of increasing trust in national and European Union institutions.

## **EUROSCEPTICISM: THEORY AND PRACTICE**

As mentioned, this paper does not investigate the euroscepticism of the political elites. For this reason I use the expression popular euroscepticism throughout the rest of the paper to describe *the degree to which members of the public in Croatia express the lack of trust in the EU and/or their disinclination to join the Union.*<sup>iv</sup> Popular euroscepticism, in other words, can be either more theoretical (the utterance of lack of trust) or practical (the disinclination to accede) and it can vary in degrees, with radical euroscepticism being marked by a high degree of distrust in the EU as well as unconditional opposition to Croatian accession.

Although it might seem at first glance that these dimensions of popular euroscepticism are almost identical, it should be noted that someone might have trust in a given institution and yet still be of the opinion that it is better for him or her to stay out.<sup>v</sup> This has, for example, been to date the majority viewpoint in Norwegian public opinion. A similar situation can be found in the case of the opposition of most Swedes to replacing their national currency by the Euro. The differen-

ce between the wish to accede and trust is clearly contoured in a case when they are marked by a cause-and-effect relationship. After the fall of communism, in the countries of Central Europe there was very quickly a highly marked desire for EU accession that, irrespective of the lack of information, resulted in emphatic trust in the EU. On the other hand, precisely the opposite relationship is also possible. If Norway and Switzerland ever join the EU, the readiness of their citizens for their countries to accede will necessarily reflect widespread trust in the effectiveness of the Union's institutions.

Research to date into euroscepticism in the post-communist countries of Central, Eastern and South Eastern Europe has concentrated on two aspects: (i) the connection of the phenomenon with party dynamics and (ii) non-party causes of popular euroscepticism. This approach is well illustrated by the frequently quoted works of Taggart and Szczerbiak (2002; 2004), who claim that the euroscepticism to be seen in all the post-transitional countries (except, perhaps, for Bulgaria) is the consequence of the opposition's confrontation with the Europhile parties in power (Sitter, 2001). Because of the relative marginality of parties that stand for hard-line euroscepticism, party-induced popular euroscepticism should be of a quite limited extent. Although most eurosceptic or indeed Europhobic parties belong to the right, within which the process of European integration is criticised with the rhetoric of nationalism, sometimes they can be found on the left as well (Evans, 2000). Here the attack on the EU seems to be based on a critique of neo-liberalism and globalising capitalism.

Research focused on the viewpoints and values of public opinion very often discuss the influence of symbolic (cultural, identity-related) and materialistic (economically rational) factors in euroscepticism.<sup>vi</sup> The authors, in other words, endeavour to quantify the relative contribution of these two dimensions to the negative attitude of the public vis-à-vis the EU. The impact of what is usually called exclusive national identity on popular euroscepticism has been borne out in several studies (Care, 2002; McLaren, 2002; Hooghe and Marks, 2004).<sup>vii</sup> Within this value pattern, the integration, multiculturalism and cosmopolitanism that EU-isation embodies are considered a threat to the national culture and indigenous traditions. Resistance to the EU is thus perceived as an act of patriotism.

The analyses also throw light on the powerful influence of economic rationalism, that is, the importance of pragmatic calculation of the costs and benefits of accession (Hooghe and Marks, 2004; McLa-

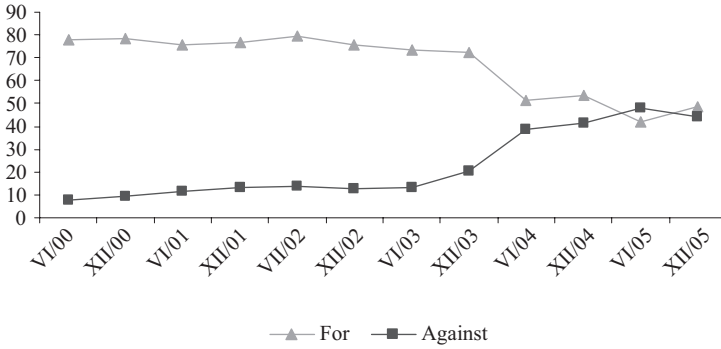
ren, 2002; Tucker et al., 2002).<sup>viii</sup> Both the macro and the micro dimension are at issue here. In the first case, popular euroscepticism will depend on the success of the country during transition. As suggested by Linden and Pohlman (2003), countries that have successfully carried out the transition will have less benefit from joining than countries that are still grappling with the transitional processes. The Czechs, hence, necessarily showed less enthusiasm for joining the EU than, for example, the Romanians today (Linden and Pohlman, 2003:328).<sup>ix</sup> Differences in success at the macro level can work in another way as well. Since the economic benefits of joining are smaller in successful transition countries, the weakening of economic interests in such countries could well affect the increase in the perception of the symbolic costs (fear of loss of identity, for example).

At the micro level, inside both successful and less successful transition countries, the affinity for euroscepticism tends to depend on personal perception of the costs and benefits of joining. Somewhat simplified, the greater the human resources that the individual can deploy (education, skills, age, professional status, income) the greater are the potential benefits from European integration and the smaller the likelihood of euroscepticism. Empirical research has provided some support for these hypotheses, showing that popular euroscepticism is mainly a marker of transitional losers (Szczzerbiak, 2001; McLaren, 2002; Jacobs and Pollack, 2004; Tucker et al., 2002).

## **EUROSCEPTICISM IN CROATIA**

The proposed working definition of popular euroscepticism brings out two basic dimensions: disinclination to join the EU and distrust in the EU. The first of these, the point of view that rejects Croatian joining in European integration, has in the last two years been much more widespread than in the earlier period. As Figure 1 shows, unwillingness to join was until the very end of 2003 quite marginal (up to 20%). During 2004 a dramatic growth ensued (to about 40%), which, though with considerably diminished dynamics, went on in 2005. In the last year, the number of those who were opposed to Croatia joining the EU was more or less the same as the number of those who expressed the opposite viewpoint.

Figure 1 Dynamics of attitudes concerning accession to the European Union, Croatia 2000-2005



\* Source: GfK Croatia – Omnibus, 2006

Unlike the first, the second dimension of popular euroscepticism, lack of trust in the EU, is not regularly measured. Still, an overview of the existing studies carried out on probabilistic national samples provides at least a rough picture of the dynamics of lack of trust in the EU in the last ten years (Table 1). Unlike the dynamics of attitudes toward accession, distrust in the EU is relatively stable during the period. On average, distrust of the EU was felt by 54% of the population.<sup>x</sup>

Contrary to expectations, the dynamics of the two dimensions of popular euroscepticism do not overlap. How are we to explain their different dynamics up to 2004? Since they show greater instability, it should be hypothesised that the attitudes toward joining the EU are more affected by situational factors than is the case with the dynamics of trust in the EU. It is also plausible that respondents may think the EU is generally a good idea, but not necessarily for their country. Theoretically, then, a situation in which there is a relatively high degree of trust in the EU and a relatively low level of willingness to join need not be unusual. The problem though is that up to 2004, exactly the opposite situation was present in Croatia: the desire to join the EU (80% for) was widespread in spite of the relatively low degree of trust in the Union (34%).<sup>xi</sup>

Bearing in mind the low level of information about the EU among the members of the public during the nineties, it seems reasonable to assume that the majority support for the accession of Croatia to

the EU was based on motives typical of the initial reactions of transitional societies to European integration (Malova and Haughton, 2002).

*Table 1 Trust in the European Union, Croatia 1995-2005 (%)\**

	WVS <sup>a</sup> 1995	EVS <sup>b</sup> 1999	SEESSP-A <sup>c</sup> 2003	EB-62 <sup>d</sup> 2004	EB-63 <sup>d</sup> spring 2005	EB-64 <sup>d</sup> autumn 2005
Yes	32	38	31	42	28	35
No	57	54	58	43	58	52
Don't know	12	8	11	16	14	12

\* *No precise comparison between the 1995-2003 and 2004-2005 periods is possible. Up to 2004, trust in the EU was measured on a scale of one to five ("a great deal of trust", "quite a lot", "not very much", "none at all" and "I don't know"), and in the Eurobarometer research (2004 and 2005) only two categories of answer to the same question were provided: "I am inclined towards trust", "I am inclined towards distrust". The data collected in the 1995-2003 period were recoded so that "a great deal" and "quite a lot" were taken to denote trust, while "not very much" and "none at all" denote distrust in the EU.*

<sup>a</sup> *World Value Survey – Croatia (Erasmus gilda, Zagreb; N = 1196)*

<sup>b</sup> *European Value Survey – Croatia (Catholic Theology Faculty, Zagreb; N = 1103)*

<sup>c</sup> *Southeast European Social Survey Project (international consortium; N = 1250)*

<sup>d</sup> *Eurobarometer Research (Eurobarometer, 2004; 2005a; 2005b; N = 1000)*

This is on the whole a desire to show that they belong to Europe, both in a cultural sense and in terms of political compatibility, and a belief that becoming a member of the EU will result in a rapid increase in the standard of living. When the negotiation process started, this naïve idealism dissolved fairly rapidly in the countries that recently became EU members. A similar process, it would seem, has been at work in Croatia in the last few years. As shown by the most recent public opinion survey carried out in Croatia, Romania and Bulgaria by the Austrian Paul Lazarsfeld Institute, most citizens of Croatia do not believe that entry into the EU will result in a diminution of corruption in the country or in a rise in wages. On the other hand, more than 90% of respondents thought that joining the EU would result in a price rise (Iancu, 2006).

If, then, the earlier inclination towards joining can be understood in terms of a need for the legitimization of the Croatian state (and its post-communist political and socio-cultural achievements) – which was unaffected by relatively low levels of trust in the EU – it is very likely that different reasons are behind the current convergence between



disinclination to join and distrust in the EU.<sup>xii</sup> Furthermore, the stability of popular euroscepticism in the last two years suggests that euroscepticism is today a coherent socio-political option with relatively stable motives.

## **THE BOUNDED RATIONALITY OF CROATIAN EUROSCEPTICISM?**

The claim that from 2004 onwards euroscepticism is a coherent social and political option that could be marked by relatively stable symbolic and materialistic interests needs to be verified empirically. The used data (SEESSP) were collected in December 2003, and mark the transition between the period in which the two dimensions of popular euroscepticism were disparate (1995-2003) and the later period, marked by convergence.

With this objective, in the rest of the paper I present two analyses. The first attempts to draw the social and demographic profile of disinclination of joining and lack of trust in the EU. Bearing in mind recent findings suggesting that euroscepticism is more prevalent among the transitional losers (McLaren, 2002; Jacobs and Pollack, 2004; Tucker et al., 2002) it can be expected that age, education, income and occupational status will be important determinants of popular euroscepticism in Croatia.

The findings presented in Table 2 suggest that there is no clear socio-demographic profile of Croatian eurosceptics. Although the analysis does show that the older and lesser educated respondents are more inclined to say no to accession, the effect of both variables is weak. In case of trust in the EU, none of the demographic and socioeconomic indicators has proved a significant predictor. In contrast to expectations, the analysis suggests that popular euroscepticism is determined neither by human capital nor by personal success, or the lack of it, during the transitional years. Does this mean that the perception of the EU in Croatia is based on purely irrational motives and bizarre situational effects?<sup>xiii</sup>

Table 2 The socio-demographic profile of attitudes toward the accession and trust in the European Union\*

	SEESSP-B (N = 802) <sup>a</sup>	SEESSP-A (N = 793) <sup>a</sup>
	Accession to the EU <sup>b</sup>	Trust in the EU
	Beta (p<) <sup>c</sup>	
Gender	0.02 (n.s.)	-0.01 (n.s.)
Age	-0.10 (0.05)	0.07 (n.s.)
Education	-0.10 (0.05)	0.02 (n.s.)
Occupational status <sup>d</sup>	0.02 (n.s.)	0.04 (n.s.)
Household income	-0.04 (n.s.)	0.08 (n.s.)
Size of domicile	-0.01 (n.s.)	-0.05 (n.s.)

\* Multiple (linear) regression analysis

<sup>a</sup> This concerns the statement "Croatia should join the EU", to which respondents replied on a scale of 1 (I do not agree at all) to 5 (I wholeheartedly agree)

<sup>b</sup> This concerns separate SEESSP samples, each of which covered 1,250 subjects

<sup>c</sup> n.s. – association is not statistically significant

<sup>d</sup> The variable was dichotomised, in such a way that 1 denotes occupations requiring some level of expertise and 0 denotes all other occupations

The impossibility of identifying Croatian eurosceptics suggests either certain fluidity or a micro-diversity of motives, but the issue is whether they can be considered irrational. If we should characterise popular euroscepticism in Croatia as irrational, this would imply that the eurosceptics have no materialistic expectations from European integration. If citizens form their expectations of the EU on the basis of their experience with national institutions, such expectations are not irrational, but, rather, boundedly rational. In this case, bounded rationality describes the indirect but personally (and materially) relevant perception of the EU. Put more simply, when we cannot evaluate the EU institutions on the grounds of our own experience (which the citizens of a non-member country cannot have), but use proxies – assessing local or national institutions – such a procedure can not be termed irrational. This is the so called proxy mechanism, elaborated in the well known paper by Anderson (1998). Anderson claims that in the absence of information about the EU institutions, citizens will have to make their assessment on the basis of their experience with local or national institutions.<sup>xiv</sup>

The findings in Table 3 provide some empirical arguments for the irrationality vs. (bounded) rationality debate regarding the motives for trust or lack of trust in the EU. The analysis included seven po-

tential correlates of trust in the EU. The first two, trust in the national government and the legal system, are indicators of Anderson's proxy mechanism. Occupational status and social self-positioning are indicators of utilitarian motives, pointing to the cost-benefit assessment of the EU.<sup>xv</sup> Political self-positioning is an indicator of compatibility of political values, with the existing literature predicting association between right-wing political positioning and lack of trust in the EU (Carey, 2002; McLaren, 2002). The last two indicators, the index of national exclusivity and membership in cultural and art associations, measure the presence of symbolic motives. While the first variable represents the impossibility of establishing complete trust between different ethnic and national groups, the second indicator reflects loyalty to (and personal importance of) ethnic and national culture.<sup>xvi</sup>

*Table 3 Predictors of trust in the European Union*

	SEESSP-A (N = 624)
	Beta (p<) <sup>a</sup>
Trust in the legal system	0.10 (0.05)
Trust in the government	0.40 (0.001)
Occupational status	-0.06 (n.s.)
Social self-positioning (top-bottom)	-0.05 (n.s.)
Political self-positioning (left-right)	-0.12 (0.01)
Index of national exclusivity <sup>b</sup>	-0.11 (0.01)
Membership in culture and art associations	0.01 (n.s.)
R <sup>2</sup>	0.22

<sup>a</sup> n.s. – association is not statistically significant

<sup>b</sup> The index is composed of the following four statements: "Ethnically mixed marriages are always more unstable than others"; "A man can feel completely safe only if he lives in a community in which his/her own ethnic group constitutes the majority"; "Among various peoples cooperation can be achieved, but never absolute trust"; "In the choice of a marriage partner, ethnicity should be one of the most important factors". The index has excellent reliability ( $\text{Alpha} = 0.86$ )

The findings point to a coexistence between symbolic and boundedly rational motives. The correlation between trust in national institutions and trust in the EU confirms Anderson's proposition (Anderson, 1998; Rimac and Štulhofer, 2004). On the other hand, negative association of right-wing political self-positioning and exclusive nationalism with trust in the EU lends cogency to the proposition concerning the impact of symbolic factors.

## THE STRUCTURE OF CROATIAN EUROSCEPTICISM

The analysis of the factors that affect trust or lack of it in the EU drew attention to the importance of two processes. The first is assessment-making on the basis of the proxy mechanism, concerning which there will be more below. The second process is the influence of symbolic values on the attitudes toward the EU, the findings indicating the central role of exclusive nationalism.<sup>xvii</sup> The association between the exclusive variant of the nationalistic worldview and popular euroscepticism seems to a great extent self-evident. But in this way it would be easy to underrate the complexity of their relationship, which exceeds mere disdain of multiculturalism and resistance to the supranational processes (Vukman, 2004). The symbolic foundations of popular euroscepticism include socio-cultural, political and, somewhat more seldom in evidence, economic convictions (McLaren, 2002).<sup>xviii</sup>

As for the socio-cultural dimension, exclusive nationalism blames European integration for the fragmentation of the national identity and the attack on traditional communal values, particularly their religious foundations – all in the name of contemporary liberal individualism. Also, the integration processes are often perceived as an insult to the national pride (the “conditions” imposed for accession), which indirectly contributes to the destruction of the collective identity and national values. The political aspect is particularly visible in the concern for the loss of national sovereignty, and the claimed inherently fraught position of small countries within the EU decision-making processes. Although less often present, economic ideas are no less important an element of exclusive nationalism. In general, these consist of various types of criticisms of global, neoliberal capitalism, which is held responsible for the demise of corporate social organisation and related welfare of the people. At the level of everyday practice, exclusive nationalism is quite often at odds with the ultimate consequences of the free market that European integration takes as its point of departure, for it sees them as a threat to domestic production.

The predominance of symbolic over utilitarian motives in the attitudes toward the EU in Croatia should be viewed with caution. Although the authors of a recent paper concluded that nationalism is a more powerful predictor of support to European integration than economic rationality (Hooghe and Marks, 2004:3), the marginal impact of utilitarian motivations on the Croatian public assessment of the EU co-

uld also be the consequence of methodological shortcomings, such as the absence of quality indicators (a list of personal expectations from EU accession). This limitation does not call into question the importance of exclusive nationalism, but it warns that it would be a mistake to conclude, on the basis of the presented analyses, that utilitarian (materialistic) motivations are completely irrelevant for the dynamics of popular euroscepticism. The impact of utilitarian motives remains to be investigated (see Bagić and Šalinović, 2006).

Analyses shown in the previous chapter confirmed the existence of the proxy mechanism (Anderson, 1998), a specific cognitive strategy through which respondents evaluate institutions the workings of which they are insufficiently informed about on the basis of their assessment of institutions that they do have experience with. This, according to the findings, relates particularly to trust in the national government, which has turned out to be the most powerful predictor of trust in the EU. Although the proxy assessment is not an irrational procedure, its results can be highly problematic, not the least since trust in national institutions can be based on the general perception of corruption in society rather than on concrete evidence about the functioning of the institutions in question (Štulhofer, 2004; Rimac and Štulhofer, 2004; Štulhofer, 2001).

The use of the proxy mechanism does not depend only on availability of information about the EU. In countries with low levels of participation and/or widespread disbelief that citizens can have any influence on the making of political decisions this mechanism might have a practical purpose, particularly as justification for apathy and opting-out. The assumption that derives from this is that the success of information campaigns, the objective of which is to increase knowledge about the EU, will depend on the reputation of national institutions associated with the campaigns.

As already point out, the empirical analyses presented in this work suffer from some serious methodological limitations. The first relates to the instruments used. The fact that SEESSP questionnaires were not designed to explore views about the EU, but were intended to measure a broad range of social attitudes and values, has as its consequence a highly limited choice of relevant variables. Each of the questionnaires entailed a single indicator of attitudes towards the EU – trust in the EU in SEESSP-A and views about the accession in SEESSP-B. Questions concerning the understanding of the institutional structure and manner of working of the EU, personal expectations from Croatia's

joining the EU or reasons for (dis)trust in the EU were not covered by the questionnaire.

Another limitation is the timing of the SEESSP field work. Data collection started at the end of 2003, just before the parliamentary elections. Although it is not entirely clear in which direction the pre-election mood might have systematically biased the results, it is likely that various situational factors are embedded in the dataset. In itself, this is not a problem as long as it is possible to quantify (and control for) these situational effects. In the SEESSP study this was not the case.

The final limitation is related to the dynamics of attitudes toward joining the EU, that is, to the fact that the SEESSP data were collected at the time point that immediately preceded the period characterized by a sudden disappearance of the majority support for Croatian membership in the EU (Figure 1). Since the change happened in the first half of 2004, it is plausible that the end of 2003 (the time when the SEESSP field work took place) was in a certain sense a period of transformation.<sup>xix</sup> Following this logic, the SEESSP dataset could contain only indications of the change of attitudes toward the EU, but not completely clear and coherently formed (new) viewpoints.

## CONCLUSIONS AND RECOMMENDATIONS

Put briefly, the analyses presented suggest the following:

- Several factors affect the dynamics of euroscepticism. It would seem that various social groups, the members of which do not necessarily share the same or similar social positions, state various motives for a negative perception of the EU. If so, it would be a mistake to believe in any single successful strategy for the reduction of euroscepticism.
- Exclusive nationalism and its socio-cultural, political and economic premises are an important source of popular euroscepticism. In comparison with these symbolic motives, the influence of utilitarian motives on the attitude to the EU has turned out to be marginal, although it is not clear to what extent this could have been the consequence of the methodological shortcomings.
- Some of the dynamics of popular euroscepticism are determined by situational influences, which are often generated by the tactical (polemical) use of the idea of European integration in party competition, which is then picked up by mass media.

- Trust in the EU is formed partly through trust in national institutions. The reputation of the EU, an institution of which citizens of non-EU countries are less knowledgeable of, is at least partially a reflection of the reputation of the national government, the parliament and legal system.

From these conclusions a short list of recommendations could be composed. Their main aim is to contribute to a reduction in popular euroscepticism, particularly through increasing (better-informed) trust in the EU. It could well be that increasing citizens' trust in institutions is a public good in itself, irrespective of the speed and ultimate outcome of the processes of European integration (Uslaner and Badescu, 2004).<sup>xx</sup>

*Recommendation 1: Continued provision of information about the European Union, the integration processes and the course of the negotiations*

As the experience of the new European ten indicates, acceptance of the EU idea and trust in its institutions are inseparable from the ongoing process of informing citizens about the pertaining symbolic and material benefits, as well as about certain costs of integration (Vetik, 2003; Rulikova, 2004). As a project that was created from the top, through the agreement of political elites, the EU has always included the risk of the absence (or evaporation) of public support. This public opinion-related vulnerability was clearly shown in the recent European Constitution referenda, which resulted in debates about slowing down further enlargement, the aim being to restore public trust in the very idea of the EU.

Data concerning the degree to which Croatian citizens are informed about the EU are relatively meagre. Eurobarometer research would suggest that Croatian citizens systematically overestimate their knowledge about the EU (Eurobarometer, 2004; 2005a; 2005b), which, as a potential obstacle, should certainly be taken into account in the drawing up of the strategy of a systematic information campaign.<sup>xxi</sup> A substantial rise in the understanding and the knowledge of the EU in Croatia requires continuous dissemination of information rather than a new campaign. Bearing in mind the likelihood that the negotiation process will additionally strengthen popular euroscepticism, as suggested by the experience of the ten new members of the EU, systematic information dissemination will not only have to be better designed and planned, but also efficiently and vigorously executed. According to the fin-

dings presented in this paper, it will be necessary to diversify content, approaches and messages to address the various fears, dilemmas and prejudices. Efficient implementation of systematic information dissemination will require a core of high-quality journalists who will specialize in reporting on the EU related issues.

*Recommendation 2: Implementation of measures that increase trust in national institutions*

This is an activity of exceptional importance, as the Government acknowledged, at least in principle, in the recent presentation of the proposal of the National Plan for Combating Corruption, 2006-2008. According to the existing research (Štulhofer, 2001; 2004; Rothstein, 2003; Uslaner and Badescu, 2004) citizens' trust in national institutions is strongly correlated with the perception of corruption among civil servants. Measures that increase professionalism, effectiveness and transparency, measures that clearly identify responsibilities and entail concrete sanctions against the government employees who break the laws and rules of professional conduct are an important part of the strategy of reducing euroscepticism. An increase in trust in the national institutions should result in a reduction of distrust in the EU institutions and may even encourage utilitarian stance toward the integration processes – for better or worse.<sup>xxii</sup>

*Recommendation 3: Creating counterbalance to exclusive nationalism*

The relationship between the symbolic and the utilitarian expectations from the EU depends on a number of structural and situational factors. In brief, the current domination of the first cannot be dismissed as the fleeting outcome of political and/or media manipulations. Strengthening rational attitudes toward the EU is dependent on the success of the government in creating the conditions for utilitarian assessment of the accession to the EU. This has at least partially been touched on in both of the previous recommendations. It is almost trivial to remind the reader that the implementation of structural reforms, aimed at increasing competitiveness of the Croatian economy, restructuring social services and improving the local and national governance, are key steps in this direction. It is less inconsequential to stress the need for a new national cultural policy, which will encourage an open understanding of national identity, the one that is essentially unfinished (unclosed) and continuously “under construction” (Katunarić et al., 2001). Exclusive nationalism feeds on a rather mythical concept of traditional



culture and on the idea of a fixed (somehow given) ethnic-cum-national identity, which any changes and influences from abroad will necessary threaten. This kind of anti-modern, essentially xenophobic and chronically frustrated and “besieged” vision of national culture and identity can be found in other European societies as well, but its scope is on the whole marginal. To marginalise such a position in Croatia would assume redefining the historical and literary canons represented in the national curriculum during the last 15 years, as well as strategic promotion of an open (“not yet completed”) concept of the national culture that replaces exclusive nationalism with an enlightened patriotism.

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- \* *The author would like to thank the anonymous reviewers for their comments and suggestions.*
- i *To a small extent, this paper is based on the address Trust in the EU: Croatian 1995-2003 (Štulhofer, A., Landripet, I. and Rimac, I.), prepared for the UACES 35th Annual Conference and 10th Research Conference “The European Union: Past and Future Enlargements”, Zagreb, September 5-7, 2005.*
- ii *Although a waning of enthusiasm for EU entry was recorded in most post-transitional CE countries that recently became EU member states, this negative trend was related to the negotiation process (Jacobs and Pollack, 2004:5). In Croatia it has preceded the negotiations, which means that the negotiation process could have an additional negative effect of the perceived desirability of the EU.*
- iii *Because of its large initial size, the SEESSP questionnaire, which was designed to measure a wide range of social attitudes and values, was divided into two separate surveys (SEESSP-A and SEESSP-B). They were carried out simultaneously on probabilistic nationally representative samples, each including 1,250 respondents. Only a portion of questions were asked in both surveys. Unfortunately, the indicators of attitudes toward the EU were not among these core questions. Trust in the EU was included in SEESSP-A and the attitude toward Croatia joining the EU in SEESSP-B.*
- iv *This definition differs from the frequently used one according to which Euroscepticism is a well-founded or unfounded opposition to the process of European integration (Taggart and Szcerbiak, 2002:27). The difference between the two lies primarily in the degree to which they can be operationalised.*
- v *It is also possible to imagine a viewpoint in which European integration is good for a large but not for a small country.*
- vi *The same terminology was applied in a recent analysis of European identity (cf. Giannakopoulos, 2004).*
- vii *Unlike inclusive national identification, exclusive nationalism is marked by distrust and social distance toward other ethnic or racial groups (Carey, 2002).*
- viii *For a more detailed debate of the range of potential costs and benefits of joining the EU, see Samarđžija [et al.] (2000) and Malova and Haughton (2002).*
- ix *Another research study pointed that the highest scores on the composite index of trust in the EU were recorded in Romania, Bulgaria and Turkey, and the lowest in the Czech Republic and Slovenia (GfK Gral-Iteo, 2002).*
- x *In 1995-2005 period distrust means “a little” trust in the EU or “none at all”.*

- xi *The explanation, it is worth observing, cannot be sought in the amount of information about the EU, because it is on the rise (Gfk Croatia – Omnibus, 2006).*
- xii *The relatively low level of trust in the EU during the nineties might be the consequence of the disappointment with the way it handled the wars in Croatia and Bosnia and Herzegovina.*
- xiii *A good example is a recent public campaign that warned Croatian citizens that the accession to the EU would end the production of the much-vaunted locally produced cottage cheese and sour cream.*
- xiv *It should be observed that such a procedure, irrespective of the outcome, is not irrational as long as there is a systematic shortage of reliable information on how the EU works and what it is about.*
- xv *Social position was measured by respondents' estimations of their position on the social hierarchy scale where 1 means the bottom and 10 the top.*
- xvi *For adherents of exclusive nationalism the EU is a multicultural and transnational entity that threatens cultural identity of smaller nations. The definition of exclusive nationalism assumes the existence of the inclusive variation, which is sometimes simply called patriotism.*
- xvii *The finding was partially corroborated by a recently published study. Using data collected on another probabilistic national sample, the authors reported on the negative impact of general national pride on the desirability of European integration (Lamza Posavec [et al.], 2006). When the components that constitute the scale of general national pride are considered, four of the five variables denote exclusive nationalism (Lamza Posavec [et al.], 1006:145).*
- xviii *Another regression analysis (not presented in the paper) has revealed a clear socio-demographic profile of a propensity for exclusive nationalism. The predictors are age ( $p < 0.01$ ), education ( $p < 0.05$ ), income ( $p < 0.05$ ) and the degree of urbanisation of the domicile ( $p < 0.001$ ). Exclusive nationalism is overrepresented among older, less educated, less economically well-off and less urbanized respondents.*
- xix *Also indicated by the Puls Crobarometer data (Bagić and Šalinović, 2006).*
- xx *Particularly in the light of the beginning of negotiations with the EU and their impact on institutional evolution (cf. Malova and Houghton, 2002).*
- xxi *In both 2004 and 2005 Croatian citizens provided higher estimates of their knowledge about the EU than the EU citizens. In sharp contrast to this self-assessment, the results of the Eurobarometer knowledge quiz show that Croatian citizens are less knowledgeable than their EU counterparts.*
- xxii *During 1995–2003, trust in national institutions fell sharply (Štulhofer, 2004). In 1995, the level of trust in national institutions was much lower in Croatia than in Slovenia, Austria and Italy (Štulhofer, 2003).*

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## Chapter 7

# **ANALYSIS OF BENEFITS AND HARMS AS A FACTOR IN CITIZEN SUPPORT TO CROATIAN ACCESSION TO THE EUROPEAN UNION**

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## **ABSTRACT**

This paper deals with the analysis of the utilitarian model of the explanation of popular support for Croatian entry into the European Union. The utilitarian model for explicating support or lack of support for accession to the EU has been analysed through subjective principled expectations of benefits and harms of entry into the Union at a personal and at a national level, and through concrete expectations at the level of twenty-two aspects of social and economic life. The research results show that on the basis of principled expectations it is possible precisely to predict support for entry into the EU, but that the principled expectations are not to any very great extent founded on concrete expectations in the observed aspects of social and economic life, and that they are to a certain degree linked with political viewpoints. On the other hand, concrete expectations are relatively weakly correlated with support for Croatian entry into the EU. Such a result suggests the conclusion that on the basis of a utilitarian explanation of support it is possible only relatively poorly to predict viewpoints concerning joining the EU, and

that principled expectations of benefits and harms are in good part an expression of general impressions about the EU, trust in the political elite and political views of Croatian citizens, and to a lesser extent realistic rational calculations of harms and benefits. The paper is based on empirical survey of the views and expectations performed on a probabilistic national sample of a thousand citizens older than 15.

**Key words:**

European Union, utilitarian explanation of attitudes toward accession, analyses of harms and benefits, political attitudes, Croatia

## INTRODUCTION

Since mid-2003 there have been considerable changes in the attitudes of Croatian citizens to accession to the EU. According to Puls agency investigations of mid-2003, about three quarters of Croatian citizens then supported Croatian accession, after which, from the autumn of the same year, the process of a decline in support began. Through several phases, the process of a weakening of public support for the integration of Croatia into the EU has arrived at the critical level of today, when the number of those who are against is equal to, and sometimes even higher than, that of those who are for Croatian membership.

Several explanations for the downward trends in public support in Croatia for EU accession have been tendered at various levels of abstraction, which can be more or less subsumed under the approaches that are met in the relevant professional literature. Rachel Cichowski (2000) says that in the literature that deals with the first three waves of enlargement (finishing with the entry of Austria, Finland and Sweden in 1995) it is possible to identify three approaches to an explanation of public support for the integration of a country into the EU: utilitarian, valued-based and economic and political issue-based. The utilitarian explanation is based on the hypothesis that the individual attitude to European integration stems from a profit and loss analysis vis-à-vis quality of life. The value-based explanation assumes that certain value orientations, such as post-materialist values (Inglehart, 1970) are more "fertile ground" for the acceptance of integration processes than other value orientations. The third explanation is based on the assumption that a positive macroeconomic situation and positive trends have a positive effect on the assessment of the processes that brought them about

and hence it is possible accordingly to explicate the pro or contra views of citizens to European integration. Political reasons are also to be added to this list of reasons for support or lack of support for European integration, such as the relation between national and supranational institutions, and the theory of social capital. A political explanation appears in several sub-versions. Sánchez-Cuenca (2000) suggests that the level of trust in national institutions is in inverse proportion to trust in supranational institutions and hence to the level of support for accession to the EU. According to this explanation, citizens look for some institutional authority that is capable of settling their problems. If domestic institutions are capable of this, supranational institutions are not necessary, and conversely, when national institutions do not perform their functions at a satisfactory level, hope is channelled towards the European institutions. Anderson (1998) suggests three types of political explanation that correlate citizen views about domestic political institutions and actors and views about European integration. The first type of argument suggests an opposite correlation between trust in national and supranational institutions than that found in Sánchez-Cuenca (2000), which means that it is proportional. This is backed up with the proposition that citizens use their own government and national institutions as a proxy or example or model via which they make judgements concerning supranational institutions concerning which they have far less knowledge and information. The fact that two authors give diametrically opposite explanations of the ways in which perception of national institutions affect attitudes about the EU can be explained by the diversity of the contexts with which they are concerned. Anderson is mainly concerned with the older members and Sánchez-Cuenca with the transition countries, in which the EU is seen as an ideal as compared with the young and undeveloped national institutions. Anderson's second proposition implies the existence of a directly proportional link between trust in the domestic government and support for European unity. This can be explained by the fact that those mainly spearheading European integration are officials of the governments of the member countries (and candidates) and trust in them as domestic political actors is projected onto trust in the processes of European integration that they are heading. The third argument links support for traditional political parties as compared with new parties that appear on the political scene as an expression of resistance to the policies that are implemented by the traditional parties, and views about European integration. This hypothesis posits that electors who support traditional political parties support



the processes of European integration to a greater extent because it is these parties that are heading the process. An explanation based on the concept of social capital implies that individuals who have greater social capital and are more open to cooperation and association in everyday life will also more easily accept the idea of European integration (Rimac and Štulhofer, 2003).

All these approaches certainly explain part of the whole process of attitude formation among citizens concerning European integration, but they are not all equally applicable to the understanding of the sudden changes in the views of citizens about the entry of a country into the EU. Explanations that are based on long-term and relatively recalcitrant characteristics, such as value orientations or quantity of social capital, can be employed with difficulty to explain the sudden fall of public support for Croatian accession to the EU of some 30-40%. These explanations would have to posit the occurrence of earthshaking social changes that in a relatively short period of time have altered value orientations and the amount of social capital. An explanation of sudden change can more convincingly be based on one of the approaches using changing social phenomena, such as perception of the domestic government, trust in domestic or European institutions or perception of the harms and benefits of EU accession.

An unsystematic analysis of Croatian public discourse about European integration leaves the impression that the utilitarian perspective is one of the dominant angles from which the process of European accession is observed. If an analysis of the contents of newspaper articles and the public statements of politicians and analysts were made, probably it would be found that in the context of EU accession, most of the discussion is couched in terms of harms and benefits, even when the many motives for a negative attitude are actually to be found in the sphere of political views. Political actors expect citizens to perceive the harms and benefits of entry into the EU and therefore think that in the event of a referendum on this issue they would make their decisions pursuant to rational cost-benefit calculations. Of course, the possibility of a rational calculation of cost-benefits on the part of most citizens is quite restricted for several reasons: lack of basic information about the way the EU works; lack of interest in information about integration processes (Anderson, 1998); lack of information about the dimensions of changes that happen as a consequence of EU accession; the impossibility of a rational calculation of pros and cons even when there is a certain amount of information because of the absence of theoretical

knowledge and analytical abilities. But in spite of all this, it can be assumed that most citizens have their general (principled) expectations from EU accession, expectations that stem from information, half-information and interpretations that are conveyed via the media, personal experience and informal communication.

The possibility of forming a rational viewpoint (understood as a viewpoint founded on a calculation of cost-benefits) concerning entry into the EU depends to a very great extent on the atmosphere in which a decision is made, that is, on the vigour and character of public debate about the topic. When we speak of public debate, it is important to distinguish public debates among stakeholder groups and experts and public debate that the ordinary person can take part in and can understand. The first kind of public debate is important and essential, but has little effect on the formation of citizen viewpoints. The second kind, which we might call public debates in front of the citizens and aimed at them is much more important for the formation of public opinion about EU membership. The vigour of public debates performed in front of the public to date (meaning above all else debates in the media) concerning the importance and consequences of EU accession has been relatively slight, and they have been mainly of a superficial and generalised nature. We can expect in consequence that the views and expectations of citizens themselves are also relatively generalised and hazy, and that they are more under the influence of political point-scoring than of serious discussion and rational cost-benefit analysis.

The objective of the present paper is to analyse current expectations of people in Croatia about the harms and benefits for them personally and for the country as a whole from EU accession and to establish just how consistent they are and to what extent they explain the current viewpoints. We are also interested in the relation between concrete and general (principled) expectations, at a personal and a national level. The goal is better to understand the mechanism of expectation formation, and to define how much expectations are influenced by general and superficial impressions, and how much the consequence of an analysis of changes in individual aspects of social and economic life. An understanding of the character and structure of citizen expectations can clearly indicate the need to step up public debate in front of and for the citizens and the directions in which such a debate should be led. If it should be shown that the views of citizens are generalised, and that concrete expectations have no strong influence on the creation of viewpoints about EU accession, this might be understood as a clear evalua-

tion of the previous efforts of government and the line ministry to provide public information.

Also discussed in the paper are the factors that influence the general expectations of respondents, as well as concrete analyses of harms and benefits in given areas, primarily from the perspective of political viewpoints. We are interested how much principles expectations of profits and losses from EU accession are in fact rationalisations of other motivations for supporting or not supporting EU entry. For the purpose of analysing hypotheses concerning general expectations as expression of a rationalisation of political viewpoints, we decided to measure perceptions of the attitude of the EU to Croatia. This is above all concerned with cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), the hypothesis being that such pressures lead to a conviction that the EU does not accept us, which in turn produces the reaction in which EU accession is rejected.

## **THE THEORETICAL FRAMEWORK: THE UTILITARIAN APPROACH TO EXPLAINING THE ATTITUDES TO MEMBERSHIP OF THE EUROPEAN UNION**

The utilitarian approach to an explanation of public support for European integration is one of the most highly-investigated theoretical perspectives and hence appears in several variants. In the first one, which we will call objective, the focus is directed on immediate economic gains that individual groups will have from the integration processes. It can be hypothesised that in any society certain groups can be identified that have a greater immediate benefit than others, as well as groups that will have to pay heavier losses. In line with this hypothesis, and with the theoretical model of economically motivated voting behaviour, it is expected that between these there will be an important difference in support to European integration (Gabel and Palmer, 1995; Gabel and Whitten, 1997; Gabel, 1998). Groups that can be supposed to have greater benefits from the integration processes, because they will be more competitive in the single market, are relatively young, well educated and have higher social and professional positions, with higher incomes. On the other hand, people who have less education, manual workers and persons with lower incomes will have

more harms than benefits from the process of European integration (because of their lower direct competitiveness), and it is expected that they will accordingly be less inclined to support the integration processes (Gabel and Palmer, 1995). By way of adjustment of this model of explanation so it can fit the conditions of the transitional countries, Tucker, Pacek and Berinsky (2002) offer a theory about transition winners and losers. Transition winners are defined as those groups that have profited from the transition processes, who have enjoyed benefits from the concomitant economic and political reforms. The transitional losers are those groups that have suffered negative consequences of transitional reforms.<sup>1</sup> The second variant of the utilitarian explanation is based on a subjective evaluation of the economic situation (Gabel and Whitten, 1998) and an evaluation of the potential personal harms and benefits in the case of a country's accession to the EU (Nelsen and Guth, 2000; Ehin, 2001). Here the main emphasis is placed on perception instead of on the objective position of a person in the social structure and hence it is called subjective. Research in the Baltic countries shows that it is possible to predict views on integration more precisely on the basis of expectations of personal losses or benefits than on the basis of personal competitiveness as measured by social-professional position. This tends to lead to the conclusion that the subjective dimension of expectations is independent of the objective market position of the person (Ehin, 2001).

In essence, the utilitarian model of explanation does not stick to economic arguments alone. Cichowski (2000) also includes in this group of explanations arguments that take for granted that entry into the EU means, for transition countries, a guarantee of the continuation of political reforms and political stability, that is the guarantee that totalitarian and communist regimes have been abandoned forever. From this point of departure, researchers in some eastern European countries have investigated the relation between satisfaction with democracy and support to democratisation and development of the free market as predictors of support to European integration (Mishler and Rose, 1997; Cichowski, 2000).

The utilitarian model of explaining public support for European integration in more recent time has met with two-pronged criticisms. The first criticism emphasises political factors, above all from the point of view of the impact of the perception of the national government and national institutions and party affiliation, which is a continuation of a line of reasoning familiar earlier in the older members. Thus Cichowski

(2000) demonstrates that party preferences are a key factor in the explanation of support in five of the new members of the EU just before accession. In other words, entry into the EU is more often supported by pro-European voters, and less by voters of eurosceptic parties.<sup>ii</sup> The great drawback of this argument is that it is impossible to see what is cause and what is effect in connection with party affiliation and views concerning European integration. The existence of such a correlation does not exclude the possibility that in the background of political inclinations there is some hidden utilitarian orientation in the sense that groups that have greater benefits from the integration processes will have more positive views on European integration and hence will support pro-European parties. A second type of political counter-argument to the utilitarian explanation is provided by Sánchez-Cuenca (2000), who suggests that there is a strong correlation between the perception of national and supranational institutions and views about European integration. In a situation in which citizens have a highly positive view about national institutions and a bad view of supranational (European) institutions there is a greater likelihood of a negative viewpoint about European integration and vice versa. As in the previous line of reasoning, here too it can be noticed that the viewpoint concerning national and supranational institutions can be the consequence of a utilitarian analysis of the consequences of membership.

The other line of criticism stresses the importance of national identity, national exclusiveness and openness to other cultures (McLaren, 2002). The EU does not after all mean just free trade and economic integration, but it has, increasingly, a cultural and symbolic dimension, as well as a political, in the sense of impacts on national identity and sovereignty. McLaren (2002) showed that pursuant to openness to other cultures the strength of support for the EU can be predicted extremely well, while Carey (2002) showed that the attitude to the EU is conditioned by a feeling of national identity almost just as much by utilitarian motivations (see Štulhofer, 2006). But irrespective of the critical attitudes to utilitarian explanations of public support for the EU, most investigations have shown that such considerations do play an important role in the process of explicating public support for European integration and trust in the EU.

Some methodological and epistemological criticisms may be directed at the utilitarian model or the various versions of it, criticisms that are not to be found in the literature to any great extent. The objective version of the utilitarian model can be criticised for starting out

from the assumption that certain groups support EU membership more than others because they would be more competitive on the common market, without convincing and direct proofs being given to show that these groups really are more competitive and that membership of their country in the EU will bring them direct benefit. It is particularly dubious when the main argument is derived only pursuant to correlations of levels of education, income levels and professional status on the one hand and views among EU membership on the other.<sup>iii</sup> It could easily be shown that the same groups could be more or less well-disposed to EU membership for other reasons, such as a greater amount of social capital (Rimac and Štulhofer, 2003) or other kinds of value orientations (Inglehart, 1970). For example, how can it be proved that people with higher educations and with higher professional status are more supportive of EU membership because of the utilitarian motivations related to their supposed greater competitiveness and not because of different value orientations, better levels of informedness or some other reason again? It may be objected in principle to the subjective version of the utilitarian explanation (apart from the choice of indicators in some research – as in Tucker, Pacek and Berinsky, 2002) that it is based on an expressed viewpoint that does not necessarily have to be the expression of real expectations but can rather be the result of a process of rationalisation of other motives for anti-European stances. The whole process of European integration is presented in public within the framework of the primarily economic cost-benefits, and all other kinds of reasoning are put out of court as undesirable. This can lead to the rationalisation of real motivation through the assertion of utilitarian grounds. On the other hand, an advantage of the subjective version of the utilitarian model is the possibility that some of the members of the public who at the moment have no benefit from the transition process can view the EU in the light of a saviour that will solve their key problems. Another weakness of the utilitarian model is that it is on the whole focused on egoistic utilitarianism, at the personal level. Little attention has been devoted to a broader understanding of cost-benefits, not focused only on interests and benefits of the individual, but on those of the broader society or particular groups in it, which can also be a subject for analysis of the advantages and disadvantages of EU membership.

Our point of departure is in the utilitarian model that explains people's views about European integration. One of the most well-researched approaches, it can provide an explanation for the relatively fast change of views about an important number of citizens concern-

ing the accession of their country to the EU. From the evident requirement that this model of explanation should be subjected to further critical interrogation and analysis, in this work we shall test the following hypotheses:

- *The general expectations of citizens from EU accession are a powerful predictor of support for entry into the Union.* Since in most transition countries this hypothesis proved to be correct, we expect that it will also be shown to be so in Croatia. It is a truism to hypothesise that those citizens who expect more positive effects from EU entry at a personal or national level will support accession to a greater extent. The question arises however as to what part of the variance of the total attitude to the EU is explicable by these utilitarian expectations, and which part remains inexplicable and can be related to some of the other models for explaining support to EU membership. The question also arises of whether the attitude to membership can be predicted more accurately on the basis of general or concrete expectations. Concrete expectations would be closer to the theoretical model of the utilitarian explanation since it can be supposed that they are to a greater extent based on a cost-benefit analysis, and less influenced by general impressions or political viewpoints.
- *General expectations from entry into the EU are based on a rational evaluation of concrete changes to be expected from entry into the EU, above all in aspects that are directly linked with the standard of living of the people, such as the prices of goods and services, wage levels and unemployment levels.* In the literature relatively little attention is devoted to the structure of expectations from EU membership and to the manner of structuring the system of expectations. First of all the general or principled expectations should be distinguished in the sense of ratio of harms and benefits, whether at a personal or at a national level from concrete expectations in individual life domains. The first model implies that on the ground of the general impression or some other motives the general expectations are first of all formed, which are then projected onto concrete issues and areas of life. The second model assumes a rational construction of general expectations that are the resultants of expected changes in concrete aspects of economic or other conditions. Another important issue related to the mechanism for the formation of general expectations is the extent to which general utilitarian expectations are the consequence of concrete expectations relating to the standard of living of the individual, to what extent of general economic expectations, and to what extent

they are the consequence of expectations that do not at all refer to the economic sphere of social life. This hypothesis seems to us to be very important for an evaluation of the utilitarian approach to an explanation of support for European integration. Although it is used as one of the key indicators for the utilitarian approach to European integration in most of the research published to date, there has been a relatively poor analysis of the rationality of general expectations from the membership of a country in the EU. The utilitarian model of explanation is primarily founded on the assumption that actors are rational, and form their views on this issue on the basis of estimates of their own personal interests. This would necessarily entail the assumption that general personal expectations are founded on concrete rational expectations. In order actually to evaluate the rationality of general expectations it would be important to test the extent to which expectations concerning individual concrete areas explicate general expectations from EU accession. The relation between general (principled) and concrete expectations can also be an indicator of the vigour and quality of public debate and the level of people's information about the importance and consequences of EU membership.

- *General expectations are correlated with political views about the EU attitude to Croatia.* In essence, behind this hypothesis lies the assumption that general and individual expectations from membership in the area of economic cost-benefits are actually partially also the consequence of the rationalisation of other motives for supporting or not supporting membership, particularly political motives. One of the motives that might be expressed in this kind of rationalisation is a sense of outraged national pride as the result of the political pressures of the EU on Croatia.<sup>iv</sup> Since politicians and analysts rarely openly articulate the feeling of hurt national pride as a reason for euroscepticism, and do not clearly express the resistance to such pressures, it can be hypothesised that citizens rationalise this feeling, if it does exist, through other forms of reasoning. We can assume that such a rationalisation will primarily be expressed through utilitarian expectations, because this is the dominant discourse in public debate about the entry of Croatia into the EU. Although the aspect of injured national pride in the literature has not been analysed to any great extent, we think that in the case of Croatia and of other countries from the former Yugoslavia it could have an important impact on the general attitude to association, yet mediated through the rationalisation mechanism described also upon utilitarian expectations from entry into the EU.<sup>v</sup>



## RESEARCH METHODOLOGY

In order to test out these hypotheses a separate investigation was carried out on a two-stage, stratified, probabilistic sample of 1,000 citizens above the age of 15 as part of the omnibus survey of the Puls agency.<sup>vi</sup> The sample taken statistically significantly deviated from the structure of the overall population because of the level of education, which was adjusted by weighting of the sample (the method of rim weighting was used). This deviation was caused by the refusal bias, the rate of refusal being about 40%. The field part of the survey was carried out in February 2006.

We posed six questions by which we collected the necessary data for testing the hypotheses, along with the standard demographic questions. As indicator of general viewpoint of citizens to EU entry the following question was used: *Taking it all in all, do you personally support the accession of Croatia to the EU or not?* This indicator was selected as a simple and direct manner of measuring stances towards accession. It does not involve additional factors and subject characteristics that might affect answers to the questions, as is the case concerning the question about voting in any referendum there might be. The referendum question actually contains a quantification of the intention of the respondent to vote in such a referendum which might lead to a certain distortion of response from that part of the electorate that does not go to the polling stations.

To measure general expectations from entry into the EU, two questions were used, similar to the standard questions used in Eurobarometer research, often the main source of data for testing out hypotheses related to the influence of utilitarian factors on the understanding of attitudes to EU integration.<sup>vii</sup> One question was asked about personal expectations: *Do you think that you personally will have more benefit or more harm from the accession of Croatia to the EU?* and one concerning expectations at a national level: *Do you think that Croatia will have more benefits or more harm from the accession of Croatia to the EU?* We expected respondents to evaluate their own personal and general social benefits and harms from entry into the EU separately. For both questions, the same scale with five points expressing the expected beneficial and harmful consequences.

As one of the objectives of the paper was to check out the concrete structure of expectations that were concealed behind principled expectations at a personal and national level, a special instrument was

developed for the measurement of concrete expectations. For twenty-two different aspects of social and economic life in which the impact of EU accession could be expected, subjects were asked to evaluate the extent of the impact and the consequences to the life of the average citizens. A five-point scale was used, from “Will deteriorate considerably” to “Will improve considerably”.

*Table 1 Groups of concrete expectations\**

Quality of life	Liberalisation of commerce and migration	Working of national institutions	General economic expectations
Level of crime (0.74)	Sale of Croatian firms to foreigners (-0.85)	Working of state of law (0.83)	Development of farming (-0.83)
Risk of terrorism (0.69)	Sale of Croatian real estate to foreigners (-0.85)	Efficacy of civil service (0.73)	Export of Croatian products and services (-0.74)
Job security (0.66)	Import of foreign products (-0.80)	General level of democracy (0.70)	Opportunity to produce domestic food products (-0.69)
Cost of healthcare services (0.65)	Immigration from less developed countries (-0.74)	Defence capacity of the country (0.60)	Development of the economy (-0.65)
Price of goods and services (0.65)	Emigration of young abroad (-0.67)	Level of corruption in public institutions (0.58)	Wages and salaries (-0.55)
Level of unemployment (0.64)		Development of economy (0.56)	Level of unemployment (-0.49)
Level of social security (0.53)			
Wages and salaries (0.51)			

\* *Factor structure matrix after oblimin transformation (saturation)*

This kind of approach is necessary because change in a given area does not necessarily mean an improvement or a deterioration, rather depends on the value- and interest-laden evaluation of the respondent. For example, the migration of the young abroad can be a negative or positive consequence, depending on the personal preferences of the subject. Areas were chosen such as to cover the most important of the dimensions that, in public debate, were considered to be likely to be affected by EU accession. These areas mostly relate to people's standard of living and generally to economic conditions. Apart from these areas, there were also areas relating to the working of government institutions and other areas of society.

In order to reduce the amount of data and make them suitable for further analysis, factor analysis was carried out on the concrete expectations with the use of an oblique oblimin transformation. Four groups of areas were picked out with respect to the correlation of expectations in each of them.<sup>viii</sup> The groups brought together areas that were (i) primarily related to personal living standard and eventual personal risks of the subject, (ii) primarily related to liberalisation of commerce and investment as well as population migration, (iii) with their effects related to the function of national institutions and (iv) economic expectations not directly linked to the quality of life of the individual citizen. This kind of structure suggests the conclusion that the expectations of Croatian citizens are relatively logically and rationally structured.

In order to be able to test out the hypothesis vis-à-vis political viewpoints and concrete and general utilitarian expectations from entry into the EU, we added a question designed to elicit perception of EU attitudes to Croatia. We chose this dimension of political views because of the frequently voiced hypothesis that some of the citizens of Croatia interpret the demands of the EU for cooperation with the ICTY, regional collaboration and other, similar, political demands through the prism of danger to national pride, out of which, by way of reaction, euroscepticism is produced. This dimension is operationalised through six statements, four of which express views about EU attitudes in the context of regional politics and the Homeland War<sup>ix</sup>, while two are concerned in general with an evaluation of the justification of the demands the EU is making on Croatia,<sup>x</sup> to which a five point scale of agreement associated. In the factor analysis of these six assertions, two factors were formed, the first of which is primarily formed by statements about the attitude of the EU to Croatia in the context of regional politics and attitudes to the Homeland War, and a second to claims relating to an evalu-

ation of the requirements that the EU is making with respect to Croatia.<sup>xi</sup> The reliability of the first factor is 0.8 and of the second 0.6, which can be considered satisfactory. The latent scales formed in this way were employed in further analyses.<sup>xii</sup>

## RESULTS

### **Predictions of views about entry into the European Union on the foundation of general expectations**

The main reason behind a given country wishing to join the EU lies in the expected positive consequences for the functioning of government and the standard of living of the people. The main resource for making a utilitarianly grounded decision as to whether to support or not the accession of Croatia to the EU should be an estimate of whether membership will bring more harms or more benefits, whether at a personal or a national level. The results of this investigation show that Croatian citizens think membership in the EU will result much more in harms to them personally and to the country as a whole than in benefits. The proportion of respondents who thought that positive consequences on personal life would be preponderant was only 21%, or 24% for the overall impact at the national level. As against this, as many as 40% thought that the consequences would be mainly deleterious for them personally, and 45% for Croatia as a whole. As could be expected, views about the consequences for Croatia and for personal life were correlated. The correlation of these two variables comes to 0.79 ( $p < 0.01$ ), which puts it in the order of large correlations and indicates the strong link between expectations at personal and national levels. The high correlation between these two dimensions is on the whole understandable because the consequences for a large number of individuals are also consequences at the national level, or consequences at the national level cannot avoid having direct or indirect consequences for most individuals. But still, to some extent there is a distinction between the two dimensions, and it is not possible with any certainty to state which of the two levels of utilitarianism has the greatest effect on the formation of views. Because of the high reciprocal correlation, in the further analysis, both dimensions of the explanation are used.<sup>xiii</sup>

*Table 2 General/principled expectations from the accession of Croatia to the European Union at a personal and at the national level (in %)*

	National level	Personal level
Much more harm than benefit	21.8	18.4
A bit more harm than benefit	24.4	21.2
Equal amounts of harm and benefit	20.0	27.6
A bit more benefit than harm	18.7	16.3
Much more benefit than harm	5.5	4.5
Don't know	9.6	12.0
Total	100.0	100.0

A logistic regression analysis shows that there is a strong correlation between general expectations at a personal and a national level and a general view about Croatian accession to the EU.<sup>xiv</sup> Such a result is not an astounding discovery, but it does confirm the correlation of the first hypothesis between expected harms and benefits and the overall attitude about EU membership. The correlation between general expectations and the general attitude about EU membership can be seen in table 3.

*Table 3 Comparison of utilitarian expectations with general viewpoint about Croatian membership in the European Union*

	N	Don't support	Support	Don't know/ no opinion
Whole sample	1,000	47.4	39.4	13.2
Croatia				
More harm than benefit	462	76.7	15.1	8.2
Equal harm and benefit	200	35.0	46.5	18.5
More benefit than harm	242	9.6	87.7	2.7
Don't know	96	26.9	20.3	52.7
Personal				
More harm than benefit	396	77.8	15.5	6.7
Equal harm and benefit	276	39.1	45.2	15.7
More benefit than harm	208	11.9	85.5	2.6
Don't know	120	27.4	25.4	47.2

It can be seen quite clearly that over three quarters of respondents who support EU accession expect more benefits than harms for themselves personally, as well as at the level of the country as a whole,

while over 85% of those who are against entry have the opposite expectations, that is, they expect more harms than benefits to themselves personally as well as to the country as a whole. But this result does not necessarily mean a confirmation of the utilitarian model of explaining support for European integration. It is possible that the utilitarian expectations expressed in terms of harms and benefits are just a rationalisation of some other reasons on the basis of which the basic stance about Croatian membership in the EU has been formed.

### **Prediction of views about accession to the European Union on the basis of concrete expectations**

At the level of concrete expectations, in each of the twenty-two areas analysed, most of the subjects had pronouncedly negative expectations. In two thirds of the areas, more subjects thought that the changes would lead to negative consequences for the lives of the population of Croatia. By far the most negative effects are expected in the matter of the prices of goods and services, particularly of healthcare services, which we surveyed separately.<sup>xv</sup> Interestingly, in third place in terms of expectation of negative consequences lies “ability to produce domestic food products” (for example, cottage cheese, sour cream and cured meat). The view that these changes would considerably diminish the quality of life of the average inhabitant of Croatia suggests that citizens still do not have full information and that they think only within the terms that have been foisted on them at the moment through the media. The subjects expected the most positive changes in the working of a state of law, efficacy of the civil service and the development of the economy. Apart from these three, there are four more aspects in which more pollees expect positive than negative changes.

*Table 4 Expectations of citizens from accession to the European Union in 22 aspects of social and economic life<sup>xvi</sup>*

	Will deteriorate	Won't change	Will improve	Don't know	Difference
Working of state of law	7.3	40.8	34.1	17.7	26.8
Development of the economy	13.3	36.5	33.7	16.5	20.4
Efficacy of civil service	10.3	43.3	28.5	17.9	18.2
Export of Croatian goods and services	17.5	32.4	33.0	17.2	15.5
General level of democracy	8.8	46.7	23.9	20.7	15.1
Defence capability of country	7.7	48.7	21.5	22.1	13.8
Level of corruption in public institutions	17.4	42.7	21.9	18.1	4.5
Development of farming	25.9	32.9	24.7	16.5	-1.2
Emigration of young people	26.9	32.0	22.3	18.8	-4.6
Level of social security	26.3	37.1	19.5	17.0	-6.8
Import of foreign products	31.0	29.3	23.7	16.0	-7.3
Wages and incomes	30.3	35.4	20.0	14.3	-10.3
Level of unemployment	34.6	34.5	16.5	14.3	-18.1
Immigration from less developed countries	34.7	28.9	15.0	21.4	-19.7
Sale of Croatian firms to foreigners	41.8	23.9	17.6	16.8	-24.2
Job security	36.1	35.6	11.0	17.3	-25.1
Sale of Croatian real estate to foreigners	42.6	23.6	16.4	17.4	-26.2
Risk from terrorism	39.1	31.1	12.3	17.5	-26.8
Level of crime	39.3	31.3	11.8	17.5	-27.5
Ability to produce domestic food products such as cottage cheese, sour cream and cured meats	41.3	30.4	11.7	16.6	-29.6
Price of goods and services	54.2	20.0	13.0	12.8	-41.2
Price of healthcare services	54.4	21.8	10.4	13.4	-44.0

Logistic analysis shows that on the basis of concrete expectations it is possibly only rather poorly to predict support for member-

ship in the EU. Only about 65% of cases are exactly assigned, which is a relatively small percentage considering that with random choices the probability of a correct classification into groups would be about 50%. That this is a relatively weak correlation is shown by the coefficient of determination, which in this case is only 0.21, if all 22 aspects are included into the analysis or 0.17 if the latent dimensions of concrete expectations are included.<sup>xvii</sup>

With literally all the analysed aspects one can see a difference in prediction of changes and the effect of these changes between those who support and those who do not support EU accession. This is indicated by the inverted sequence of the logic of thinking as compared to expectations of the utilitarian aspect of the definition of views about support to integration. It can be assumed, that is, that individuals will make decisions about supporting or not supporting entry on the foundation of objective analyses of advantages and disadvantages. If this were true, at least in some aspects, both groups of subjects would have the same expectations. A real and objective analysis would have to lead to more or less concordant results of thinking in at least a few of the individual expectations of changes deriving from accession and the results of these changes. The fact that subjects who differ in their views about support differ from each other in absolutely all the expected consequences suggest that expectations are in fact the consequences of a *parti pris*. A viewpoint about support is clearly not adopted mainly pursuant to objective analysis of the consequences, but is highly determined by some other predictors. On the basis of an attitude towards support already formed, the consequences are evaluated in such a way as to justify the viewpoint. Of course this conclusion does not mean that a decision about support is not based in a certain measure on an objective analysis of consequences, but only that other elements too affect it to a very great degree.

## **The relation between general and concrete expectations**

Regression analysis in which concrete expectations are used as predictors for general expectations show a weak correlation between the two levels of expectation. With the use of concrete expectations, it is possible to predict only about 22% of the variance of the general expectations.<sup>xviii</sup> It is possible that some important areas have been omit-



ted from the list of measured concrete areas, but since a relatively large number of areas were included in the research, it is hard to believe that an increased number of areas would significantly increase the correlation between the concrete and the principled expectations. All those aspects that are stated in the literature as being crucial are certainly included into the areas measured, that is, the economic aspects related to personal standard of living, and aspects that relate to the continuation of political and institutional reforms. This kind of result suggests the conclusion that principled expectations are founded on concrete expectations only relatively weakly. Apart from this they are not to any great extent the result of rational calculation and an informed estimate of harms-benefits in individual areas and aspects of social and economic life. Principled expectations are rather the result of a generalised emotional stance or perhaps a stance based on value orientations or political views (see Štulhofer, 2006), which would tend to suggest that the second hypothesis can be partially discarded. This kind of result can be considered evidence of the weak results of public debate, which clearly has not helped people clearly to structure their expectations from EU accession and pursuant to this to make a rational estimate of the harms and benefits, and hence make a more rational decision to support or not to support Croatian accession.

Views about the consequence to personal income and wages and the possibility for the production of domestic food products are the best predictors of principled expectations. While the importance of expectations that relate to income for the quality of life is inherently intelligible and justified, the prominence of this second aspect is astounding. An aspect that in itself is not crucial for the quality of life of the majority of people has become, pursuant to a single campaign based on mainly erroneous premises and insufficiently clear reasoning concerning, or provision of information about, European consumer protection rules, is positioned as the top topic of an analysis of the consequences of membership in the EU. The conclusion that must inevitably be drawn here is that the crucial influence on ultimate judgments of consequences and hence to a certain extent on viewpoints about giving support to accession will be exerted by the quality and strength of the campaigns managed by the proponents and opponents of accession. The other statistically significant elements are expectations that relate to the functioning of a state of law and the level of corruption in the public institutions.

*Table 5 The impact of individual expectations on principled expectations of membership in the European Union (regression analysis)*

	Beta weighting	Direct correlation with criterion	Percentage of variance explained <sup>xix</sup>
Incomes and wages	0.227	0.342	7.76
Possibility of producing domestic food products such as cottage cheese, sour cream and cured meat	0.234	0.335	7.84
Functioning of a state of law	0.140	0.267	3.74
Level of corruption in public institutions	0.118	0.244	2.88

In order to verify the hypothesis about the rationalisation of political motivation for support or lack of support via utilitarian expectations from entry into the EU, we correlated expectations from entry into the EU with views about how the EU was politically treating Croatia. An analysis showed that among these dimensions there was a link, but a relatively weak link. Correlation of the factor of the perception of the EU attitude to Croatia in the context of the Homeland War/regional politics and general expectations comes to 0.26 ( $p < 0.01$ ). Correlation of the factor of the justification of EU demands on Croatia and general expectations is a bit stronger, but is still in the sphere of small correlations, and comes to 0.35 ( $p < 0.01$ ). The two dimensions of the views about the way the EU treats Croatian politically also explain a relatively small part of the variance of general expectations ( $R^2 = 0.14$ ). These results suggest that general expectations are not dominantly dependent on political views, or at least not by those political views measured in this investigation. Still, if we measure the common effect of political views and concrete expectations on general expectations, we will see that political views make up almost 40% of the total variance explained (27.7%) which is cumulatively explained by factors of political views and concrete expectations. A result of this nature means that concrete expectations have an only slightly greater impact on the formation of general expectations than political views. This shows that the general expectations that should be an indicator of a utilitarian attitude towards EU accession are in fact not that, or not that alone.

When the correlation of political views about the attitude of the EU to Croatia and support to membership is analysed, it will be seen

that this dimension explains significantly less of the total variance of support to entry into the EU than the general expectations, and as much as the concrete expectations in individual aspects of social life. On the basis of familiarity with the political viewpoints it is possible correctly to predict the viewpoint about Croatian entry into the EU in 67% of the cases. This is approximate to the percentage of accurate prediction on the basis of concrete expectations and significantly lower than the percentage of correct predictions on the basis of general expectations. Such a result shows however that political views are at least as good an explanation as the utilitarian approach, as long the utilitarian approach is operationalised through concrete expectations, the methodologically more correct approach than general expectations, since general expectations to a great extent express a general attitude about the EU, not just an analysis of harms and benefits.<sup>xx</sup>

## CONCLUSIONS

This paper has endeavoured to verify the hypothesis concerning the utilitarian basis of viewpoints on whether Croatian accession to the EU should be supported or not, and above all the subjectivist version of the utilitarian explanation, which assumes that citizens form their viewpoints about European integration on the grounds of expected gains and losses for themselves as individuals and for the country as a whole. It is assumed that the actors are rational, which implies that they make their evaluation on the basis of a more or less detailed analysis of the harms and benefits that would accrue to individual aspects of personal and social life on membership.

The results of the investigation bear out the proposition that on the basis of general expectations of benefits and harms from EU entry it is possible precisely to predict support for EU accession. On the other hand, general (principled) expectations are grounded quite weakly on concrete expectations about individual aspects of social and economic life, being rather the result of generalised impressions about membership in the EU. Only a few of the general expectations can be explained by the expectations in the twenty-two concrete areas of social and economic life, while most of the general expectations at personal and national level are not explained by concrete expectations. This is a result that clearly indicate two conclusions, one of them essential and one methodological. Firstly, viewpoints about entry into the EU are formed

at a relatively superficial level, without any great amount of information or rational calculation. Just how true this is can be confirmed from the fact that one of the strongest predictors of general expectations from the group of concrete expectations is the view about the possibility of producing domestic food products, which is itself the outcome of a superficial and on the whole unfounded public campaign. Thus the general expectations on the basis of which it is possible to predict the ultimate viewpoint concerning entry into the EU are much more formed according to impulse than they are the outcome of rational evaluation.

This is to a large extent the result of the relatively low number and low quality of public debates about the consequences and significance of Croatian entry into the EU. There are very few public debates that are carried on in front of members of the public and that are aimed at helping people to form and articulate their views, irrespective of whether these are negative or positive. Previous endeavours to inform people were on the whole aimed at providing basic information about the institutional system of the EU. Passive forms of communication have been mostly used, such as brochures, leaflets, web sites, quizzes and workshops for the young, which is not appropriate for getting to the majority of the population. This population is on the whole not interested in topics related to the institutions of the EU and is not ready to put in the amount of effort that such passive forms of communication require. Citizens on the whole do not want, after a hard day at work, to read brochures, no matter how interesting, or to comb the Internet for news about the EU. This cuts down the effect of such activities on the general population. On the other hand, information provided by the media and politicians can be judged as being diffuse and confused. There are some media which do try to inform people about the EU (the special broadcasts of Croatian TV and Radio 101, for example, specialised pages of T-portal), but these efforts are few and far between, scattered at the end of broadcasting schedules or spaces. Special broadcasts tend to appear every two to three weeks, at non-prime times. This kind of topic is not at the centre of the media, nor does it thus reach any significant proportion of the population. On the other hand, these same media often have stories that are over-generalised, quite often the product of the ignorance and error of the journalist, and often with admixtures of scandal mongering and gutter journalism, the result being that one and the same medium will send messages of varying qualities; those that explain, and those that confound. Politicians adapt their communications about the consequences of accession from case to case,

on the whole depending on short-term political needs. When it suits them, politicians can be very concrete and precise, and in other situations very unfocused and diffuse, clouding the issues. All this results in an absence of adequately qualitative, concrete and clear information and, what is most important, the explanation and demystification of individual aspects of the common policy of the EU (for example, why the EU is interested in cheese and cream, domestic slaughtering and the production of home-made plum brandy). Naturally, the function of public debates about entry into the EU is not just to give citizens the information on the basis of which they can make a rational decision, for such a decision cannot be made just on the basis of rational elements. It will necessarily have value and political elements, and public debates are equally important for their formation and definition, for in themselves they are not clear either to citizens, politicians or experts (with or without inverted commas). The value and political connotations of such huge social decisions are also formed in the process of public debate. Our impression is that these also are not at the moment clear and well formed in Croatia, and that at this level we are more in arrears than we are with respect to knowledge of facts about the EU.

The second, methodological, conclusion, which derives from the weak correlation of general and concrete expectations, is that general expectations cannot be used as indicator of a utilitarian basis for stances about the EU. General expectations are clearly more founded on impulsive and situational relations than on a rational evaluation of personal and collective interests and the benefits and harms. The investigation showed that the general evaluation of personal and collective harms and benefits to a small extent also represents a rationalisation of political views about the attitude of the EU to Croatia. The need for rationalisation of political motives for not supporting entry into the EU can be provoked by the general public discourse in which there is discussion of membership, and which is dominantly framed in the language of benefits and harms, effects on the economy and standard of living. From the sphere of political viewpoints, in this paper we have analysed the influence of the perception of the attitude of the EU to Croatia as the most important aspect of the political dimension of Croatian joining the EU. The issue of the treatment of the Homeland War, the war-crimes trials relating to the Croatian army and the associated issue of cooperation with the ICTY and the attitude of Croatia to the other countries of former Yugoslavia became during the last decade key political issues that determine the great majority of other political is-

sues in Croatia (Bagić, 2006). It is these political matters that constitute the political dimension of Croatian association with the EU and these often produce (or produced until quite recently) disputes between Croatia and the EU. Hence it is justified to assume that these questions will be a potential rival to the utilitarian explanation for (lack of) support for entry into the EU, as well as an occasion for a possible rationalisation via general expectations.

It is a fact that on the basis of concrete expectations it is not possible accurately to predict support for EU accession, and their predictiveness is the same as the predictiveness that the political viewpoints have, which leads to the conclusion that the utilitarian model of explanation is equally as valid as that based on political viewpoints. This in turn suggests that a decision about EU accession from the perspective of Croatian citizens, much more than a cold and rational decision based on an analysis of losses and gains, should be seen as a very complex social and political phenomenon through which various aspects of the current social, political and economic reality of Croatia are refracted.

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- \* *The authors would like to thank the anonymous reviewers for their helpful suggestions as well as Katarina Ott for her committed efforts to make this paper more readable and understandable. The authors contributed equally to the paper and are given in alphabetical order.*
  - i *With the difference that Tucker, Pacek and Berinsky (2002) differently operationalise the concepts of winner and loser as against the traditional version of this behaviour model. While Gabel and Palmer (1995) used the objective features of the subject (education level, social and professional status, income level) to describe groups that benefited from European integration, the first group of authors operationalised their concepts of transitional winners and losers via the subjective impression about the change in personal financial situation in the previous 12 months and expected changes in the coming 12 months. This kind of operationalisation of theoretical concepts can be criticised because the concept about positive or negative financial moves in the last 12 months does not exactly have to mark the transition winners and losers, particularly when the research is carried out ten years after the beginning of transition.*
  - ii *The concept of party affiliation here should be considered provisionally, since it does not relate to membership of a party, rather the support for a given party at the moment the inquiry was carried out.*
  - iii *It is worth pointing out that in some investigations other measures of attitudes to European integration are used.*
  - iv *The authors use this concept as an analytical category and its use does not express their own judgement about the policy of the EU to Croatia and the countries of the region.*
  - v *We think there is a significant difference between a feeling of national identity or cultural openness (enclosedness), which have been investigated as predictors of*

views about membership in the EU (Carey, 2002; Štulhofer, 2006) and the feeling of outraged national pride. This feeling can appear in persons who do not have a particularly marked feeling of national identity, and can as such have a very important role in the formation of views about membership of the EU among persons for whom national identity is averagely important, while among the same people, if a feeling of outraged national pride develops as a consequence of political pressures from the EU, then resistance to membership can be expected as a reaction.

- vi The authors would like to thank Puls agency for its kindness and the financing of the implementation of this investigation.
- vii Eurobarometer is the name of regular public opinion surveys in member countries and candidate countries, carried out for the European Commission. For more about these surveys, and the results, see: [http://ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm).
- viii The extracted factors explain 54% of total variance.
- ix Statements: The EU is not pushing Croatia into the Balkans; the EU is not partially responsible for degrading the dignity of the Homeland War; the EU is not attempting to equate the roles of Croatia and Serbia in the recent war; the EU is not treating Croatia worse than other countries in the region.
- x Statements: Most of the requirements of the EU are for our own good; the EU is treating Croatia decently, and asking of us only what is essential.
- xi Factor analysis was carried out with component model and with perpendicular transformation.
- xii Reliability of the scale tested with Chrobach's alpha coefficient.
- xiii A significant factor was extracted with factor analysis, on which both variables were saturated at 0.95 and through which 89% of variance as explained, the reliability being 0.88. Of course, no new information is gained with this kind of factor analysis between two variables. Factor analysis is carried out only so that the latent dimension created in this way can be used in further analysis.
- xiv  $R^2=0.55$  and 81% of correctly distributed subjects into the appropriate category of criteria on the basis of value in the predictor variable.
- xv This result can be the consequence of the fact that at the moment the research was carried out a public debate was going on about reforms in the healthcare system that might mean much more expensive healthcare services to users, which it would seem people connected with entry into the EU.
- xvi The scale was recoded from a five-point to a three-point scale for the sake of easier readability of results and easier interpretation.
- xvii Coefficient of determination is derived from the coefficient of correlation and marks the strength of the correlation among the variables. It ranges between 0 and 1, and the closer to one the stronger the correlation among the phenomena being compared.
- xviii In the analysis of data a linear regression analysis was used with the stepwise method. If a regression analysis is carried out on concrete particles of concrete expectations 22% of general expectations are explained, or 20% if the analysis is carried out on the latent dimensions of concrete expectations.
- xix Obtained as the product of the standardised beta weight and the direct correlation of predictor with criterion, in line with the regression formula:  $R^2=\beta_1*r_1+\beta_2*r_2+\beta_3*r_3+\dots$
- xx As proved by the weak correlation of concrete and general expectations.

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## Chapter 8

# QUALITY OF LIFE, LIFE SATISFACTION AND HAPPINESS IN CROATIA IN COMPARISON TO EUROPEAN COUNTRIES

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## ABSTRACT

The aim of this paper is to analyse various dimensions of subjective well-being in Croatia: life satisfaction, happiness, personal and national well-being, to compare some of these dimensions between 2003 and 2005, and to compare our data with available data from other European countries. The data used were obtained from two national surveys (2003 and 2005). In both surveys participants were representative samples of Croatian citizens. Comparisons with other European countries were based on the data set from the project on monitoring quality of life in Europe conducted in 2003 by the European Foundation for the Improvement of Living and Working Conditions. Results of analyses showed that Croatia's subjective well-being rates fit at the bottom of the EU-15 or at the top of the 13 acceding and candidate countries, according to their status in 2003. Happiness ratings in Croatian citizens were rather high and increased between 2003 and 2005. Satisfaction with personal life domains showed that the standard of living is the least satisfying, while relationships with family and friends were

the most satisfying. When rating national domains, Croatian citizens were the most satisfied with national security and the state of the environment and the least satisfied with social conditions in the country.

**Key words:**

subjective well-being, life satisfaction, happiness, domain satisfaction, Croatia

## INTRODUCTION

Growing evidence suggests that subjective well-being should be taken seriously into account when measuring national welfare. For decades, economic indicators played a central role in policy decisions, under the assumption that money is the prime generator of well-being. Nowadays, as some authors argue, societies are growing wealthier and differences in well-being are due less frequently to income and more often to factors such as social relationships, emotions and satisfaction (Diener and Seligman, 2004). Measuring subjective indicators of well-being became quite common in the last decade and there are many survey-based data sets gathered in the EU, USA, Australia and elsewhere that enable international comparisons at least with some of indicators and instruments that are used widely. The most commonly used measures of subjective well-being are life satisfaction, happiness and satisfaction with different life domains as indices of quality of life<sup>i</sup>.

Besides psychology, which has a long tradition of studying subjective well-being and its correlates (Diener, 1984; Diener, Lucas and Socollon, 2006), extensive contributions on this topic come from economics, starting with the work of Easterlin (1974; 2001; 2005) and others (Frey and Stutzer, 2000a; 2000b; Namazie and Sanfey, 2001; Layard, 2005). In most of these studies happiness, defined as a “subjective” measure of individual well-being, was analysed in relation to objective variables such as unemployment, income, education, and marital status (Layard, 2005). Recently, literature from both disciplines indicates that there is no constant global happiness set point that remains stable over time. Instead several set points and different forms of well-being exist (i.e. pleasant and unpleasant emotions, life satisfaction) and they can change in different directions (Diener, Lucas and Socollon, 2006; Easterlin, 2001; 2005).

Reviews of various subjective well-being measures have shown that individuals reporting higher life satisfaction, happiness or satisfac-

tion with different life domains have better social relationships, a better marriage, perform better at work and have higher resilience to stress (Car, 2004; Diener and Seligman, 2004). There are also data showing that life satisfaction is positively related to longevity since it affects health-related behaviour (Koivumaa-Honkanen [et al.], 2000).

In a comparison of subjective well-being measures across nations and cultures, the situation is more complex. Evidence shows that some forces can increase subjective well-being at the cultural level; these include gross national product (GNP), political freedom, social equality, social security, satisfactory citizen-bureaucrat relationships, high levels of trust and efficient public institutions. Some forces however can lower subjective well-being at the cultural level: civil and international conflicts (war), oppression of the political opposition and undemocratic government (Triandis, 2000). According to the Economist Intelligence Unit report (2005) more than 80% of the variance in national levels of well-being could be explained by nine determinants: GNP per person, life expectancy at birth, political stability, divorce rate, community life, climate, unemployment rate, political liberties and gender equality. Of all these forces, the most frequently researched in relation to subjective well-being is GNP. There are many studies comparing GNP with life satisfaction or happiness across countries. Although the results are controversial, a common finding in the majority of such studies is that there are no linear relationships between these two measures of “national well-being”, however high the correlation tends to be. The usual figure of such a relationship shows an almost linear increase of subjective well-being with increase of GNP at the lower end of the scale, but this relationship weakens up the economic scale. Inglehard and Klingeman (2000) compared GNP with happiness and life satisfaction (measured in the World Value Study 1997) in 65 countries. They found out that above GNP per capita of 13,000 US dollars there was no significant linkage between wealth and subjective well-being. Similar results were repeated in some other studies reviewed in Boarini, Johanson and D’Ercole (2006). After analyzing this relationship Inglehard and Klingeman (2000) concluded that varying levels of well-being were more closely linked with society’s political institutions than with economic development.

It is clear that the well-being of individuals does not depend on economic prosperity alone and therefore some authors argue that policy decisions at the organizational, corporate and governmental levels should be more heavily influenced by issues related to people’s evaluations and feelings of their lives (Diener and Seligman, 2004). As monitoring

of subjective well-being became standard procedure in the majority of developed countries, the European Foundation for the Improvement of Living and Working Conditions launched a project on monitoring the quality of life in Europe in 2003. The survey included the EU-15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, UK), the EU-10 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) as well as the CC-3 (Turkey, Romania and Bulgaria). The survey was aimed at analyzing trends in quality of life on a comparative basis, identifying emerging issues and areas of concern within the enlarged Europe and providing EU policy-makers with a solid basis from which to promote improvements in the coming years (Fahey, Nolan and Whelan, 2003).

In 2003 Croatia did not take part in the study as it was not considered a candidate country. In February 2003 Croatia officially applied for EU membership and obtained the status of candidate country in June 2004. Since March 2005 Croatia has been in the process of accession negotiations. It would be interesting to see the possible changes in the indicators of subjective well-being between the years 2003 and 2005 (pre- and post-EU accession negotiations) and to compare the position of some indicators with other European countries. Surveys on subjective well-being in Croatia were conducted in November 2003 and June 2005 on representative samples of Croatian citizens.

Therefore, in the first part of this paper we will describe and analyze various dimensions of subjective well-being in Croatia 2005: life satisfaction, happiness, personal well-being and national well-being. In the second part we will compare life satisfaction, happiness and personal well-being scores obtained in 2003 and 2005 surveys. In the third part we will compare subjective well-being variables obtained in Croatia 2003 with quality of life in Europe survey data (Bohnke, 2005; Delhey, 2004).

## **METHODS**

### **Participants and procedure**

The data used in this study were obtained from two national surveys. The first survey was conducted in November 2003 and second one in June 2005. In both surveys participants were chosen as a mul-

ti-stage probability-based sample of Croatian citizens. The surveys were conducted at 125 sample points in 2003, and 102 sample points in 2005 by in-person interview at the respondent's home. In the 2003 survey there were 1,242 participants with ages ranging between 18 and 89 (mean age = 47.5, sd = 17.34). In the 2005 survey there were 913 participants with ages ranging between 18 and 85 (mean age = 44.56, sd = 17.09). Demographic characteristics of the samples are presented in Table 1.

*Table 1 Characteristics of the representative samples of Croatian citizens from 2003 and 2005 surveys*

	Frequency (%)	
	2003	2005
Age groups		
18-29	236 (19)	232 (25)
30-39	198 (16)	167 (18)
40-49	223 (18)	148 (16)
50-59	212 (17)	172 (19)
60 +	373 (30)	193 (21)
Gender		
Female	684 (55)	482 (53)
Male	558 (45)	429 (47)
Education (in years of schooling)		
less than 8	364 (29)	134 (15)
9-12	646 (52)	513 (56)
13 and more	231 (19)	254 (28)
Monthly income (in euros)*		
less than 70	103 (8)	40 (4)
70-130	238 (19)	119 (13)
130-270	479 (39)	303 (33)
270-400	186 (15)	258 (28)
400-530	105 (8)	107 (12)
530 and more	116 (9)	69 (8)

\* *Monthly income: Both surveys provided income information in kuna (Croatian currency) so the values are converted according to the exchange rate list from the Croatian National Bank<sup>ii</sup>*

*Source: Pilar Croatian Survey (2003; 2005)*

## Measures of subjective well-being

There are numerous measures of subjective well-being from global measures to more specific indicators of well-being that have been shown to be useful in describing well-being of a nation (Diener and Seligman, 2004). In our study we used measures of both cognitive and affective components of subjective well-being as well as specific domain satisfactions.

As a cognitive measure of subjective well-being the *Satisfaction with life scale* (Diener [et al.], 1985) was used. It captures one's appraisal of life as a whole and consists of five items that subjects have to rate in accordance with how much they agree with particular statement. The rating is done on the 5-point scale ranging from 1 "strongly disagree" to 5 "strongly agree". Scores were calculated as the mean of 5 items as recommended by the scale's authors. A higher result means greater life satisfaction.

The affective component of subjective well-being was examined by using the *Happiness* measure from the Fordyce (1988) scale. The question *In general, how happy or unhappy do you usually feel?* was rated on a 10-point scale ranging from 1 "extremely unhappy" to 10 "extremely happy".

Subjective well-being in specific life domains was assessed by the *International Wellbeing Index* (IWI) (Cummins, 2002) which consists of two parts. The first part is the *Personal Wellbeing Index* (PWI) which measures satisfaction with life domains. Participants have to rate how satisfied they are with seven life domains: material status, personal health, achievement in life, relationships with family and friends, feelings of physical safety, acceptance by the community and future security. The second part is the *National Wellbeing Index* (NWI) which measures satisfaction with living conditions in the country. It consists of six different national domains with participants being asked to rate how satisfied they are with: the economic situation, state of the environment, social conditions, government, business and national security. Both indices use an 11-point rating scale ranging from 0 "not at all satisfied" to 10 "extremely satisfied" and are scored for separate domains, as well as the average scores of each group of domains (personal, national). Within the framework of the same study a short demographic questionnaire was also administered consisting of several questions about gender, age, education level, living arrangement and income.

## Data analyses

In order to get a descriptive account of various dimensions of subjective well-being in Croatia data from 2005 are presented describing overall life satisfaction, happiness and satisfaction with specific personal and national domains. To examine the possible changes in subjective well-being between the years 2003 and 2005 we compared the data from these surveys in those variables that were repeated: overall life satisfaction, happiness and satisfaction with personal domains. The statistical significance of the level of mean differences between the 2003 and 2005 samples was tested by independent samples t-test. The null hypothesis was that there were no significant differences between the means. Finally, from a cross-country comparison perspective, we compared the existing data on subjective well-being in European countries obtained in 2003 (Delhey, 2004; Bohnke, 2005) with our data set from 2003. We examined the differences in level of happiness and specific personal domains satisfaction between Croatia and different groups of European countries.

## RESULTS AND DISCUSSION

### Subjective well-being in Croatia in 2005

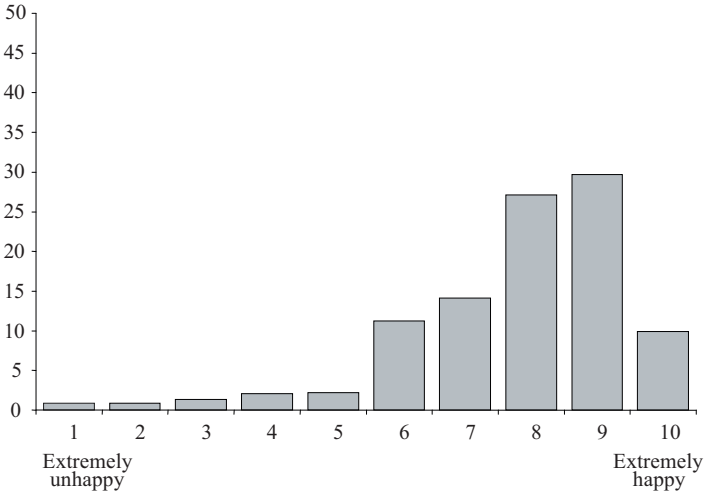
Croatian citizens in 2005 rated their life satisfaction as moderate (mean = 3.0, sd = 0.85)<sup>iii</sup>, indicating that their evaluation of their life as a whole is neither extremely high nor extremely low. On the other side, the average Happiness ratings (mean = 7.8, sd = 1.69) found its place at the higher end of the distribution (Figure 1). Almost 30% of participants rated themselves as being pretty happy and 27% as mildly happy.

According to Ott (2005) the distribution of happiness among nations appears to be very different in terms of level, measured as an average response, and inequality, measured as a standard deviation (i.e. a low standard deviation indicates low inequality in happiness ratings while a high standard deviation indicates high inequality). He finds that in nations where the average happiness is high, the standard deviation tends to be low, which speaks in favour of harmony in society instead of tension. If we apply that finding to our data, Croatia can be viewed as a country with a relatively high level and low inequality of happiness. Most of the happiness ratings concentrated around categories 6 to



10, while the frequency of scores of 5 and less were rather small which resulted in relatively high mean and low standard deviation.

Figure 1 Distribution of happiness ratings in Croatia 2005 (%)

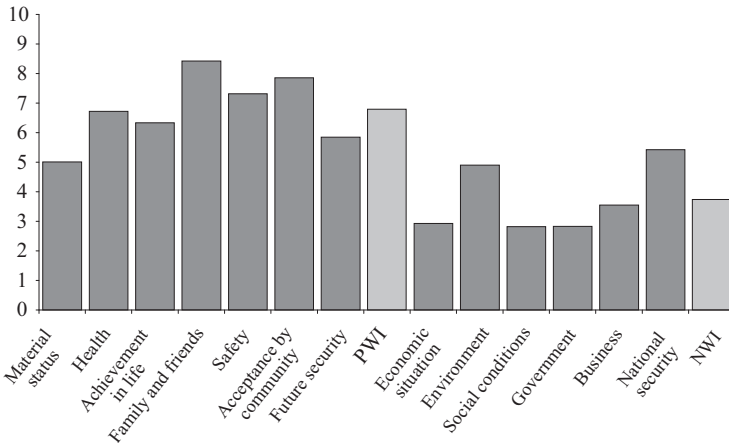


Source: *Pilar Croatian Survey 2005* ( $N = 913$ ;  $M = 7.8$ ;  $sd = 1.69$ )

To explore further the domain-level representation of subjective well-being, the International Wellbeing Index was employed. This index is widely used in other countries to monitor national well-being (Cummins [et al.], 2003). It covers two subsets of domains, the first set related to one's personal life and the second to national living conditions. The average satisfaction ratings of each domain, as well as their average score for each scale are presented in Figure 2. Our data confirmed the trend found in other studies, that the average NWI is normally lower than PWI (ibid, 2003; Tiliouine [et al.], 2006).

With regard to personal domains level, Croatians were the most satisfied with the domains of family and friends, followed by acceptance by the community and feelings of physical safety. The three first variables were found to lie above the PWI mean score. Satisfaction with their health status and achievement in their life shared the fourth rank followed by satisfaction about future security. Respondents reported being the least satisfied with their standard of living (i.e. material status).

Figure 2 Average satisfaction ratings for personal and national domains in Croatia 2005



Source: *Pilar Croatian Survey 2005* ( $N = 913$ )

When rating national domains, Croatian citizens were the most satisfied with national security and the state of environment. Both variables were rated above the average NWI score. Their satisfaction with the status of business in the country, economic status, government and social conditions was below the average. The last two were given the lowest ratings. Since NWI mirrors perceived external conditions of living in Croatia, these findings reflect some objective circumstances in the country. The relatively high satisfaction with national security might be the consequence of relative stability (peace) after the long years of war as well as the prospects of accession to the EU and the NATO. However, high satisfaction with the environment is, in our opinion, more probably the consequence of the fact that the people are unaware of the problems, or even ignorant, than of really good environmental conditions in the country. Low satisfaction with social conditions and government shows concerns about fulfilling basic needs, and obviously, the government is blamed for such a situation.

## Comparison of subjective well-being in Croatia between 2003 and 2005

To examine the differences in mean levels in subjective well-being within the period 2003-2005 we compared those variables that were used in both surveys: overall life satisfaction, happiness and satisfaction with personal domains (PWI). Since in the 2003 survey subjects rated their satisfaction on PWI domains on a 10-point scale (Kaliterna Lipovcan and Prizmic-Larsen, 2006a; 2006b) and in 2005 on an 11-point scale, a linear transformation to the 11-point scale was performed to the 2003 data to make direct comparison possible (Aiken, 1987).

Results of the t-test analysis, presented in Table 2, show that the rank of satisfaction with life domains stayed the same in the compared years, with satisfaction with family and friends at the top and material status at the bottom.

*Table 2 Descriptive statistics for subjective well-being indices 2003 and 2005*

	Survey 2003 M (SD)	Survey 2005 M (SD)	t-test sig.
Satisfaction with specific domain:			
material status	4.98 (2.70)	5.03 (2.46)	n.s.
health	6.59 (2.86)	6.76 (2.76)	n.s.
achievement in life	6.51 (2.39)	6.37 (2.47)	n.s.
relationships with family and friends	8.37 (1.88)	8.44 (2.04)	n.s.
safety	7.80 (2.07)	7.34 (2.37)	p<.01
acceptance by the community	8.13 (1.92)	7.87 (2.28)	p<.01
Happiness	7.12 (1.86)	7.80 (1.69)	p<.01
Life satisfaction	3.03 (0.86)	3.03 (0.86)	n.s.

*Source: Pilar Croatian Surveys 2003 (N = 1242) and 2005 (N = 913)*

When average ratings of domain satisfaction in the two surveys were compared, significant differences were found for satisfaction with physical safety and acceptance by the community. Both variables declined from 2003 to 2005. A possible explanation for the relative decline in physical safety and acceptance by the community rankings can be that the 2003 survey was conducted in the pre-election period, when people were expecting positive changes that did not happen subsequently, which resulted in feelings of alienation and insecurity.

Overall life satisfaction stayed exactly the same in the compared years, while happiness ratings significantly increased. It is difficult to explain the increased happiness when most of the other indices of subjective well-being stayed the same and some of them – satisfaction with safety and acceptance by community – decreased. One possible reason can be that people feel optimistic about the country's position as a prospective EU member state, and at this point it is expressed more by the affective (happiness) than cognitive (life satisfaction and domain satisfaction) component of subjective well-being. Some authors argue that happiness, as affective component, is more strongly related to the emotional climate in a given culture than to changes in specific life areas (Gundelach and Kreiner, 2004). As shown in another study (Kaliterna Lipovcan and Prizmic-Larsen, 2006b) and documented by this analysis, happiness ratings in Croatian citizens have been constantly increasing since 1995. It can be concluded out of this evidence that the emotional climate in Croatia has been improving since the war ended 1995 and that enthusiasm for a better life is captured by people's happiness ratings.

On the other hand, life satisfaction ratings have not changed in the observed period. Previous research has shown that life satisfaction is moderately stable over time, as the variability of that measure is relatively small (Eid and Diener, 2004). The authors argue that life satisfaction, as a global judgment of well-being, should not be sensitive to mood and affect variability but rather to changes of living conditions. Some other studies showed that at the individual level, circumstances like unemployment alter people's ratings of life satisfaction (Lucas [et al.], 2004). Similar results are found in the economics literature, showing that unemployment is associated with a lower level of subjective well-being (Frey and Stutzer, 2000b). Recent reviews of Diener and others (2006; Easterlin, 2005) indicate that different components of well-being can change in different rates or in different directions, and the extent of adaptation varies for different life events (i.e. widowhood, divorce, unemployment, marriage).

In other words, life satisfaction does not assess short-term fluctuation in subjective states, but rather the significant changes that take place in an individual's life or national well-being. The results of our study could thus imply that in the period 2003 to 2005 there were no significant or radical changes in the living conditions of the Croatian population capable of affecting life satisfaction ratings. It is also possible that the time lapse between two surveys (i.e. two years), was not long

enough to detect a significant change in living conditions. Nonetheless, this finding confirms that, in assessing a nation's well-being one should take into account both components (affective and cognitive) of subjective well-being in order to get a real picture.

## **Comparison of subjective well-being in Croatia and other European countries**

A comprehensive study on quality of life in 28 European countries gave valuable data on various aspects of living conditions and quality of life, both objective and subjective. The survey was carried out by Intomart GfK which assigned national institutes to draw random samples and conduct the interviews in each country. Around 1,000 persons aged 18 and over were interviewed in each country. The questionnaire was developed by a research consortium and covers a broad spectrum of life domains (Saraceno and Keck, 2004). Due to the limited financial resources available for our study we have to limit our comparisons to evaluations of happiness and satisfaction with specific life domains like standard of living, family life and health, as these are the variables that are comparable in the European and in our study.

A general finding from the European study was that subjective well-being was quite unequally distributed across the enlarged Europe in 2003. Besides the observed gap between the north and the south, a huge gap appeared in subjective well-being between the east and the west. This was more or less a gap between the member states of the EU-15 and the EU-10 as well as the CC-3 countries (Bohnke, 2005). What would be the position of Croatia in that respect?

Table 3 presents the average happiness ratings for 28 European countries. Happiness ratings showed that there were differences between the EU-15, EU-10 and CC-3, the EU-15 being happier on the average. The average happiness rating for the EU-15 was 7.6, for the EU-10 6.9 and for the CC-3 6.6. Scandinavian countries rated their happiness the highest (with Denmark on the top) while Portugal was the least happy country among the EU-15. In the EU-10 and CC-3, the happiest were Malta and Cyprus, which were exceptions because their average happiness scores were higher than those of some of the EU-15 countries, while the most unhappy were Bulgaria, Turkey, Lithuania and Latvia.

With a score of 7.1 on happiness ratings obtained in the same year (2003) Croatia fits within the top EU-10 and CC-3 countries, ranked 12<sup>th</sup> when all the 28 studied countries are taken together (Hungary and Romania had the same ratings as Croatia).

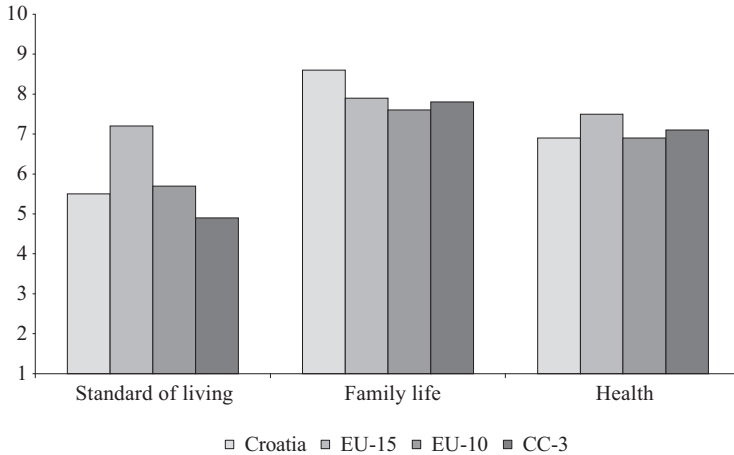
*Table 3 Average happiness ratings of European countries on a scale from 1-10 with rank number for each country<sup>1</sup>*

1	Denmark	8.3	13	Germany	7.6	25	Turkey	6.4
2	Finland	8.1	14	Greece	7.6	26	Lithuania	6.4
3	Ireland	8.1	15	Italy	7.5	27	Latvia	6.4
4	Luxembourg	8.0	16	Slovenia	7.4	28	Bulgaria	5.8
5	Sweden	7.9	17	France	7.3			
6	Malta	7.9	18	Czech R.	7.2		EU-15	7.6
7	Austria	7.9	19	Hungary	7.1		EU-10	6.9
8	Spain	7.8	20	Romania	7.1		CC-3	6.6
9	United Kingdom	7.8	21	Poland	6.9		EU-25	7.5
10	Cyprus	7.8	22	Portugal	6.8			
11	Belgium	7.7	23	Estonia	6.8			
12	Netherlands	7.7	24	Slovakia	6.5			

<sup>1</sup> Sources for average happiness ratings in European countries are from *European Quality of Life Survey (Bohnke, 2005)*

Ratings of specific life domains in EU countries showed a similar trend in happiness ratings, with the EU-10 and CC-3 being less content with their material and social living standards compared with the population in the EU-15. On the other hand, family life was evaluated as the most satisfying life domain in all countries. With its results, Croatia fits well into this trend. Family life was also evaluated as the most satisfying, while the standard of living was the most unsatisfying. In Figure 3 we compare average satisfaction ratings of certain life domains in 2003, in Croatia, EU-15, EU-10 and CC-3 countries. Satisfaction with standard of living and health turns out to be more similar to that in the acceding countries (EU-10) than in EU member states (EU-15). However, satisfaction with family life in Croatia exceeds the average ratings of all the other three country groups. In our previous research (Kaliterna Lipovcan and Prizmic-Larsen, 2006b) Croatian people rated relationship with family and friends as the second most important life domain, the most important being health.

Figure 3 Average ratings of satisfaction with the standard of living, family life and health domain<sup>1</sup>



<sup>1</sup> Sources for satisfaction ratings of life domains in European countries are from European Quality of Life Survey (Bohnke, 2005) and for Croatia – Pilar Croatian Survey, 2003

When evaluating domain satisfaction scores to explain happiness within the European countries, standard of living appears to have a high impact, but not as high as satisfaction with family and social life. However, the results were different for life satisfaction scores. The European study showed a different impact of domain satisfactions on life satisfaction within the EU-15 than in the EU-10 and CC-3 countries. The best predictor of life satisfaction in the EU-10 and CC-3 was a satisfactory standard of living. On the other hand, within the EU-15 countries, especially the Scandinavian countries with highest levels of life satisfaction (Denmark, Finland and Sweden), family life impacted most on the outcome of life satisfaction. This is in line with other research that showed that family and social life are important when the overall economic prosperity in a country is high and basic needs are satisfied (Delhey, 2004). Thus, it could be expected that in Croatia the standard of living would have greater impact on life satisfaction scores than satisfaction with family and friends, as Croatia's economic prosperity at

the moment is more similar to that in the EU-10 and CC-3 than the EU-15 countries.

## CONCLUSION

“Promoting people’s well-being is a primary goal of European social policy: happy, satisfied, fulfilled and engaged citizens nurture flourishing European societies. In the course of European enlargement, the interest in living conditions and the distribution of life chances in different European countries has grown considerably. Subjective well-being is one of many subjects that need to be explored from this perspective.” (Bohnke, 2005:1).

Our study attempts to improve the European data set on happiness and life satisfaction by adding Croatian data as a (hopefully) new country in the EU. There are various sources of cross-country data on subjective well-being indices, such as World Value Survey, Eurobarometer, World Database on Happiness, but we have chosen the European monitoring of quality of life data, since it was conducted in the same year as our national survey, using the same sample size (about 1,000 respondents in each country, aged 18 and over) and was carried out by the conducting of separate national surveys with the same methodology applied (Saraceno and Keck, 2004). In that respect we do hope that the data are comparable at least on the descriptive level.

Generally speaking, our data show that Croatia’s subjective well-being rates fit at the bottom of the EU-15 or at the top of EU-10 and CC-3 countries, as of 2003. Happiness ratings were rather high and showed an increase in the past ten years, which leads us to the conclusion that the subjective well-being in the country is improving.

This study also shows that monitoring of subjective well-being can provide valuable data, especially at the time when a society expects substantial changes and reforms, as Croatia is expecting to become an EU member. Recently, the literature on the effects of transition on peoples’ subjective well-being has been growing, especially in ex-communist countries, (Namazie and Sanfey, 2001) although some authors argue that the majority of such studies hold good for individual countries only and therefore do not provide a good overall picture (Sanfey and Teksoz, 2005). Analysing the data on life satisfaction from the World Value Survey (1999-2002) Sanfey and Teksoz (2005) concluded that “people are generally happier in countries that have made more pro-



gress in transition than those where transition has lagged". The evidence from our study shows that the level of happiness in 2003 in Croatia was higher than in most of the transition countries that were included in the pan-European survey on quality of life. Should we also conclude that the transition process in Croatia made substantial progress? Surely, for such a conclusion more work is needed in this field, especially targeted surveys comparing objective (economic) and subjective indices of the nation's well-being. Only regular monitoring at certain points in time can yield a clear picture of the impact of social change on people's perceptions and experience (Kim-Prieto [et al.], 2005). In this respect, this study can serve as a starting point to monitor the position of Croatia as an acceding country and follow how economic and social changes influence the quality of life and the satisfaction with particular domains of people's everyday life.

Policy interventions to increase the subjective well-being of a population are important as, on the one hand, it feels good to be happy, and on the other hand, happy people tend to volunteer more, have more positive work behaviour and are successful across multiple life domains, including marriage, friendship, income, work performance, and health (Diener, Lucas and Oishi, 2002; Lyubomirsky, King and Diener, 2005). The recent work of Lyubomirski [et al.] (2005) suggests that happiness is not only associated with successful outcomes but may also be the cause of success. In that respect subjective well-being should not only be a subject of scientific interest, but should be seriously considered in policy making as an increase in the happiness and life satisfaction of individuals benefits the society as a whole.

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\* *The authors would like to thank the referees who anonymously reviewed this paper.*

i *Subjective well-being refers to all of the various types of subjective evaluations, both good and bad, of individuals' lives. It includes reflective cognitive evaluations, such as life satisfaction and work satisfaction, interest and engagement, and affective reactions to life events, such as joy and sadness. Thus, subjective well-being is an umbrella term for the different valuations people make regarding their lives, events they face, and the circumstances in which they live. Life satisfaction represents a report of how a respondent evaluates or appraises his or her life taken as a whole. It is intended to represent a broad, reflective appraisal the person makes of his or her life. Happiness has several meanings in popular discourse, as well as in the scholarly literature, but it is usually used as a measure of the affective component of subjective well-being. Happiness refers to the feeling of more pleasant than unpleasant emotions most of the time. Quality of life usually refers to the degree to which a person's life has desirable versus undesirable characteristics, often with an emphasis on external components, such as environmental factors and income.*

*Quality of life when measured subjectively usually includes domain satisfactions, i.e. judgments people make in evaluating major life domains, such as health, work, leisure, social relationships, and family. People indicate how satisfied they are with various areas, but they might also indicate how much they like their lives in each area, or how important to them each area is (Diener, 2005).*

- ii *The exchange rate for 2003 was 1 euro = 7.66 kuna (according to the November exchange rate list 210/2003) and in 2005 the exchange rate was 1 euro = 7.31 kuna (according to the June exchange rate list 125/2005).*
- iii *sd is standard deviation.*

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## Chapter 9

# **CROATIA AND THE LISBON STRATEGY: CONVERGENCE TOWARDS GOALS?**

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### **ABSTRACT**

The paper investigates the interdependence of the Lisbon strategy and Copenhagen criteria in the process of European Union enlargement and a candidate's ability to catch up with new member states. It aims to deepen the understanding of the nature and dynamics of the Lisbon policy mix and implementation instruments. It concludes that convergence with Lisbon goals is relevant for a country in the pre-accession stage. Since the timeframe for implementation of the strategy and Croatia's expected accession are almost the same, approaching Lisbon goals is extremely important for the country. Experience of member states in strategy implementation and evaluation of Croatia's starting position vis-à-vis Lisbon targets are used to identify policy recommendations.

### **Key words:**

Lisbon strategy, membership criteria, national reform programmes, Croatia

## INTRODUCTION

The aim of the paper is to investigate the interdependence of the Lisbon agenda and the Copenhagen criteria. The starting hypotheses are the following: (i) the implementation of Lisbon agenda goals is complementary to fulfilment of the Copenhagen economic criteria for EU membership; (ii) prioritisation and sequencing of Lisbon agenda goals according to needs is indispensable for a candidate country; (iii) progress towards Lisbon goals at the level of the EU will make Croatia's adjustment with EU economic requirements even more demanding (the EU being a "moving target") and (iv) Croatia is lagging behind member states in terms of Lisbon strategy implementation.

The paper starts with an overview of the evolution of the Lisbon strategy and its implementation instruments. This is followed by analyses of relevant approaches in dealing with the Lisbon agenda in member states and some particular issues of the agenda. Next, Croatia's position vis-à-vis selected EU member states and candidates is evaluated. Based on this, conclusions are briefly summarised and policy recommendations identified.

## EUROPE AT THE CROSSROADS: THE LISBON STRATEGY

The Lisbon strategy (also referred to as the Lisbon agenda) was agreed in 2000 at the spring European Council in Lisbon. The EU set itself the strategic goal "to become the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth with more and better jobs and greater social cohesion" (European Council, 2000). The strategy included a comprehensive series of reforms. It was a response to global competition, particularly to US progress in the "new" knowledge economy and its leadership in information and communication technologies (ICT), in which it had begun to outperform the individual European economies. However, achieving this goal required preparing for a knowledge-based economy and society by better policies and completing the internal market; modernising the European social model and sustaining a healthy economic outlook and favourable growth by an appropriate macro-economic policy mix.

The Göteborg Council in 2001 added an environmental protection dimension to the Lisbon strategy (European Council, 2001). In order to close the gap between the EU and its major competitors, the Barcelona Council (European Council, 2002) agreed to boost the research and innovation efforts in the EU through increasing the overall spending on research and development (R&D) and innovation with the aim of approaching 3% of GDP by 2010, with two-thirds of investment coming from the private sector.<sup>i</sup>

Almost five years after Lisbon, midway to the goal, the results of implementation were mixed. Although there were positive achievements in some areas (the European social model), slow and insufficient progress has been made in reaching the Lisbon objectives<sup>ii</sup>. The delivery was disappointing, due to widely defined goals, an overloaded agenda, poor coordination and conflicting priorities. Responsibilities between the national and the European level had become blurred resulting in limited “ownership” of the process in member states. Weaknesses were particularly evident in the labour market, such as: an insufficient number of jobs had been created in the services sector; deepened regional imbalances; high rate of long-term unemployment; shortage of women participating in the labour market; unfavourable demographic trends, ageing of the population.

Analyses (Sapir et al., 2003) showed that better implementation was needed to make up for lost time.<sup>iii</sup> In March 2004, a high level group headed by Wim Kok was established by the European Commission to carry out a mid-term review. The findings of the mid-term review could be summarised as follows: there was an urgent need to accelerate employment and productivity growth through a wide range of reform policies as well as a wider macroeconomic framework, supportive to growth, demand and employment (Kok, 2004). The scenario for more growth and jobs was envisaged through urgent action across five policy areas: the knowledge society, the internal market, the business climate, the labour market and environmental sustainability. It was concluded that individual member states had made progress in one or more of these policy priority areas, but none had succeeded consistently across a broad front. Therefore, the group recommended developing national policies in each member state, supported by an appropriate European-wide framework. The report was one of the bases for the re-launched strategy in 2005.



## The revised Lisbon Strategy

The spring European Council in 2005 decided that Europe must renew the basis of its competitiveness, increase growth potential and productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital. The relaunched strategy re-focused priorities on growth and employment (European Council, 2005). The Commission proposed a partnership with member states on growth and jobs and introduced a Community Lisbon Programme that outlines actions to be taken at EU and at national level in three key policy areas (Box 1). The focus was on ensuring delivery of a renewed programme.

### **Box 1 Community Lisbon Programme**

#### *Making Europe a more attractive place to invest and work*

- Extend and deepen the internal market.
- Ensure open and competitive markets inside and outside Europe.
- Improve European and national regulation.
- Expand and improve European infrastructure.

#### *Knowledge and innovation for growth*

- Increase and improve investment in research and development.
- Facilitate innovation, the uptake of ICT and the sustainable use of resources.
- Contribute to a strong European industrial base.

#### *Creating more and better jobs*

- Attract more people into employment and modernise social protection systems.
- Improve the adaptability of workers and enterprises and the flexibility of labour markets.
- Invest more in human capital through better education and skills.

*Source: European Commission (2005d)*

In addition to streamlining the targets, the relaunched strategy introduces new implementing mechanisms focused on concrete measures and national action plans. Responsibilities and implementation are divided between the EU and member states, with an important role for the European Council, the European Parliament, other EU institutions and social partners.

On one hand, a programme for European level reform – the Community Lisbon Programme – is implemented on the basis of proposals by the Commission adopted by the European Parliament and the Council. On the other hand, member states undertake reforms at national level (national reform programmes, prepared every year) on the basis of agreed guidelines, proposed by the Commission and endorsed by the Council. The Commission works with member states on implementation and assesses progress in the annual progress report (also known as the “Spring Report”) allowing stakeholders and citizens to see how far the European-level programme and that of each individual member state has gone. The European Council gives practical guidance at every spring summit.<sup>iv</sup>

The new governance mechanism includes, where appropriate, appointment of a Lisbon national coordinator. The reporting system was simplified, comprising a single Lisbon report at the EU and at national level on progress made.

Such governance builds on the open method of coordination (OMC), which was introduced by Lisbon Council. The Lisbon Council, that is, agreed that implementation of the strategy would be achieved through the existing processes if the OMC were introduced at all levels.

It is extremely difficult to quantify the impact of Lisbon-type reforms, since they are comprehensive and interdependent. One of the best examples of a Lisbon-type reform aimed at creating a more competitive business environment is the single market programme (SMP). A simulation carried out ten years after the launch of the SMP (European Commission, 2002a) showed that GDP would have been 1.8% lower in 2002 if the SMP had not been implemented over the period 1992-2002. The level of employment would have been 1.5% lower than it actually was in 2002. Turning to reforms more directly linked to the Lisbon strategy, a recent study by Copenhagen Economics (2005) provides estimates of the medium-term impact of the opening up of services to competition. The study shows that freedom of establishment for service providers and free movement of services between member states would raise GDP and employment by 0.6% and 0.3% respectively.

Estimates show that the costs of non-achieving Lisbon are large and quantifiable, particularly through the evidence of the widening gap in Europe’s growth potential compared to that of economic partners (European Commission, 2005f). In the same time, the potential gains from wider and more efficient economic integration in an enlarged Europe are significant (Gelauff and Lejour, 2005).

**Box 2 Four priority areas for action (accepted by the Spring European Council 2006)**

*(1) Investing more in knowledge and innovation*

- Promote policies and actions aiming at the established overall 3% objective for R&D spending by 2010, taking into account different starting positions of member states.
- Speedily adopt the 7<sup>th</sup> Framework Programme for R&D and the new Competitiveness and Innovation Programme (CIP).
- Establish a European Research Council aimed at raising the excellence of the best research teams.
- Create a single, competitive and open European labour market for researchers.
- Develop a broad-based information strategy for Europe that translates investment in knowledge into products and services.
- Member states should develop comprehensive lifelong learning strategies; the EU Lifelong Learning Programme 2007-2013.
- Facilitate universities' access to complementary sources of funding, in line with national practices.
- Develop managerial skills and competencies for the people involved to transfer the research results to the business community.

*(2) Unlocking business potential, especially of small and medium-sized enterprises*

- Develop national strategies to foster competitiveness, innovation and productivity.
- Explore options for establishing measurable targets in specific sectors for reducing administrative burdens by 2006.
- Establish by the end of 2007 a "one-stop-shop" or arrangements with equivalent effect.
- Reduce the average time for setting up a business, especially an SME, with the objective of this being possible within one week anywhere in the EU by the end of 2007.
- Recruitment of a first employee should not involve more than one public administration point.

*(3) Getting people into work*

- Reduce unemployment from a peak of 9% at the end of 2004 by roughly 1% in 2007.
- Adopt a real lifecycle approach to employment by:
  - reducing early school leaving by 10% by 2010,
  - ensuring that at least 85% of 22-year-olds should have completed upper secondary education,

- offering every young person who has left school or university a job, apprenticeship or additional training within six months of becoming unemployed by the end of 2007, and within 4 months by 2010,
- implementing policies to promote women’s employment; approval of the European Pact for Gender Equality,
- increasing availability of quality childcare in line with member states’ own national targets,
- implementing active ageing strategies, consideration of incentives for prolonging working lives, gradual retirement, use of part-time work and improvements to the working environment,
- pursuing reforms by member states in the labour market and social policies in an integrated approach,
- establishing the European Globalisation Adjustment Fund, to be operational as soon as possible and preferably on 1 January 2007.

(4) *Efficient, secure and sustainable energy*

- Electricity and gas markets to be open to all consumers by July 2007 (already the aim).
- Better cooperation between grid and gas pipeline systems in member states, enabling the functioning of a single European network.
- Stimulation of research on energy efficiency, renewables and on clean energy technologies and incentives to promote their use.
- Common operational approaches for crisis situations.
- Develop common external policy approach and furthering energy dialogue between the EU and its member states on the one hand, and their main partners (producer, transit of consumer countries) on the other, in synergy with relevant international organisation.

*Source: authors’ compilation*

However, some of the studies that have been carried out in the meantime came to the conclusion that the Lisbon strategy still does not have clear common goals and lacks financial sources and that the results of implementation are still lower than expected (e.g. Pisany-Ferry and Sapir, 2006). The study underlines the weaknesses in implementation particularly in big member states, while the new members are achieving better results. The study estimates that the integrated guidelines are still too general and should be made more concrete and detailed.

## IMPLEMENTATION INSTRUMENTS

The new governance three year cycle started in 2005, and comprises the following main instruments: Integrated guidelines (presented by the Commission in April 2005, for the period 2005-2008); National reform programmes (prepared by member states by the end of November 2005), and Commission progress report (published in January 2006).

The open method of coordination (OMC) introduced by the Lisbon Council is still an important implementation instrument.

### **Integrated guidelines for growth and employment**

The integrated guidelines constitute the beginning of a new governance cycle (the first one was 2005-2008), bringing together broad economic policy guidelines (BEPGs, Treaty art. 128) and employment guidelines (EGs; Treaty art. 99).

The integrated guidelines (Box 3) dealing with macro- and micro-economic and employment issues are mainly based on the priority action areas as identified in the Lisbon mid-term review.

While the macroeconomic guidelines (covering for instance budgetary policy, reduction of public debts and EMU issues) have no counterpart in the Lisbon Action Programme (see Box 1), the micro-economic guidelines are built on Lisbon action areas (points 1 to 7, Box 1), and the employment guidelines are also built on Lisbon action areas (points 8 to 10, Box 1).

Integrated guidelines simplified the implementation of the strategy and integrated different policy guidelines, targets and reporting processes. Since they are soft law, i.e. not legally binding, peer pressure and financial incentives are the main enforcement instruments.

New financial incentives are developed under the Financial Perspective 2007-2013, such as the Competitiveness and Innovation Framework Programme (CIP). CIP allocated 3.6 billion euros which should facilitate implementation of the Lisbon Strategy.<sup>v</sup> The horizontal contribution of the European Investment Bank (EIB), European Investment Fund (EIF) and other sources is also envisaged, since studies have shown the high added value in EU support for loan guarantees, with each euro from the EU budget resulting in a loan volume of 72 euros (European Commission, 2006d).

**Box 3 Integrated guidelines for growth and employment  
2005-2008**

*Macroeconomic guidelines intended to:*

- (1) secure economic stability,
- (2) safeguard economic sustainability,
- (3) promote an efficient allocation of resources,
- (4) promote greater coherence between macroeconomic and structural policies,
- (5) ensure that wage developments contribute to macroeconomic stability and growth,
- (6) contribute to a dynamic and well-functioning EMU.

*Microeconomic guidelines intended to:*

- (7) extend and deepen the internal market,
- (8) ensure open and competitive markets,
- (9) create a more attractive business environment,
- (10) promote a more entrepreneurial culture and create a supportive environment for small and medium-sized enterprises,
- (11) expand and improve European infrastructure and complete agreed priority cross-border projects,
- (12) increase and improve investment in R&D,
- (13) facilitate innovation and the take-up of ICT,
- (14) encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth,
- (15) contribute to a strong industrial base.

*Employment guidelines intended to:*

- (16) implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion,
- (17) promote a life-cycle approach to work,
- (18) ensure inclusive labour markets for job-seekers and disadvantaged people,
- (19) improve the matching of labour market needs,
- (20) promote flexibility combined with employment security and the reduction of labour market segmentation,
- (21) ensure employment-friendly wage and other labour cost developments,
- (22) expand and improve investment in human capital,
- (23) adapt education and training systems in response to new competence requirements.

*Source: European Commission (2005c:10)*

## Open method of coordination

The OMC is still the most important method of coordinating the Lisbon strategy, although it still has some weaknesses (Radlo, 2006). Lisbon strengthened the OMC, making peer pressure and monitoring more effective.

The OMC includes in-depth analyses of situations, supported by appropriate measurements, such as enterprise policy or innovation scoreboards, competitiveness reports or composite indicators on knowledge society in areas such as R&D and human capital. It is usual to make comparisons between the performances of individual member states with a view to conducting benchmarking exercises, with appropriate follow-ups. In addition, an increasing use of the OMC is envisaged for future quantitative targets. Such targets, to be set by member states, could be used as yardsticks for monitoring competitive improvements when accompanied by corresponding measurements (European Commission, 2002b). There is an obligation to include certain specific elements from the OMC into national reform programmes and EU annual progress reports. There are policies characterised by a stronger OMC and policies where the OMC is weak.

## NATIONAL REFORM PLANS

The national reform plans (NRPs) together with the Community Lisbon programme, are among key instruments of the new Lisbon strategy. Member states were supposed to prepare NRPs by October 2005 for the period 2005-2008 on the basis of the 23 integrated policy guidelines (Box 3).<sup>vi</sup>

Member states identified different challenges and policy responses reflecting their different starting positions and political preferences. Starting positions and pace of reform are monitored by a number of benchmarks, which should, at a latter stage, help in identifying best practices and serve to name and shame the laggards.<sup>vii</sup>

In the overwhelming majority of cases, five key challenges emerge: (i) increasing employment and labour market performance, (ii) the sustainability and quality of public finances, (iii) improving R&D and innovation, (iv) strengthening the business environment, and (v) increasing skills.

Policy responses to these challenges include implementation of measures announced earlier (such as measures developed in the framework of broad economic policy guidelines (BPEGs), and in the Stability and Convergence Programmes) and new measures (such as raising the retirement age).

Insufficient time has elapsed for any implementation of NRPs. Existing assessment of the NRPs evaluates whether goals and reform strategies are realistic (e.g. Begg, 2006; European Commission, 2006b; European Policy Committee, 2006; European Environmental Bureau, 2006; European Employment Committee, 2006). Their conclusions diverge: the European Commission (2006b) considers that the main shortcomings of the NRPs are macroeconomic, while according to Begg (2006), the NRPs seem to be better in explaining how macroeconomic objectives will be pursued and less successful with respect to microeconomic goals.

## **Macroeconomic issues**

All but three member states – Sweden, the Netherlands and Italy – have explicitly identified macroeconomic challenges in their NRPs. The priorities of national reform plans are based on the Treaty provisions on fiscal discipline and are generally in line with the Stability and Growth Pact.

All member states recognize the need for sound and sustainable public finances while many of them intend to improve their deficit and debt position. These efforts are assessed under fiscal surveillance rules (i.e. evaluation of the Stability and Convergence Programmes). Fiscal consolidation strategies are typically expenditure-based and embedded in the broader structural reform plans. As regards long-term fiscal sustainability, ageing is projected to affect public expenditure for pensions and health care strongly. Pension reforms are being implemented in many member states to enhance the sustainability of public finances. The peer review of the NRPs suggests that given the scale of the ageing challenge, Europe must do more to ensure the sustainability of its public finances (European Policy Committee, 2006).

Weaknesses identified by the Commission include insufficiently explicit short-term measures for budgetary consolidation, and the fact that budgetary implications of the actions envisaged in other policy areas (e.g. employment and social policy) are seldom spelled out (European Commission, 2006d).



## Microeconomic issues

The main themes of the microeconomic part of the revised Lisbon strategy are knowledge and innovation, and making Europe a more attractive place to invest and work in (see Box 1, Lisbon Action Plan). The main microeconomic challenges identified by NRPs are improving R&D and innovation, strengthening the business environment and increasing skills. The challenges are dealt with by policy measures that vary across sectors and member states, ranging from general targets to concrete measures to be taken, tailored to the specific need of the country.

For example, all member states address research and innovation policies as a priority. Most of them also tackle strengthening the business environment and increasing skills. Many member states plan a significant increase in overall R&D expenditure at national level by 2010. The EU-25 target for R&D expenditure is defined at 3% of GDP by the year 2010. National targets range from 0.75% (Malta) to 4% (Finland and Sweden). Most of the old members (Belgium, Denmark, Germany, France, Luxembourg, Netherlands and Austria) set their national target in line with the EU-25 target (3%). Most of the new members set targets between 1.5% and 2%. Measures aimed at meeting this target include increasing public expenditure on R&D, encouraging private R&D expenditures by extension of tax credits for private R&D expenditure, improving the quality of education, increasing of number of PhD holders in enterprises by co-financing contracts and measures to strengthen science-industry links.

However, targets do not always have a close link to specific measures, so it is difficult to assess the general level of ambition and feasibility of the plan. Also, despite some concrete measures, meeting the targets is beyond government control. Policy measures can influence decisions to invest private capital in R&D, but there is no way to ascertain that numerical target will be achieved (Baldwin and Wyplosz, 2004). Furthermore, even if all member states meet their national targets by 2010, the R&D expenditure on the EU-25 level might reach up to 2.7% GDP (compared with the 3% target), which, as already mentioned does not ensure any direct link with increased innovation.<sup>viii</sup>

Next, most member states have highlighted the need to improve the business climate. The NRPs indicate that member states are increasingly recognising the importance of a more competitive marketplace. Around half of the member states identified competition and re-

moving obstacles to market access, particularly in services, as a challenge. Only a few NRPs tackle this challenge effectively. The measures include transposition of internal market directives, strengthening competition agencies and better regulation.

The Commission considers that the choice of priorities is in general appropriate to the current situation in the member states, but that competition issues will require further attention.

## **Employment**

The European Employment Strategy (EES), the employment pillar of the Lisbon strategy is based around three objectives: (i) full employment, (ii) productivity and quality at work, and (iii) social and territorial cohesion.<sup>ix</sup>

Employment guidelines provide a policy framework to focus action on these priorities by attracting and retaining more people in employment; increasing the labour supply and modernising the social protection system; improving the adaptability of workers and enterprises, and increasing investment in human capital through better education and skills (see Box 3, integrated guidelines).

The EU-25 target for 2010 is a total employment rate 70%. Employment rates in 2004 varied from 51.7% in Poland to 75.7% in Denmark. Not all national targets have been defined (Germany, France, Ireland, Luxembourg). Defined targets range from 62.5% (Greece<sup>x</sup>), to 71% (Cyprus), though the measures proposed to achieve this are not always adequate.

Measures aimed at increasing the employment rate include incentives to attract and retain more people in employment, increase the labour supply and modernise the social protection system. In a number of member states especial attention is given to youth by the integration of policies on education, training, mobility, and the reconciliation of working life and family life in the Youth Pact. Several member states also plan to raise the exit age by five years by 2010.

More investment in human capital to improve employment and productivity growth has received widespread attention. Implementing lifelong learning, embracing education, training and adult learning, particularly for the low-skilled, requires a coherent policy linked to the economic and social situation of each member state. Such measures are funded under the convergence objectives of the European Social Fund,

but do not always pay enough attention to increasing the adaptability of workers and enterprises.

The main conclusions that can be drawn from National Reform Programme are following:

- Member states start from different positions. Generally, the old member states are more concerned with social cohesion, ageing of the population, job creation and support to research and development. The new members are more focused on raising the level of competitiveness.
- There is a large convergence of views on the diagnosis and on key challenges which need to be addressed as a matter of priority: for example, sustainability of public finances, labour supply, R&D and innovation, the business environment and environmental sustainability.
- The differences in the programmes can, to a certain extent, be explained by different starting positions, but the policy mix also depends on the political priorities defined by each member state.
- Reform programs range in terms of breadth and ambition and the likelihood that they will be implemented. Some of them have introduced new policies, while others have presented only existing measures.
- Quantified targets should be handled with care, since they can be helpful in monitoring progress of reforms, but are not necessary linked with achievement of main goals.
- A surfeit of targets and measures makes it more difficult to measure progress towards the main goal: increased growth and more and better jobs.

## **RELEVANCE OF LISBON STRATEGY GOALS FOR CROATIA**

### **Lisbon strategy and Copenhagen criteria**

In order to become member, a candidate country has to meet political and economic membership criteria. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union<sup>xi</sup>.

The Lisbon agenda is focused on economic and social issues, while political issues are less relevant in the Lisbon context. Therefore we will focus on economic membership criteria and ability to assume obligations of the membership. As regards economic criteria, Croatia can be regarded as a functioning market economy. It should be able to compete with competitive pressure and market forces within the EU in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses (European Commission, 2005a:46).

Croatia's official target date for integration into the EU (2009) coincides with the timeframe for meeting Lisbon goals. This implies that in order to meet Copenhagen economic criteria Croatia should be able to withstand competitive pressure from and compete with market forces in the most competitive economy in the world, which will make Croatian alignment more demanding than it already is.

As regards ability to assume the obligations of membership, the Commission's report showed that in a number of chapters Croatia will be required to make significant efforts to meet the EU requirements (European Commission, 2005a).

As concerns the *acquis*, in the pre-accession phase Croatia will have to align with "more *acquis*" than the countries that joined the EU in 2004. Continual alignment is necessity for member states as well, but the experience of the last round of enlargement shows that "would-be" members comply with the rules more strictly than member states. In member states delays in implementing new *acquis* is subject to peer pressure and eventually, at a later stage, can be challenged before the European Court of Justice. For a candidate country, negotiation pressure is a much more powerful instrument for implementation of reforms than peer review within the EU.

Next, it should be underlined that the sequencing of reforms in order to implement new *acquis* is not an issue in member states. They adopt it as it comes (or with reasonable delays). From the candidate country perspective, sequencing is important, especially when the time horizon for full membership is not known and might heavily depend on internal EU development, rather than on the alignment process.

As concerns harmonisation of policies, the requirement to take on the obligations of membership includes adherence to the aims of the EU policies. The negotiating framework for Croatia explicitly states that Croatia will have to apply, *inter alia*, the content, principles and political objectives of the Treaties on which the Union is founded and

also acts that are not legally binding but that are adopted within the Union framework, such as guidelines (Negotiating framework, point 7). Lisbon objectives are defined by treaties: one of the objectives of the Treaty is the promotion of sustainable development, a high level of employment and social protection, sustainable and non-inflationary growth and a high degree of competitiveness and convergence of economic performance (Article 2). The Treaty also defines what shall be done at the EU level, and which decisions should be left to national authorities. As concerns employment, the Treaty defines the advisory role of the Employment Committee and responsibility for actions on the member state level (Title VII of the TEU). The Constitution has comparable provisions (e.g. Article I-3, or Article III-117).

In this respect the added value of Lisbon does not inhere in the new goals, but in the definition of benchmarks, timeframe and the governance mechanism. Consequently, the Lisbon objectives do not constitute additional criteria or economic objectives, but the EU policies towards the region will reflect Lisbon activities that can be considered priorities under the European/Accession Partnerships. The Lisbon objectives will be reflected in the EU's policies for the region and countries are encouraged to take these into account in their reforms and action plans (European Commission, 2006a).

The Lisbon Strategy, that is, cannot be isolated from general EU policies. Lisbon is about policy coordination enabling balanced sustainable development. This implies that a candidate should accept the goals of Lisbon Strategy and develop such a policy mix that will enable it to catch up with the EU even as it is catching up with the USA, while keeping up with the EU *acquis*. This limits policy choices and increases reform pressures, which makes the alignment process more demanding than it was in the last round of enlargement.

## **Croatia's starting position**

Member states' annual progress towards Lisbon goals is monitored on the basis of short-listed structural indicators, agreed with the Council (Table 1)<sup>xii</sup>. We use the same indicators to identify Croatia's starting position vis-à-vis most important challenges identified by NRPs.

*Table 1 Short-listed structural indicators for EU-25, Croatia and other candidates, 2004*

		EU-25	Croatia	Bulgaria	Romania	Turkey
<i>General Economic Background</i>						
GDP per capita in PPS		100	45.6	30.4	32.2	28.5
Labour productivity per person employed		100	56.4	31.5	36.4	41.0
<i>Employment</i>						
<i>Employment rate</i>						
Total	70% goal**	63.3	54.7	54.2	57.7	46.1
Females	60% goal**	55.7	47.8	50.6	52.1	24.3
Males		70.9	61.8	57.9	63.4	67.8
<i>Employment rate of older workers</i>						
Total	50% goal**	41.0	30.1	32.5	36.9	33.2
Females		31.7	21.0	24.2	31.4	20.0
Males		50.7	40.9	42.2	43.1	46.9
<i>Innovation and Research</i>						
Gross domestic expenditure on R&D	3% goal**	1.9	1.1*	0.5	0.4	-
<i>Youth education attainment level</i>						
Total		76.6	92.5	76.0	74.8	41.8
Females		79.6	94.4	76.3	76.4	50.9
Males		73.7	91.5	74.8	73.8	74.2
<i>Economic Reform</i>						
Comparative price levels		100	-	43	43.2	58.7
Business investment		17.1	-	17.8	18.3	16.6
<i>Social cohesion</i>						
<i>At-risk-of-poverty rate after social transfers</i>						
Total		16	18*	15	17*	26*
Females		17.0	19*	17	18*	26*
Males		15	17*	17	17*	25*
<i>Dispersion of regional employment rates</i>						
Total		12.2	-	7.0	3.5	-
Females		17.3	-	8.8	6.1	-
Males		10.2	-	5.9	2.6	-
<i>Long-term unemployment rate</i>						
Total		4.1	7.3	7.2	4.5	4.0
Females		4.7	8.9	7.0	3.6	4.5
Males		3.6	6.0	7.3	5.3	3.9
<i>Environment</i>						
Total greenhouse gas emissions		92*	94*	50*	54*	-
Energy intensity of the economy		209	453*	1.756.2	1.369	480
Volume of freight transport relative to GDP		105	-	39	100	100

\* Data for 2003

\*\* Denotes goals defined at the EU level

Source: Eurostat (2006)

As is obvious from Table 1, the short-listed indicators do not follow Lisbon priority areas defined at Community level (Box 2). They do not enable monitoring progress towards all goals defined by the integrated guidelines (Box 3). This makes progress monitoring more complex, and less transparent, since links between priorities, designed measures and measurable outputs are not straightforward. Also, a number of social cohesion indicators might be misleading, suggesting that Lisbon is more concerned about social issues than it really is.

Next, data on economic reform (comparative price levels, business investment), and some environmental and social cohesion data are not available for Croatia. Consequently, the short-listed indicators are not sufficient to identify Croatia's starting position vis-à-vis member states and candidates.

Still, it can be concluded that employment is a very challenging area for Croatia. Data for 29 countries (individual EU-25, Croatia, Bulgaria, Romania and Turkey) show that only three countries (Malta 54%, Poland 51.7% and Turkey 45.8%) have lower total employment rates than Croatia, while long-term unemployment rate is higher only in Slovakia (11.8%) and Poland (10.3%). Since employment is generally a challenge for new member states (Rydeman and Tornell, 2004), analysis of employment policies and measures aimed at reaching the 2010 target in new member states can be helpful in designing and implementing Croatia's employment strategy.

According to available indicators, it seems that Croatia can be compared with new member states and that in some areas has better starting position than adhering states. GDP per capita for Croatia is comparable with Lithuania, Latvia and Poland, and higher than in Bulgaria, Romania and Turkey. Energy intensity (which is comparable with Poland and Hungary) and level of greenhouse emission (which is much closer to the Kyoto target than achieved by the new member states) indicate that the structure of Croatian industry is comparable with that of the new member states, and that a significant investment in energy efficiency will be needed to comply with the Kyoto target<sup>xiii</sup>. This is linked with industrial restructuring, which might be connected with social transfers and could further increase the public deficit, as well as having an impact on employment. Although the government debt and government balance are not among the short-listed indicators, they seem to be important element for designing the NRPs.

Consequently, this brief overview of indicators shows that the Lisbon reforms needed in Croatia should take in consideration the spe-

cific starting position (such as issues related with the sustainability of public finances) but also the fact that in some areas the starting position is hard to identify due to incomparability of statistics.

## **Lisbon goals as a challenge for Croatia**

Croatia does not have a comprehensive action programme to implement the Lisbon strategy goals capable of being compared to the documents some other countries prepared during the accession process. However, some of the aims and the activities leading to its implementation were introduced in the different strategic documents that were prepared after the year 2000. For example, Government prepared a number of sectoral strategic documents under the common title Croatia in the 21<sup>st</sup> Century, and some of them are very much in line with Lisbon goals. This particularly relates to the strategy covering science and research, which approaches the issues of knowledge-based society, catching up with innovation and new technologies (Government of the Republic of Croatia, 2003). Understood in a wider sense, Lisbon goals are introduced in the 55 Recommendations of the National Competitiveness Council, covering all the areas relevant for raising the level of competitiveness in Croatia, including education, innovation and technology development, strengthening of small and medium-sized enterprises and creating leadership (National Competitiveness Council, 2004).

Most recently, Croatia adopted the Strategic Development Framework 2006-2013, a key document for the coming period.<sup>xiv</sup> It gives highest priority to knowledge society and introduces the frame for the overall development in the next seven years. The main goals are raising the level of competitiveness, together with strengthening social cohesion and welfare. The development of human resources is recognised as being crucial for the competitiveness of the Croatian economy (Dalić, 2006). The document thus follows some of the key Lisbon agenda goals, although it does not cover all the areas of the redefined Lisbon agenda. Furthermore, there is an urgent need to develop action plans and other implementation instruments with clear obligations, deadlines and a reporting system, in order to converge on and implement specific Lisbon strategy goals during the process of accession.

Being a candidate country, Croatia does not have the obligation to prepare a national reform programme. However, several documents



that were prepared during the past few years include some elements of national reform programmes, although much they differ in type and scope.<sup>xv</sup>

Entering into negotiations on full membership with the EU, Croatia committed itself to accept not only the *acquis*, but also to harmonise its policies with EU programmes and strategic documents. Primarily, these “soft” obligations start with the need to accept horizontally the Lisbon agenda instruments, in order to be able practically to implement policy measures. With acceptance of the *acquis*, Croatia will share the goals envisaged in the Lisbon strategy in numerous communications and action plans. The screening process has already highlighted some of the areas in which Croatia should start with preparations to implement Lisbon strategy goals.

There is a need to develop a national 3% Action Plan, with coordinated measures and precisely defined targets and actions, together with mechanisms for monitoring the implementation. The purpose of such document should be to define Croatia’s own priorities in this particular sphere, having in mind the country’s specific situation and particular needs and possibilities. This should be based on the model of the EU 3% Action Plan, but not necessarily adopting the same target. The 3% target is far for being realistic for Croatia – current investment in R&D in Croatia is 1.14% of GDP, while the EU average is 1.9% (see Table 1). In spite of the fact that Croatia has not prepared action plan comparable with the EU 3% Action Plan, there are initiatives which are in line with the target to “raise overall R&D investment to 3% of GDP by 2010, two thirds of which will come from the private sector”<sup>xvi</sup>. In this context, Croatian Programme for Innovative Technological Development (HITRA) should be mentioned; this is a government programme aiming to establish an efficient national innovation system through fostering cooperation between science and industry, revitalising industrial R&D and encouraging the commercialisation of research findings.

Among other achievements, it should be mentioned that a “one-stop-shop” (*hitro.hr*) has already been established in Croatia, and in the EU this is a goal that should be met by the end of 2007. However, this measure alone, although considered important, cannot increase business potentials or foster links between entrepreneurship and innovation.

The open method of coordination, as a tool for implementing European soft law in many areas should be implemented in consultation procedures during the process of development of policies in Cro-

atia. The system of benchmarking is extremely important for Croatia, enabling the country to be compared with EU member states and acceding countries in different areas. It is therefore necessary to develop the system of collecting and monitoring qualitative and quantitative indicators in Croatia in all the areas. This system should be linked in the future to the EU system of following indicators (EUROSTAT) and enable Croatia to be compared on an equal basis with the member states and other candidates.

There are examples showing that Croatia has successfully introduced the system of benchmarks for certain areas. Croatia has been included in some reports (e.g. World Economic Forum, 2006) through a benchmarking system. In the year 2006 Croatia was for the first time included in the rankings of the IMD *World Competitiveness Yearbook*<sup>xvii</sup>, while the country has been comparatively presented in *Global Competitiveness Report* since 2003. According to the IMD report, the main competitiveness challenges facing Croatia in 2006 are a new government role in strengthening innovation and technological development; improving cooperation between R&D institutions and business; increasing public and private investment in R&D and education; accelerating the process of privatization and the restructuring of state and local public enterprises. The challenges correspond quite well with the Lisbon goals, as well as with the priorities underlined in the Government's Strategic Development Framework (Government of the Republic of Croatia, 2006).

Furthermore, Croatia is comparatively positioned by benchmark indicators in a number of recent comparative international studies, such as the *Global Entrepreneurship Monitor* (CEPOR, 2005), which shows significant improvements in Croatia's rank over the previous period. The country's position rose from 32<sup>nd</sup> place in 2002 to 19<sup>th</sup> place in 2005, in measurements of several composite indicators of entrepreneurship development and the competitiveness of the enterprise sector.

Another example is the area of education and training. The recent European Commission (2006e) report on progress towards the Lisbon objectives in education and training gives comparative indicators for 30 European countries (EU-15, the acceding countries, candidate countries, and European Economic Area). Due to insufficient statistics Croatia is not comparatively positioned according to all indicators but is presented in most of the areas. There are areas in which Croatia performs even better than the old member states. For example, progress in the field of completion of upper secondary education – the Lisbon benchmark is 85% of population while Croatia is already above

90% (European Commission, 2006e:18; see also Table 1). These indicators (EUROSTAT) are somewhat better even than those from Croatian sources, which opens the question of the compatibility of the statistical methodology applied.

The mentioned examples show that some progress has been made in approaching the Lisbon goals, although a coherent approach is lacking and the coverage is insufficient. It is clear that Croatia needs to prioritise the Lisbon goals, having in mind its specific situation, starting position and real possibilities of implementation. In this respect, it is necessary to raise the awareness that approaching the Lisbon strategy goals is crucial not only for being able to undertake successfully the obligations of a future member state, but for reaching the Copenhagen criteria and overall implementation of reforms, which is in the country's own interest. It is also necessary to raise the awareness and level of understanding of the Lisbon agenda implementation mechanisms and their relevance for the process of approaching the EU.

## CONCLUSIONS AND RECOMMENDATIONS

The main conclusions and recommendations, relevant for Croatia, resulting from this paper are following:

- The Lisbon Agenda objectives are relevant for Croatia and the countries of the region. They do not constitute additional criteria or economic objectives. However, the Lisbon objectives will soon be reflected in the EU's policies for the region and the countries should take these into account in their reform programmes and action plans.
- Due to different starting positions in the overall reform programmes the Lisbon agenda priorities should be differently interpreted by each country. Prioritisation and sequencing of the Lisbon agenda goals according to needs is necessary for a candidate country like Croatia.
- In order to have comparable statistics, it will be necessary to develop a system of collecting and monitoring qualitative and quantitative indicators in Croatia. It is likely that this system will correspond to the structural indicators published by EUROSTAT, enabling Croatia to be compared on an equal basis with the member states and other candidates. Consequently, where appropriate, such data should be collected.
- It is necessary to raise the awareness and level of understanding of the Lisbon agenda implementation mechanisms and their relevance

for the process of converging on the EU since approximation to the Lisbon strategy goals is crucial not only for being able to undertake successfully the obligations of future member state status, but for overall success of reform implementation.

- Croatia should speed up the preparations to develop an “umbrella” programme with specific action plans. By doing so it will get closer to Lisbon strategy goals in different areas during the process of accession.
- Although it is unlikely that all Lisbon strategy goals will be implemented by 2010, it will remain the main reform framework for the EU, raising the overall standards, thus making Croatia’s adjustment to the EU requirements even more demanding (the EU being a *moving target*) than it was in the last round of enlargement.

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- \* *The authors would like to thank Katarina Ott and the anonymous referees for useful comments.*
- i *See Presidency Conclusions on the Lisbon strategy 2000-2004 at [http://europa.eu.int/growthandjobs/pdf/thematic\\_lisbon\\_conclusions\\_0604\\_en.pdf](http://europa.eu.int/growthandjobs/pdf/thematic_lisbon_conclusions_0604_en.pdf).*
- ii *Although EU productivity levels grew faster than those in the US for five decades, since 1996 the EU has been trailing the USA every single year. Labour productivity in the USA grew twice as fast as in Europe in the period 2000-2005. As a result relative levels of wealth have also started slipping. Investment has been growing by only 1.7% compared with 5.4% per year in the USA. The EU has only 25% of the number of patents per head of population found in the USA. In the USA 32% of population has a university or similar degree, while this percentage stands at only 19% in Europe. In addition, the USA is also investing about twice as much per student than most European countries. In 2004, the average growth of the eurozone was a meagre 2.2%, while the USA economy grew by 4.3%, Japan by 4.4%, India by 6.4% and China by 9% (European Commission, 2005d).*
- iii *“An agenda for a growing Europe – Making the EU system deliver” was drawn up in 2003 by a group of independent experts under the chairmanship of André Sapir. A six-point agenda was proposed with a view to achieving the objective of the Lisbon strategy and making the enlargement a success: to make a single market more dynamic; to boost investment in knowledge; to improve the macroeconomic policy framework; to redesign policies for convergence and restructuring; to achieve effectiveness in decision-taking and regulation, and to refocus the EU budget.*
- iv *Spring Report deals with achievements at EU and member state levels and has three main elements: (i) an analysis of the 25 new national reform programmes; (ii) identification of the strengths in different national programmes with a view to promoting the exchange of good ideas, and (iii) identification of areas where there are shortcomings and proposals for concrete action at EU and national level to deal with them. An analysis of national reform programmes includes a four to five page assessment of each member state’s programme and proposes measures that should be implemented by 2007. The Report also contains a succinct general evaluation of programmes and structural indicators showing the evolving economic situation for each member*

- state. The annexes contain a short list of examples of successful and innovative policies from member states and more detailed – but still “to the point” – analyses of the macro-economic, micro-economic and employment position at European and national level.
- v CIP will provide support to small and medium-sized enterprises to invest in innovation through three specific programmes: (i) “Entrepreneurship and Innovation Programme” will support start up and growth of small and medium-sized enterprises: with a budget of 2.17 billion euros; (ii) the “ICT Policy Support Programme”, with a budget of 730 million euros will support investment in information and communication technologies, and (iii) “Intelligent Energy-Europe Programme” will support increased use of renewable energy and reduced energy consumption with a budget of 730 million euros. It is expected that some 350,000 small and medium-sized enterprises will receive EU support in the period 2007-2013.
  - vi Until 2005, member states issued separate employment and economic action plans. National action plans for employment issues described how the employment guidelines are put into practice at the national level. They presented the progress achieved in the member state over the last 12 months and the measures planned for the coming 12 months: they were both reporting and planning documents. National reform plans consist of employment and economic measures in the same document. Hence, national action plans and national reform plans are not the same.
  - vii Differences in starting positions among individual member states and pace of reform in the Lisbon process are monitored by around 130 indicators grouped into 6 categories: general economic background, employment, innovation and research, economic reform, social cohesion and environment. Some are also available for the region. The complete list of indicators is available at: [http://forum.europa.eu.int/irc/Download/kecuA9JBmmG9wx7dvqm-Ev\\_VvAKd0qYFxyJ\\_Z-bz4IJ3Sp9uLj2p0Dj3hCmX9RmCY4331ET67Y2wPb2D2r/Headings%20database%20SI%20as%20of%20Nov%202005.pdf](http://forum.europa.eu.int/irc/Download/kecuA9JBmmG9wx7dvqm-Ev_VvAKd0qYFxyJ_Z-bz4IJ3Sp9uLj2p0Dj3hCmX9RmCY4331ET67Y2wPb2D2r/Headings%20database%20SI%20as%20of%20Nov%202005.pdf). Table 1 presents a short list of 14 structural indicators that are covered in the statistical annex to the 2006 Annual Progress Report. This short list has been agreed with the Council and allows for a more concise presentation and a better assessment of achievements over time vis-à-vis the Lisbon agenda. In keeping with the recent streamlining of procedures in the wider context of the Lisbon strategy, it is planned to keep this list stable for three years, with a start in 2004.
  - viii Based on the 2004 GDP data, meeting the national targets will lead to a 2.7% R&D expenditure on the EU-25 level. Taking into account different growth rates between old and new members would lead to lower results.
  - ix For short listed employment indicators and comparisons among Croatia, candidates and member states see Table 1.
  - x Target for 2008.
  - xi For more about membership criteria see, for instance, Boromisa (2004:169-170).
  - xii Short-listed indicators, selected by the Council (see endnote vii), are published in the Annual Progress Report for EU member states. Based on these indicators we compare Croatia’s starting position with EU member states and other candidates.
  - xiii Energy intensity of Croatian economy (gross inland consumption of energy divided by GDP in kilograms of oil equivalent per 1,000 Euro), which measures the energy consumption and overall energy efficiency is much higher than the EU average. Total greenhouse emission is close to the Kyoto target (94% of the base year, the target being 95%).

- xiv *The document was prepared by the Central State Office for Development Strategy and passed wide range of consultations during April and May 2006.*
- xv *These documents include Pre-accession economic programme for Croatia (PEP), which is annually prepared by the Government and National programme for the integration of the Republic of Croatia into the European Union (2006-2008). PEP might be considered a forerunner of the Convergence Program and National Reform Programme (Government of the Republic of Croatia, 2005:3). Its structure differs significantly from NRPs, but it has some of its elements, e.g. measurable targets (ibid, 95).*
- xvi *These initiatives are within the framework of national science policy and based on the concepts outlined in the Croatian Strategy for Science in the 21<sup>st</sup> Century and some other acts, including 55 Policy Recommendations of National Competitiveness Council.*
- xvii *The 2006 Report encompasses 61 countries. Croatia is ranked 59<sup>th</sup> in the group of countries – behind Bulgaria (47<sup>th</sup>) and Romania (57<sup>th</sup>), candidates for membership, and behind EU member countries.*

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## Chapter 10

# STATE AID REFORM IN CROATIA

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### ABSTRACT

State aid as a part of industrial policy should be implemented cautiously, taking account of all its advantages and shortcomings. The European Union has established an elaborate system for state aid allocation and control, advocating “less and better-targeted state aid”, which has the least distorting effect on competition. This is so-called horizontal aid, which helps to establish a level playing field for all undertakings. The state-aid-to-GDP ratio is four times higher in Croatia than in the European Union, state aid being mainly targeted to particular industries. Croatia will have to reform thoroughly or reduce its sectoral aid to shipbuilding, transport (especially the railways) and the steel industry, as well as aid to rescuing and restructuring firms in difficulty. Croatia will also have to increase aid to horizontal objectives and improve significantly the transparency of state aid allocation.

**Key words:**

state aid, reform, industrial policy, European Union

## INTRODUCTION<sup>i</sup>

The objective of this paper is to give a description of the general framework of state aid in Croatia and to indicate the direction of its future development based on EU rules. This provides a general direction for state aid reform, i.e. the reform of industrial policy in broader terms.

The data on state aid were collected for the period 2001-2004 and were classified by objective (i.e. sector or industry), and by instrument (e.g. grants, soft loans, tax exemptions, guarantees, etc.).<sup>ii</sup> The authors applied the methodology used in the EU for the preparation of the State Aid Scoreboard.<sup>iii</sup>

The second part of the paper following the Introduction gives a brief presentation of state aid in the framework of industrial policy, and determines the content of state aid in the EU. The third part deals with the size and structure of state aid in Croatia in the period from 2001 to 2004, and the fourth part provides guidelines for future state aid development. The paper is focused on four selected sectors which will require the strongest adjustments to the EU standards: shipbuilding, transport (especially railways), and the steel industry, and the rescue and restructuring of firms in difficulty. In these sectors, Croatian state aid deviates sharply from that in the EU, and Croatia will have to make great efforts to harmonize it with EU standards.

## THE GENERAL FRAMEWORK FOR STATE AID

### **State aid as a part of industrial policy**

As an industrial policy instrument, state aid to enterprises can increase public welfare. However, it can distort competition and also reduce public welfare. Public welfare declines if aid is granted to less efficient companies producing low-quality products at high costs. On the other hand, public welfare increases and the economic growth accelerates if state aid is aimed at correcting market failures, i.e. situations when the market functions inefficiently. Consequently, “bad” aid distorts the market by favouring one company over another, thus reducing welfare, while “good” aid corrects market failures and thus contrib-

utes to the growth of welfare (Neil, 1990). However, it should be emphasized that state aid results in increased welfare only if the resulting efficiency improvement exceeds the direct and indirect costs of aid implementation (Nicolaidis and Bilal, 1999).

There is extensive literature about whether, when and how the state should provide aid to companies and entire economic sectors. Most authors argue that state aid can only be justified if it is aimed at correcting a market failure. The EU agrees with this argumentation, deeming that state aid should mainly be targeted at market failures (Commission of the EC, 2003). Redirecting state funds to “good” aid which is unlikely to distort market competition remains the primary strategic objective of state aid reform in the EU member states. The future reform of state aid in Croatia will have to follow the same course.

The implementation of state aid, particularly that which is the subject matter of a selective industrial policy, i.e. a policy aimed at providing assistance only to selected economic sectors or companies, offers many challenges:

- *State aid costs money.* In order to justify the implementation of state aid it is not sufficient to establish the existence of a market failure. It is also necessary to provide valid arguments that the public sector, i.e. the government, is capable of resolving the problem more successfully than the private sector (the market). Prior to the implementation of state aid it is necessary to estimate all the direct or indirect costs necessarily involved. This is because the very existence of a market failure does not necessarily mean that corrective measures should be implemented: sometimes the cure is worse than the disease (Martin and Valbonesi, 1999).
- *The state is unable to recognize “winners” or “losers”.* A selective industrial policy usually implies that the government selects economic sectors or companies needing support. These are either future “winners”, i.e. economic sectors and companies expected to achieve higher growth rates, or “losers”, i.e. industries or companies in difficulties that need government assistance for their survival and recovery. Such state intervention requires great analytical skill for a government to be able to outperform the market in selecting industries or companies that are potential winners, or decide which losers are worth saving, and determine the measures through which all this can be realized. However, the state is usually too bureaucratic and insufficiently qualified and informed to get to grips with such challenge.

- *The state cannot pick the right moment to stop providing assistance.* Owing to the shortage of information on products, prices or new technologies the state has generally proved to be inefficient. It has usually been unable to select “winners” among industries and/or major “losers” and unable to determine when to stop providing assistance, i.e. when a company becomes capable of independent operation. Its economic policy measures, often inappropriate, result in numerous distortions that reduce economic efficiency.
- *The state is incapable of resisting various pressure groups.* Under the pressure from various interest groups the state intervention network becomes more liable to corruption. Once state intervention stabilizes there is a danger of the state falling under the influence of various interest groups lobbying actively to retain state aid, although it has ceased to be economically justifiable. Moreover, there are always new prospective beneficiaries who “could make good use” of state aid. Owing to the influence of interest groups, it is difficult to discontinue state aid; new forms of state aid are introduced, and it is hard to break this vicious circle.
- *State aid results in unfair competition.* State aid also leads to unfair competition between subsidized and non-subsidized companies. More specifically, owing to the lower prices offered by subsidized companies, not however as the result of the higher quality of their products or increased productivity, good but unsubsidized companies whose products are more expensive are forced out of the market.
- *State aid burdens the state budget.* Growing state aid increases the pressure on the state budget, thus threatening fiscal stability. As state aid is financed from tax revenues, its cost is borne by all taxpayers. Thus, despite lower prices of subsidized products, in the end consumers indirectly pay the full non-subsidized prices through higher taxes.
- *State aid can create problems in international trade.* Subsidizing domestic production by state aid provides a basis for the implementation of predatory policy and appropriation of international market shares. The affected country may react to state aid by taking retaliatory measures. For this reason, the EU has established a state aid control system, the intention of which is to reduce such irregularities.

The above mentioned considerations suggest that successful state aid reform is a laborious process in which account should be taken of numerous issues, from the particular economic policy measures to the existing political, economic and social environment.

## State aid in the European Union

State aid distorts competition by discriminating among companies that receive aid and those which do not. In response to this threat to the common market, the EU established a state aid control system. The system relies on the principle that state aid is incompatible with the common market, but still allows its implementation under certain circumstances. Article 87(1) of the Treaty Establishing the European Community provides the following definition of state aid: "... any aid granted by a Member State or through State resources in any form whatsoever which distorts competition by favouring certain undertakings of the production of certain goods shall, insofar as it affects trade between member states, be incompatible with the common market". Based on this provision, the EU has developed a very sophisticated system of rules defining "allowed" and "non-allowed" state aid. Over the years, these rules have been supplemented by a number of instructions, legal opinions and court rulings.

### Box 1 State aid in the European Union

According to the EU definition, state aid is any aid that: (1) is granted through the state resources, (2) constitutes an economic advantage to a certain company, economic sector or region, (3) is selective, as it affects the balance between companies receiving the aid and their competitors, (4) has an adverse effect on competition and trade between member states.

State aid in the EU is classified into horizontal aid (allocated to all enterprises in the economy), sectoral aid (provided to selected companies), regional aid and aid to agriculture and fisheries. Aid can be provided through various instruments: grants, tax exemptions and relief, equity participation, soft loans, tax deferrals (liabilities of taxpayers to tax authorities) and guarantees (issued and revoked). In all these instruments the amounts of aid are not always equal to the nominal value of the instrument. Therefore, in preparing data on state aid the EU assesses, the so-called "state aid element". This relates in particular to equity participation, soft loans, tax deferrals and guarantees, while in the case of grants, or tax exemptions their entire amount represents state aid. A more detailed presentation of this methodology is available on the Internet at: [http://ec.europa.eu/comm/competition/state\\_aid/scoreboard/conceptual\\_remarks.html](http://ec.europa.eu/comm/competition/state_aid/scoreboard/conceptual_remarks.html) and in Kesner-Škreb and Mikić (2003).



The purpose of the system of state aid control in the EU is to monitor the proposed and implemented state aid in member states and to determine whether it complies with the EU legislation and whether it distorts competition within the EU. The European Council has repeatedly called on the governments to reduce state aid and redirect it to horizontal objectives having the least distorting effect on competition, like environmental protection, education and training, research and development and incentives to small and medium-sized enterprises.<sup>iv</sup> The EU objective is to have “less and better” state aid, i.e. to reduce “bad” aid and to increase “good” aid provided for horizontal purposes.

### **Box 2 International sources of data on state aid**

Apart from the European Commission which regularly publishes data on state aid in the EU member states, the data on grants are also published within the System of National Accounts (SNA), the IMF Government Finance Statistics (GFS), as well as by the World Trade Organization (WTO) and OECD.

*Under the System of National Accounts* the term “grant” only covers current direct transfers to companies from the state budget, excluding other forms of assistance like subsidized loans, tax exemptions, etc.

*The World Trade Organization* also provides data on grants. They arise from the obligation to notify those grants that include direct transfers of funds, fiscal incentives and government supply of goods and services (excluding general infrastructure). However, these data are often incomplete and incommensurable, owing to the difficulties in collecting and submitting data on grants in certain countries.

*OECD* published annual data on grants to industry for twenty five of its member states in the periods 1989-1993 and 1994-1995. These data included budget transfers, subsidized loans, inputs purchased at prices lower than the market prices, and tax revenue losses. These data are special because they rely on the net government cost principle, i.e. government expenditures for grants are reduced by repayments (e.g. of loans). However, these data only relate to grants to industry (Lee, 2002).

The Commission has recently become aware of the need for a thorough revision of the rules on state aid. The EU enlargement to twenty five member states in 2004 called for improvements in state aid management. In addition, the number of rules, exemptions and deci-

sions on state aid has increased unnecessarily over time, which resulted in a complicated and non-transparent system, as well as lengthy and complex allocation procedures. Therefore, in June 2005, the Commission unanimously adopted the *State Aid Action Plan*<sup>v</sup> for a five-year period with the purpose of carrying out a comprehensive, coherent and far-reaching reform of state aid policy, which is also expected to contribute to the re-launch of the Lisbon Strategy<sup>vi</sup>. The reform has the following four features:

- The concept of “less and better aid” constitutes the basis for the state aid reform philosophy.
- An analysis should be carried out to show that certain goals cannot be achieved on the market without state aid. This primarily relates to the identification of market failures.
- Improvement of the efficiency and transparency of procedures and acceleration of taking decisions.
- Cooperation between member states and the Commission for the purpose of timely notification of aid and the submission of complete documentation, and cooperation in the process of aid approval.

By signing the Stabilization and Association Agreement (SAA) Croatia committed itself to harmonizing its state aid legislation with the relevant EU regulations. Thus, a State Aid Act was first enacted in March 2003, and a new act to this effect was passed in December 2005 (NN 140/2005). The Regulation on State Aid (NN 121/2003 and 50/2006) has been implemented since August 2003. Given the need to harmonize the entire Croatian legislation with the EU *acquis*, these regulations are very similar to those of the EU. However, the screening process revealed certain differences, which will have to be reconciled. Moreover, Croatia entrusted the Croatian Competition Agency with the powers to approve and supervise state aid and to ensure the recovery of aid granted or utilized contrary to the regulations.

Consequently, state aid as a part of industrial policy should be implemented cautiously, taking account all of its advantages and shortcomings. The EU has established an elaborate system of state aid allocation and control, and it advocates “less and better state aid”, which is likely to have the least distorting effect on competition. This is so-called horizontal aid, which helps to establish a level playing field for all undertakings. By passing the State Aid Act and Regulation and establishing the Croatian Competition Agency, Croatia started the process of harmonizing its state aid system with that in the EU.

## THE SIZE AND STRUCTURE OF STATE AID IN CROATIA IN THE PERIOD 2001-2004

### Total state aid

In the period from 2001 to 2004, total state aid to enterprises in Croatia amounted to 32.3 billion kuna. The annual average state aid in the observed period slightly exceeded 8 billion kuna or 4.4% of GDP. Thus, the average annual amount allocated for state aid per employed person was almost 6,000 kuna. Excluding aid for agriculture, fisheries and transport<sup>vii</sup>, total aid comes to 3.3 billion kuna or 1.8% of GDP.

Table 1 Total state aid in Croatia, 2001-2004

	2001	2002	2003	2004	Average
<i>billion kuna</i>					
Total state aid	8.5	6.4	8.1	9.4	8.1
Total state aid less railways	7.4	6.2	6.0	6.4	6.5
Total state aid less agriculture, fisheries and transport	3.6	2.8	3.3	3.6	3.3
<i>% of GDP</i>					
Total state aid	5.2	3.6	4.2	4.6	4.4
Total state aid less railways	4.5	3.5	3.1	3.1	3.6
Total state aid less agriculture, fisheries and transport	2.2	1.6	1.7	1.8	1.8
<i>Index (previous year)</i>					
Total state aid		74.7	127.3	115.8	
Total state aid less railways		84.0	96.9	105.9	
Total state aid less agriculture, fisheries and transport		79.3	118.2	109.2	
<i>Per employee (thousand kuna)</i>					
Total state aid	6.3	4.7	6.0	6.8	5.9
Total state aid less railways	5.5	4.6	4.4	4.6	4.8
Total state aid less agriculture, fisheries and transport	2.6	2.1	2.4	2.6	2.4

Sources: Central Bureau of Statistics (GDP and the number of employees) and authors' calculations

It is shown that the total nominal amount of state aid expressed in kuna grew continuously, except in 2002.<sup>viii</sup> In 2003 and 2004, total state aid rose by 27.3% and 15.8% respectively.

A comparison of state aid, less agriculture, fisheries and transport, between Croatia and the EU-15 shows that Croatia is a country with a large participation of state aid in GDP. In 2003, it was four times the share in the EU.

*Table 2 State aid less agriculture, fisheries and transport, in Croatia and EU-15 (as a % of GDP), 2001-2004*

	2001	2002	2003	2004
<i>EU-15</i>	<i>0.43</i>	<i>0.44</i>	<i>0.40</i>	
Belgium	0.32	0.34	0.24	
Denmark	0.77	0.70	0.49	
Germany	0.79	0.78	0.68	
Greece	0.33	0.22	0.22	
Spain	0.63	0.57	0.43	
France	0.33	0.35	0.31	
Ireland	0.65	0.45	0.31	
Italy	0.38	0.40	0.44	
Luxembourg	0.17	0.25	0.15	
Netherlands	0.16	0.19	0.11	
Austria	0.25	0.21	0.26	
Portugal	0.90	0.87	0.96	
Finland	0.31	0.36	0.36	
Sweden	0.18	0.16	0.39	
United Kingdom	0.11	0.17	0.19	
<i>Croatia</i>	<i>2.16</i>	<i>1.58</i>	<i>1.73</i>	<i>1.77</i>

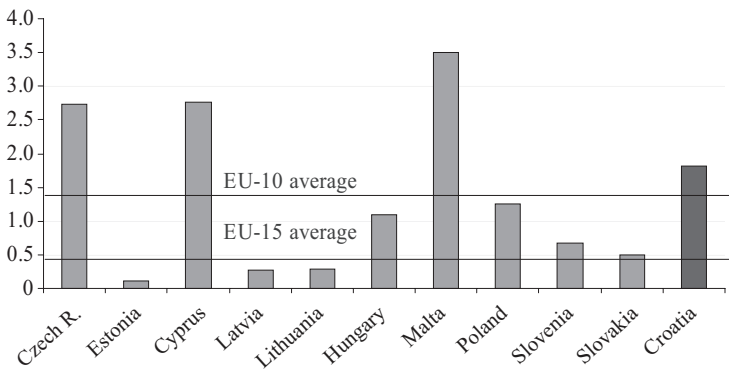
*Sources: Commission of the EC (2005); authors' calculations (for Croatia)*

In 2003, total state aid, less agriculture, fisheries and transport, accounted for 0.4% of GDP in the EU-15 and 1.73% in Croatia. In 2004 the share in Croatia rose to 1.77%. Within the EU, the largest total amount of state aid was allocated in Portugal (0.96% of GDP) and Germany (0.68%), and the lowest levels of state aid were recorded in the Netherlands (0.11%), and Luxembourg (0.15%). Ireland saw the sharpest decline in the level of aid over the three observed years (from 0.65% to 0.31%), while the most sizeable growth of state aid was recorded in Sweden (from 0.18% to 0.39% of GDP).

However, it is far more interesting to compare the state aid trends in Croatia with those in the countries with similar economic indicators, i.e. the new EU member states. The available data relate to the

period between 2000 and 2003 (immediately before the accession), in which the state aid, less agriculture, fisheries and transport, in the ten new member states accounted for 1.38% of GDP. For the sake of comparison, the average share of state aid in the Croatian GDP in the period 2001-2004 was 1.81%.

*Figure 1 State aid less agriculture, fisheries and transport, 2000-2003, average in the EU-15, EU-10 and Croatia (as a % of GDP)*



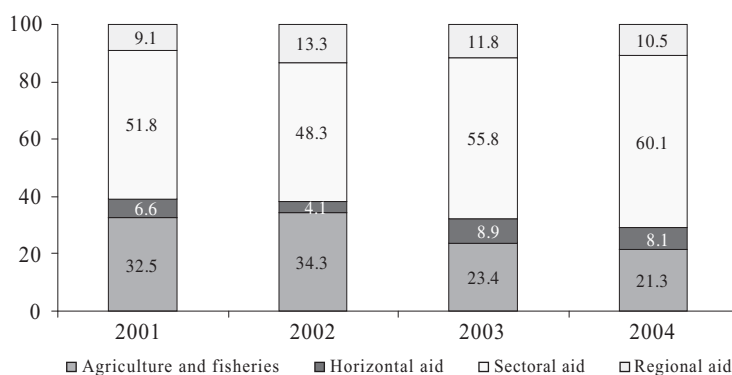
*Sources: Commission of the EC (2005); authors' calculations (2001-2004 average in Croatia)*

However, considerably higher levels of state aid than the EU-15 average in the observed period were also recorded in the Czech Republic, Cyprus and, particularly, Malta. Only three new member states were close to the EU-15 average, i.e. Estonia, Latvia and Lithuania. The levels of state aid in Slovakia and Slovenia were slightly above the EU-15 average.

## **State aid objectives and instruments**

The data set out below clearly show that, during the entire period, Croatia gave priority to sectoral aid, followed by agriculture and fisheries and regional aid, while horizontal aid was the last priority.

Figure 2 The structure of total state aid in Croatia, 2001-2004 (%)



Source: Authors' calculations

Despite the absence of a major change in the structure of state aid, the share of sectoral and agricultural aid in total aid varied from year to year. This was due to various rescue schemes for particular industries, e.g. agricultural conglomerates, ironworks or shipyards. However, in order to make a true comparison of the structure of aid according to objective, it is necessary to adjust the method of presenting the data on state aid to that in the EU, by excluding aid to agriculture, fisheries and transport.

Table 3 State aid by objective in Croatia, EU-15 and EU-10

	Amount of aid (in million euros)			Structure of aid (%)		
	EU-15	EU-10	Croatia	EU-15	EU-10	Croatia
Horizontal	20,651	902	77	52.2	14.9	17.2
Sectoral	9,816	4,608	251	24.8	75.9	56.1
Regional	9,086	560	120	23.0	9.2	26.7
Total aid*	39,553	6,070	448	100.0	100.0	100.0

\* less agriculture, fisheries and transport. Croatia: 2001-2004 average; EU-15 and EU-10: 2000-2003 average

Sources: Commission of the EC (2005); authors' calculations (for Croatia)

The structure of state aid in Croatia differs from that in the EU-15. In the period 2001-2004, average aid to individual economic sec-

tors accounted for the largest share in total aid (56% of total state aid) in Croatia, compared with only 25% of the total in the EU-15. In contrast to the EU-15, where horizontal aid participated with somewhat more than 52% in overall aid, in Croatia it accounts for as little as 17% of total state aid. A comparison of the structure of state aid between Croatia and the new member states shows that Croatia is in a favourable position, because its deviation from the EU-15 structure is significantly lower. More specifically, Croatia's assistance to certain regions is relatively more generous than that in the EU-10, and it invests more funds for horizontal purposes and less in individual sectors.

Apart from the objectives of state aid, it is interesting to look at the instruments of state aid allocation.

*Table 4 The structure of total state aid in Croatia by instrument (%)*

	2001	2002	2003	2004	2001-2004
Grants	57.5	79.7	68.4	70.5	68.3
Tax exemptions and relief	10.5	1.6	4.2	4.4	5.4
Equity participation	2.5	0.0	0.4	0.2	0.8
Soft loans	13.9	3.0	2.6	2.0	5.50
Tax deferrals	4.3	4.0	6.7	7.8	5.9
Guarantees issued	3.7	1.9	12.2	1.7	4.9
Guarantees revoked	7.5	9.9	5.6	13.4	9.2
Total	100.0	100.0	100.0	100.0	100.0

*Source: Authors' calculations*

In the observed four-year period, the largest portion (almost 70%) of aid to companies was granted through direct grants from the state budget, followed by guarantees revoked, tax deferrals and soft loans.

It is indicated that in the observed period, Croatia made a much heavier use of guarantees than the EU-15 member states, while it granted tax exemptions and relief less frequently<sup>ix</sup>. The system of guarantee provision is much less transparent than other instruments of state aid, e.g. grants. However, due to the establishment of the Croatian Competition Agency and its system of approval and supervision of state aid, this aid instrument should also become more transparent. It is interesting to note that tax exemptions and relief are mostly used in Ireland and Portugal, while grants are most frequently resorted to in Belgium, Denmark, Spain, Luxembourg, Austria and Sweden.

*Table 5 The structure of state aid to manufacturing and services sectors by instrument in the EU-15 and Croatia (as a % of the total)*

	Grants	Tax exemptions and relief	Equity participation	Soft loans	Tax deferrals	Guarantees
<i>EU-15</i>	67.0	22.7	0.7	4.8	2.6	2.2
Belgium	85.3	6.4	0.1	6.0	1.2	1.1
Denmark	94.3	5.7	-	-	-	-
Germany	64.3	29.0	1.0	1.6	-	4.1
Greece	72.6	27.1	-	0.3	-	-
Spain	93.8	-	0.2	6.0	-	-
France	59.9	26.0	-	11.3	0.1	2.7
Ireland	35.2	62.1	1.9	0.2	0.4	0.1
Italy	69.2	9.1	0.6	3.5	17.5	0.1
Luxembourg	96.3	-	-	3.7	-	-
Netherlands	63.5	18.1	-	4.9	10.1	3.4
Austria	89.8	-	-	7.2	-	3.0
Portugal	11.7	82.2	0.3	5.2	0.6	-
Finland	68.5	19.1	6.4	5.9	-	0.1
Sweden	86.5	7.9	1.0	4.6	-	0.1
United Kingdom	56.7	27.0	1.1	15.2	-	-
<i>Croatia</i>	58.7	5.9	0.4	4.3	9.6	21.2

*EU-15: 2001-2003 average; Croatia: 2001-2004 average*

*Sources: Commission of the EC (2005); authors' calculations (for Croatia)*

The situation is slightly different in the new member states as shown by the table below.

As in Croatia, the use of guarantees is relatively frequent in the new member states, led by the Czech Republic. Estonia is the only country with a more frequent use of grants than Croatia. However, the use of tax exemptions and relief is far more extensive in these countries than in Croatia, particularly in Lithuania and Latvia, as well as Hungary, Slovakia and Cyprus.

Consequently, state aid is used more frequently in Croatia than in the EU, and its share in GDP is about four times larger than that in the EU-15 and about 30% larger than in the EU-10. Croatia mainly subsidizes particular sectors providing less aid to horizontal objectives. Moreover, compared with the EU-15, the use of guarantees has been much more extensive and the use of tax exemptions and relief is less extensive in Croatia.



*Table 6 Aid to manufacturing and services sectors by instrument  
(as a % of total)*

	Grants	Tax exemptions and relief	Equity participation	Soft loans	Tax deferrals	Guarantees
<i>EU-15</i>	61.2	26.8	1.6	5.4	2.4	2.6
<i>EU-10</i>	18.4	33.6	4.9	3.5	1.7	37.8
Cyprus	17.9	80.9	-	-	-	1.2
Czech R.	11.7	3.3	5.7	1.3	0.4	77.7
Estonia	68.6	14.5	-	0.2	-	16.7
Hungary	31.7	66.7	0.1	0.6	-	0.9
Lithuania	3.0	65.4	2.0	1.4	3.2	25.0
Latvia	4.9	50.2	27.6	8.9	6.1	2.3
Malta	17.5	41.1	-	30.0	2.7	8.7
Poland	20.7	47.9	8.3	7.2	6.5	9.5
Slovenia	41.4	36.7	11.5	6.4	-	4.0
Slovakia	10.2	69.7	-	-	-	20.1
<i>Croatia</i>	58.7	5.9	0.4	4.3	9.6	21.2

*EU-10: 2000-2003 average; Croatia: 2001-2004 average*

*Sources: Commission of the EC (2005); authors' calculations (for Croatia)*

## STATE AID REFORM IN CROATIA

As the share of state aid to companies in GDP is more than four times larger in Croatia than in the EU, and aid is mainly targeted at certain economic sectors rather than at horizontal objectives, in the process of its EU accession Croatia will have to carry out extensive reform of its state aid. This will include downsizing overall aid and redirecting aid from selected sectors to horizontal objectives, e.g. environmental protection, education and training, research and development and support to small and medium-sized enterprises. The most radical changes will affect those economic sectors that currently receive the largest amounts of state aid and that come under special EU-rules. They include shipbuilding, transport, the steel industry and the rescue and restructuring of firms in difficulty which accounted for almost 80% of total sectoral aid in the period from 2001 to 2004.<sup>x</sup> The strategic development of these sectors will have to include reductions in the amount of

state aid and its harmonization with the EU rules. These sectors will be the main subjects of the Croatia-EU negotiations on state aid, and will have to undergo the heaviest adjustments to the EU rules. It is important to note that the aid awarded to these economic sectors will not be abolished, but will have to be restructured significantly during the harmonization process. The situation regarding state aid in the aforementioned four sectors (i.e. shipbuilding, transport, steel industry and the rescue and restructuring of firms in difficulty) and a summary of EU rules governing these sectors are set out below, followed by some estimates of the future developments of state aid in Croatia in the context of its harmonization with the EU rules.

*Table 7 Sectoral state aid in Croatia, 2001-2004*

	2001	2002	2003	2004	2001-2004
	100	100	100	100	100
Steel industry	3.71	0.08	0.82	0.94	1.45
Shipbuilding	11.96	24.67	12.32	12.65	14.49
Transport	49.57	44.21	63.39	66.31	57.53
Railways	25.21	4.65	45.80	53.15	35.83
Other transport	24.36	39.55	17.59	13.17	21.70
Trade	1.57	1.48	3.45	1.76	2.09
Other manufacturing	10.72	8.95	6.75	5.24	7.64
Tourism	6.82	2.61	6.72	2.29	4.61
Rescue and Restructuring	5.45	11.32	1.64	1.51	4.24
Culture	6.32	1.26	0.08	0.00	1.82
Other	3.88	5.44	4.83	9.30	6.13

*Source: Authors' calculations*

## **Shipbuilding**

### *The economic position of the industry*

Shipbuilding has been traditionally considered one of the strategic industries and claimed to have multiplier effects on the overall economy. It accounts for a significant share in Croatian exports and provides a large number of jobs. However, this industry has operated at a loss for many years; it is mainly state-owned and is technologically lagging behind economically competitive countries.

Unfortunately, Croatian shipbuilding is characterized by a slow restructuring process and lack of modernization. The numerous rescue attempts and subsidies from the state budget have still not resulted in the rationalization of production and investment in the development of the industry, so that its non-profitable production is mainly focused on technically less sophisticated vessels.

**Box 3 Some data illustrating the advantages and shortcomings of the Croatian shipbuilding industry<sup>xi</sup>**

- 82% to 100% of shipyards are state-owned.
- The shipbuilding industry provides jobs to its 15,000 employees and 5,000 workers in sub-contractors.
- The multiplier effect of the industry was 2.8% in 2003, which means that its annual production capacity of 0.8 billion US dollars generated domestic demand worth 2.3 billion US dollars.
- The share of domestic substance in the cost price of ships completed in 2003 was 65%.
- With exports worth 500-700 million US dollars, shipbuilding accounts for 12% to 15% of total exports. Along with the chemical, foodstuffs, clothing and oil derivatives industries, shipbuilding is one of the five top exporting industries that together account for about 50% in total Croatian exports.
- According to the world's stocks of orders, Croatian shipbuilding takes the fourth position in the world (followed by Japan, South Korea and China), and accounts for 1.5% to 2.3% of the total world's shipbuilding output. With Poland, Germany and Denmark, Croatia counts itself among the strongest shipbuilders in Europe.
- A total of 12 billion kuna was spent on five rescue programs for shipbuilding companies carried out by 2002. In 2002, the Government decided to increase subsidies to shipbuilding to 10% of the realized selling price per ship.
- According to the financial operating results of undertakings in 2004, losses amounted to 2.6 billion kuna, so that shipbuilding accounted for 43% in overall losses in manufacturing. However, owing to transferred losses, the majority of shipyards are permanently insolvent.
- Croatian shipyards are technologically underdeveloped, producing low-value ships (1.45 euros per ton), while the shipyards in the Scandinavian countries, as well as in Spain produce highest-value ships, i.e. of over 3,200 euros per ton.

### *State aid*

In the period from 2001 to 2004, total state aid to shipbuilding amounted to somewhat more than 2.5 billion kuna, accounting for 0.34% of GDP on average per year.

*Table 8 State aid to shipbuilding, 2001-2004*

	2001	2002	2003	2004	2001-2004
Shipbuilding (million kuna)	529.6	761.3	559.4	716.2	2,566.6
% of GDP	0.32	0.42	0.29	0.35	0.34

*Source: Authors' calculations*

Grants that account for 60% of total state aid include aid of 10% of the contract value per ship and direct transfers from the state budget to finance the shipbuilding rescue and restructuring programs. After 2001, when they accounted for 28% of total aid, guarantees issued stabilized at about 16% on average, while the amounts of guarantees revoked varied the most. Soft loans dropped to as low as 1% of total aid in 2004, and were about 10 times below their level in 2001. They were granted within the Croatian Bank for Reconstruction and Development (CBRD) exports crediting scheme, and were used for the financing of new shipbuilding (in 2001 and 2002) or as bridging loans in the cases of current insolvency of shipyards (in all years).

State aid to shipbuilding in the EU-15 declined from an annual average of 1.2 billion euros in the period 1999-2001 to 0.7 billion euros in the period 2001-2003. In 2003, total aid to shipbuilding amounted to of 635 million euros and was mainly allocated to shipyards in Germany (55%), France (13%) and Demark (8%). Aid to shipbuilding accounted for 2% of total aid in the EU-15 (Commission of the EC, 2005)<sup>xiii</sup>. Of the new member states, the largest amount of aid to shipbuilding was allocated in Poland, about 6% of total aid (Commission of the EC, 2005a).

*Table 9 State aid to shipbuilding by instrument (%)*

	2001	2002	2003	2004	2001-2004
Grants	55.2	45.1	82.6	60.2	59.6
Tax exemptions and relief	-	-	-	-	-
Equity participation	-	-	-	-	-
Soft loans	10.2	11.2	1.9	0.9	6.1
Tax deferrals	-	-	-	-	-
Guarantees issued	27.8	10.3	13.5	15.2	16.0
Guarantees revoked	6.8	33.3	1.9	23.7	18.3
Total	100.0	100.0	100.0	100.0	100.0

*Source: Authors' calculations*

Compared with EU-15, where aid to shipbuilding accounted for 2% of total aid, in the period 2001-2004, Croatia allocated almost 20% of total state aid<sup>xiii</sup> to shipbuilding, i.e. almost 10 times more than the EU.

### *State aid to shipbuilding in European Union and in Croatia*

According to the EU rules, current aid to shipbuilding can be used in the form of subsidies related to the contract value of ships and long-term aid for the development and modernization of facilities.

The EU is aware that, in the long run, tough competition can only be sustained through long-term investment in innovation, but also through the elimination of inefficient production capacities. In December 2003, the Commission published new rules on state aid to the shipbuilding sector which superseded the rules issued in 1998. The new rules are applicable from 1 January 2004 to 31 December 2006<sup>xiv</sup>. According to the definition comprised in the new Commission rules, state aid constitutes aid to any shipyard granted directly or indirectly for building, repair or conversion of ships. The Commission considers the following to be compatible with the common market: the aid granted for research, development and innovation, aid for the closure of shipyards, employment aid, aid in the form of export credit facilities, development aid and regional aid.

By providing short-term aid to shipyards of up to 6% of the contract value per ship, the EU tries to help them face tough competition from Korean shipyards. This measure, known as the temporary defence

mechanism, ceased to be valid on 31 March 2004. However, as the dispute with Korea was still not settled because it had not met its obligations, the temporary defence mechanism was prolonged until 31 March 2005. About 55% of total aid to shipbuilding relates to defensive aid approved by the Commission as an extraordinary and temporary aid granted directly at the time of negotiations for the building of particular types of vessels.

**Box 4 The case of public shipyards in Spain**

In May 2004, the European Commission decided that the aid provided to the public Spanish shipyards was not in line with the EU rules governing state aid to shipbuilding. The Commission established that in 1999 and 2000, the state holding company *Sociedad Estatal de Participaciones Industriales* (SEPI) granted aid worth 500 million euros to the public shipyards that are currently owned by a private company, IZAR. The aid took the form of a capital injection of 252.4 million euros, a loan of 192.1 million euros and a selling price for three shipyards that was 55.9 million euros above their market value. The Commission concluded that the above measures constituted further state aid which, after the approval of a final restructuring package in 1997, could no longer be approved under the EU rules governing aid to shipbuilding. As IZAR paid back the loan amounting to 192.1 million euros, it is required to reimburse other aid to the amount of 308.3 million euros plus interest.

*Source: European Commission, 2004*

Aid to shipbuilding accounts for 2% of total aid in the EU-15, and 20% in Croatia<sup>xv</sup>. This means that Croatia supports its shipbuilding sector tenfold more than Europe. As suggested by the data from the order book, Croatia is the top shipbuilder in Europe, whose aid to shipbuilding is very generous. It can therefore be expected that, during the accession negotiations, there will be strong pressures for the reduction of aid to this sector. Croatia should strive to reduce its aid to shipbuilding to the levels prescribed by the EU state aid structure, which implies a manifold reduction in its amount. Croatia will not only have to considerably reduce subsidies to this sector but will also be required to redirect state aid from rescue programmes, which have so far been the main motives for state aid allocation, to those forms of aid that are in line with EU rules, e.g. aid for the closure of shipyards, aid aimed at providing for workers made redundant and aid to innovation, research and development.

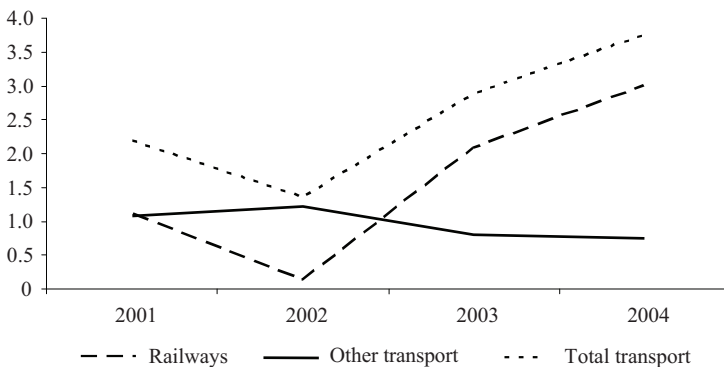
The implementation of the program for the restructuring and rehabilitation of Croatian shipbuilding<sup>xvi</sup>, which is in the preparatory stage, and the privatization of shipyards will finally result in downsizing state aid in the long run, improving its transparency and focusing on the improvement of shipyard efficiency.

## Transport

### *State aid*

In view of Croatia's geographic and traffic-related position, the transport industry and infrastructure play an extremely important role in the overall economic and social development of the country. The current transport situation in Croatia is generally unsatisfactory, particularly as concerns the railway, port and sea and river shipping industries. Aid to transport accounts for the largest share in total sectoral aid. According to the 2001-2004 data, it accounted for almost 60% of total aid to selected economic sectors. State aid to transport is mainly allocated to the railways. It is interesting to note that aid to transport declined in the observed period, both as a share of sectoral aid and overall state aid. The figure below shows the developments in aid to transport with a noticeable growth in aid to railways and a decline in aid to other types of transport.

*Figure 3 Developments in state aid to transport (billion kuna)*



*Source: Authors' calculations*

## Railways

Railways account for the largest share in state aid to transport. In the period 2002-2004, total aid to the transport sector amounted to 10.2 billion kuna. Of this total amount, 6.4 billion kuna was related to Croatian Railways and 3.8 billion kuna to other types of transport.

The data for 2004 show that aid to Croatian Railways accounted for slightly more than 3 billion kuna of total state aid, i.e. 1.5% of GDP. However, in 2003, aid to the railways exceeded 2 billion kuna, which equals about 1% of GDP. For the entire observed period, aid to Croatian Railways amounted to 6.3 billion kuna.

*Table 10 State aid to Croatian Railways, 2001-2004*

	2001	2002	2003	2004	2001-2004
Railways (million kuna)	1,116.5	143.6	2,080.1	3,008.9	6,349.1
% of GDP	0.67	0.08	1.08	1.45	0.82

*Source: Authors' calculations*

Aid does not normally include government investment in railway infrastructure and the share in loans for this purpose. It is noticeable that there was a break in the series for aid granted to Croatian Railways during 2002. This was due to a shortage of detailed information on the schedule for loan principal repayment related to the Ministry of Finance, which is why it was impossible to establish clearly whether the item constitutes state aid or investment in infrastructure. Aid to Croatian Railways includes funds used for severance payments to employees, incentives for passenger and combined transport, as well as aid for the payment of wages to employees. It is worth noting that the collection of data on state aid to Croatian Railways for 2003, and particularly 2004, was greatly facilitated by a more detailed and transparent presentation of this aid in the government budget.

Looking at the instruments of state aid to Croatian Railways, it is obvious that the aid was mainly granted in the form of direct transfers from the state budget, state guarantees issued (with a 100 percent probability of being revoked), and state guarantees revoked. The available data indicate that, during the observed four-year period, state aid in the form of soft loans was allocated only once, by CBRD in 2003.



*Table 11 State aid to Croatian Railways by instrument, 2001-2004 (%)*

	2001	2002	2003	2004	2001-2004
Grants	98.2	100.0	55.7	70.1	71.0
Tax exemptions and relief	-	-	-	-	-
Equity participation	-	-	-	-	-
Soft loans	-	-	1.1	-	0.3
Tax deferrals	-	-	-	-	-
Guarantees issued	1.8	-	43.2	-	14.5
Guarantees revoked	-	-	-	29.9	14.2
Total	100.0	100.0	100.0	100.0	100.0

*Source: Authors' calculations*

### Transport less railways

The last two years saw a decline in aid to other types of transport, so that in 2003 and 2004, aid amounted to 800 million kuna and 750 million kuna respectively. Thus, aid as a proportion of GDP halved over these two years, i.e. it went down to 0.36% of GDP in 2004 compared with 0.68% of GDP in 2002.

*Table 12 State aid to transport less railways, 2001-2004*

	2001	2002	2003	2004	2001-2004
Transport (million kuna)	1,079.0	1,220.7	798.7	745.5	3,843.9
% of GDP	0.65	0.68	0.41	0.36	0.52

*Source: Authors' calculations*

As with the railways, aid in the form of grants from the state budget also prevails in the remaining part of the transport sector, and accounts for over 90% of total transport aid. However, this aid is much more frequently allocated through other instruments, e.g. tax deferrals and state guarantees revoked. It is interesting to analyse the dynamics of these instruments. While aid to transport in the form of grants from the budget trended downwards in the last two years, tax deferrals and guarantees revoked showed no clear trend, which leads to the conclusion that these aid instruments are more often used by enterprises in financial difficulties.

*Table 13 State aid to transport less railways, by instrument (%)*

	2001	2002	2003	2004	2001-2004
Grants	89.1	98.3	98.0	89.1	93.9
Tax exemptions and relief	-	-	0.2	0.2	0.0
Equity participation	-	-	-	0.0	0.0
Soft loans	0.0	-	0.0	-	0.0
Tax deferrals	4.9	-	1.0	9.4	3.4
Guarantees issued	-	0.6	0.0	-	0.2
Guarantees revoked	5.8	1.1	0.7	1.2	2.4
Total	100.0	100.0	100.0	100.0	100.0

*Source: Authors' calculations*

In the period 2001-2003, in the EU-15 around 1.5 billion euros per year was awarded to the transport sector less railways. This represents an increase of over 50% relative to the period 1999-2001. Two-thirds of total transport aid (about 1 billion euros per year) was awarded to the maritime transport sector, the most sizeable amounts being granted by Denmark, France, Italy, the Netherlands, Sweden and United Kingdom.

The favourable treatment of the railway sector is also reflected in figures. Thus, the EU allocates several times larger amounts of aid to railways than to other transport. Over 2004, the EU-15 allocated as much as 25 billion euros to railways, almost sixteen times more than to other transport. The most sizeable amounts of aid to railways were allocated by France (6.2 billion euros), Italy (3.9 billion euros), Germany (3.5 billion euros), United Kingdom (3.1 billion euros) and the Netherlands (2.7 billion euros) (Commission of the EC, 2005a).

### *State aid to transport in European Union and in Croatia*

The EU rules governing the control of state aid to the transport sector are far more complex than those related to other sectors<sup>xvii</sup>. These issues fall within the competence of two EU Commission Directorates, i.e. *DG Competition* and *DG Transport*.

Aid to the transport sector is focused on the following three areas:

- compensation for the provision of services of general economic interest (SGEI),
- investment in infrastructure, and
- state aid to railways.

The Commission adopted a package related to the compensation for the provision of SGEI. The package provides that undertakings can receive public funds to cover all costs, including reasonable profit, of the provision of public services defined and delegated to them by public authorities, without causing the payment of excessive compensation, which is likely to threaten competition. The public funds used for the provision of SGEI do not constitute state aid to the transport sector.

Similar treatment is given to investment in infrastructure. Infrastructure is open to all users on a non-discriminatory basis, and not to a particular undertaking or economic activity, and as such does not meet the criteria for state aid. Consequently, compensation for the provision of SGEI and infrastructure does not normally constitute state aid and need not be notified to the Commission.

#### **Box 5 State aid to the United Kingdom rail sector**

In 2002, the Commission took some important decisions related to the infrastructure management of the national railway network in the United Kingdom. First, it approved a financial rehabilitation package to ensure the continued provision of railway services, without which the UK railways risked collapsing. After that, the Commission approved funds to allow a newly established company, *Network Rail*, to take over the responsibility for managing the UK rail network on a non-profit basis. The Commission deemed the total amount of about 36 billion pounds not to constitute state aid but compensation for the provision of services of general economic interest.

*Source: Commission of the EC, 2005*

State aid to railways is given a special treatment. In view of its environmental awareness, the Commission has marked railways as a strategic industry. In principle, the Commission has followed a favourable approach to aid in the rail sector, both as regards rail services and investments, which are not viable without public co-financing. For this reason, actually, a major portion of the state subsidies to railways need not be notified to the Commission. This may be due to the fact that,

given the lack of competition in this sector, such financing is not considered to be state aid, or because it represents either compensation for SGEI or investment in infrastructures. However, member states are required to report to the Commission their overall public expenditures for the railways. The Commission considers the revitalization of the railway sector to be one of the focal points of the EU transport policy. It maintains that state aid control is of crucial importance for the competitiveness and efficiency of railways (Commission of the EC, 2005).

In 2004, aid to transport in Croatia accounted for almost 65% of total sectoral aid, or about 40% of overall state aid. As the largest amount of transport aid was granted to the railways, this sector is expected to come under close scrutiny from the EU. Therefore it will be necessary clearly to determine which subsidies to this sector constitute compensation for the provision of services of general economic interest or investment in infrastructure, because these do not constitute state aid. Similarly, as concerns the rail sector in particular, a clear-cut distinction will have to be drawn between the subsidies for investments and those provided for covering current losses incurred by the Croatian Railways. Currently, there is no such distinction. It can be considered that subsidies to Croatian Railways do not constitute state aid, given the current monopolistic position of this company, owing to which such subsidies do not distort competition. However, it can also be argued that this monopolistic position only exists in terms of railway transport and not in relation to the other transport.

## **Steel industry**

### *The economic position of the industry*

In 2004, manufacture of metals and metal products accounted for about 6.5% of gross domestic industrial production. This division also accounted for 11.3% of total employment in manufacturing. The Croatian metal manufacturing industry comprises the manufacture of welded and seamless iron tubes, reinforcement steel, rolled wire and reinforcement steel nets for construction purposes, as well as aluminium processing and casting of metals.

A significant portion of metal processing facilities is still in state ownership, operating at a loss. Their losses are covered by transfers from the state budget.

*Željezara Sisak (Sisak Ironworks)* has reduced its production over time. Its production capacities are underutilized, its technological processes are obsolete and currently there is no demand for its products. After a number of failed attempts to privatize and “re-nationalize” the plant, the only viable solution for the survival of the plant would be its takeover by a serious purchaser from this industry.

*Željezara Split (Split Ironworks)*. Owing to high electricity prices, growing imports of electrodes and ferro-alloys, expensive short-term loans and low utilization of production capacities, the company reduced its production and raised its consumption standard. This resulted in a 65% increase in production costs and losses. After bankruptcy was declared, the government invested sizeable funds in the modernization of the company’s facilities. However, given its accumulated losses, the plant has not succeeded in finding a new owner, despite a number of international tenders, but its privatization prospects are still better than those of the Sisak Ironworks.

*TLM Šibenik* is the only producer of aluminium and aluminium products. Its production facilities are also obsolete and its annual turnover fell significantly (to 19% of the turnover recorded in 1989). The company imports 95% of its raw materials (from the aluminium factory in Mostar) and exports 75% of its total output. Owing to insufficient working capital, TLM Šibenik mainly operates at reduced capacity.

Despite stronger performance in recent years, the members of *Duro Đaković Holding* company dealing with metal processing still rely excessively on the state, i.e. the majority of their activities depend on government investments in road construction and railways.

### *State aid overview*

In the period 2002-2004, state aid to steel industry totalled 257.1 million kuna, the largest amount of 164.2 million kuna being allocated in 2001. According to the available data, the amount of state aid decreased to 2.3 million kuna over 2002, and in 2003 and 2004, it stabilized at 37.3 million kuna and 53.3 million kuna respectively.

Of the total amount (164.2 million kuna) of aid allocated to ironworks in 2001, as much as 160 million kuna was spent on the consolidation of Sisak Ironworks through the write-off of government and public enterprise claims. The remaining 4.2 million kuna relate to aid in the form of state guarantees issued for the benefit of TLM Šibenik.

Table 14 State aid to ironworks, 2001-2004

	2001	2002	2003	2004	2001-2004
Ironworks (million kuna)	164.2	2.3	37.3	53.3	257.1
% of GDP	0.10	0.00	0.02	0.03	0.04

Source: Authors' calculations

The entire amount (2.3 million kuna) of aid allocated during 2002 related to state guarantees issued to Split Ironworks. State guarantees revoked accounted for the largest portion (25.9 million kuna) of total aid allocated in 2003, which amounted to 37.3 million kuna. The remaining 11.4 million kuna related to state guarantees issued for the benefit of TLM Šibenik and Split Ironworks. The smallest amount of aid allocated in 2003, 133 thousand kuna, related to soft loans extended during that year, particularly the loan granted by the Croatian Privatization Fund, to Split Ironworks. The structure of aid in 2004 was similar. The largest portion of total aid, 27.8 million kuna, was allocated in the form of state guarantees revoked in that fiscal year. The amount of 19.2 million kuna was granted in the form of financial transfers for equity participation, and the remaining 6.3 million kuna related to state guarantees issued for the benefit of TLM Šibenik.

Table 15 State aid to ironworks by instrument (%)

	2001	2002	2003	2004	2001-2004
Grants	-	-	-	-	-
Tax exemptions and relief	97.4	-	-	-	62.2
Equity participation	-	-	-	36.0	7.5
Soft loans	-	-	0.3	-	0.0
Tax deferrals	-	-	-	-	-
Guarantees issued	2.6	100.0	29.8	11.8	9.3
Guarantees revoked	-	-	69.9	52.2	20.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Authors' calculations

In the period 2001-2004, aid in the form of tax exemptions and relief accounted for the largest share in total state aid to this sector, owing to its large amount in 2001. However, aid in the form of state guarantees revoked gained in importance in the last two years, and was

allocated to Split Ironworks (26 million kuna and 27.8 million kuna in 2003 and 2004 respectively).

The EU-15 has sharply reduced its aid to ironworks, from an annual average of about 2 billion euros in the mid-90s to 12 million euros in 2004, when aid was mainly allocated for environmental protection. Among the new member states, the largest amounts were allocated for this purpose by the Czech Republic, Slovakia and Poland (Commission of the EC, 2005a).

### *State aid to steel industry in European Union and in Croatia*

The rules governing state aid to the steel sector are no longer in force, so that this area is now subject to the rules regarding rescue and restructuring aid or regional aid<sup>xviii</sup>. The rules governing regional aid to large investment projects prohibit the allocation of investment aid to this sector. Similarly, according to the rules on rescue and restructuring aid and closure aid for the steel sector, rescue and restructuring aid is also considered incompatible with the common market. The only allowed aid is the aid for the closure of enterprises in this sector subject to certain conditions, i.e. the aid for covering retirement costs of redundant employees, and aid to ironworks that stop production completely. The European Commission considers that the allocation of such aid would undermine the efforts of the steel industry to reduce its costs and strengthen competitiveness.

It is obvious that state aid to the steel industry in Croatia is mostly targeted at financial rehabilitation and consolidation or at issuing guarantees. Therefore, this segment of state aid will have to be harmonized with the EU rules, which prioritize aid aimed at reducing costs and strengthening competitiveness of businesses and aid for closing down low-performance production facilities and providing for redundant labour over aid for the rescue of existing business facilities. The forthcoming National Ironworks Restructuring Programme will finally define the state aid policy for this industry.

**Box 6 Reduction of tax concession granted to the Slovakian Ironworks US Steel Košice**

Pursuant to the EU Accession Agreement, Slovakia was granted permission to continue to grant tax exemptions to US Steel Košice until the end of 2009. In order to compensate for the company's competitive advantage resulting from the aid, as from 2002 a cap for production, and as from the date of the EU accession also a cap for sales were established. However, US Steel Košice did not respect the production cap in 2002 and 2003. In order to counterbalance the effect of the overproduction, the Slovak government requested a significant reduction in state aid and asked the Commission to revise the conditions for granting the transitional period. On 22 September 2004 the Commission decided that the tax exemption should be reduced from 500 million to 430 million US dollars and that the beneficiary should make a tax payment of 32 million dollars to the Slovak government.

*Source: European Commission, 2004*

## **The rescue and restructuring of firms in difficulty**

### *State aid overview*

It should be noted that aid for rescue and restructuring of a specific industry was classified to that industry. However, aid related to rescue and restructuring, where the sector was not clearly indicated, was classified as general rescue and restructuring aid. For example, all amounts of aid aimed at rescuing and restructuring shipyards were classified as aid to the shipbuilding sector and not as rescue and restructuring aid. The purpose of this was to classify aid as accurately as possible according to the final beneficiary. In view of this it can be concluded that the total amount of rescue and restructuring aid in Croatia was much larger than reported. For example, total aid to shipbuilding and Croatian Railways, amounting to almost 9 billion kuna (50% of total sectoral aid) in the period 2001-2004, was allocated for the rescue and restructuring of these sectors.

In the last four years, state aid allocated for various rescue and restructuring schemes amounted to somewhat more than 750 million kuna or 0.1% of GDP. The largest amount (about 590 million kuna)



was allocated in 2001 and 2002, and the remaining 160 million kuna relates to 2003 and 2004. Such developments in state aid were partly due to the course of the privatization process, as the number of businesses needing to be rescued by the state was decreasing.

*Table 16 Rescue and restructuring aid, 2001-2004*

	2001	2002	2003	2004	2001-2004
Rescue and restructuring (million kuna)	241.2	349.3	74.5	85.5	750.6
% of GDP	0.15	0.19	0.04	0.04	0.10

*Source: Authors' calculations*

*Table 17 Rescue and restructuring aid by instrument (%)*

	2001	2002	2003	2004	2001-2004
Grants	7.1	82.4	-	32.0	44.3
Tax exemptions and relief	-	-	-	-	-
Equity participation	-	-	-	-	-
Soft loans	54.3	17.6	100.0	68.1	43.3
Tax deferrals	-	-	-	-	-
Guarantees issued	38.6	-	-	-	12.4
Guarantees revoked	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0

*Source: Authors' calculations*

The most frequent aid instruments are grants from the state budget and soft loans. In 2004, grants from the budget for the rescue and restructuring of firms were given by the Ministry of Economy within its re-industrialization programme and by the Croatian Development and Employment Fund for the revitalization of the company Diona d.d. in Bankruptcy. The largest amount of budget subsidies for this purpose was allocated in 2002, mainly for the restructuring of the Croatian Postal Bank.

Over the observed period, state aid for rescuing and restructuring purposes was largely financed by soft loans. These were the CBRD loans extended throughout the observed four-year period within the Loan Programme for the Development of the Economy and Loan Programme for the Financial Restructuring of Business Entities. These programmes are intended for the restructuring of business entities, modernization of the existing and introduction of new technologies, and are

available to all beneficiaries in Croatia who are engaged in various business activities. The loans were not intended for the restructuring of any particular sector but of all sectors and were classified as general rescue and restructuring loans. The amount of aid allocated through this instrument has decreased continuously, falling from 130 million kuna in 2001 to 58 million kuna in 2004. State guarantees for these loans were only issued in 2001, to various domestic banks for the benefit of the Croatian Privatization Fund. The most generous subsidies were provided in 2002 for the rehabilitation of the Croatian Postal Bank.

The last EU State Aid Scoreboard with separately presented data on rescue and restructuring aid for 2000 was issued in 2002.<sup>xix</sup> In this year, rescue and restructuring aid in the EU-15 accounted for barely 1% of total aid and was mainly granted in Spain.<sup>xx</sup> In Croatia, this aid accounted for 6.7% of total aid in 2001, but decreased to 2.3% of total aid in 2004. Consequently, within the structure of total aid in Croatia, rescue and restructuring aid is still above EU levels.

### *Rescue and restructuring aid to enterprises in difficulties in European Union and in Croatia*

The EU considers rescue and restructuring aid sectoral aid, because it is believed that this aid has the most distorting effect on competition and that state support must not be provided as a rule any time an enterprise gets into financial difficulties.<sup>xxi</sup> It is natural that low-efficiency enterprises should withdraw from the market, and the state is not allowed to keep them artificially in operation.

In October 2004, the EU introduced new, clearer and more transparent rules on rescue and restructuring aid, which will apply till 2009. Such aid is still allowed, subject to the following basic rules:

- Aid allocation is based on the “*one time, last time*” principle, meaning that the aid can only be allocated once in a 10 year period.
- Rescue aid can be provided for the maximum of six months. Aid provided after this period is considered to be restructuring aid.
- The Commission considers that the recipient of the restructuring aid must participate in financing the restructuring.

**Box 7 Rescue aid in favour of MG Rover Group Ltd.**

In 2004 MG Rover Group Ltd. was supposed to be taken over by Shanghai Automotive Industry Corp. However, due to a lack of confidence about the solvency of MG Rover, there was no reasonable prospect of a deal. In order to support the company, the UK Ministry of Trade and Industry agreed to provide a 6.5 million pounds loan for one week to cover the costs of staff wages and salaries. The European Commission considered that this loan was state aid because MG Rover Group Ltd. would not have obtained it on commercial conditions. The Commission also considered that this state aid was allowed. More specifically, it was granted for an area defined by Article 87(3)(c) of the Treaty, which allows aid for the development of underdeveloped regions. Moreover, the loan was granted for the duration of one week, which was much shorter than the allowable duration of 6 months, at an interest rate of 7.5%, considered as market rate. The loan was granted on the grounds of serious social difficulties (possible job loss for 6,100 employees and 12,200 sub-contract workers). MG Rover had only a limited share in the car market; the United Kingdom had committed to submit the liquidation plan within 6 months; MG Rover had not received rescue aid on an earlier occasion. In view of the above, in 2005 the Commission decided that the rescue aid concerned was compatible with the common market.

*Source: Commission of the EC, 2005b*

As rescue and restructuring aid is still sizeable in Croatia compared with that in the EU-15, it seems likely that it will be reduced in the forthcoming period. In addition, this aid will have to be adjusted to the EU rules providing that aid can be granted to an enterprise only once in ten years and that the enterprise must participate in financing the restructuring costs. The implementation of the EU rules will also improve transparency of state aid allocation in this area where arbitrary and *ad hoc* decisions have been taken too frequently.

## CONCLUSION

State aid is a part of industrial policy and one of the measures used by the state to influence the market position of particular industries and/or enterprises. “Bad aid” distorts competition giving priority

to one enterprise over the other, and thus reduces public welfare, while “good aid” corrects market failures and thus contributes to the growth of welfare. The allocation of state aid, particularly that which is the subject to selective industrial policy, i.e. the policy aimed at providing help only to selected economic sectors or companies, offers many challenges, e.g.: state aid involves direct and indirect costs; the state has insufficient information to be more successful than the market in selecting “winners” and “losers”, and it cannot pick the right moment to stop providing assistance; it is incapable of resisting various lobbies; state aid results in unfair competition; it can harm international trade; and, finally, state aid imposes a burden on the state budget. All the above-mentioned challenges have to be borne in mind when deciding on the implementation of a particular form of state aid.

This paper presents an overall picture of the size and structure of state aid in Croatia and indicates the direction of its future development following EU rules. This provides a general framework for Croatian state aid policy, i.e. Croatian industrial policy in broader terms. The recommendations given for particular sectors relate to the harmonization of state aid with the EU rules and practices, and to improving transparency in state aid allocation, especially as concerns the avoidance of *ad hoc* authorizations of aid to “rescue” certain enterprises.

The state aid-to-GDP ratio in Croatia is four times higher than that in the EU, and aid is mainly targeted at “problem sectors” like shipbuilding, transport (particularly the railways) and the steel industry, as well as rescue and restructuring of firms in difficulty. The harmonization of these sectors with EU standards will need the greatest effort. By contrast, aid to horizontal objectives (e.g. small- and medium-sized enterprise, research and development, education and training, environmental protection) will need to be increased, aid allocation transparency will need to be improved, and it will have to be ensured that state aid regulations are consistently applied by all system participants. Being aware of the necessity for these adjustments, the Government of the Republic of Croatia in its Pre-accession Economic Programme 2006-2008, drawn up in December 2005, committed to reduce state subsidies<sup>xxii</sup> from the 2.5% of GDP in 2006 to 2.2% of GDP in 2008 (particularly those granted to Croatian Railways).

In its latest State Aid Scoreboard (Commission of the EC, 2006), in which Croatia is mentioned for the first time, the European Commission calls attention to the crucial tasks facing Croatia in its state aid

reform. This particularly relates to sectoral state aid to shipbuilding and steel industry.

- *Shipbuilding*. A sustainable program to restructure the shipbuilding sector should be adopted as soon as possible, following the EU rules and taking account of the importance of this industry for Croatia.
- *Steel sector*. Croatia has not fulfilled its obligation from the SAA to adopt a programme to restructure its steel industry by March 2004. As aid to shipyards and ironworks continues to be allocated, the stated programmes should be adopted without delay.

The Commission points to the necessity to implement short-term measures aimed at improving the transparency of the state aid system, e.g.: to strengthen the administrative capacity of the Croatian Competition Agency, to ensure the efficient implementation of all aid-related measures, to harmonize the Croatian legislation with the *acquis*, to establish a comprehensive list of state aid including all measures related to state aid which are adopted at all levels of authority. The restructuring and privatization of the Croatian economy, particularly in the area of shipbuilding and steel industry<sup>xxiii</sup>, and the promptness in harmonizing the Croatian state aid system with the EU rules will have a significant influence on the opening of the negotiations on Chapter 8 of the *acquis* dealing with competition, which also includes state aid.

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- \* *The authors would like to thank the referees who anonymously reviewed this paper.*
- i *We express our gratitude to the Ministry of Finance of the Republic of Croatia for providing financial support and permission to publish these data.*
- ii *The data for the period 2001-2002 were collected independently by the Institute of Public Finance, and the data for the following two-year period were gathered within the research project developed by the Institute of Public Finance for the purposes of the Ministry of Finance. The data originate from various sources, e.g.: Ministry of Finance, Tax Administration, Croatian Government, Croatian Bank for Reconstruction and Development, Croatian Privatization Fund, etc.*
- iii *The essentials of the methodology applied in State Aid Scoreboard are available on the EU website: [http://europa.eu.int/comm/competition/state\\_aid/scoreboard/conceptual:remarks.html](http://europa.eu.int/comm/competition/state_aid/scoreboard/conceptual:remarks.html).*
- iv *The European Council's meetings in Stockholm (2001), Barcelona (2002) and Brussels (March, 2003).*
- v *State Aid Action Plan: Less and Better State Aid: A Roadmap for State Aid Reform 2005-2009; available at: [http://europa.eu.int/comm/competition/state\\_aid/others/action\\_plan/saap\\_en.pdf](http://europa.eu.int/comm/competition/state_aid/others/action_plan/saap_en.pdf).*
- vi *A set of common strategy rules adopted at the European Council meeting in Lisbon in 2000, according to which, by 2010, the EU should become the world's most competitive and dynamic economy based on knowledge and capable of sustainable economic growth, with the highest employment rate and strong economic and social cohesion.*

- vii *This way of presenting state aid is used in the EU State Aid Scoreboards.*
- viii *The 2002 figures are based on the available data, which are less detailed than the data for other years. Therefore, it is not quite accurate to compare the amounts of state aid in 2002 with those granted in other years.*
- ix *A comparison between Croatia and the EU by aid allocation instrument is only possible for aid to manufacturing and services, because it is so presented in the EU State Aid Scoreboard.*
- x *Sizeable amounts of state aid are allocated to tourism and other industries. However, as they are not subject to any special EU regulation and are governed by general rules on state aid, they are not specifically mentioned here.*
- xi *The sources of data: Croatian Chamber of Economy (<http://www.hgk.hr>) and Hrvatska brodogradnja Jadranbrod d.d. Zagreb.*
- xii *Total aid less agriculture, fisheries and transport.*
- xiii *Total aid less agriculture, fisheries and transport.*
- xiv *Framework on state aid to shipbuilding; available at: [http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c\\_317/c\\_31720031230en00110014.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c_317/c_31720031230en00110014.pdf).*
- xv *Total aid less agriculture, fisheries and transport.*
- xvi *The obligation set out in the Pre-Accession Economic Program, 2006-2008 of the Government of the Republic of Croatia; available at: <http://www.mfin.hr/str/102/>.*
- xvii *Available at: [http://europa.eu.int/comm/competition/state\\_aid/legislation/](http://europa.eu.int/comm/competition/state_aid/legislation/).*
- xviii *Available at: [http://europa.eu.int/comm/competition/state\\_aid/legislation/](http://europa.eu.int/comm/competition/state_aid/legislation/).*
- xix *Subsequently, the data were not presented separately but were included in other sectors (Commission of the EC, 2002).*
- xx *Total aid less agriculture, fisheries and transport.*
- xxi *Available at: [http://europa.eu.int/comm/competition/state\\_aid/legislation/](http://europa.eu.int/comm/competition/state_aid/legislation/).*
- xxii *Including subsidies to agriculture, but excluding other aid instruments (guarantees, tax exemptions and relief, etc.), which are included in state aid according to the EU methodology.*
- xxiii *The National Programme for the Rehabilitation and Restructuring of Croatian Shipbuilding should be completed by 15 June 2006. The National Program for the Rehabilitation and Restructuring of the Iron and Steel Industry has been completed and submitted to the EU (--, 2006).*

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## Chapter 11

# **HEALTH CARE POLICY AND REFORM IN CROATIA: HOW TO SEE THE FOREST FOR THE TREES**

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### **ABSTRACT**

This paper reviews current issues in health care policy and reform in Croatia. It analyses the microeconomic foundations of health care (characteristics of health as an essential good, market and government failures in allocation of health care services); the role of health care in the process of European Union accession; the status of health care in Croatia (health status of the population, demographic trends, health care resources); microeconomic and macroeconomic aspects of health care financing; and recent reform proposals for the health care sector. On this basis a number of recommendations for health care reform in Croatia are formulated. The proposals refer to financial sustainability of health care in the medium and long term; the mix of general taxes and mandatory health insurance contributions as sources of public funding; the mix of public and private funding; the impact of different financing instruments on the operations of health care providers; labour market effects of different financing methods; and the political economy of health care reform.

**Keywords:**

health care, Croatia, health care financing, economics of health care, health care costs, health care policy, health care reform, market failure, government failure, health status, demographic trends, health care resources, health care in European Union

**INTRODUCTION**

This paper provides a broad overview of current issues in health care policy and reform in Croatia. The focus is on the “big picture”, on seeing, from the perspective of an informed citizen, the health care “forest” for the trees that are being planted or cut down daily by health care specialists and policy makers focusing on details of health care policy and reform. The relationship between the health care reform and Croatia’s EU accession is also discussed. However, this relationship is only tangential: the health care sector is not really a part of the *acquis*; and even if it were, the authorities in Croatia would need to implement health care reforms primarily for the benefit of Croatian citizens, not because the authorities in Brussels demanded that they did so.

Croatia spends about 8% of GDP annually on health care, which is somewhere between the average for the 15 old EU member states (8.8% in 2003) and the 10 new member states (7.1%; for data sources see Annex tables). About 84% of health care spending comes from public sources and 16% from private sources. Within the public sector, the Croatian Health Insurance Institute (HZZO) accounts for 96% of general government spending on health care. HZZO also plays a key role on the supply side by setting health care delivery standards (together with the Health Ministry) and negotiating volumes and prices of health services with providers.

The bulk of resources for health care financing are collected from employers through mandatory payroll contributions. The remainder of public sources consists of transfers from the budget, i.e. general (rather than earmarked, as in the case of payroll contributions) tax revenues. Private resources for health care financing are almost entirely patients’ out-of-pocket expenditures, given that the role of private health insurance is negligible.

The health care sector has undergone major changes since the early 1990s. These changes have transformed a once highly decentralised and overstuffed system with major regional imbalances in fund-

ing and quality standards, into a more centralised, better funded and overall more efficient system of mixed public and private health care delivery. The system nonetheless continues to face major problems. Most reforms of recent years have focused on cost containment. This has resulted, on the one hand, in the shifting of an increasing portion of health care costs to households, and, on the other hand, a constant shifting of “fire-fighting” efforts from one segment of the health care sector to another. Most of the stakeholders in health care reform are dissatisfied with the current situation, as reflected in an increasingly acrimonious public debate. However, since no one is willing to lose even more benefits, implementing more fundamental reforms has become a political non-starter.

Against this background, one aim of this paper is to try to inject a dose of sound economic analysis into public debate on health care policy, so that different stakeholders in health care reform could perhaps start discussing the real long-term issues more dispassionately. Another aim of the paper is to encourage Croatian economists to do more research on the economics of the health care sector. This area has been rather neglected in the domestic literature and research programmes, which has contributed to the problems currently facing the health care sector. Problems in the health care sector will be analysed from both microeconomic and macroeconomic perspectives, as has become the norm in the profession over the past quarter of a century. To highlight the scope of the problems, the focus will be on identifying key issues rather than elaborating details in different segments of the health care sector.

The next section will thus start with some basic microeconomic foundations: why health care is different from other essential goods and which market and government failures arise in its allocation. Some insights on the situation in Croatia with regard to these micro foundations will also be provided. Section 3 will then turn to the role – or rather, the search for a role – of the health care sector in the process of EU accession. Section 4 will analyse health care in Croatia from a demand-supply perspective, looking at basic health outcomes and demographic trends on the demand side, and human resources and developments in health care delivery on the supply side. Section 5 discusses the microeconomic and macroeconomic aspects of health care financing. The emphasis is on uncovering flaws in the design of financing arrangements that give rise to the observed negative trends and to the dissatisfaction of different stakeholders with the health care system. Section

6 analyses how far the recent reform proposals have (or have not) addressed these flaws. Section 7 concludes with remarks on the more fundamental health care reforms that Croatia will have to implement in the medium term. The main conclusion is that health care reform is much more complex and difficult to design and implement than, for instance, pension reform.

## **MICROECONOMIC FOUNDATIONS**

### **Why is health care different from other essential goods and its reform so complex?**

The literature on health care economics has been primarily developed in English-speaking countries. As a result, the institutional frameworks of these countries have influenced the way economists think about health care even more than in other branches of public economics. This refers in particular to institutional frameworks in the United States and the United Kingdom, which are polar opposites in that the former has no government health insurance (except that for the elderly and the poor) while the latter has comprehensive government health insurance.

The literature usually starts from the assumption that health care can be analysed like any other competitive industry, and then explains why markets alone cannot produce efficient outcomes in the health care sector (see e.g. McGuire and Mayhew, 1989). One reason is that health care is different from other essential goods and services: the health care sector consists of more than a dozen markets – for different types of health care and medical treatment; health insurance; pharmaceuticals, medical equipment; labour market for medical personnel; etc. In most of these markets, serious market failures occur, including adverse selection, asymmetry of information, increasing returns and moral hazard (see below).

Another, perhaps more fundamental reason why markets alone cannot be relied upon to allocate health care is that good health broadly shared is intrinsically valued in all societies (Hsiao, 2000:6). Inequities in health and access to health care offend our innate sense of justice and fairness. The notion that, at the minimum, every individual should have access to basic medical services and medicines to relieve pain and suf-

fering and to avoid untimely death is universally shared (ibid:6). As the cost of modern medicine is not affordable to most lower-income households, they need either medical insurance or access to subsidised health services in case of serious illness. Even for the better-off households, the costs of treating a major illness can lead to financial ruin. Some form of health insurance and government involvement in the provision of affordable health care is thus unavoidable from an ethical point of view.

But health insurance also has a strong economic rationale. In both rich and poor countries, about 25-30% of health care expenditure is spent on 1% of the population, and about 60% is spent on 5% of the population (Hsiao, 2000:11). For 20-25% of the population, there is no spending on health care in a given year (Table 1). However, it is difficult to predict which individuals will be in those 1% or 5% categories that absorb the bulk of healthcare spending. This provides a fundamental rationale for health insurance, as shown in the seminal paper by Arrow (1963).

In Croatia, as in most former socialist countries, discussions about healthcare policy and reform usually start from the opposite end of the spectrum – the general assumption that access to health care is universal, equal and basically free to every individual. Universal right to health protection is constitutionally guaranteed in Croatia (“Everyone is to be guaranteed the right to health care, in conformity with the law”, Article 58). However, many policymakers and members of the public seem to confuse the ethical norms noted above with basic economic laws, which operate even in the health care sector, despite the fact that health is a special good.

*Table 1 Healthcare expenditure by percentage of population for all age groups<sup>1</sup>*

Percent of total population	Percent of total health expenditure
1	29
5	60
10	74
50	98
80	100

<sup>1</sup> *Data for the United States, 1998.*

*Source: Hsiao (2000:12).*

For instance, the basic law of demand states that, if one reduces the price of a good or service, then people consume more of that good or service. In the case of health care, the price that people pay for services such as routine doctor visits, vision care, or low-cost treatment of minor illnesses and injuries is being reduced by *comprehensive* health care coverage. The law of demand states that this will increase the use of such care – people will visit doctors more often because routine visits are covered by health insurance.<sup>i</sup> This will result in excess demand: providers will not have an incentive to increase supply because the price is fixed below equilibrium level. Excess demand will be resolved through rationing – those willing to get cheap routine care will have to queue for such services. To avoid the waste resulting from over-consumption of routine care, the price of such services needs to be raised. One way to do this is through deductibles and co-payments, but with appropriate solutions for low-income families.<sup>ii</sup>

In contrast to routine health care, for major illnesses and hospital stays, it makes good economic sense – and is ethically correct – to cover most of the cost by insurance. This is consistent with the principle that insurance should protect people against disproportionate financial loss due to illness – in particular, against catastrophic loss – but it should not insulate them from the cost of *all* health care.

Economists and healthcare experts in countries such as Croatia thus have to explain to policymakers and the public why governments alone cannot and should not finance all the costs of health care.<sup>iii</sup> One consequence of this starting position is that political economy considerations are of paramount importance for the success of healthcare reforms (see concluding section).

## **Market and government failures and the situation in Croatia**

Market failure is a situation in which markets do not organise production or allocate goods and services efficiently. Economists normally apply this term to situations where the market is failing to create *maximum* efficiency. It does not mean that the market has collapsed or ceased to exist; it suggests that non-market institutions such as government regulation might improve the market outcome. In the healthcare sector, market failures occur in most of the markets making up the sector.<sup>iv</sup>

*Informational asymmetries* are present both in the supply of medical services and health insurance, where they are known as “adverse selection” and “moral hazard” problems (see below). On the supply side, the complexity of the technical data on medical treatment, the multiplicity of choices and the distressed state of mind of many who discover that they are ill make it difficult for the patient to obtain and process all information relevant to his or her illness. The patient must therefore rely on the supplier (physicians, other medical professionals) for the provision of information on the potential choices available and the gains associated with the treatment. In an unregulated market environment, this creates the possibility of severe exploitation of patients by doctors, who are in a more or less monopolistic position with regard to information on medical treatment.<sup>v</sup>

One solution to the problem of informational asymmetries is the development of a contractual or “agency” relationship between the doctor and the patient, for instance, through legislation on patients’ rights enforceable in courts of law. A complementary solution is the development of self-regulated standards of professional conduct by the medical profession – e.g. self-regulation of entry to the profession and the imposition of ethical standards after entry. These solutions do not guarantee perfect outcomes. For instance, entry barriers into the medical profession restrict supply and increase the price of health care; maintenance of ethical standards of doctors’ behaviour may be hard to enforce in courts. Nevertheless, these solutions are necessary to overcome the worst problems associated with informational asymmetries. One aspect of this problem that seems to be particularly pronounced in Croatia and will need to be addressed as part of the EU accession process is the lack of adequate legislation on patients’ rights and inadequate enforcement of existing legislation.<sup>vi</sup>

*Complexity and uncertainty* in health care provision arise because every case is potentially different from every other and may also develop in different ways from previous cases. The market is unable to cope efficiently with these problems. This places an even greater importance on ethical behaviour of doctors, who should provide reassurance that they are acting in the patient’s best interest.

*Increasing returns* arise because, with medical care becoming more complex, there is a growing need for specialist advice and specialist medical equipment, both of which are costly and require a large number of patients to justify their use economically. In a market environment these aspects of production increase the probability of



oligopolistic structures emerging. Since oligopolistic prices are higher than competitive prices, there is a need for government regulation of pricing of medical services.

*Adverse selection* occurs when higher-risk individuals such as smokers do not tell a private insurance company about their health risk. As a result, the insurance company calculates a premium that does not cover its expected costs for insuring the higher-risk individuals. When these costs materialise, the insurance company raises premium for all the insured, including the lower risk individuals such as non-smokers. The higher premium may then cause some lower-risk individuals to switch to another insurance company, which offers a lower premium. If no action is taken, this will lead to a vicious cycle and the ultimate collapse of the insurance scheme.

Adverse selection can be reduced by letting insurers set more accurate premia; e.g. by giving them more information or lifting restrictions on how premiums are set. However, this may discriminate against chronically-ill and high-risk people, who may be unable to get health insurance at fair prices. To avoid this situation, the authorities regulating private insurance companies typically define a list of pre-existing health conditions which cannot be excluded from insurance plans.

There is no information on the extent to which the problem of adverse selection in private insurance plans is present in Croatia. As noted above, the role of private health insurance plans is minimal at the moment. But as these plans become more important in the future the authorities will need to take the problem of adverse selection into account in regulatory solutions.

As for the problem of adverse selection in the state-run health insurance plan, the high proportion of lifestyle diseases related to obesity, lack of physical activity, smoking and alcohol and drug abuse, and the fact that everyone pays the same insurance contributions, suggest that the cost of treating such diseases is essentially being subsidised by people who do not expose themselves to such health risks. This raises financial, equity and fairness issues which have yet to become the subject of public debate in Croatia.

The term *moral hazard* refers to the increased risk of careless behaviour and thus a negative outcome (“hazard”) because the person who caused the problem does not suffer the full (or any) consequences of his or her behaviour, or may actually benefit at the expense of others. In health insurance this problem would arise if individuals were taking less care of their health – e.g. exercising less, smoking and drink-

ing more, taking fewer check-ups than would otherwise be the case – just because they knew they were insured. The most important way to mitigate moral hazard is through special provisions (“riders”) in insurance contracts. For instance, many health insurance companies include a provision that requires the insured to obtain regular check-ups, dental cleanings, etc. or offer discounts for non-smokers and people who exercise regularly.

It is not clear how far the problem of moral hazard is present under Croatia’s comprehensive health insurance. In 2004 and 2005 the two top-selling drugs were cholesterol-reduction medicines.<sup>vii</sup> Widespread smoking and alcohol abuse and the fact that smokers and heavy drinkers do not pay higher health contributions further indicate that there is considerable scope for the moral hazard problem. In a more fundamental health care reform the authorities would therefore need to take determined action against different forms of irresponsible behaviour of insured persons.<sup>viii</sup>

*Government failure* is the public sector analogy to market failure and occurs when a government does not efficiently allocate goods and/or resources to consumers of government services. Just as a market failure is a problem that prevents the market from operating efficiently, a government failure is not a failure of the government to bring about a particular solution, but rather a systemic failure that prevents an efficient government solution to a problem.

An example of government failure in the health care sector most relevant to Croatia is the dominance of health practitioners’ interests over the interests and welfare of patients. According to Transparency International (2005), 32% of Croatian citizens think that corruption in the health care sector is “widespread”, and 48% think that it is “very widespread”.<sup>ix</sup> Sometimes the dominance of physicians’ interests is more or less officially sanctioned. Physicians employed by the state were for many years allowed to pay symbolic rents for state-owned facilities to use for their private practices after regular working hours.<sup>x</sup> Such a practice is, of course, unimaginable in the EU or even in other public-sector professions in Croatia. That it was legal is a testimony to the political clout that the medical profession has secured in Croatian society.<sup>xi</sup> It is also *prima facie* evidence of a systemic failure of government bureaucracies to operate the health care system in the interest of the citizens.<sup>xii</sup>

## HEALTH CARE SECTOR AND EUROPEAN UNION ACCESSION

The relationship between European law and health policy is complex and often confusing, in part because there is no clear demarcation of the competence of the member states and the European institutions in health matters.<sup>xiii</sup> Article 129 of the 1993 Maastricht Treaty stated that “the Community will contribute to a high level of health protection for its citizens” and made provision for community action to prevent major diseases. This article provided the basis for a programme of action in health promotion, information, education and training in public health, including in areas such as the fight against cancer, AIDS and other communicable diseases; collection of health data; and occupational health and safety; pollution-related diseases and rare diseases.

In the Amsterdam Treaty revision of 1997 it is stated that “Community action shall be directed towards improving public health” (Article 152). However, what exactly is meant by public health was not defined – the border between public health and policies in many other areas, such as the environment and consumer protection, is indistinct. Health considerations are also implicit in many other articles of the Treaty, such as those on research, agriculture, social policy and mechanisms to promote free movement of people and goods. The Amsterdam Treaty also sought to clarify how EU law affects health services, stating that “Community action in the field of public health shall fully respect the responsibilities of the Member States for the organisation and delivery of health services and medical care” (Article 152).

However, this exclusion of health services from the competence of the EU and the implicit recognition that such services were the responsibility of national governments soon proved to be not quite so simple. Health services can only operate by using many inputs that are covered by the single market. Free movement embraces goods such as medical technology and pharmaceuticals; people such as patients and health professionals; and services such as pharmaceutical research and development. The production and movement of these inputs are subject to European law, in particular in that they must be transparent and non-discriminatory.

For instance, a single market, guaranteeing freedom of movement of people, can only function if those people can travel without fear of losing the protection they enjoy in their own countries in respect

of health care. Thus, a series of directives in the early 1970s set out mechanisms for various groups of people whose work involved cross-border travel to receive health care in other member states, with provisions for those abroad temporarily to obtain care in an emergency. In addition, mechanisms were put in place to enable those organizations paying for health care to send patients abroad for treatment. In the late 1990s, the European Court of Justice passed several rulings which established the right of patients to obtain health care abroad without prior authorisation. These rulings have shown that the health care sector of the member states was gradually coming within the reach of community law.

Health services were part of a draft EU Directive on Services that was rejected by European Parliament in early 2006 after sometimes bitter debates. However, by September 2006 an “orientation discussion” on harmonisation of certain aspects of health care services had started among EU members, indicating that this topic will stay on the EU agenda.

As a result of the growing complexity of the relationship between European law and health policy, almost all chapters of the acquis have some implications for health care. Those of particular relevance are Chapter 13, on social policy and Chapter 23, on consumers and health protection. But other chapters also contain important provisions related to health care: Chapters 1-3 on the free movement of goods, persons and services; Chapter 12 on food safety; Chapter 27 on the environment; etc. Details on the position of health care in these chapters and on Croatia’s standing with regard to the fulfilment of EU requirements are beyond the scope of this paper. In any case, in a period of intensive accession negotiations they are a moving target. According to the 2005 European Commission *Progress Report*, for instance, Croatian legislation only partially covers the acquis in the various sectors of consumer and health protection (European Commission, 2005:102). In the chapter on social policy, the main conclusion is that this area appears to have been “rather neglected” (ibid:78), while implementation and enforcement capacity will need to be substantially improved if the acquis in the field of health and safety at work are to be properly applied (ibid:77). How long this might take in practice remains difficult to say. The Croatian authorities seem to be relatively optimistic and believe that it will take about two and a half years (i.e. until the end of 2008) to complete adjustment of overall legislation (not just that relating to health care) with the acquis.<sup>xiv</sup>

Finally, one should note that the Croatian Ministry of Health is not in charge of negotiating any particular chapter of the acquis. These responsibilities are split among several ministries, which increases the need for coordination of activities among different parts of the government. To the extent that cooperation among ministries is hampered by lack of resources and skills and by bureaucratic rivalries, the adoption of the acquis could be further slowed down.

## HEALTH CARE SECTOR IN CROATIA<sup>xv</sup>

### Health status of the population

The picture on the health status of the Croatian population is mixed, with some indicators showing relatively good health outcomes and others showing relatively poor outcomes. Life expectancy at birth – 72 years for males and 79 years for females in 2004 – compares favourably with both EU-15 (76 and 82 years, respectively) and EU-10 averages (71 and 79 years), in particular considering the difference in per capita income (about 40% of EU average in PPP terms in 2004) (Table A1 in Annex). However, Croatian men and women can expect to be sick one more year during their lives than average citizens of the old and the new Europe (Table 2).

*Table 2 Life expectancy at birth and years of healthy life, 2004*

	Life expectancy at birth (years)		Expected years of healthy life		Expected years of sickness <sup>1</sup>	
	Males	Females	Males	Females	Males	Females
Croatia	72	79	64	69	8	10
EU-15	76	82	69	73	7	9
EU-10	71	79	64	70	7	9

<sup>1</sup> Calculated as the difference between life expectancy at birth and expected years of healthy life.

Source: WHO (see Annex Table A1); author's calculations.

Adult mortality rates in Croatia are lower than in the new member states – 160 people per 1,000 die in Croatia between the ages of 15 and 60, compared with an average of 205 in EU-10 – but significantly

higher than in EU-15, where the adult mortality rate is 113 per 1,000 (Annex Table A1). The infant mortality rate is the same as in EU-10 (6 deaths per 1,000 live births), but again significantly higher than in EU-15 (4 infant deaths per 1,000 live births).

Where health outcomes show a particularly large gap with respect to the old (and to a lesser extent the new) Europe is in terms of major causes of death. Croatia has a higher age-standardised mortality rate than EU-15 for virtually all non-communicable diseases: cardiovascular diseases, cancer, injuries, chronic respiratory diseases, diabetes and other chronic diseases. For instance, in Croatia there were 356 deaths from cardio-vascular diseases per 100,000 people in 2002, almost double the average in EU-15 (185 deaths) (Table A1 in Annex). These developments are probably closely related to the spread of an unhealthy lifestyle, as can be seen from the following health risk indicators (see Table 3):

- Croatia has an extremely high proportion of obese people – almost a quarter of the adult population is overweight, which is almost double the average in EU-15 and 50% higher than in EU-10.
- Prevalence of tobacco use is very high, especially for Croatian women (23% of adult women consume tobacco products regularly) and school-age children (19% of boys and girls aged 13 to 15 smoke cigarettes).
- Alcohol consumption in Croatia is 25% above the EU-15 average and almost 50% above the EU-10 average. Croatia is in the 5<sup>th</sup> place in the world in terms of adult per capita wine consumption (after Luxembourg, France, Portugal and Italy), and in the 15<sup>th</sup> place in the world in terms of per capita consumption of beer. Not surprisingly, mortality rates from alcohol-related diseases are very high.<sup>xvi</sup>
- In addition, prevalence of physical inactivity is very high. The World Health Organization (WHO) data (not shown in Table 3) indicate that in 2003, 47% of Croatian men and 51% of Croatian women were physically inadequately active.<sup>xvii</sup>

In summary, major preventable health risks are highly present in Croatia and the authorities could and should do much more to educate the population about the seriousness of these risks for health. This is important to emphasise because the 2006 health care development strategy (MZSS, 2006) fails to stress sufficiently the links between health risks and health outcomes, leaving the impression that the state of health of the Croatian population is mostly good.<sup>xviii</sup>

Table 3 Selected health risk indicators

	Adults ( $\geq 15$ years) who are obese <sup>1</sup>		Prevalence of current tobacco use <sup>1</sup>		Alcohol consumption (per capita per year, in litres) <sup>2</sup>
	Males	Females	Males	Females	
Croatia	22	23	32	23	16.2
EU-15	13	13	32	20	12.9
EU-10	14	17	40	18	8.3

<sup>1</sup> Percent of total population.

<sup>2</sup> Total recorded and unrecorded consumption per adult (15 years and older), in litres of pure alcohol.

Source: WHO (see Annex Table A2) and WHO (2004).

## Demographic trends

To round off the picture on the demand for health services, one needs to consider the main demographic trends. As in most European countries, population trends in Croatia have been unfavourable for some time. Between 1995 and 2004, total population declined at an average annual rate of -0.3% (Table A3 in Annex). Croatian women bear fewer children on average (1.35) than women in EU-15 (1.6) and about the same as those in the new member states.

As in the rest of Europe, the population in Croatia is rapidly getting older. According to the 2001 census, 16% of the population was 65 or older; 67% was of working age (15-64 years); and 17% was below the age of 15 (Table 4). By 2050, according to the latest projections of the State Statistical Bureau, the share of elderly in total population might rise to 27%, and the share of the working age population might decline to 59%. The old-age dependency ratio – population aged 65+ as a share of population aged 15-64 – would thus increase from about 23% in 2001 to 46% in 2050, and the total dependency ratio (the elderly plus children as a percentage of the working-age population) from 49% to 69% (Table 4).

But this is only part of the demographic picture with negative implications for health insurance. The ratio of population not paying health insurance contributions to employed persons is already extremely unfavourable, about 2:1 (Table 4). In other words, for every employed person, mandatory health insurance contributions have to be

high enough to cover insurance premia for two additional persons who do not pay the contributions. This in itself is quite enough to show that Croatia's health insurance system faces major long-term sustainability problems. Only one-third of the population is paying for health insurance, while the remaining two-thirds – retirees, family members of insured persons, the unemployed and other non-active persons – are not paying health insurance contributions even though they account for well over two-thirds of health care costs. While there was some improvement in the ratio of the non-paying population to the employed between 2000 and 2005, with population-ageing this ratio will inevitably deteriorate, even if employment rates remain unchanged.

*Table 4 Demographic trends and health insurance*

Age (years)	Percentage share				Ratio of population not paying mandatory health insurance contributions to employed (%) <sup>1</sup>	
	In total		In working- age population		2000	2005
	2001	2050	2001	2050		
Children (0-14)	17	14	26	23	Total not paying/ Employed	1.98 1.85
Working age (15-64)	67	59	100	100	Retirees/ Employed	0.70 0.66
Elderly (65+)	16	27	23	46	Family members/ Employed	0.97 0.83
Children plus elderly	33	41	49	69	Unemployed/ Employed	0.09 0.09

<sup>1</sup> Total population not paying contributions also includes other non-active categories of persons.

Sources: DZS (2006); HZZO (2002; 2006); author's calculations.

The high proportion of retirees in Croatia's population is also significant for the health care sector because the distribution of health expenditure by age is highly skewed towards older people. In the United States, for which the most comprehensive data are available, 36% of total health care expenditure is incurred by those 65 years and older, whose share in total population is 12%. For Croatia there are no comparable data, but as an approximation one can use HZZO expenditure on retirees and their families, which has accounted for about 43% of total HZZO expenditure since 2000. This proportion can be expected to increase faster than the share of elderly in total population (currently at



16%), because demand for health care will increase with rising per capita income, again raising the question of the sustainability of the current system.

## Health care providers

Viewed from the supply side, the situation in Croatia's health care sector is even less favourable than would be suggested by the above comparisons of health outcomes and demographic trends. Croatia has significantly fewer physicians, nurses, midwives and pharmacists per 1,000 inhabitants than either EU-15 or EU-10 on average (Table 5). Dentists are the only health professionals whose numbers compare favourably with European averages. In terms of hospital beds, Croatia has less overcapacity than the new member states and is basically at the average EU-15 level. Other indicators of hospital capacity compare favourably with European averages; one exception is the average length of stay in hospitals (11 days), which is longer than the EU average (9 days).<sup>xix</sup>

*Table 5 Resources in the healthcare sector (per 1,000 inhabitants)*

	Physicians	Nurses	Midwives	Dentists	Pharmacists	Hospital beds <sup>1</sup>
Croatia	2.4	5.1	0.3	0.7	0.5	5.5
EU-15	3.3	9.2	0.6	0.7	0.8	5.4
EU-10	3.2	6.8	0.3	0.6	0.7	6.4

<sup>1</sup> Per 10,000 inhabitants.

Source: WHO (see Annex Table A3).

When comparing these data with health outcomes one can draw two preliminary conclusions. First, in terms of utilisation of human resources, the healthcare sector in Croatia appears to be fairly efficient: with 25-50% fewer healthcare professionals it helps "produce" basic outcomes such as healthy life expectancy that are not significantly lower than EU averages. Second, the one health profession where there seems to be adequate supply of services – the dentists – is also the one where private practice predominates and most expenses are out-of-pocket. Few complaints tend to be heard about the quality of services and corruption in dental care. What this case demonstrates is that

market mechanism can be relied upon to produce efficient outcomes for some health services and reduce – perhaps even eliminate – government failure. It would therefore be interesting to investigate why Croatian citizens have accepted the notion that they have to pay for dental services.

Croatia's health service providers are further organised into primary (general and family practitioners, emergency care etc.), secondary (specialised care and hospitals) and tertiary sectors (highly specialised care, teaching hospitals, medical research facilities) as well as health institutes (including public health institutes). How these sectors are organised and problems of their operation will not be discussed in detail in this paper.<sup>xx</sup> But some issues that arise in the context of health-care financing and reform need to be mentioned.

One of the key issues is the imbalance that has developed between primary and secondary care. In most European countries primary care facilities treat about three quarters of medical cases. In Croatia, they treat less than 50% of all cases. The counterpart has been a rapid growth of cases treated by specialists in secondary and tertiary facilities, which expanded by 30% in five years (MZSS, 2006:27). This has resulted in duplication of much diagnostic and laboratory work, unnecessary highly specialised treatment and rising overall costs, as provision has shifted towards more sophisticated and expensive forms of health care. Moreover, the supply of preventative health services has been on the decline in recent years, while expenditure on pharmaceuticals has increased rapidly.<sup>xxi</sup>

At the same time, hospitals have been confronted by the lack of financial resources and reliable mechanisms for quality assurance (WHO, 2005). There have also been imbalances in the distribution of hospital beds by type of care (acute or short-term vs. chronic or long-term) and in the regional distribution of hospital resources (World Bank, 2004). In particular, decentralisation of governance has brought most secondary health care facilities under the ownership of local governments, which lack adequate financial, management and oversight resources to ensure efficient functioning of hospitals.

## **FINANCING**

Unfavourable trends in the health care sector are usually explained by the lack of resources devoted to this sector in Croatia. How-

ever, as noted in the Introduction, Croatia does not lag behind EU-15 in terms of the share of health care expenditure in GDP, and on average spends more on health care than the new member states. In this section it will be argued that, rather than to the lack of funding, the negative trends in health care can be traced to some flaws in the design of health care financing at the microeconomic and macroeconomic levels. In other words, the relatively large resources that the society devotes to the health care are partly wasted because of the flaws in the system of health care financing.

## Microeconomic aspects

*Primary health care.* As the “gatekeepers” of the healthcare system, primary-care physicians play an influential role in determining the costs of health care by prescribing drugs and referring patients for specialist or hospital care. In Croatia, primary-care physicians are paid on the basis of “capitation” payments, i.e. flat fees per patient per year. This system was introduced in the early 1990s, probably for ease of administration and because it prevents over-billing. However, when the authorities introduced this system, they apparently did not take into account that it would provide an incentive to physicians to sign up as many patients as possible.<sup>xxii</sup> As a result, they might end up with too many patients for the limited amount of time they have. This would lead to rationing of services to free up time to see more patients. Some preventative care might be cut back; more patients might be referred to specialists than would otherwise be the case (as this would save the primary-care doctor time for more detailed check-ups); and medicines might be prescribed more liberally. For instance, although the number of prescriptions per patient per year is limited to five, the per capita number of prescriptions rose steadily from 6.0 in 1998 to 8.1 in 2005 (HZZO, 2005).<sup>xxiii</sup> An additional reason for the shifting of healthcare provision to secondary and tertiary facilities is that capitation payments do not allow most primary care doctors to equip their offices adequately, so they are more or less forced to send patients to clinics and hospitals.

*Hospital financing.* Unlike primary care, the hospital payment system consists of three separate components: (i) for patient accommodation hospitals are paid a flat fee per bed per day; (ii) physicians’ services are mainly paid on a fee-for-service basis, using the WHO point

system; (iii) pharmaceuticals and other materials are paid separately, depending on the cost of each item. In addition, each hospital budget is limited by a “global ceiling”, with hospitals being subject to financial penalties if they exceed the ceiling.

Although more diverse, these hospital financing methods also have some serious flaws. Capacity-based payments encourage hospitals to keep the beds full and extend the length of stay, since high occupancy results in steady funding based on the per diem reimbursement. Low occupancy rates also increase the risk that global ceiling on the hospital budget might be lowered the following year. Reimbursing physicians on a fee-for-service basis is certainly an improvement compared with flat fees in primary care, but this system works properly only if the fees are set at levels that provide reasonable compensation to physicians, and if bills they submit are properly monitored and audited. There is no solid evidence that these conditions are fulfilled in Croatia.

More generally, none of the three hospital payment methods provides an incentive for hospitals to increase productivity: the HZZO essentially reimburses hospitals for inputs used rather than outcomes (World Bank, 2004:25). Hospital management therefore has no incentive to try to economise on inputs and realise higher net income for distribution to owners (central and local governments) or hospital employees. On the other hand, when hospitals are faced with an unexpected rise in costs that might break the overall budget limit, the management cannot adjust staffing levels and often has to implement ad hoc cost-saving measures such as restricting the use of medications or procedures (World Bank, 2004).

In 2002, the government introduced a case-based payment system (so-called payment per therapeutic treatment) under which HZZO negotiates volume contracts with all hospitals for selected interventions. This method was intended to reduce the waiting lists while improving control over the total costs, as hospitals no longer charged for each service but instead for entire therapeutic treatments. The introduction of this method has helped reduce the average length of stay for most of the interventions. However, hospitals were given the flexibility to choose whether to bill HZZO under the point-based or the treatment-based system on a case-by-case basis. This has apparently led to a form of “gaming”, whereby the hospital was implicitly guaranteed the highest payment (World Bank, 2004:29). As a result, the overall hospital costs did not decline significantly.

*Co-payments.* Health care services in Croatia are not entirely free: under the basic health insurance system, patients are required to pay to access health services through a system of co-payments ranging from 15% to 75% for different types of treatment and up to 100% for medicines.<sup>xxiv</sup> Moreover, there is no reimbursement for most types of treatment from private providers such as dentists and various specialists. The authorities have emphasised the role of co-payments as a means of increasing the share of private health care financing. However, the contribution of co-payments to the overall health budget has been limited, as large segments of the population are exempt from making the payments.<sup>xxv</sup>

Health expenditure generally represents a small proportion of total household spending, about 2.3% on average during 2003-05.<sup>xxvi</sup> But there is evidence that out-of-pocket expenditure represents a heavy burden for some financially more vulnerable groups.<sup>xxvii</sup> Another inequity in the current system is that those with chronic diseases face particularly large out-of-pocket expenses. Finally, the rationale for imposing relatively high co-payments for preventative care is unclear. Although the burden of co-payments can be reduced by subscribing to supplementary health insurance (which is also run by HZZO), the introduction of this insurance scheme has not reduced the financing burden for the HZZO.

*Sick leave, maternity leave and disability allowances* account for 12-14% of total HZZO expenditure. These costs are in other countries financed and administered separately from health insurance funds, often as part of unemployment insurance programmes, but were apparently imposed on HZZO for purely administrative reasons. In the evaluation of the World Bank (2004:38), Croatia provides one of the most generous sick leave and maternity leave compensation schemes by international standards, with the state taking on almost the entire risk of added labour costs due to illness or maternity. There is little incentive on the part of the employers and employees to be judicious in the use of sick benefits. Given their size, a more rational use of these allowances is likely to have a far greater impact on reducing health care expenditure than, for instance, the announced cost-saving measures for pharmaceuticals (see below).

On the other hand, there are indications that disability and some other allowances (e.g. for war veterans) are insufficient to guarantee minimum socially acceptable living standard to many users of these allowances.<sup>xxviii</sup> This situation has not been conducive to social dia-

logue and tolerance because it has created the impression that the state is wasting public resources on some groups in the population (given the widespread abuse of sick leave allowances among the employed) while at the same time it has been overly frugal with those who indeed need the help (given that most disabled persons and many recipients of veterans' allowances do not have other sources of income). However, this issue would probably have to be addressed outside the narrow scope of health reform (see concluding section).

## Macroeconomic aspects

About 80% of health care costs in Croatia are financed through health insurance contributions (payroll tax) assessed on employees' salaries.<sup>xxix</sup> The remaining 20% are financed through transfers from central and local government budgets (i.e. from other tax revenues); supplementary and private health insurance; borrowing by HZZO; and other sources. The basic contribution rate for mandatory health insurance is 15%. Since 2003, the contributions are paid only by employers, i.e. there is no sharing of the burden with employees, as was the case between 2000 and 2002, when employers contributed 7% and employees 9% of employees' salaries.<sup>xxx</sup>

In other words, 80% of all health insurance costs in Croatia are paid by employers – they finance health insurance not only for the workers they employ, but also most of the costs for insuring retirees, members of families of insured persons, the unemployed and other inactive groups in the population. Although this simple fact has major implications not just for the health care financing but also for the labour market, it seems to have escaped the attention of different stakeholders in health care reform, including international organisations such as the World Bank and the IMF that support reform efforts in Croatia's health care sector.

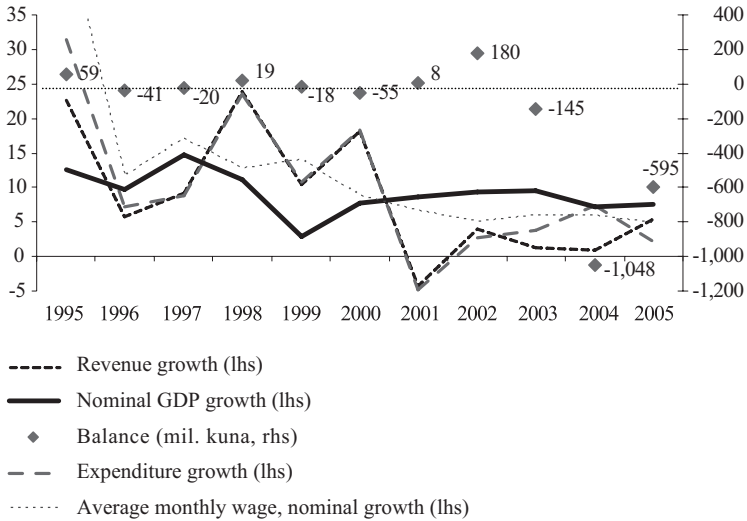
The link between the burden of health care financing for employers and the labour market needs to be explained in some detail. Mandatory health insurance contributions automatically increase labour costs for employers by 15%. This encourages employers to hire workers on temporary contracts, to hire workers without registering them, or to substitute capital for labour. Such practices affect in particular the young, female workers and those who are not satisfied with their current jobs but do not actively seek other jobs (in which they could be

more productive) because of fear of unemployment. If health insurance costs for employers were partly reduced (several possibilities are discussed below), labour costs would be reduced proportionately without reducing net wages, which would most likely encourage employers to create new jobs. Health insurance reform is thus closely related to issues of labour market flexibility and opportunities for increased employment.

Another important macroeconomic aspect of health care financing is the unfavourable mix between public and private financing. In both EU-15 and EU-10, expenditure of the public sector accounts for about 75% of total health care spending, and private expenditure for the remaining 25% (Annex Table A4). In Croatia, private expenditure accounts for about 16% of health care spending. However, patients pay virtually this entire amount (about 1.3% of GDP) out of their own pockets, as private health insurance is for all practical purposes non-existent. In EU-15 countries, out-of-pocket payments account for a slightly higher percentage of total health expenditure (about 17.5%), but private health insurance accounts for a significantly higher portion of expenditure (about 7.5%).<sup>xxxi</sup> In other words, Croatian citizens already pay for health care almost as much out of their pockets as EU citizens. The reform of health care financing should thus primarily create conditions for redirecting one part of health insurance from HZZO to private insurance companies, while payments of citizens on average would not need to increase significantly.

The HZZO, which accounts for 95% of total health care spending, has generally operated close to balance or with a small deficit (Graph 1). Expenditure growth was particularly strong during 1997-2000, when it exceeded nominal GDP growth and nominal wage growth by a large margin (Graph 1). Strong expenditure growth (exceeding nominal wage growth) took place again in 2004, when the largest HZZO deficit so far was recorded, exceeding 1 billion kuna (0.5% of GDP). One could conclude from these trends that the financial position of HZZO has so far been basically sustainable: revenues have tracked expenditures fairly closely, and when a deficit occurred it was reversed quickly. In addition, since 2001 HZZO revenue and spending have been growing more slowly than either nominal GDP or nominal wages, with the exception of 2004.

Graph 1 HZZO revenues and expenditures (annual percentage changes, left-hand scale) and balance (million kuna, right-hand scale)



Sources: HZZO (2006); DZS (2006); author's calculations.

However, there are some important caveats to this conclusion. The first is that HZZO finances only a small portion of capital spending in the health care sector (less than 0.3% of total spending in 2005). The bulk of finance for capital spending is provided by the Ministry of Health, local governments and through foreign aid. Moreover, depreciation of fixed capital and equipment is apparently not counted as cost, thus understating total operating costs and raising serious questions about the capacity of the system for future investment. The 2002 health care development strategy estimated that the real value of capital equipment in many health care institutions was reduced to 20% of book value (Office for the Strategy of Development of Croatia, 2002:9).

The second caveat is that, from 1996 to 2003, HZZO accumulated debt (as measured by outstanding bills) of over 2 billion kuna (1% of GDP). Complete data for 2004 and 2005 are not available, but adding deficits in 2004 and 2005 to this figure yields an estimate of debt of about 3.7 billion kuna or 1.6% of GDP. Information about the servicing of this debt is very patchy. According to the Ministry of Health (2006:21), during 2004 more than 3 billion kuna of outstanding HZZO debt (arising from bank loans and unpaid bills to wholesale drug suppli-



ers) from 2000, 2002 and 2003 was repaid. But despite this settlement, by 2005 HZZO had been forced to take a loan of over 800 million from Zagrebačka banka to reduce its maturing debt (HZZO, 2006:2). Although this loan represents a significant amount for HZZO (about 15% of total revenue), its accounts consistently show debt servicing costs of only about 0.3% of total expenditure. One can easily conclude from this piecemeal information that much greater transparency is needed in the financial reporting of HZZO and Ministry of Health before the financial sustainability of the state-run health insurance system can be properly assessed.

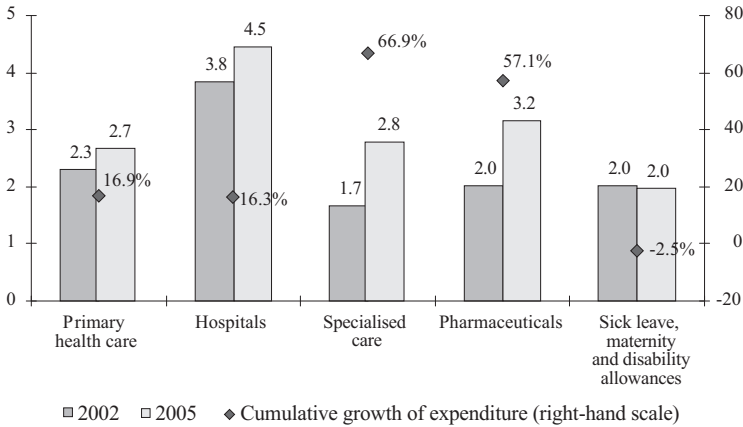
## REFORM PROPOSALS

The Croatian health care sector has been in a state of more or less permanent change since the early 1990s. While initial reforms focused on the transformation of the system inherited from the period of self-managed socialism, reforms in recent years have for the most part focused on various aspects of health care financing. The main goals of the 2000-02 round of reforms were thus to contain spending from the public sources; reduce the payroll contribution rate by limiting benefits and increasing the share of private costs; and improve efficiency through reorganisation of the delivery system and devolution of greater responsibilities in primary and secondary care to the local authorities.

The latest round of reforms, launched in 2006, similarly focuses on cost containment. As shown in Graph 2, the fastest rising components of health care expenditure between 2002 and 2005 were spending on specialised care, which expanded by 67% (i.e. at an average annual rate of 19%) and pharmaceuticals, which increased by 57% (i.e. at an annual rate of 16%). The costs in primary and hospital care were more or less contained, while expenditure on sick leave, maternity leave and disability allowances declined 2.5%.

The key measures aimed at containing the rise in spending on pharmaceuticals is the introduction of a more restricted list of medicines (so-called basic list) that can be obtained without co-payment, and the inclusion of a larger number of generic drugs on this list. According to official estimates, this measure will result in annual savings of some 300 million kuna.<sup>xxxii</sup>

Graph 2 Main components of HZZO expenditure (billion kuna, left-hand scale) and cumulative growth of expenditure from 2002 to 2005 (% , right-hand scale)



Sources: HZZO; author's calculations.

In the primary care sector, possible measures listed by the 2006 health care development strategy include reducing the number of patients to be covered by a team of physicians; encouraging group medical practice so as to reduce administrative costs; introducing the so-called found-holding system of payments to general practitioners,<sup>xxxiii</sup> and certain measures to encourage preventative care (see HZSS, 2006: 43-45). In the hospital sector, one proposal is to introduce payments based on so-called diagnosis-related groups.<sup>xxxiv</sup> However, details of these proposals have yet to be elaborated.

The macroeconomic aspects of health care financing have not been addressed by the latest reform, nor has much thought been given to eliminating other microeconomic distortions in health care financing (with the partial exception of primary care) and addressing various market and government failures identified in this paper. Moreover, the mere announcement of key measures related to pharmaceuticals has met with stiff public opposition. One can therefore doubt that the latest reform will provide more than temporary restraint on the growth of overall health care costs.

A more fundamental shortcoming of the strategy is that it does not raise the issue of the healthcare costs of the ageing population. Research for other European countries indicates that demands on health

insurance resources in order to finance expenditure related to ageing population and long-term care for the elderly will increase massively. OECD projections suggest that, in the absence of policy action, public spending on health and long-term care in the major industrial countries could surge from an average 7% of GDP in 2005 to 13% in 2050.<sup>xxxv</sup> The current “fire-fighting” problems of the authorities pale in comparison with the challenges that these long-term developments will pose.

## **CONCLUDING REMARKS: WHERE WE STAND AND HOW TO PROCEED**

There are three main models of health care financing in developed market economies. Many continental European countries, including Croatia, use so-called social insurance model, in which funding for health care – but also pensions, unemployment and other social risks – comes mainly from compulsory contributions (payroll taxes) paid by workers and their employers.<sup>xxxvi</sup> In the second, national health insurance model, used in the United Kingdom, Sweden and Canada, among others, the principal source of funding is general tax revenue rather than specific contributions earmarked for health insurance. As a result, the health authorities have to compete for government funding with other users of public funds (education, transportation, etc.) much more intensively. The third main model is used only in the United States. It is unusual in that most workers and their families are insured privately through their employers, so that private funding accounts for a much larger share of total health spending. But even the United States has two major public health insurance programmes: Medicare (for the elderly) and Medicaid (for the poor), both financed through a mixture of general taxes and payroll contributions.

The three models have been slowly converging. The European and American models are assimilating elements of national health insurance: in France, social security contributions are now supplemented by revenues from personal and corporate income taxes; in the United States a big expansion of government spending on older people to help pay for their medicines will be financed from income tax revenues; and in the United Kingdom social security contributions were raised significantly in 2002 to collect additional funding for the National Health Service.

These trends suggest that it is unrealistic for the Croatian authorities and the public to expect that the current model of health care

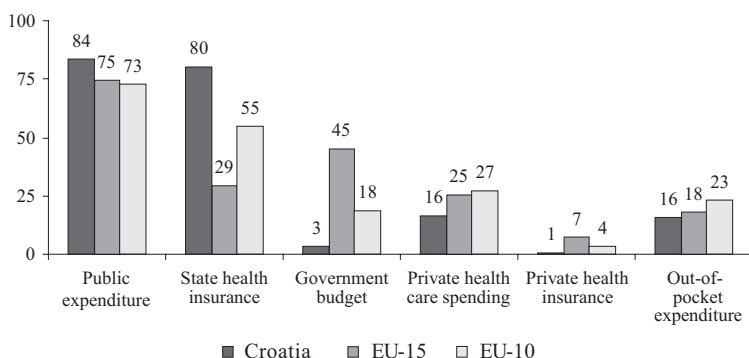
financing can be retained. As noted above, about 80% of funding in this model comes from mandatory contributions that are paid almost entirely by employers and are assessed on a relatively narrow tax base – salaries of employees. Employed persons, in turn, account for only one-third of the population and their share in total population will shrink as the process of ageing accelerates over the coming decades. Continued reliance on payroll tax will thus place an increasingly heavy burden on the productive labour force and on the economy.<sup>xxxvii</sup>

This means that a significantly greater portion of HZZO funding should come from general tax revenues in the future. At the moment, it is not clear which part of health expenditure for the two-thirds of the population who are not paying payroll contributions is covered by transfers from the budget. The fact that the government often resorts to deficit financing to settle unpaid bills in the health care sector indicates that these transfers are insufficient.<sup>xxxviii</sup> Since many citizens who do not pay contributions – in particular the elderly – are heavy users of health care services, it is appropriate that they contribute to the health budget. However, many old people do not have sufficient income to make meaningful contribution to health care financing. On the other hand, they contribute to general taxes through the value-added tax and excises (and, in some cases, personal income taxes), so from an equity perspective it makes sense to use more of this revenue to finance health care. Moreover, this approach is feasible because the authorities will anyway have to reduce spending on items such as economic subsidies as part of the EU accession process.

The first major recommendation for health care reform is thus to *change the HZZO financing mix in favour of general tax revenues transferred from the central and local budgets*. As shown in Graph 3, Croatia stands apart from the old and new members of the EU in that the share of state health insurance funding is disproportionately high (80% of total health care funding) and the share of government budget disproportionately low (only 3%). Another clear imbalance is the negligible share of private health insurance in health care financing.<sup>xxxix</sup> These imbalances have to change in the direction of the EU average. The first imbalance could be redressed as part of the annual budget process and need not even be called a reform. The main requirement would be to determine the proportion of health care costs for the two-thirds of the population who do not pay contributions that will be covered from general taxes. The basic health insurance contribution rate and the employer/employee split of that rate would not have to be changed at first, although over time the contribution rate would have to be reduced in or-

der to create conditions for stronger employment growth. In addition, much greater transparency would be needed with respect to the outstanding debt of the health care system and its servicing. A related issue that would need to be addressed as part of a comprehensive reform is financing of capital expenditure in the health care system.

Graph 3 Structure of health care financing in Croatia and European Union, 2003 (as a percentage of total health care expenditure)



Sources: HZZO (2004); HANFA (2006); WHO (2006); author's calculations.

The second major recommendation in terms of potential impact on HZZO finances would be to *re-examine the social benefits and costs of the current system of sick leave and maternity leave allowances*. As discussed in Section 5, Croatia has, internationally, one of the most generous systems of sick leave and maternity leave allowances, which together account for almost 1% of GDP. The sick-leave allowances in particular are open to abuse and there is really no reason why the state should bear the entire risk of workers' absence from jobs due to illness.

The long maternity leave – usually one year in Croatia, compared with 16 weeks on average in most industrial countries<sup>xl</sup> – is often defended as necessary to help increase the low birth rate. However, it is probably not the most effective instrument to achieve this goal. As elsewhere in the world, the demographic trends observed in Croatia are of a secular nature and the low birth rate cannot be reversed by a single policy measure such as long maternity leave. Recent research indicates that in OECD countries the greatest impact on the fertility rate comes from the female employment rate and availability of affordable

child-care facilities, which allows mothers to return to work relatively quickly after giving birth.<sup>xli</sup> Against this background, it might be perhaps more beneficial for women and the society as a whole to reduce the length of maternity leave to, say, six months – which would still be generous by developed country standards – and to invest the funds thus saved in an expansion of subsidised child care facilities and simplified administrative procedures for part-time work of mothers. This would allow mothers to return to work earlier; new jobs would be created in this segment of the economy; and the funds the society has invested in education of women would perhaps be used more productively than is currently the case.

Finally, *the issue of insufficient disability and veterans' allowances could be addressed by introducing so-called "zero pillar" of pension insurance.* The aim of this pillar would be to prevent poverty among the disabled, veterans, the elderly and other persons with insufficient means to secure a minimum socially acceptable standard of living for themselves.

Regarding microeconomic aspects of health care financing, the government's proposals to help control expenditure on pharmaceuticals are necessary and welcome. However, these measures deal more with the symptoms than the causes of the rapid growth of expenditure on medicines and can therefore be regarded as a temporary stop-gap measure. As discussed above, the escalation of costs of pharmaceuticals and specialised care can be traced to inappropriate incentives provided to the primary health care under the system of flat fees per patient. While this system is easy to administer and prevents over-billing of HZZO by primary care providers, any savings from these features of the system are now probably outweighed by the costs of prescription medicines and increased referrals of patients to specialised institutions.

What is needed is a system of payments under which primary-care providers would have an incentive to act as true "gatekeepers" of the health care system. *One possibility could be fee-for-service payments based on the points system, with appropriate monitoring and auditing of bills submitted by primary care providers.* This system is widely used in continental European countries and would probably be more effective in checking the rise in expenditure on pharmaceuticals and specialised care than the series of piecemeal cost containment measures introduced over the years.

Similarly, the direction in which the authorities are moving with regard to hospital and specialised care – implementing more widely the system of prospective payments based on therapeutic treatment

groups, and introducing a system of payments based on diagnosis-related groups – is necessary and welcome. However, *the loophole in this system that allows hospitals to choose the billing options that are most advantageous to them (and, hence, more costly to HZZO) would need to be closed.*

*Another widely recognised weakness of the Croatian hospital system that would need to be addressed over the medium term is lack of appropriate management skills.*<sup>xliii</sup> Virtually the entire secondary and tertiary health care sectors are managed by physicians, who often lack the adequate training in strategic management, financial planning and other skills necessary for hospital management in a competitive market environment. Moreover, physicians in the role of hospital managers face an inherent conflict of interest: as hospital managers, they decide how to allocate the funds within the hospital, so they can direct the funds to the department where they spend these funds as physicians.<sup>xliiii</sup> If these two functions are merged in one decision maker, impartial financial control at the hospital level becomes very difficult.

In addition, *the functions of monitoring and auditing financial operations of health care institutions are apparently neglected and would need to be significantly strengthened.* The authorities worldwide are working harder at getting better value for the money they provide to hospitals and specialised care institutions.<sup>xliiv</sup> Health-care expenditure is rising not just because of new technologies and rising demand, but also because the health care sector is dominated by powerful providers – pharmaceutical and medical technology companies, hospitals and influential doctors – who find it fairly easy to pass on the costs from new medical technologies to the state.<sup>xliv</sup>

The overriding goal of recent health care reforms in developed market economies is therefore to ensure more effective use of public funds. One approach to this goal is to *introduce more competition into healthcare markets*, for instance, by allowing hospitals to keep financial surpluses and reinvest them in services. A complementary approach is to turn to the private sector to provide more healthcare services. In particular, it is important to recognise that public financing does not have to mean public provision of health care. In most European countries, the health care sector functions as a mixture of public and private providers. In Croatia, aside from dental and partly primary care, the role of the private sector as a provider remains limited.<sup>xlvi</sup> One reason for this state of affairs is that HZZO does not seem to have the administrative capacity to process and monitor reimbursement of medical bills submitted by individuals and private providers for treatment in private medical facilities.

A more fundamental reason is that *the authorities in Croatia have still not elaborated a consistent framework for private sector involvement in the health care sector*. What measures were taken in the past were taken randomly – for instance, the leasing of publicly-owned facilities for use as doctors’ private offices or the recent proposal to lease unused hospital capacity to private health insurance companies.<sup>xlvii</sup> Such partial measures have not made the system more efficient nor have they provided much benefit to health care users (although individual physicians have realised significant benefits for themselves).

The same conclusion applies to the development of private health insurance: *a consistent institutional, regulatory and market framework in which private health insurance companies are expected to function and incentives for their development have yet to be elaborated*. As shown in Graph 3, private health insurance covers only 0.6% of total health care costs in Croatia, compared with 7% on average in EU-15 and 4% in EU-10. It is unrealistic, for instance, to expect that private health insurers will find much interest in the newly created market for pharmaceuticals if the supplementary health insurance scheme operated by the HZZO will cover some of the costs of medicines not included in the basic list.<sup>xlviii</sup> In addition, there are indications that private health insurance companies in Croatia are regulated perhaps too loosely, so that it is not clear they operate in the best interest of insured persons.<sup>xlix</sup>

This brings us to the next major area that has seen little progress over the years: reform of the co-payments system. Co-payments contribute little to the overall health budget; they are difficult to administer because of many exemptions; and are disliked by the public. Yet *having people participate in bearing the costs of health care is the first step toward a true health care reform*. Health is not a free resource and cannot be maintained without costs being incurred. The society does not benefit from unused medicines and unnecessary visits to the doctor. If people understand that each time they visit a doctor someone – including themselves – has to pay to cover the costs, such waste can be reduced.<sup>1</sup> Co-payments should thus be understood as user fees – the cost of accessing the system of health care, similar to road tolls as the cost of accessing the system of highways. The current state of affairs is in that respect untenable: as shown in Figure 3, only 16% of health care spending in Croatia is covered from private sources, compared with the average of 26% for EU members. Within the private sources of funding, there is in particular an imbalance between out-of-pocket expenditure, which is close to the EU average, and costs covered by private health insurance companies, which are way below the EU average.



The experience of Slovakia shows that people are willing to accept the notion that good health is primarily their own responsibility and that every individual has to participate in health care financing.<sup>li</sup> Moreover, the Slovak experience shows that the introduction of a well designed co-payment system does not hurt access to health care.<sup>lii</sup> For their part, the authorities should contribute to this understanding by making much more serious, frequent and visible efforts targeted at the prevention of major health risks related to unhealthy lifestyles.

In summary, problems facing the healthcare sector in Croatia are not new or unique. Solid economic analysis and judicious use of other countries' experiences lead to many well-trying solutions and allow us to avoid many mistakes. A key factor for the success of healthcare reform is the authorities' ability to manage political economy aspects of the reform. The effects of health care reform are felt immediately by the entire population. By contrast, the effects of pension reform are delayed and are felt by only one segment of the population at a time. *The authorities therefore need to manage expectations of different stakeholders in health care reform much more carefully and actively. For a reform to succeed, the public needs in particular to see the forest for the trees: the authorities need to elaborate a clear vision of healthcare reform in whose centre stands good health for all Croatian citizens.* The authorities would also be well advised to avoid the illusion that experience and possible success in implementation of pension reform also guarantee the success of health care reform.

Finally, one should emphasise that technical complexity of healthcare policy and reform should not be underestimated. *Economists and healthcare experts in Croatia should therefore make a much more substantive contribution to health care reform than has been the case so far.* This paper has indicated that more detailed research is needed in several areas. These include macroeconomic aspects of health care (financial sustainability of the health care sector in the medium and long term; public and private sources of funds; the mix of taxes and contributions among public sources of funds; impact of different financing models on the labour market; fiscal effects of decentralisation of health care); microeconomic aspects of health care (impact of different financing arrangements on incentives, operations and efficiency of health care institutions; management of health care institutions; organisation and regulation of markets for health care services, pharmaceuticals and health insurance); and the political economy of health care reform.

## ANNEX

Table A1. Mortality indicators

Country	Life expectancy at birth <sup>a</sup> (years) in 2004		Healthy life expectancy at birth <sup>b</sup> (years) in 2002		Probability of dying between the ages of 15 and 60 (per 1,000 population) <sup>a</sup> in 2004		Infant mortality rate <sup>c</sup> (per 1,000 live births)		Age-standardized mortality rate, by cause <sup>d,e</sup> (per 100,000 population) Both sexes in 2002			Years of life lost by broader causes <sup>d,f</sup> (%) Both sexes in 2002			
	Males	Females	Males	Females	Males	Females	Both sexes	2004	Non-communicable diseases	Cardio-vascular diseases	Cancer	Injuries	Communicable diseases <sup>g</sup>	Non-communicable diseases <sup>g</sup>	Injuries
Albania	69	74	59	63	171	96	16	814	537	154	64	17	63	20	
Bosnia and Herzegovina	70	77	62	66	188	88	13	699	492	121	43	7	81	13	
Bulgaria	69	76	63	67	217	92	12	756	554	125	42	5	87	9	
Croatia	72	79	64	69	160	66	6	613	356	167	48	5	84	11	
Czech Republic	73	79	66	71	161	69	4	568	315	177	50	3	83	13	
Hungary	69	77	62	68	249	108	7	695	364	201	67	3	85	12	
Macedonia	69	76	62	65	198	84	13	745	504	145	74	8	72	20	
Poland	71	79	63	68	198	79	7	593	324	180	53	4	81	15	
Romania	68	76	61	65	232	100	17	728	479	141	56	11	77	12	
Serbia and Montenegro	70	75	63	65	191	98	13	767	508	149	36	7	85	8	
Slovakia	70	78	63	69	203	76	7	636	371	170	50	4	81	14	
Slovenia	73	81	67	72	158	67	4	503	228	160	59	4	80	17	
EU-15 <sup>h</sup>	76	82	69	73	113	58	4	429	185	138	37	6	81	13	
EU-10 <sup>h</sup>	71	79	63	69	205	82	6	600	348	157	75	6	77	17	

a) WHO (2006). URL: <http://www.who.int/wht/2006/annex/en>. b) WHO (2004). URL: <http://www.who.int/wht/2004/en/index.html>. c) WHO (2006b), UNICEF (2006).

d) WHO (2004b). e) Rates are age-standardized to the WHO world standard population. Source: [http://www3.who.int/whosis/discussion\\_papers](http://www3.who.int/whosis/discussion_papers). f) Sum of individual proportions may not add up to 100% due to rounding. g) "Communicable diseases" include maternal causes, conditions arising in the perinatal period and nutritional deficiencies. h) Simple average (author's calculations).

Table A2. Selected health risk indicators

Country	Newborns with low birth weight, both sexes (%) <sup>a</sup>	Adults (≥15) who are obese (%) <sup>b</sup>			Prevalence of current tobacco use (%) <sup>c</sup>				
		Males	Females	Year	Adolescents (13-15) <sup>d</sup>		Adults (≥15) <sup>e</sup>		
					Both sexes	Year	Males	Females	Year
Albania	3	-	-		13.0	2004	46.3	3.0	2002
Bosnia and Herzegovina	4	16.5	25.2	2002	-		54.2	34.2	2003
Bulgaria	10	-	-		34.3	2002	-	-	
Croatia	6	21.6	22.7	2003	18.9	2003	31.6	22.9	2003
Czech Republic	7	13.7	16.3	2002	34.6	2002	38.9	25.1	2003
Hungary	9	18.4	20.4	2000	27.8	2003	42.7	31.3	2003
Macedonia	5	-	-		9.0	2003	-	-	
Poland	6	-	-		19.5	2003	-	-	
Romania	9	9.1	19.1	1997	18.3	2004	-	-	
Slovakia	7	-	-		27.3	2003	41.0	23.1	2003
Slovenia	6	-	-		23.6	2003	28.5	19.1	2003
EU-15 <sup>f</sup>	7	13.1	13.2	2002	16.2	2005	36.9	24.6	2003
EU-10 <sup>g</sup>	6	14.4	17.4	2002	28.6	2003	45.3	24.6	2003

a) WHO and UNICEF (2004). b) WHO (2006e). Comparisons between countries may be limited due to differences in definitions, sample characteristics, or survey years. c) In adolescents, data relate to daily or occasional tobacco use, while in adults they relate to daily or occasional tobacco smoking. Comparisons between countries may be limited due to differences in definitions, sample characteristics, or survey years. d) WHO (2006c). e) WHO (2006c). f) WHO (2006d). g) Simple average (author's calculations).

Table A3. Resources in health care<sup>a</sup>

Country	Physicians		Nurses		Midwives		Dentists		Pharmacists		Hospital beds (per 10,000) <sup>b</sup>	
	No.	Per 1,000 Year	No.	Per 1,000 Year	No.	Per 1,000 Year	No.	Per 1,000 Year	No.	Per 1,000 Year		
Albania	4,100	1.31	11,473	3.62	-	-	1,390	0.45	-	-	30	2004
Bosnia and Herzegovina	5,576	1.34	17,170	4.13	1,229	0.30	690	0.17	363	0.09	30	2004
Bulgaria	28,128	3.56	29,650	3.75	3,456	0.44	6,475	0.82	1,020	0.13	61	2004
<i>Croatia</i>	<i>10,820</i>	<i>2.44</i>	<i>22,372</i>	<i>5.05</i>	<i>1,476</i>	<i>0.33</i>	<i>3,085</i>	<i>0.70</i>	<i>2,348</i>	<i>0.53</i>	<i>55</i>	<i>2004</i>
Czech Republic	35,960	3.51	99,351	9.71	4,772	0.47	6,737	0.56	5,610	0.55	85	2004
Hungary	32,877	3.33	87,381	8.85	2,032	0.21	5,364	0.54	5,125	0.52	78	2004
Macedonia	4,459	2.19	10,553	5.19	1,456	0.72	1,125	0.55	309	0.15	49	2001
Poland	95,272	2.47	188,898	4.90	21,997	0.57	11,451	0.30	25,397	0.66	55	2003
Romania	42,538	1.90	86,802	3.89	5,571	0.25	4,919	0.22	1,275	0.06	66	2004
Serbia and Montenegro	21,738	2.06	48,875	4.64	2,864	0.27	3,792	0.36	1,980	0.19	60	2002
Slovakia	17,172	3.18	36,569	6.77	1,456	0.27	2,364	0.44	2,783	0.52	70	2004
Slovenia	4,475	2.25	14,327	7.21	654	0.33	1,199	0.60	790	0.40	48	2004
<i>EU-15<sup>c</sup></i>	-	<i>3.35</i>	-	<i>9.24</i>	-	<i>0.61</i>	-	<i>0.75</i>	-	<i>0.80</i>	<i>54</i>	<i>2003</i>
<i>EU-10<sup>c</sup></i>	-	<i>3.17</i>	-	<i>6.84</i>	-	<i>0.34</i>	-	<i>0.63</i>	-	<i>0.66</i>	<i>64</i>	<i>2004</i>

a) WHO (2006f). b) World Health Organization, Regional Office websites and publications. c) Simple average (author's calculations).

Table A4. Health care expenditure in 2003<sup>a</sup>

Country	Expenditure on health care		General government expenditure on health care	State health insurance expenditure	Out-of-pocket expenditure	Private health insurance plans	Per capita total health care expenditure		
	Total	Private					At average exchange rates USD	At PPP exchange rates USD	
	As % GDP	As % of total health care expenditure	As % of general government expenditure	As % of general government expenditure on health care	As % of private expenditure on health care				
Albania	6.5	41.7	58.3	9.2	25.1	99.8	0.0	118	366
Bosnia and Herzegovina	9.5	50.7	49.3	11.4	77.5	100	-	168	327
Bulgaria	7.5	54.5	45.5	10.1	51.6	98.4	0.9	191	573
Croatia	7.8	83.6	16.4	13.8	96.1	100	0.0	494	838
Czech Republic	7.5	90.0	10.0	12.7	85.4	83.9	2.5	667	1,302
Hungary	8.4	72.4	27.6	12.1	83.4	88.9	2.1	684	1,269
Macedonia	7.1	84.5	15.5	17.1	97.8	100	-	161	389
Poland	6.5	69.9	30.1	9.8	86.0	87.8	-	354	745
Romania	6.1	62.9	37.1	10.9	85.8	90.4	4.7	159	540
Serbia and Montenegro	9.6	75.5	24.5	16.0	89.8	85.3	14.7	181	373
Slovakia	5.9	88.3	11.7	13.2	93.5	100	0.0	360	777
Slovenia	8.8	76.3	23.7	13.8	82.6	41.1	58.9	1,218	1,669
EU-15 <sup>b</sup>	8.8	74.6	25.4	13.5	39.2	71.7	18.6	2,627	2,538
EU-10 <sup>b</sup>	7.1	73.1	27.0	11.9	74.8	86.7	10.5	644	1,046

a) WHO (2006). b) Simple average (author's calculations).

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- \* *The views expressed in this paper are those of the author and do not necessarily represent those of the Bank for International Settlements. The author is taking part in this project as an independent researcher. Helpful comments and valuable insights from Anto Bajo, Vesna Ivasović, Katarina Ott, Sandra Švaljek and an anonymous referee are gratefully acknowledged. Graham McMaster provided expert language assistance. Any remaining errors are the sole responsibility of the author.*
- i *There is some empirical evidence on this effect. In the late 1970s, the RAND Corporation did an extensive study randomly assigning families to health plans with co-payment levels at 0%, 25%, 50%, or 95%, up to a maximum amount of 6,000 US dollars. As expected, the less that people were asked to pay for their health care, the more often they visited the doctor (see Phelps, 1993).*
- ii *Here one should distinguish between routine visits to the doctor (for minor illnesses such as colds, light injuries, etc.) and preventative health care (e.g. annual medical, dental and vision check-ups). In addition to clear medical rationale, preventative care is also in the economic interest of health insurance companies, whether publicly or privately-owned. This is reflected in the fact that insurance often covers the cost of check-ups up to a certain limit. Many health care commentators fail to notice the difference between routine visits and preventative care; see e.g. Gladwell (2005) in an otherwise highly stimulating article on moral hazard in US health insurance.*
- iii *This statement can also be applied to many western European countries at the moment.*
- iv *For a comprehensive review, see McGuire and Mayhew (1989).*
- v *This information monopoly can be reduced through better education and greater availability of medical information through media, in particular the internet.*
- vi *There is no empirical research to support this claim, but there is widespread anecdotal evidence that patients in Croatia often experience situations in which doctors prescribe treatment without discussing in detail the pros and cons of the treatment with the patient and his or her family (see: [www.pravapacijenata.hr](http://www.pravapacijenata.hr) and *Vjesnik*, 21 August 2006). Another indication of inadequate information provided to patients in Croatia is the practice of writing diagnoses in Latin, which sets doctors in Croatia apart from their colleagues in other European countries (see *Vjesnik*, 12 and 13 August 2006).*
- vii *Based on HZZO data published in *Vjesnik*, 10 October 2005.*
- viii *Instead, one often gets the impression that the authorities have adopted a cavalier attitude vis-à-vis some health risks, in particular smoking; see, e.g. complaints about smoking in offices and public rooms in the Ministry of Environmental Protection and the Ministry of Culture (“Smoking is forbidden and they smoke ‘like Turks’”, *Vjesnik*, 16 August 2006, Readers’ mail). Another case in point is the public reprimand of an assistant minister of health who announced in May 2006 that the government was preparing a stricter law on smoking in public places that would be aligned with EU legislation. That statement was denied by the government the same day with an explanation that the existing law already defined clearly where one could and where one could not smoke (*Vjesnik*, 1 June 2006).*
- ix *The bribery case against the head of heart surgery in clinical hospital in Rijeka (see *Večernji list*, 17 August 2006) has highlighted a situation long denied by the healthcare profession. For instance, the Croatian Physicians’ Association has processed only four cases of bribery since 1995 (*Vjesnik*, 19 August 2006).*

- x *A typical case is that of a patient who comes for a check-up in a state health facility in the morning and is told by the doctor that she needs certain diagnostic tests. The tests are free but the waiting list is so long that, for non-urgent cases it could take months to get an appointment. However, if the patient is willing to pay out of her pocket, she could take the tests that same afternoon in the same facility from the same doctor, as it becomes doctor's own private office after regular working hours.*
- xi *Physicians were subject to income tax for this type of work but did not have to pay the value-added tax. This practice was ended in mid-2006. However, physicians will still be allowed to work outside their full-time job (at most one-third of working hours) and in service of private insurance companies, which will be allowed to rent excess hospital beds and rooms (Poslovni dnevnik, 24 March 2006). To their credit, the authorities at least admitted that private work of physicians in health institutions in which they held full-time jobs was unethical (ibid.).*
- xii *Indeed, without referring to government failure, the 2002 health care development strategy concludes that "Croatia needs a health care system that will be serve the health of the population, not its own survival" (Office for the Strategy of Development of Croatia, 2002:12).*
- xiii *The main references for this section are McKee, MacLehose and Nolte (2004); McKee [et al.] (2004); and Božičević and Orešković (2004).*
- xiv *See Poslovni dnevnik, 21 July 2006 (www.poslovni.hr).*
- xv *Useful and concise sources of information on the health care sector in Croatia are WHO (2005), Stevenson and Stubbs (2003) and Mastilica and Kušec (2006).*
- xvi *The standardised mortality rate for all alcohol related diseases (including liver cirrhosis, ischaemic heart disease, mouth and oropharynx cancer, traffic casualties, falls and intentional injuries) in Croatia is 195 deaths per 100,000 inhabitants, compared with 155 deaths in Austria; 97 in France, Greece and Italy; and 89 in Portugal (WHO, 2004a:57).*
- xvii *This definition includes physically inactive and minimally active population. For details see Country profiles on WHO's Global InfoBase Online ([http://www.who.int/ncd\\_surveillance/infobase/web/InfoBaseCommon/](http://www.who.int/ncd_surveillance/infobase/web/InfoBaseCommon/)).*
- xviii *See for instance MZSS (2006:16, 17, 30), where smoking and alcohol consumption, mentioned more or less incidentally, are the only health risks discussed, partly in the context of increased immigration into Croatia in the second half of the 1990s. Obesity and physical inactivity are nowhere mentioned in this strategic document.*
- xix *See MZSS (2006:17).*
- xx *For details, see World Bank (2004) and two recent strategies for the health care sector: Office for the Strategy of Development of Croatia (2002) and MZSS (2006).*
- xxi *Trend decline in the provision of preventative services was noted already several years ago: in 2000 there were 79% fewer check-ups of adults, 41% fewer check-ups at patients' homes and 89% fewer home visits than in 1990 (Office for the Strategy of Development of Croatia, 2002:11).*
- xxii *Each primary care doctor is expected to carry at least about 1,700 patients per year on a roster. This is relatively low compared with EU average (2,000-2,500 patients per primary care doctor) and indicates that a considerable potential for "piling-up" of patients does exist. The lower figure was apparently chosen deliberately in order to encourage physicians to work in under-served areas, where they could earn more under the system of capitation payments.*

- xxiii *There are some solid indications that patients in Croatia have a tendency towards excessive use of medicines; see Vjesnik, 10 October 2005. A particular problem is excessive use of antibiotics, which can lead to the development of resistant forms of bacteria and thus put in danger not only the health of the patients but also that of all other people.*
- xxiv *See Article 17 of the Health Insurance Law (www.hzzo-net.hr).*
- xxv *These include children and students, retirees, the unemployed, people receiving minimum income, recruits in mandatory military service and war veterans.*
- xxvi *See DZS (2006).*
- xxvii *For instance, the 2001 Household Budget Survey shows that for about 7% of retiree households, health costs represented more than 10% of total spending (World Bank, 2004:41). A survey by Mastilica and Božikov (1999) found that total out-of-pocket health care expenditure represented over 17% of income for individuals in the lowest 25% income group, compared with less than 3% for the top 25% income group.*
- xxviii *See for instance Večernji list, 17 July 2006 and 2 August 2006.*
- xxix *This includes employees in private and public sectors, the self-employed and farmers.*
- xxx *Who exactly bears the burden of health contributions (and what part of it) – whether the employer at the expense of profits or workers at the expense of wages – cannot be determined because there has been no research on the incidence of payroll taxes, nor on elasticity of labour demand and supply in Croatia (I am indebted for this insight to Sandra Švaljek). However, one can assume that health care contributions increase the cost of labour regardless of who pays them.*
- xxxi *The share of private expenditure on health care in EU is 25%. Out of this, 70% is financed by the households and 30% by private insurance companies. Out-of-pocket payments are thus 17.5% on average (=0.25x0.70), which is somewhat higher than in Croatia (16.4% in 2003).*
- xxxii *See Poslovni dnevnik, 12 April 2006.*
- xxxiii *Under the system of found-holding, financial resources for health care are allocated on a per capita basis and are held in a fund, with the general practitioner usually deciding on the allocation of resources in the fund. The financial incentives offered by this scheme are in the form of control over budgets to be spent on patient care and not in the form of personal financial incentives. A disadvantage of this system (noted in the United Kingdom) is that it might introduce some inequities in the provision of health care.*
- xxxiv *Under payment system based on diagnostic groups, patients are categorised on the basis of diagnoses and resources needed for their hospital treatment. This system can help reduce costs to the health insurance compared with the fee-for-service scheme, but introduces other incentives that might give rise to high costs, such as categorising patients into more complex and therefore expensive diagnostic groups (so-called “code creep”).*
- xxxv *See OECD (2006) and European Commission (2006).*
- xxxvi *This model is often referred to as Bismarckian, named after the greatest German statesman of the 19th century Otto von Bismarck (1815-1898). One should note that at the time Bismarck introduced Europe’s first social security system (which comprised health, old-age retirement and disability insurance) his main concerns were to appease the working class (and thereby reduce socialism’s appeal to the public) and prevent poverty among the old. The social security system was financially viable because average life expectancy at the time was around 55 years (see Oeppen and Vaupel, 2002).*



- xxxvii *The authorities have made some progress in this regard by gradually reducing the contribution rate from 18% in 1998 to 15% in 2004. Despite the reduction in rates, more revenue was collected from contributions, suggesting that a combination of improved collection and reduced exemptions had a positive effect.*
- xxxviii *For instance, in 2002 the central budget transfer to HZZO dropped to 9% of HZZO revenues, down from 16% in 2001. At the same time, the government borrowed 820 million kuna (6% of HZZO revenues) to pay back the old arrears vis-à-vis health care suppliers (World Bank, 2004:40).*
- xxxix *The share of private health insurance companies is calculated from gross health insurance premia paid (amounting to 105 million kuna in 2003, based on HANFA (2006)), and total health expenditure based on WHO (2006).*
- xl *See Clearinghouse on International Developments in Child, Youth and Family Policies at Columbia University ([www.childpolicyintl.org/issuebrief/issuebrief5table1.pdf](http://www.childpolicyintl.org/issuebrief/issuebrief5table1.pdf)).*
- xli *See D'Addio and D'Ercole (2005). Among countries with the highest fertility rates in OECD are the Scandinavian countries, France and the United States, which at the same time have some of the highest female employment rates. On the other hand, even though in Italy and Spain only every third woman works, the birth rate is just 1.3 children per woman.*
- xlii *See Poslovni dnevnik, 1 June 2006 and 31 July 2006.*
- xliiii *This insight comes from Vlado Puljiz; see Poslovni dnevnik, 1 June 2006.*
- xliv *See the leading article in The Economist, 18 August 2005.*
- xlv *One enduring myth in health care economics is that costs of health care are rising because of the rapid advance and increasing availability of expensive medical technologies. However, despite the widespread use of new medical technology, health care costs have followed very different paths in different countries, indicating that much of the increase in costs has been supply-induced (Hsiao, 2000). Jones (2005) highlights the importance of increasing demand for health care services as a determinant of rising health care costs.*
- xlvi *In 2003, only 3 special hospitals and 4 health resorts out of 73 hospitals and health resorts were privately owned. Out of a total of 6,660 registered medical practices, about 2,800 were privately-owned, of which as many as 2,400 were dentists' offices. More than half of some 1,100 pharmacies were privately owned (WHO, 2005a).*
- xlvii *See Poslovni dnevnik, 24 March 2006.*
- xlviii *See Lider, 17 March 2006; Poslovni dnevnik, 19 May 2006; and Vjesnik, 17 August 2006. On the development of private health insurance companies see a very useful study by OECD (2004).*
- xliv *See World Bank (2004:19-21).*
- l *Statements by some politicians that Croatian citizens are not ready to accept the shift of a part of health care to the market clearly do not help the cause of health care reform (see e.g. Poslovni tjednik, 16 June 2006). If Croatian citizens are not ready to accept more market-based health care, how can the Croatian state be in a position to accept it? It is interesting to note in this context that Croatians spend on average more on mobile phone bills (about 360 euros per year) than on health care (about 350 euros per year). One should not question consumer rationality, however, faced with undistorted price of health care, consumers would be certainly be able to choose between spending on health and mobile phones.*

- li *See Pažitny, Zajac and Marcinčin (2005). For a comprehensive overview of experiences with health care reform in OECD countries see Docteur and Oxley (2004).*
- lii *The basic principles for an efficient and equitable system of co-payments are well-established in the health economics literature and include: high co-payments for small, frequent, cheap and everyday diseases; low or no co-payments for rare, severe and costly diseases, for patients suffering from chronic diseases or disabilities, and for preventative health care (annual check-ups); lower co-payments for the poor and the elderly; and an upper limit on health care costs as a percentage of annual income (see Osterkamp, 2003a; 2003b).*

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## Chapter 12

# THE IMPORTANCE OF ENVIRONMENTAL PROTECTION: CROATIA IN THE EUROPEAN UNION ACCESSION PROCESS

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## ABSTRACT

One of the most demanding European Union policy areas, the environment has become important in the accession negotiations process. Transposition of the *acquis*, ensuring its adequate implementation and absorbing the pre-accession funds constitute an enormous task for any, particularly a small, candidate country. Croatia is, in this respect, facing a great challenge and this article shows that there is still a long way to go. The lack of financing strategies and carefully planned time-tables for implementation of the obligations sends a clear message that decisions should be made and actions taken immediately.

### **Key words:**

Croatia, environment policy, European Union, Environmental Action Plans, Stabilisation and Association Agreement, Accession Partnership, Pre-accession Programmes, negotiations, CARDS, PHARE, ISPA, IPA

## INTRODUCTION

The environment is considered a serious social and economic issue that needs to be addressed comprehensively if we are to accomplish and preserve the quality of life for ourselves and the generations to come. Environmental policy began in response to local problems, but later spread across national borders, for environmental degradation caused general concern and induced thorough scientific research.

Over the years, the EU has shown a great interest in environmental protection and most probably became a global frontrunner in this issue. It was realised as early as the 1970s and 1980s that the inter-governmental organisation or supranational body, as it was, would have a great impact on its members. Since that time, the EU has created an impressive number of legislative documents and policy papers related to the environment. Some of these have been more effective than others, which have been ineffective due to the lack of stringent penalties or to reluctance on the part of governments in EU member states.

Nevertheless, quite a lot has been achieved. For the environment, the accession process is a great opportunity and impetus for action. As a candidate for EU membership, Croatia is facing great challenges. From institutional to administrative and financial demands, Croatia has to fulfil a great number of goals in a very limited time – the currently available EU funds and programmes might be a useful tool to meet the requirements posed by the EU.

The aim of this article is to present the background and context of the environmental policy in the EU, with the emphasis on the process in Croatia, mainly based on the use of the pre-accession programmes – to present what is yet to come and what needs to be addressed, based on both the current state of affairs as well as the authors' personal knowledge and experience in dealing with both environmental issues and EU affairs.

## ENVIRONMENTAL POLICY

One might argue that it all started in the late 1960s in Sweden when a decrease of the wood stock was detected, which resulted in a serious analysis of the correlation between industrial activities and forest degradation. The polluting countries thought they had “solved” their problems by building tall chimneys to ensure that pollutants would be

taken into the atmosphere and transported hundreds of kilometres away. It was only when the economic consequences of environmental degradation were extensive enough that a substantial and holistic analysis of the problems and possible solutions was performed. Scientific research proved that the soil acidification present in Sweden, a country the economy of which relies on the wood stock, was a result of the high industrialisation of the countries in the West – pollutants in the air were carried by air currents across borders (McCormick, 1999).

The protection of the environment is an ideal example of how certain policies need to be addressed on the international level, although specific problems are raised locally (Connelly and Smith, 1999). The outcome of the growing concern and interest in the environment was the United Nations Conference on the Human Environment held in Stockholm in 1972. This was the starting point of the global environmental protection policy: the international community recognised the importance of the problem of the depletion of natural resources as well the significance in relation to the future development of the world. They stressed the need for a common approach in solving global problems, such as climate change or water pollution, as well as, and most importantly, consciousness of the co-dependency of the living world on this planet.

One of the most important dates in environmental history is surely 1992, when the UN conference in Rio was held. At that moment, the whole world was involved in the discussion on the mutual dependence of economic development and environmental protection. Not only did government representatives, academia and scientists participate, but the non-governmental organisation (NGO) community as well. It was a truly global conference. The conclusion was that environmental protection should not be a limiting factor for economic development but its integral part and impetus and that the balance between them was necessary and also possible. The result of those discussions was a new principle, so embraced and exploited by many later, named “sustainable development”.<sup>i</sup> This concept was unique in the sense that it focused on the long-term goals and interlinked the economic, social and environmental aspects of life.

Consequently, the environment has become an increasingly popular topic not only for academia and professionals, but for the public as well – today being environmentally conscious is practically even synonymous with being trendy. At the same time, the movement has outgrown the borders of states and even continents, and the idea of protect-



ing the planet against reckless and thoughtless destruction has become part of our everyday lives. The optimism and idealism of the 1990s has been overshadowed by concerns about globalisation. For that reason the 2002 UN conference in Johannesburg dedicated to the achievements in creating and maintaining sustainable development was a great disappointment (IEEP, 2005). Not only were the targets set in 1992 in Rio not met, but also the level of interest and involvement of the countries that have an important global impact was extremely low. Nevertheless, the EU remained a positive example – although many issues have not been resolved, quite a number of actions have been undertaken with the ultimate goal of achieving sustainable development (European Commission, 2005b).

## **THE EUROPEAN UNION AND THE ENVIRONMENT**

The European Communities, later the European Union, were originally created as an economic trading block. Through time, economic interests were outgrown and it evolved into a community that places the environment and sustainable development among its core principles, even in its treaties. European environment policy has become increasingly ambitious over the course of time and has resulted in significant environmental improvements (Connelly and Smith, 1999; Mintas-Hodak, 2004). At the same time, competitiveness, as well as economic growth and jobs, are vitally important, sometimes leaving environmental and sustainability principles aside rather than being integral to them.

Recently, due to other issues emerging on the EU level, especially political matters such as the European Constitution or social reforms in its members, the environment is no longer high on the agenda. On top of that, the recent enlargement has induced higher costs and necessitated reforms in the functioning of the EU institutions, resulting in a reluctance for further enlargement. Also, periodically, the EU is rethinking its existence, which is obviously happening right now; therefore other issues are put aside, while national interests are in focus. Certainly, an impact on the environmental sector exists and time will show to what extent.

It has become evident that environmental protection is a demanding and very costly segment in all EU activities. Environmental

policy does not have a sectoral character like other EU policies. On the contrary, it is a significant part of all the segments of human life – from health and human rights to social welfare and economic growth, and therefore environmental aspects have to be addressed in all of them. Year by year the size and complexity of regulation is expanding and demands strong commitment from and the understanding of all the stakeholders.

In the past, in certain cases enlargement resulted in improvements in the EU environment policy (European Commission, 2006). Those members who had had a significant experience in the environmental sector influenced EU policy making in a positive manner, promoting their national policies when joining the EU. One must not forget that the member states have a variety of attitudes towards the protection of the environment – some are more enthusiastic than the others, some have a stronger public awareness of the importance of the problem and some lack both the public and governmental decisiveness to make a change (EEA, 2005b). On the other hand, if the latest enlargement with ten new countries in its best sense becomes as efficient as predicted, the EU will continue to be a role model in the environmental sector. The intergovernmental and supranational character of the EU enables it to impose binding laws on its members, which is significant for the environmental sector, since their implementation is sometimes extremely demanding.

Today, many problems are rooted in the way Europeans use land, the economic conditions and the ways of life. Recent reports have shown that the trends in caring for the environment are not encouraging (EEA, 2005b). Individual awareness of the impacts of certain activities on the environment and their link to health would definitely make a difference. Public polls have shown that there is a great support from the EU citizens for preservation and improvement of the state of environment, as a result of a growing public awareness of the gains over the past decades, ever since environmental action has been recorded (Eurobarometer, 215/2004). The main reason is that Europeans value the quality of life. Reports from EU institutions (both the Commission and European Environment Agency) have proven that there is need for joint action from governments and citizens to shape economic development in line with “the Earth’s carrying capacity”. Consequently, the more Europe uses the opportunity to achieve an environmentally sound development the greater is the chance that it will affect global trends. Another issue should not be forgotten – many argue that EU environ-

mental policy is not focused or efficient enough, that it is not adequately strong to induce radical changes in the society (EEB, 2006). Most likely, greater attention should be given to the political willingness to implement the *acquis* at the national level. Otherwise, the state of affairs and the outlook will be worse than if no action had been undertaken.

Politically, the EU considers environmental protection a bright example of its international leadership. The Union tends to present the decisiveness of its twenty five members that in jointly deciding on their goals and the means to achieve them, for the purpose of securing social justice, economic prosperity and a sound environment for its citizens, as a model for the rest of the world.

## **ENVIRONMENTAL ACTION PROGRAMMES**

As the EU is a supranational authority, its policy-making institution, the Commission, has an important role for all its members and, of course, future members. In line with EU international activities related to the environment, through the decades the Commission has created a line of environmental action programmes (EAPs) that were supposed to be used as a framework for future actions. Six of those programmes have been prepared and presented – through time they developed from those in the seventies that were strictly focused on strong regulation and control mechanisms, via those in the eighties that introduced market instruments, to the very latest measure, which is focused on the creation of thematic strategies for each sector identified as resulting in major environmental damage (EEA, 2005a).

The first and second EAP were adopted for the period 1973-1981. They were both based on the UN Conference on the Human Environment held in Stockholm in 1972 and were to some extent idealistic in approach. This was the beginning of Community environment policy, therefore both action plans were focused on the prevention, reduction and containment of environmental damage, the conservation of an ecological balance and the rational use of natural resources. It was the first time that an environment policy document was created for its own purpose without being subordinated to internal market objectives. The approach in those two plans was top-bottom.

The third EAP, 1982-86, and the fourth EAP, 1987-1992, were more related to the completion of the internal market. The third was

concentrated on the risks and benefits of environmental policies to the internal market. The fourth was adopted in the same year the environment gained its own chapter in the Treaty. It was focused on the economy of the environment: environmental aspects were a part of the production process in order to reduce energy or material inputs in the production cycles, resulting not only in the improvement of the state of the environment, but in production costs reduction, and hence in more favourable outcomes for each side. Finally, both small and large companies had to be involved, with the realisation that the investments in production would be significant, while the benefits would be achieved in the medium-term perspective. Furthermore a set of new economic instruments was introduced – taxes, subsidies and tradable emission permits.

In 1990s the fifth EAP was in place with some innovations, based on external factors that influenced and changed the approach to the environment:

- sustainable development approach,
- integration of the environmental dimension into the sectoral policies,
- new market-oriented instruments,
- role and involvement of the public, NGOs and local authorities,
- defining medium and long-term objectives.

At the same time, there was a certain resistance from some member states. Now that measures had become specific, they called for application of the subsidiarity principle so that environmental policy was brought down to the national instead of the EU level. As a response to that, a number of less stringent measures were introduced – softer and more voluntary. It should be concluded that the Commission overestimated the willingness of its members to adopt the legislation and principles and the economic problems cast a shadow over the promotion of the new incentives.

In recent times, especially with the fifth EAP, it has become evident that certain sectors need to be specially addressed in the environmental context – those that were identified as the main sources of environmental deterioration<sup>ii</sup>. The integration of environmental aspects into sectoral policies would be used to induce changes. Precisely for that reason, the last, sixth EAP, is crucial for imposing the need to create thematic strategies for the environment, in order to create strong sectoral guidance, with a clear timetable for the necessary action. The integration of the environment into sectoral policies is a continuous process and its successfulness depends on a mixture of political commit-

ment, appropriate structures in place, processes and even individual efforts. Only if public and business jointly participate with government will it be possible to create new objectives and revalue the presently available instruments. The sixth EAP takes the inadequacies of the previous EAPs and underlines them as new strategic goals, pointing out and introducing cooperative approaches with industry. The aim is to influence key environmental areas – climate change, nature protection, health and the environment, sustainable use of natural resources and waste management (European Commission, 2001).

It can be assumed that the shift from the top-bottom approach and insistence on the transposition of the *acquis* to the concept of having different thematic strategies, which requires careful strategic planning and assessment, will be highly beneficial for the EU candidates. Instead of having independent legislation to adopt and implement, thematic strategies would introduce a clearer context and timeframe.

## ACCESSION PROCESS

The EU accession process related to environment is the challenging one – to become a member, the candidate has to make efforts to fulfil the requirements set by the EU by regulating the adoption of the environmental *acquis*, composed of more than three hundred different regulations related to the air and water pollution, chemical, waste management, biotechnology, protection from the radioactive radiation and preservation of natural resources. The environmental chapter is considered to be one of the most complex ones. The combination of building or rebuilding the economy in transition while fulfilling the environmental standards is characterised as a challenging process, if not close to impossible. It is of the utmost importance that the standards are adopted by future members, not only for the benefit of the general state of the environment in Europe, but also to prevent “environmental dumping” in countries that have less rigorous legislative frameworks. Priorities in transposing the *acquis* include:

- framework legislation,
- measures initiated from the international conventions signed by the EU,
- reduction of global and transboundary pollution,
- nature protection to preserve natural resources, and
- measures that ensure the functioning of the internal market.

The costs of compliance are relatively higher for countries with a low population, Croatia being a case in point. Therefore, the Commission has proposed the creation of financial strategies to evaluate the real costs of compliance. Those strategies need to be in line with the national strategy for the adoption of the *acquis* and must have a clear timetable of concrete investments, especially for the key areas – water and air quality and waste management. This is essential for the appropriate and efficient use of the pre-accession instruments, which will be referred to later.

Obviously, all these would also present a long-term benefit for the candidates. Not only would they be able to function on the common market, they would be able to improve the quality of life, reduce the costs of health protection as well as those costs resulting from the deterioration of forest, agricultural land or fish stock. A study financed by the Commission concluded that over the period 1999-2020, the overall benefits of compliance with the environmental *acquis* for candidate countries (excluding Croatia) would amount to between 134 and 681 billion euros, assuming full implementation is achieved in 2010 (ECOTEC, 2001).

## **CROATIA'S PATH**

In October 2005 the European Council decided that the negotiations with Croatia should begin. Only six months later, Croatia started the first part of the negotiations related to the environment. The screening phase for *Chapter 27 Environment* of the negotiation process, it was claimed, was likely to last longer than that for other chapters. The explanatory phase of the screening was used to prepare the national review and evaluation of what had already been done, and which actions were crucial for the further transposition. Of course, that is a serious and not an easy task. Not only does it require a revision of the legislation that is in force in Croatia at the moment, but also entails a serious and profound evaluation of what can possibly be achieved in a realistic timeframe, in which way and with which financial sources. In this respect, it is essential to use the pre-accession funds in the most efficient way, at the same time consulting other possible sources of financing, especially bilateral.

It is to be expected that certain areas will be identified for which Croatia might request transitional periods. Based on the experience of

other candidates, it would not be possible to expect approval in some issues such as:

- transposition of directives into the national legislation,
- framework legislation (air, waste, water, environmental impact assessment, access to information),
- nature protection (habitat and birds),
- legislation related to product regulation, and
- introduction of new technologies.

Transitional periods can be expected in areas where there is a need for substantial investment in the infrastructure, which is then prolonged through a longer period of time, without jeopardising the economic development.<sup>iii</sup> If the procedures are not changed in the Commission, for each and every sub-sector of the environment, Croatia would have to prepare a detailed plan of transposition and implementation, which would include a specific and detailed timeframe and required administrative capacity for successful implementation of the adopted regulation<sup>iv</sup>. Part of this process is the complexity of using the financial assistance from the EU in the most effective way. As was the case with other candidates, Croatia has to acknowledge its comparative advantages and promote investment in the environment sector in order to create and develop its competitive areas.

Through the last six years, the relationship between the EU and its members on one side and Croatia on the other has been defined through different documents. It was the aim of these papers to define the economic relationship and in addition to address other issues, such as the environment. It will become clear through this short review to what extent these documents affect national policy making, especially in the context of the pre-accession funding.

*Stabilisation and Association Agreement*, signed by Croatia in 2001, was the beginning of the contractual relationship between the EU and Croatia and was, in some aspects, utilized more extensively than had been foreseen (NN – Treaties, 14/02). Its aim was to prepare and induce reforms that would eventually lead to the EU membership. Specifically, in Title VIII *Cooperation Policies*, in Article 103, the Agreement stipulates the areas of environmental protection that need to be especially addressed, with the aim of “combating environmental degradation, with the view to promoting environmental sustainability”.<sup>v</sup> Along with this new type of European Agreement, the Commission has introduced a new CARDS programme in order to streamline its assistance (Council Regulation, 2666/2000). The representatives of the

Commission paid a visit to Zagreb in 2001 for the very first programming mission to Croatia.<sup>vi</sup> During consultations, Croatian representatives managed to secure a small, but relevant amount of funds for the environment. Through the CARDS programme 4.85 billion euros are planned to be provided to this region from 2000 to 2006 for investment, institution building, and other measures. Although these funds were not sufficient for all that is necessary, this framework was a starting point in identifying possibilities for other donors and partners as well.

After presentation of Croatia's application for EU membership in April 2003, the Commission prepared the *Opinion on Croatia's Application for Membership (Avis)*. Interestingly enough, six months after Croatia had handed in the answers to the questionnaire, in the conclusions of the Opinion, the environment was identified as a separate issue. It was emphasised that "very significant efforts would be needed, including substantial investment and strengthening of administrative capacity for the enforcement of legislation" and that "full compliance with the *acquis* could be achieved only in the long term and would necessitate increased levels of investment" (European Commission, 2004b). However, the Commission recommended that the negotiation process should be initiated.

In order to identify priorities that needed to be addressed in the stage of accession preparations, the Council adopted the *Decision on Principles, Priorities and Requirements contained in the Accession Partnership* with Croatia in November 2005 (European Commission, 2004c; European Commission, 2005a). The Accession Partnership highlights short-term (1-2 year period), medium-term (3-4 year period) and long-term priorities. These concern further development of the legislative framework as well as its effective implementation. Taking into account the substantial costs required for implementation and enforcement of the environmental *acquis* as well as the complexity of it, the time-driven division of priorities and planning is of the utmost importance.

Annually, in line with the Accession Partnership, Croatia has to prepare a *National Programme for the Integration into the EU* with the clear timetable of both specific legislative and non-legislative measures (Ministry of Foreign Affairs and European Integration, 2006). The progress in implementing the priorities is regularly monitored by the Commission through the annual *Progress Report*.<sup>vii</sup> The 2005 Report examined whether planned reforms referred to in the 2004 report had been carried out, investigated new initiatives, and assessed the overall



level of alignment in each of the areas under consideration. In the environment sector, the Commission recognized that most of the problems highlighted in the Avis remain present and continue to pose a threat to successful implementation of the acquis. The Opinion's conclusion that Croatia needs to make considerable and sustained efforts in the environmental sector does not appear to have led to any significant change in the overall importance attached to environmental protection by the government. One of the resultant tasks is the creation of the coordination structures and logical coordinating mechanism. They have to be in place horizontally, between the national competent authority and other relevant line ministries and state administration bodies to overcome the high fragmentation of responsibilities, and vertically, between the national and local environment authorities.

*The National Environmental Strategy*, adopted by parliament in 2002, is based on the principles of sustainable development and deals with the state of the environment, international obligations, key objectives and priorities and also includes the state of affairs and trends as well as actions to be undertaken in priority areas (NN 46/02).<sup>viii</sup> *The National Environmental Action Plan* attached to the Strategy comprises detailed action plans for individual thematic environmental protection areas and economic sectors. The plan includes objectives, measures to achieve objectives, the level of actions, authorized implementing bodies, time schedules and possible sources of finance. The document sets out preliminary implementation assessments of the targeted measures indicating the need for significant investment increases in these sectors, as pointed out in the Avis and the previously indicated strategic documents. Even so, we can argue that neither the strategy nor the plan has been an implementable document, lacking specific steps to the fulfilment of what has been envisaged, without efficient monitoring in place and guidance on the management of the possible financial sources.

## **FINANCIAL CHALLENGES OF THE ENVIRONMENTAL ACQUIS**

As already stated above, legal transposition is the first step of the accession process, but the implementation and enforcement of the legal acts are crucial matters that require careful financial planning. At the moment, Croatia is faced with this costly task of achieving full compliance with the environmental acquis. Transition periods or post-

ponement of implementation of certain directives due to their high cost implications will only be granted on the basis of sound justification within the implementation plans for the directives contained in *Chapter 27 Environment* of the acquis. The crucial component of the implementation plan is an investment or financial strategy for the implementation of the concrete requirements prescribed by the specific directive. Those investment strategies should be reflected in the overall national financial strategy for all the requirements in the environment sector. It should be used as a tool for the government to forecast the scale and timing of funds that are essential to fulfil the EU requirements (administration, staffing, monitoring equipment and infrastructure). That document is a precondition for efficient utilisation of the Structural and Cohesion funds available once Croatia is a member of the EU.

Since no thorough calculations connected with the fulfilment of obligations arising from harmonization of legislation have been made, the financial strategy is going to be the immediate priority in this sector. According to some rough estimates the total environmental investments aimed at reaching the average EU standards for water, air and waste sectors will amount to at least 1.5 to 2 thousand euros per capita, totalling 6.6 to 8.8 billion euros. To this amount, annual operating costs have to be added, which makes these expenditures extremely high. Most of the costs will be related to water protection and waste disposal.<sup>ix</sup>

Obviously, the EU financial assistance in the pre-accession period will only cover a minor part of all the resources required in the environment sector. However, it will significantly contribute to the development of administrative structures and capacities for future significantly larger financial allocations under the Structural and Cohesion funds. The uniqueness of the Croatian case is the number of available EU financial instruments in their different implementation and preparation stages. We are speaking about the CARDS programme 2001-04, Pre-accession programmes PHARE, ISPA and SAPARD 2005-06 and Instrument for Pre-accession assistance (IPA) from 2007 until membership. This situation makes the complex functioning of EU funds even more challenging.

## **CARDS Programme**

Within the CARDS 2001-04 cooperation policies framework, the environment and environmental integration into other policy areas

Table 1 CARDS 2001-04 allocations to Croatia\*

Budget years	Total national allocation (million euros)	Allocation to environment (million euros)	Share of the environment in total (%)	Areas of financed actions
2001	60	0.2	0.3	Municipal waste management strategy
2002	59	3.0	5.6	Environmental law approximation strategy Waste management in Dalmatian counties Water monitoring Support to environmental NGOs
2003	62	3.7	5.9	Environmental impact assessment Strategic impact assessment Access to environmental information and public participation Support to environmental NGOs Use of renewable energy sources
2004	81	3.8	4.6	Continuous approximation with the acquis in the sector of air, IPPC and water, renewable energy and energy efficiency
Total 2001-2004	262	10.7	4.0	

\* Due to unforeseen circumstances an additional 1.8 million euros were allocated to the environment sector within the 2001 programme and the allocation amount was reduced by 0.3 million euros within the 2003 programme.

have been clearly acknowledged. Environment, as cooperation policy, was reflected in two main documents – Country Strategy Paper (CSP) and Multi-annual Indicative Programme (MIP). CARDS support identified in MIP aims at improving the implementation and enforcement of existing national legislation, further alignment with environmental acquis, building capacity in the public administration and environmental NGOs, raising awareness of consumers and the private sector. The expectations of the accomplished actions are formulated in three straightforward results within MIP: an agreed strategy for EU approximation in the field of the environment, the systematic use of environmental impact assessment for investment proposals, and an improved system of environmental monitoring.

The financial agreements signed under the CARDS programme 2001-04 are worth 262 million euros. The financial allocations for the environment and natural resources are rather small compared to the overall annual allocation (Table 1). Co-financing is not required for projects within CARDS programme – in other words, they are in the form of grants.

CARDS 2001, 2002 and 2003 annual programmes in environment have been completely contracted, while the environment component of the budget year 2004 is currently in the process of tender preparation. This fact actually shows that planning, preparation and implementation of the programmes are time-consuming tasks to be performed according to stringent, sometimes rigid EU procedures, which primarily require a well-trained and experienced administration.

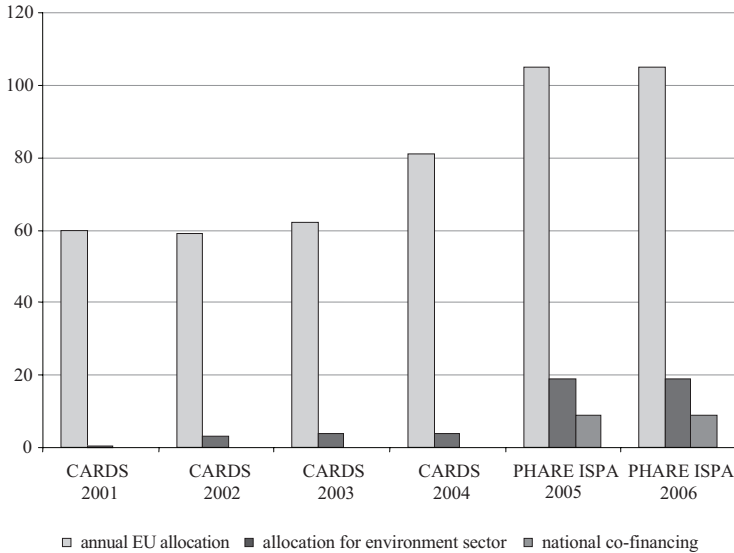
## **Pre-accession funds**

The strategic document of the Commission on progress in the enlargement process has elements of pre-accession strategy for Croatia and presents the basis for utilization of the EU pre-accession funds PHARE, ISPA and SAPARD (European Commission, 2004d). For the implementation of those programmes 105 million euros were allocated in 2005 and 140 million euros in 2006.<sup>x</sup>

The particularity of pre-accession programmes, in comparison to CARDS, are the substantially larger allocations, focused on financially larger projects with obligatory co-financing from the national budget as a tangible sign of commitment and ownership of the pro-

grammes. The co-financing rate varies in accordance with the rules of each programme.

Graph 1 European Union allocations to Croatia (million euros)



To contribute to the achievement of full compliance with the EU requirements in the negotiation of *Chapter 27 Environment*, the 2005 *PHARE* contribution of 4.5 million euros (5% of 2005 total) has been allocated to interventions in the enhancement of environmental inspection and designation of NATURA 2000 sites in Croatia.<sup>xi</sup> The latter will be extremely important in future structural fund investments since all interventions in these areas will be systematically assessed. In 2006, an additional 80 million euros are available but only around 5 million will be allocated for two projects in environment sector.

These figures demonstrate the tendency of the Commission to have focused and financially substantial projects to secure significant impact rather than the diffused actions that were found in *CARDS* programme. The *PHARE* assistance is clearly *acquis*-driven, in other words, it is focused on projects aimed at the transposition and implementation of *acquis* requirements.

In order to prepare Croatia for the accession, *ISPA* provides financial support to economic and social cohesion, in particular to the environment and transport (European Commission, 2004a). Financial assistance is provided only to the environmental projects identified as a priority in the national Environment ISPA Strategy. These projects should enable Croatia to comply with the requirements of the environmental acquis and Accession Partnership priorities, mainly in the areas of water supply, wastewater treatment and solid waste management (See Table 2).

*Table 2 Key Investment-Heavy Directives*<sup>xii</sup>

<i>Water Supply/Wastewater Treatment</i>	<i>Waste Management</i>
Urban Wastewater Treatment Directive	Landfill directive
Drinking Water Directive	Municipal Incineration Directives
Dangerous Substances into Water Directive	Hazardous Waste Directive
Nitrates Directive	Packaging Waste Directive
<i>Air Pollution Control</i>	<i>Industrial Pollution Prevention Control</i>
Large Combustion Plants Directive	Industrial Pollution Prevention Control (IPPC) Directive
Fuel Quality Directives	Volatile Organic Compounds (VOC) Solvents Directive
Air Quality Directives	

The allocation of ISPA funds to each country is calculated on the basis of the criteria of population, GDP per capita and surface area. Croatia has programmed the whole 2005-06 allocation for the environment sector – *Karlovac Water and Waste Water Programme* (ISPA funding 22.5 out of total 36 million euros) and the construction of the *Bikarac regional waste management centre* in Šibenik and Knin County (ISPA funding 6 out of the total of 8.8 million euros). Although all the available funds are programmed, at this stage the importance lies in project implementation, which has to be undertaken according to previously agreed stringent conditions. Apart from its primary focus on the “heavy” investments, ISPA has also contributed to building know-how and administrative capacity which has been supported by technical assistance in training on procurement procedures, financial management, project preparation of technical documentation and cost-benefit analysis. Solid project preparation is a basis for successful financing not solely for EU programmes, but also for any other available funding.

*SAPARD*, worth 25 million euros, aims at supporting sustainable agricultural and rural development. It is designed to solve problems affecting the long-term adjustments of the agricultural sector and rural areas and to help implement the acquis in matters of the common agricultural and related policies. The programming basis is the National Rural Development Plan in which measures for financing are identified. The Plan gives priority to the improvement of market efficiency, quality and health standards, retaining existing jobs and the creation of new employment opportunities in rural areas. In implementing these, due attention has to be given to provisions of environmental protection. In that sense, *SAPARD* will, by favouring projects with an environmental dimension, directly influence the integration of environmental considerations in Croatian agricultural and regional policy. The National Rural Development Plan with the identified priority measures was prepared in April 2006, but due to the demanding programme implementation procedures, the selection of projects will only take place by the end of 2006.

## **Future Instrument for Pre-accession Assistance**

Building on the experience from the recent accession process, the EU wants to rationalise the pre-accession aid it provides to the candidate countries and potential candidates of the EU. The Commission is currently in the process of proposing a regulation aimed at streamlining pre-accession assistance by enhancing coordination between the different components to incorporate the CARDS, PHARE, ISPA and *SAPARD* instruments into one – the Instrument for Pre-accession Assistance. The beneficiary countries will use its five components: I Transitional assistance and institutional building, II Cross-border and regional cooperation, III Regional development, IV Human resources development and V Rural development. Concerning the environment, the funds will be available under regional development component for *ISPA-like* investment projects<sup>xiii</sup> with emphasis on its *bridging function* to the Structural Funds available upon accession. Currently, for component III and IV national authorities in consultation with the Commission are preparing *Strategic Coherence Framework* document. They are also starting a discussion on *Operational Programmes* which identify priority measures to be financed by EU in the next three years. Although faced with uncertainty about what IPA will entail in the future, Croatia

Table 3 Outline of the changing programme priorities in Croatia

	Pre-accession programmes 2005-06	Instrument for pre-accession assistance since 2007	Structural funds and Cohesion fund 2007-13
CARDS 2001-04			
/	SAPARD – Rural development	Rural development	European Agriculture Fund for Rural Development (EAFRD)
/	ISPA – Transport and environment infrastructure		
Environment and natural resources		Regional development	European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund
Economic and social cohesion	PHARE – Economic and social cohesion	Human resources development	
Regional and cross-border cooperation	PHARE – Cross-border cooperation	Regional and cross-border cooperation	European Social Fund European Regional Development Fund
Institution building			
Democratic stabilisation	PHARE – Institutional building ( <i>technical assistance, twinning</i> )	Assistance in transition and institutional capacity	/
Justice and Home Affairs			



has to define its priorities and objectives to be able to utilise it to the full. In this respect know-how gained through project prioritisation and preparation to date will be a valuable experience in the future.

In the Table 3 a short overview of priorities under various EU programmes is presented, expanding from technical assistance to substantial infrastructural investments.

It must be stressed that Croatia has also been benefiting from a *Community programme* as third country in the sector of environment – *LIFE-Third countries* (2001-06). The objective was to complement other mentioned programmes in the establishment of capacities and administrative structures, the development of environmental policy and various action programmes. Croatia has shown high performance in proposing good quality projects and attained 5.7 million euros in a five-year period. Unfortunately, within the next EU financial perspective 2007-13, LIFE programme funds will be limited to the member states.

From the general overview of the available programmes and financial allocations, a substantial rise of funds in the environment sector is evident. From a yearly average of around 3 million euros, being the least funded sector through the CARDS programme, the allocation for the environment sector increased to 19 million euros per year under ISPA and PHARE in 2005 and 2006. The allocation from 2007 onwards is still under discussion. The figures presented so far confirm the importance of environmental protection in EU policy as well as the existing investment gaps in Croatia. The further increase of allocated funds would present a great advantage for the financially demanding sector of the environment but could only be successfully utilized if the required responsibility, ownership and capacity are in place.

## **Management of the assistance**

In the previous years, the assistance was implemented in the so-called centralised manner, which means that the Commission was responsible for the implementation of the programmes. Since October 2004 when Croatia became a candidate, it has initiated preparations for assuming full responsibility and ownership of CARDS and the pre-accession assistance programmes. This process, known as *decentralisation of financial assistance* lasted for about a year.

In the second half of 2005 the Commission accredited the Central Financing and Contracting Unit within the Ministry of Finance as

the implementing agency. From February 2006 the Commission conferred the management of CARDS, PHARE and ISPA on the Croatian authorities, allowing them to take full ownership of programming, tendering and implementation of those programmes. The Commission will only keep some functions of tendering and contracting ex-ante control. Conferral of management of SAPARD is expected to present a special challenge to Croatia, as it did to other candidate countries. The management of SAPARD goes one step further in terms of national responsibility to the so-called *extended decentralised implementation system*, which requires structures and implementing rules identical to those in member states.

Decentralisation of financial assistance is a sign of the Commission's confidence in national institutions to manage funds efficiently and according to the highest standards of sound financial management. It is also a part of the obligations that Croatia has to fulfil in the framework of *Chapter 32 Financial Control* of the acquis in the course of negotiations.

The importance of EU funds utilisation should be seen as an integral part of the negotiations process for all the chapters of the acquis. Projects should be seen as a tool for achieving the accession goals and their outputs and activities should be seen as part of the overall national EU integration planning process. Croatian absorption capacity will be closely monitored by the Commission and, based on those assessments, the future allocations will be calculated. The overall administrative capacity in the environment sector at national, regional and local level will determine the level of the absorption of available EU funds. Accordingly, an appropriate staffing policy is a key to successful institutional capacity strengthening, which requires a careful development of long-term plans to recruit and train staff. In order to streamline the allocated EU funds according to Croatia's particular needs to fulfil the stringent environmental standards imposed by the EU, additional efforts need to be dedicated both to the decision-making level in the administration to set the priorities in the environmental sector, as well as to the operational level, to successfully manage the programmes.

## CONCLUSIONS

The EU has taken the opportunity to embrace environmental protection as its own separate policy after the realisation that economic

prosperity is highly environment-dependent and affected by the depletion and deterioration of the natural resources. From non-existence in terms of policy, the environment has become one of the most important and demanding concerns, resulting in a substantial body of legislation and strategic policy documents. Those documents served as a framework for action, which led to the improved state of the environment in Europe. Consequently, during the fifth wave of enlargement, each candidate faced major challenges in alignment with the EU standards, primarily related to insufficient administrative capacities and scarce financial resources. The same, naturally, applies to Croatia, and therefore problems and tasks should be evaluated realistically time-wise as well as bearing in mind the available capacities at local, regional and national levels.

It is evident that one of the aspects of fulfilling the accession requirements would be an efficient usage of the pre-accession funds, bearing in mind the specific conditions Croatia is facing at the moment, handling a number of diverse programmes in their different phases of existence. Clearly, there needs to be logical sequence of operational phases – strategic planning and defining priorities, transposition, implementation plans and corresponding financial strategies, horizontal and vertical coordination in the administrative structure, strengthening institutional capacity – all essential preconditions for EU funds absorption.

The available EU funds are insufficient. Therefore there is a need for a detailed plan for attaining other sources in the coming years. In addition to the fact that EU and bilateral assistance needs to be used as efficiently as possible, extra sources should be foreseen and other economic incentives for environment protection should be promoted. Croatia has a unique opportunity to assess the present situation in the EU members concerning the environment and adopt the most efficient practices.

Transposition and implementation of the complex environmental acquis should not be considered a burden but an instrument to improve the environmental conditions and to endorse specific economic activities that could be considered a comparative advantage for Croatia. Finally, the efforts to comply with EU environmental standards are not limited to the government administrative structures. The mere awareness of the social and economic consequences if Croatia fails to preserve the environment should lend additional support to progress in this demanding area of change.

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- \* *The authors' positions in this article do not reflect the official standpoints of the respective institutions. The authors would also like to thank Katarina Ott and the anonymous referees on their valuable comments.*
  - i *"Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987).*
  - ii *The most important sectors identified as those that have the strongest influence on environment are agriculture, tourism, industry, transport and energy.*
  - iii *Substantial investment is required for sewage system, wastewater treatment, municipal waste management and drinking water supply.*
  - iv *Sub-sectors are Nuclear safety, Water protection and management, Monitoring of atmospheric pollution, Prevention of noise pollution, Chemicals, Industrial Risk and Biotechnology, Space and natural resources, wild fauna and flora, Waste management and clean technology.*
  - v *Cooperation priorities are numerous: water quality and wastewater treatment, prevention of air and water trans-boundary pollution, effective monitoring, climate issues, safe handling of chemicals, safety of industrial plants, waste management, soil erosion due to agricultural activities, protection of flora and fauna, effective planning, use of economic and fiscal instruments, implementation of environmental impact assessment and strategic impact assessment, approximation of laws, international conventions, regional and international cooperation, education and information. The Article also included the protection against natural disasters.*
  - vi *Programming mission is a process of consultation between the representatives of the Commission and Croatian delegation in order to identify priority areas for funding.*
  - vii *The Progress Report contains an analysis of the situation with respect to the political criteria for membership, an assessment of Croatia's situation and prospects with respect to the economic criteria for membership, review of Croatia's capacity to assume the obligations of membership, that is the *acquis*, and briefly examines the extent to which Croatia has addressed the Accession Partnership priorities.*
  - viii *In the Strategy the following general priorities in environmental protection have been established: enforcement of environmental regulation; raising public awareness of the need to protect the environment; integrated approach to pollution abatement (especially as regards air, the sea, water and soil) and actions targeted at the prevention of waste generation (waste management system); sustainable management of natural heritage and natural resources: soil, waters, the sea, landscape, the Adriatic coast and islands; reduction in the consumption of energy coming from non-renewable sources; enhancement of environmental quality in urban areas and improvement of health and safety, especially through industrial risk management.*
  - ix *A rough break-down of costs related to meeting the requirements that arise from legislative harmonization: water protection 40-45% of the total costs, waste disposal 35-40%, air quality protection 8-10%, nature protection 4-5%, industrial pollution control and risk minimization 2%, horizontal legislation harmonization 0.3-0.4% and the rest 0.1% (World Bank, 2003).*
  - x *In 2005 PHARE amounted to 80 million and ISPA to 25 millions euros. In 2006 PHARE amounted to 80 million, ISPA 35 million and SAPARD 25 million euros.*
  - xi *NATURA 2000 is the European ecological network of special areas of conservation aimed at protecting biodiversity.*

- xii Investment-heavy directives are those requiring substantial financial resources for their implementation.*
- xiii ISPA-like investment projects are costly infrastructure projects in water supply and treatment of wastewater and solid waste.*

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## Chapter 13

# **PARTICULARLY SENSITIVE SEA AREAS: THE NEED FOR REGIONAL COOPERATION IN THE ADRIATIC SEA**

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### **ABSTRACT**

The paper discusses the need for the designation by the International Maritime Organization, of the Adriatic Sea as a Particularly Sensitive Sea Area (PSSA). The rationale for this inheres in the special features of the Adriatic Sea area, while the policy context has been set by the trend of European Union countries to advocate the proclamation of PSSA in marine areas surrounding Europe. Firstly, the PSSA concept is briefly reviewed and the current status of designations assessed. Secondly, the emerging policy of the EU towards PSSA proclamations is focused on and pressing reasons such as tanker accidents are highlighted; some background factors, such as the restructuring of oil transportation flows in Eurasia are commented upon. Thirdly, key features of the Adriatic Sea as corresponding to the criteria for the designation of PSSA are explained, including the basic characteristics of the area, status and trends of international navigation here, and present and potential associated protective measures to address the risks. Also, the Croatian initiative towards regional cooperation on an Adriatic PSSA is briefly presented. And finally, some conclusions on prospects for regional cooperation towards a PSSA in the Adriatic Sea are made, considering contrasts and commonality in that area.



**Key words:**

Particularly Sensitive Sea Area, European Union, Croatia, Adriatic Sea, regional cooperation, International Maritime Organization, marine environmental protection, international shipping

**INTRODUCTION**

In recent years, the EU has expressed its strong commitment to the prevention of environmental catastrophes resulting from shipping accidents along, in particular, the Atlantic coast of Europe, in the Baltic Sea, and in the Mediterranean Sea. As one of the key means to this effect, the identification of Particularly Sensitive Sea Areas has been argued for by the EU countries within the International Maritime Organization (IMO).

The PSSA concept was not widely used as an instrument of marine environmental protection until recent years. This trend, as far as seas off the European coasts are concerned, was partially prompted by the Prestige disaster.<sup>1</sup> A broader reason is the on-going changes in oil transport through Eurasia, and the resultant increased intensity of oil tanker traffic on the existing routes, as well as the introduction of new traffic directions in the seas surrounding Europe. This trend will continue, primarily as a result of several current and planned oil pipeline integration and construction projects in the region.

While the proposals of the European countries for a PSSA in the Atlantic waters off their coasts, as well as in the Baltic Sea, have recently been adopted by the IMO, this has not been the case with the remaining sea singled out, the Mediterranean Sea. Given the heterogeneity of the Mediterranean situation, a joint proposal of all those states for the entire Mediterranean does not look like a realistic option.

Within the Mediterranean Sea, however, there are several sea areas which may benefit from a PSSA status, and where a joint proposal of the states concerned may significantly enhance management of the risk posed by international shipping. The Adriatic Sea is a clear and pressing example. Recently, Croatia expressed its interest in playing a key role in a joint regional proposal for a PSSA in the Adriatic Sea.

This paper discusses the need for the designation by the IMO of the Adriatic Sea as a PSSA. The rationale for this inheres in the special features of the Adriatic Sea area, while the policy context was set by the trend of the EU countries to advocate the proclamation of PSSAs in marine areas surrounding Europe, as well as by other broad proces-

ses such as the evolving EU Marine Strategy. These considerations of the trends in the IMO and EU, as reflected in the special situation of the Adriatic Sea, have determined the structure of the paper. Firstly, the PSSA concept is briefly reviewed, and the current status of IMO designations assessed. Secondly, comments on the emerging policy of the EU towards PSSA proclamations are provided; apparent reasons such as tanker accidents are highlighted, while some background factors, such as the restructuring of oil transportation flows in Eurasia, are commented upon. Thirdly, key features of the Adriatic Sea as corresponding to the IMO criteria for the designation of PSSA are explained: (i) basic characteristics of the area; (ii) status and trends of international navigation here; and (iii) present and potential associated protective measures to address the risks. Following from this, the recent Croatian initiative for regional cooperation on an Adriatic PSSA is briefly presented. And finally, some conclusions on prospects for regional cooperation towards a PSSA in the Adriatic Sea are made, considering contrasts and commonality in that area; but also comments on the Adriatic Sea as a region in the context of the EU Marine Strategy, and on the need for the establishment of all-Adriatic cooperation on marine environmental protection are added. An Adriatic PSSA would be an important first step in that direction. Institutionalization of all-Adriatic regional cooperation, perhaps through a body such as an Adriatic commission for marine environmental protection, involving all six Adriatic states – Albania, Bosnia and Herzegovina, Croatia, Italy, Montenegro and Slovenia – could be the next step worth considering.

## **WHAT IS A PARTICULARLY SENSITIVE SEA AREA?**

### **The Particularly Sensitive Sea Area concept in a nutshell**

A PSSA is a marine area that needs special protection through action by the IMO because of its significance for recognized ecological or socio-economic or scientific reasons, and because it may be vulnerable to damage by international shipping activities.

Designation of a PSSA through the IMO is currently based on the revised Guidelines adopted by the IMO Assembly in December 2005.<sup>ii</sup> The Guidelines define three sets of criteria:

- *ecological* criteria, such as the naturalness, integrity or fragility of an ecosystem,
- *social, economic and cultural* criteria, including significance of a sea area for tourism, fishing and other socio-economic dependency, as well as the cultural heritage, and
- *scientific and educational* criteria, meaning that the sea area has high importance for research and exceptional educational possibilities.

Not all of the criteria listed in the Guidelines need to be satisfied in every particular case; it suffices that some, and at least one, of the criteria are met throughout the area. In conjunction with that, however, it is crucial that the area is at risk, whether actual or foreseeable, of damage from *international shipping* activities (not other maritime activities alone). Related to the risk so posed, associated protective measures within the competence of the IMO should be available.

Thus, identification of any PSSA requires consideration of three integral components: (i) the particular conditions of the sea area to be identified; (ii) the vulnerability of that area to damage by international shipping activities; and (iii) the availability of associated protective measures within the competence of the IMO to address risks from these shipping activities.

When an area is approved by the IMO as a PSSA, and so designated, specific measures can be used, subject to approval by the IMO, to reduce the risk created by the shipping activities in that area. Those measures can comprise ships' routing such as traffic separation schemes and areas to be avoided, mandatory vessel reporting systems, application of discharge restrictions, prohibited activities or compulsory pilotage schemes. While many of those measures can be adopted through separate procedures, and based on IMO conventions such as MARPOL, SOLAS and some others, an IMO-designated PSSA provides today a well-established political and legal framework within which measures for a certain sea area can be adopted in a more systematic but also innovative manner.<sup>iii</sup> This aspect can be especially important in seas surrounded by several coastal states, such as enclosed or semi-enclosed seas, where states need to be more oriented towards regional cooperation.

In addition, the designation of a sea area as a PSSA highlights the need for special caution to be exercised here by shipping activity, and thus contributes to an enhancement of the awareness of the sensitivity of the area. The intention is not to restrict shipping activity, rather to ensure adequate risk management regulation in areas where in-

ternational shipping poses a particular threat. The IMO Guidelines aim at a thorough consideration – based on relevant scientific, technical, economic and environmental information – of all interests involved regarding the sea area concerned: those of the coastal state, flag state, as well as the environmental and shipping communities.

### **Particularly Sensitive Sea Areas to date: the European Union taking over**

Ten sea areas have been designated by the IMO as PSSAs:

- the Great Barrier Reef (proposed by Australia, adopted by the IMO in 1990; and extended in 2005, on a proposal by Australia jointly with Papua New Guinea, to include Torres Strait),
- the Sabana-Camagüey Archipelago (Cuba, 1997),
- Malpelo Island (Columbia, 2002),
- the marine area around the Florida Keys (United States, 2002),
- the Wadden Sea (jointly proposed by Denmark, Germany and the Netherlands and adopted by IMO in 2002),
- Paracas National Reserve (Peru, 2003),
- the Western European Atlantic waters (Belgium, France, Ireland, Portugal, Spain and the United Kingdom; 2004),
- the Baltic Sea area, except Russian waters (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland and Sweden; 2005),
- the Galapagos archipelago (Ecuador, 2005), and
- the waters of the Canary Isles archipelago (Spain, 2005).

As can be seen at the first glance, most of the PSSAs were proposed and adopted only in the past few years; and out of the total of six marine areas adopted as PSSA in the past four years (from October 2002 to October 2006), four were proposed by EU countries. Even more striking, among the total of 22 countries to have submitted proposals to the IMO, most – 15 altogether – were EU countries, acting either individually or, more often, jointly. Several of the PSSAs were adopted to protect an archipelago, islands or a reef. What can not be seen from the list is that the PSSA concept – initially seldom used and, perhaps more important to note, rather politically neutral – has in the past few years become heavily politicized.<sup>iv</sup>

## THE EUROPEAN UNION AND PARTICULARLY SENSITIVE SEA AREAS: RESPONSES TO CHANGING CIRCUMSTANCES

### Responses to marine pollution incidents

Prompted by a row of major tanker accidents off European coasts in the 1990s, the EU adopted several regulatory packages, known as “Erika” (after the name of the last ship in the 1990s accidents line).<sup>v</sup> The catastrophe of the single-hull, 26 year old tanker *Prestige* off the Atlantic coast of Spain in November 2002, however, had a triggering effect for a major EU “offensive” also on the global, IMO level.<sup>vi</sup> One key string of that was the request to the IMO for accelerated phasing-out of single-hull tankers carrying heavy-grade oil.<sup>vii</sup> The other was an EU countries campaign aimed at IMO proclamation of several European sea areas as PSSAs. The two were not unrelated, as soon confirmed by the measures proposed within the application for the Western European Atlantic PSSA (discussed below).

In addition, as of July 2003 the EU strengthened regulations to accelerate various restrictions on single-hull tankers using ports of the EU countries – starting with heavy-grade oil prohibition (a type that, incidentally, amounts to only a fraction of the oil imported into EU ports).<sup>viii</sup>

During its EU presidency, Ireland announced its strong commitment to securing greater protection against environmental catastrophes resulting from shipping accidents in the Baltic Sea, waters off the Atlantic coast of Europe, and in the Mediterranean Sea.<sup>ix</sup> The proposals for PSSA designation of the first two sea areas mentioned were soon made, and eventually adopted at the IMO. However, for the third sea singled out, the Mediterranean as a whole, no PSSA proposal has ever been made, nor does it look very likely to follow. The Mediterranean, bordered by over twenty coastal states, is characterized by both political heterogeneity and division into several more compact ecological sub-regions. As a whole – and even under the unlikely hypothesis that its numerous and divided group of coastal states agreed on a joint PSSA proposal – the Mediterranean would hardly satisfy the criteria set by the IMO for a PSSA. Quite to the contrary, however, certain parts of the Mediterranean can be seen as clear PSSA candidates.

## European proposals in the International Maritime Organization

Following the *Prestige* disaster, by the end of 2002 and in early 2003 a plethora of EU bodies considered the PSSA a policy option to be used at the international level. Formally, however, the proposals can only be attributed to the states concerned.

In April 2003, six EU countries submitted to the IMO a joint proposal for the designation of a PSSA in a vast marine area called “West European Atlantic Waters”.<sup>x</sup> Measures proposed related to single-hull tankers carrying heavy-grade oil, and included the requirement on restrictions of transit through the area (withdrawn after various interventions from other states, including Japan), and a reporting obligation within a 48-hour notice period. The latter measure persisted, though doubts have been expressed whether a PSSA was actually needed for that purpose. Some commentators have coined this PSSA a “politically sensitive sea area”.<sup>xi</sup>

Soon after, in December 2003, the Baltic states, excluding Russia, proposed to the IMO the designation of the Baltic Sea – excluding Russian waters – as a PSSA.<sup>xii</sup> There was no new measure appended to that proposal, though. At the same time, the discussion over accelerated phasing out of single-hull tankers returned to other IMO agenda (MARPOL amendments), while talks with Russia on that matter regarding the practice in the Baltic have been entered into.

Formally, neither the West Atlantic nor the Baltic PSSA proposal is an “EU proposal”. In the real world, while supporting both proposals, the EU acted in the IMO as a voting block and, together with other votes attracted, gained a majority in favor for both proposals. The West Atlantic PSSA was adopted at the IMO in 2004, and the Baltic Sea PSSA in 2005.

Both proposals, and especially the Baltic, attracted strong criticism from Russia, as well as from several countries where a high tonnage of the world fleet is registered, such as Panama and Liberia. In addition, stakeholders such as shipping industry associations (INTER-TANKO and others) added their voices. While Russia, seconded by “flags of convenience” states and shipping industry associations, was the main opponent of the European proposals for PSSA proclamations in the Atlantic waters and the Baltic Sea, in the latter case, as of 2005, it was joined by firm support given in the IMO deliberations by states such as China and India.

## The wider context: oil pipelines in Eurasia and maritime transport

There is also a wider context for the marine environmental protection initiatives advocated by the EU in the recent years. The key reason behind them is conveniently summarized in the 2003 Energy Policy Communication from the European Commission, stating:

“The accidents of the Erika and the Prestige, and the significant environmental damage caused by the resulting oil spills, has *highlighted* the necessity for concerted action between the European Union and neighbouring countries to ensure the highest possible safety standards for the maritime transportation of oil. Given the increasing density of the maritime traffic in the waters around the EU, it is of utmost importance to give a higher priority to considering, where economically and technically feasible, the alternative of transporting oil by pipelines. This is considerably safer and more environmentally friendly. A number of pipelines already link the European Union with Russia and it is important to ensure that not only are these fully utilised, but also that new pipeline infrastructure are considered *instead* of new maritime-based projects” [emphasis added].<sup>xiii</sup>

These considerations, while highlighting environmental concerns, are also of a strategic nature, and are related to energy security. The Eurasian space has witnessed major changes since the dissolution of the Soviet Union, which led to the creation of a number of independent states in the oil-rich Caspian region. And in the late 1990s, Russia itself re-emerged as the second (after Saudi Arabia) most important global oil exporter, due to increased production and stagnating domestic consumption. Change in the infrastructure for oil transport from producers to consumers, however, has not followed the speed of these geopolitical changes; that infrastructure is still to a large extent based on organizations and relationships of the Soviet era. That system, through the interconnection of oil pipelines and tankers, is currently able to transport Russian crude (Urals) through the Transneft network leading in three main directions.<sup>xiv</sup> One is to Central Europe via the Druzhba system (facing serious bottlenecks); the other leads overseas through the Baltic Sea ports (none of which is a deep-sea port accommodating Very Large Crude Carriers);<sup>xv</sup> and the third, also overseas, is through the Black Sea ports, limited already due to the Bosphorus Strait “absor-

ption capacity". Moreover, Caspian region states' oil exports will be adding to the load on the already heavily congested Bosphorus.

For the EU, and especially the large industrial countries of continental Europe, the prime concern in oil import is not the increased volume (such as for e.g. China), but rather the *diversification* of sources of import. While the annual increase in oil consumption in those countries is relatively small, and far below major overseas consumer markets, the US and big Asian countries, the key concern for continental European countries is their proportionally high dependence on Russian and OPEC oil imports. The increased import of Caspian region oil, however, can in future be facilitated by the integration and completion of regional pipeline networks, thus directly connecting Black Sea ports (such as Constanta in Romania, or Odessa in Ukraine) to the European mainland, avoiding transit through the Bosphorus; but also competing with Russian oil in the Baltic and Black Seas.

If one were to summarize this broad trend by selected keywords, those include "diversification", "pipelines" (land routes) and "Caspian oil". There is, of course, much fine-tuning to be performed. On this type of oil issue, the EU is far from being a compact unit; there are many differences between the individual countries, the key one being in the entirely different situation between the big countries of continental and island Europe. Moreover, there are differences in the relations of certain large European countries with Russia. Along with that, the issue of investments needed for new major projects is always present.

## **The Mediterranean: a sea where one quarter of world oil is transported**

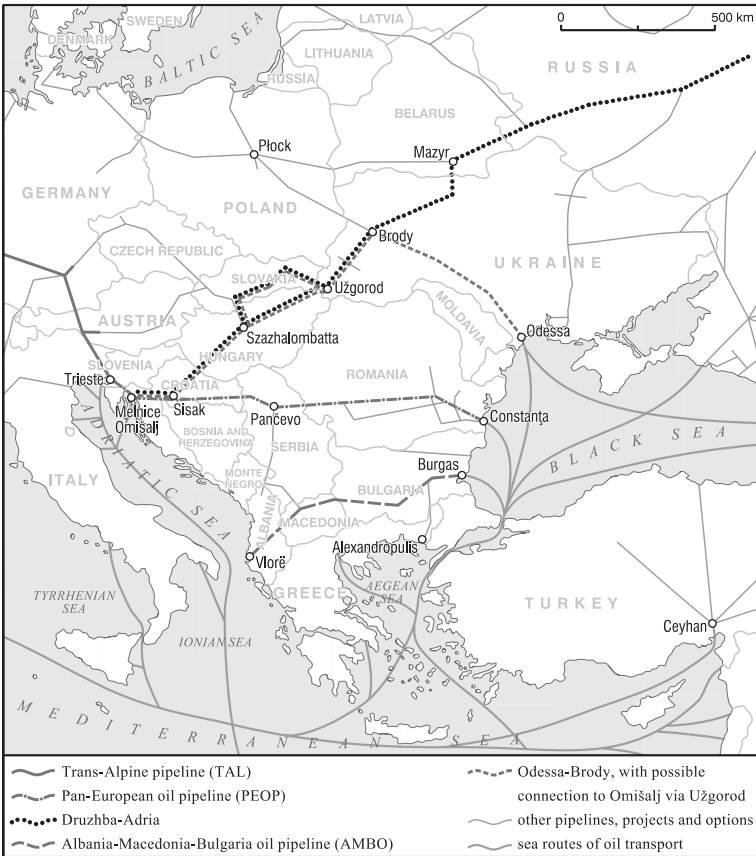
Focusing on the Mediterranean, there is one striking feature of the maritime uses of that enclosed basin, connected to the rest of the ocean space only by the narrow straits of Gibraltar and the Bosphorus, and the Suez Canal. An estimated 30 percent of international sea-borne trade, including around one-fourth of global oil maritime transport, transits the Mediterranean Sea, the surface of which represents less than 1 percent of the world marine area!

While a large volume of oil is transported here, a major share is however in transit for destinations beyond the Mediterranean: to continental Europe, northern European ports, as well as overseas. In addi-



on to OPEC oil from the Middle East and North African ports, around one third of annual Russian oil exports (around 62 million tons) is loaded on tankers in the Black Sea ports and transits the Bosphorus Strait every year. With high traffic congestion, as well as measures introduced by the Turkish authorities, the Bosphorus Strait is one of the serious bottlenecks for global oil transport; the waiting time for tankers in winter to transit the Strait can be several weeks, resulting in huge costs for delays. Moreover, the Black Sea will increasingly face additional pressure, as the Caspian region oil exports grow.

*Oil pipelines and projects directly related to Croatia or the Adriatic Sea*



*Political chart of the Adriatic Sea: coastal states and main ports*



Due to this situation, but also due to geostrategic considerations, a number of “Bosporus bypass” projects, i.e. oil pipeline projects to connect Black Sea ports directly with the Mediterranean, or mainland Europe, have been initiated. The interests and visions of the key state players in those – the United States, EU countries, and Russia – interact in many, sometimes conflicting ways; and are also inevitably intertwined with the priorities and interests of big investors, producers, transporters and markets. Projects thus emerge without mutual coordination, and often compete or collide. The first such Bosporus bypass project, after a multi-billion investment and strong US political backing, was completed in 2005 and officially opened in July 2006: the large capacity Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The BTC may over

time contribute to a substantial increase in the volume of oil transported by tankers through the Mediterranean.

One of the important oil transport routes in the Mediterranean leads through the Adriatic Sea, all the way to the north Adriatic ports (Trieste, Venice, Omišalj and Koper). Around 57-58 million tons of oil are transported yearly on that exclusively *import* route, and a major share of that (currently around 37 million tons yearly) is further imported through the Trans-Alpine pipeline into Central Europe. There are, however, several projects and plans (some of which are in collision) on how to introduce *export* directions from the deep-sea Adriatic ports. One such project, the Albania-Macedonia-Bulgaria oil pipeline (AMBO), would connect the Bulgarian Black Sea port of Burgas with the Albanian Adriatic port of Vlorë, and enable overseas export of primarily Caspian oil. Another project, known as Druzhba-Adria, aims at integrating the southern Druzhba and the Adriatic pipeline, adjusting the flow direction in the latter, with the purpose of enabling Russian (Urals) crude export through the Croatian port of Omišalj. At times, there were also considerations for a third possible line – the connection of the Ukrainian Black Sea port of Odessa, via Brody, to Omišalj, for the purpose of Caspian oil export – yet that one would compete with Druzhba-Adria on a part of the same, capacity-deficient line on the southern Druzhba. The priorities of countries such as the US and Russia collided on those lines.

And finally, there is a project known as Pan European oil pipeline (PEOP). This is a major undertaking, planned in the next decade to connect directly the Romanian port of Constanta at the Black Sea, through Serbia, Croatia, and (possibly) Slovenia, all the way to Trieste in Italy, to be here integrated with the Trans-Alpine pipeline, thus securing to Italy and Central European countries a direct, land route access to the Caspian oil traded in the Black Sea.

While facing these and several other projects, the Mediterranean is a region characterized by heterogeneous features, both in natural and political sense. A PSSA proposal for the entire Mediterranean is not a likely option, and it may be difficult to see what would be the practical effect of it. For several parts of the Mediterranean, however, a PSSA can be a feasible and useful measure.

## THE ADRIATIC SEA AS A PARTICULARLY SENSITIVE SEA AREA?

### The Adriatic Sea: basic notes

The Adriatic Sea is a narrow, shallow and temperate warm semi-enclosed sea, forming a distinct sub-region within the Mediterranean Sea region. The sea is nowadays bordered by six countries: Albania, Bosnia and Herzegovina, Croatia, Italy, Montenegro and Slovenia.

With its only entrance through the Strait of Otranto, the Adriatic Sea appears as an indented gulf, deeply incised into the European mainland. Due to this strategic position, the Adriatic Sea has been a trade and transport route since antiquity; and there is no need for a “crystal ball” to predict that this function will persist in future, though with patterns adjusted to the era.

While it is clear that the southern border of the Adriatic Sea is in the Strait of Otranto area, there are some differences as to where exactly to set the line between the Adriatic and Ionian Seas. According to the limits proposed in 1953 by the International Hydrographic Organization, this border follows the line running from the mouth of Buttrinto River (latitude 39°44' N) in Albania and on to Cape Santa Maria di Leuca in Italy (39°45' N).<sup>xvi</sup> For the practical purposes of determining the area for the Adriatic Sea PSSA, however, a slightly more narrow delimitation is relevant: also situated in the Strait of Otranto, but at latitude 40°25' N. The entire sea area north from that line corresponds to the area of application of the existing IMO-associated protective measures, including the mandatory ship reporting system (see further below).

One might indeed enter into discussion on how to understand the politically relevant framework for “regional” cooperation on marine environmental protection in the Adriatic Sea. Is it the broader Adriatic-Ionian initiative, as developed over the past few years? Or a more narrow, trilateral cooperation between Croatia, Italy and Slovenia in the North Adriatic? In the context of international cooperation on marine environmental protection, “region” is, of course, a functional category.<sup>xvii</sup> Neither of those mentioned, however, respond to the purpose at hand – the regional protection of the Adriatic Sea, due to its special attributes, as a PSSA.

The understanding of the region that fully corresponds to that particular need is, however, found in the newly proposed European Commission Directive establishing the EU Marine Strategy.<sup>xviii</sup> The

Strategy divides European marine waters into three main regions, the Mediterranean Sea being one of those; and further divides regions into sub-regions, to account for the peculiarities of particular areas. The Mediterranean is thus sub-divided into four areas, the Adriatic Sea being a clearly distinct sub-region, bordered by two EU countries: Italy and Slovenia (Article 3). Member states within each marine region or sub-region are required to make every effort to coordinate their actions with third countries (Article 5); in the Adriatic Sea, this includes Croatia, as a candidate for EU membership, and Albania, Bosnia and Herzegovina, and Montenegro. For marine environmental protection through mechanisms such as PSSA, the EU Marine Strategy thus confirms the Adriatic Sea as a whole as a policy-relevant framework.

## **The Adriatic Sea and criteria for a Particularly Sensitive Sea Area**

The main features of the Adriatic Sea not only set it aside as an integrated marine unit, but also largely correspond to the three sets of criteria for PSSA designation, as detailed by the IMO Guidelines: ecological, socio-economic and scientific criteria.

The Adriatic Sea area is a unique and sensitive marine ecosystem, and an outstanding example of a semi-enclosed sea.<sup>xix</sup> Its environmental conditions are extraordinary, predominantly caused by a specific system of exchange of waters with the Ionian Sea, the thresholds of Otranto separating the Adriatic Sea from the Ionian Sea, and of Palagruža separating the deeper south Adriatic from the shallower north Adriatic. Moreover, freshwater input from the mountain regions of the Adriatic eastern coast and north Italian rivers substantially contribute to the uniqueness and rarity of a variety of specific ecosystems.

Along the eastern Adriatic coast there are over 1,200 islands, islets and rocks. This large archipelago is unique in the Mediterranean Sea by reason of its geographical and geomorphologic karstic structure, and still retains a well preserved ecosystem. The western Adriatic coast represents the largest sandy and muddy coastal habitat in the whole northern Mediterranean area.

Adriatic ichthyofauna is highly diversified, with numerous species but low abundance. With regard to its uniqueness and richness in biodiversity and living communities, this region represents an outstanding value not only in European, but in global proportions too.

The large-scale human-induced threats to the special attributes of this area come from land-based sources (especially in the north Adriatic, though locally also in other zones at the coast with the increase of human population), from demersal (benthic) over-fishing, and from possible impacts of shipping. There is, though, one distinction worth noting. Along most of the eastern Adriatic coast, and especially offshore islands of the middle and south Adriatic, even a moderate stress resulting from international shipping activity (both oil spill and ballast water impacts) could be devastating to the fragile environment, which has at many places still maintained a high degree of naturalness. Further stress in the north Adriatic and along part of the western coast, where eutrophication is of particular concern, would contribute to the deterioration of its present status.

Regarding the social, cultural and economic attributes of the area, the environmental quality and the use of living marine resources are of particular socio-economic importance, especially for tourism, recreation, and fisheries. There is, in addition, a high degree of human dependency on the sea and coastal area, particularly on many Adriatic islands. Finally, the cultural heritage of this area is of particular importance due to the presence of significant historical and archaeological sites. Since ancient times, the Adriatic Sea has been an important transportation route; hundreds of ancient ship wrecks recorded in the Adriatic Sea and numerous other remains bear witness to an exceptional archaeological value.

## **The Adriatic Sea and international navigation: status and trends**

International shipping activity in the Adriatic Sea is becoming increasingly dense. This is due to the location of important industrial centres, especially along the western Adriatic coast, but also due to ports serving for transit to other countries in Central Europe, such as particularly in the north of the Adriatic coast (the ports of Trieste, Venice, Koper, Rijeka basin). Moreover, new transit ports are expected to gain significance in the south of the eastern Adriatic coast, such as Ploče in Croatia, Bar in Montenegro, and Vlorë in Albania from where a major new transportation route for Caspian oil export may be expected.<sup>xx</sup> Trends in the development of international shipping activities will lead to an increased density of traffic (also due to projects such as

“Motorways on the Sea”), with special emphasis on several parts of the Adriatic Sea, as well as partly to the change in the nature of traffic. A significant increase in the volume of transport of oil and other harmful substances, including liquefied natural gas (LNG), can be expected.

### *Key features of hazardous cargo shipping in the Adriatic Sea*

A spill could have disastrous effects on the vulnerable nature and natural resources of the Adriatic Sea, as well as on its important uses such as for tourism and local fisheries. In this respect, the introduction of invasive alien species via ballast water and hull-fouling is also a great concern. Let us therefore take a closer look at some key features of the current and projected shipping activity in the Adriatic, and possible impacts.

The vast majority of ships carrying potentially harmful substances are found in three categories: oil tankers, chemical tankers, and gas carriers, including LNG and liquefied petroleum gas. Currently, there is no LNG tanker traffic in the Adriatic Sea, while various other types of substances are carried by tankers. When summing up those three vessel types, around 4,500 to 5,000 estimated port calls by ships carrying harmful substances as cargo are performed each year in the Adriatic Sea navigation.

It is especially oil transportation that, in the last decade, is increasing in the Adriatic Sea. Currently, the most important direction for oil transport in the Adriatic Sea is the *import* route, arriving through the Strait of Otranto and transiting the entire sea to the north Adriatic oil terminals: Trieste (importing annually around 38 million tons), Venice (slightly under 11 million tons), Omišalj (around 7 million tons) and Koper (around 2 million tons). There are also several other important Italian oil ports in the Adriatic Sea (especially Ancona and Ravenna), as well as various coastal routes, mainly for product oil, summing up the current annual volume of oil (crude and product) transported in the Adriatic Sea in the range of 70 million tons. In the next five to seven years, changes are expected in the Adriatic oil transport, related to three main parameters: (i) the introduction of one entirely *new route* for oil transportation in the Adriatic Sea; (ii) the introduction of *export* directions to be added to the currently almost exclusive import directions; and

(iii) *volume* of oil transported, which is likely to increase significantly, possibly even by around 50%.

Transport, i.e. import of LNG, while not present for the time being, can be expected to become a significant element in the Adriatic international ship transport by the end of this decade/beginning of the next. That is primarily due to several Adriatic LNG import terminals under construction, such as the import terminal Brindisi (earliest finalization planned for 2008) and the offshore import terminal Isola di Porto Levante off Venice (also earliest planned for 2008). In addition, there is a recent revival of plans for the construction of a larger LNG import terminal on the eastern Adriatic coast, also for gas import to several Central European countries; as well as plans for an offshore import LNG terminal in the Bay of Trieste, while an on-shore LNG terminal there is under consideration as well.

### *Accident exposure in the Adriatic maritime traffic*

Maritime traffic in the Adriatic Sea (largely including international shipping activity) is characterized by the interaction of four main patterns. First, the traffic along the Adriatic Sea, between the Strait of Otranto in the south and north to the Bay of Trieste, in which many large commercial vessels are involved. Second, the crossing traffic between the ports on the western and eastern Adriatic Sea coasts. Third, the traffic between the ports along the same coast of the Adriatic Sea, which in case of the western coast is domestic (Italian) traffic only, while along the eastern Adriatic coast can involve ports in several states (Slovenia, Croatia, Italy, Montenegro, Albania). And fourth, various “irregular” navigation forms, involving large cruise vessels, numerous yachts, fishing vessels, as well as various other small boats.<sup>xxi</sup>

The shape of the Adriatic Sea (long and rather narrow), together with demographic characteristics (large commercial ports in the northernmost part of the Sea), makes the traffic patterns, which interact in several ways within the Adriatic Sea, complex and challenging to control. A relatively high number of large oil tankers travel up to the north Adriatic ports loaded with crude or product oil. These oil tankers are exposed to dense crossing traffic (especially Italy-Croatia/Croatia-Italy) along the journey. What in particular makes this risk high is the rather long distance of approximately 420 nautical miles from the Strait of



Otranto to the busy north Adriatic import ports. The long distance implies a long travel in a dense traffic area.

A brief assessment of the overall accident exposure in the Adriatic Sea has recently been undertaken by Det norske Veritas (DNV).<sup>xxiii</sup> By comparing the accident rate in the Adriatic Sea to other areas around the world, the conclusion reached was that the Adriatic Sea belongs to the highest accident frequency category. According to that study, the Adriatic Sea has an accident frequency more than five times as high as the world average. The accident occurrence as related to the commercial traffic load was evaluated to be higher for the Adriatic Sea than for other highly dense shipping areas like the Mexican Gulf and the Barents Sea.

Regarding the number of ship accidents in the Adriatic Sea over the past 15-years period, a total of 174 accidents have occurred.<sup>xxiii</sup> However, actual pollution caused by accidents so far has not been as serious as the frequency of accidents could suggest.<sup>xxiv</sup> There have been no incidents causing a major spill in the Adriatic Sea, and a relatively small number of accidents actually caused any significant pollution. Nonetheless, several cases where consequences could have been grave can be pointed to. In 1984, the chemical tanker *Brigitta Montanari* sank near the Kornati National Park. Another serious accident occurred in 1974 in the Strait of Otranto, when the dry cargo carrier *Cavtat*, after colliding with a bulk carrier, sank to the depth of almost 100 meters. *Cavtat* carried some 150 tons of tetramethyl lead and 120 tons of tetraethyl lead; substances potentially hazardous for human health. In cases like these, the environmental consequences might have been disastrous.

### *Beyond accidents: operational pollution by vessels and environmental impact*

While larger ship accidents are rare and regularly attract media attention, the major share of vessel-source marine pollution on a cumulative basis is, however, not to be attributed to accidents, but primarily to regular, routine daily ship operations, resulting in chronic pollution.<sup>xxv</sup> This may be especially serious in enclosed and semi-enclosed seas.

As to vessel-source pollution of the sea by oil, operational discharges emanating from large ships are – while illegal – frequent in many parts of the Mediterranean, including the Adriatic Sea.<sup>xxvi</sup> The continuo-

us analysis of images obtained through special satellite technology and performed in the past several years has demonstrated that enhanced spill concentrations appear along major maritime routes, including the one crossing the Ionian Sea and leading through the Adriatic Sea.<sup>xxvii</sup> Here, however, spills occur in a shallow and narrow semi-enclosed sea with a sensitive marine environment. The first, overall Mediterranean reconnaissance study estimated the cumulative annual size of the area of oil spills in the Adriatic Sea to be around 1,228 square km (which is approximately three times the size of the largest Adriatic island, Cres).<sup>xxviii</sup> A specific study made for the Adriatic Sea (including the entire sea area north of latitude 39° N) detected 257 oil spills from ships in 1999; 263 spills in 2000; 184 in 2001; and 244 spills in 2002.<sup>xxix</sup> These studies provide the first accurate statistical maps of oil discharges in the Adriatic Sea. The studies also prove that this activity is on-going on a large scale here, despite the Special Area status for the entire Mediterranean Sea under MARPOL Annex I, prohibiting the discharge of oil and oily waste.

A matter of increasingly serious concern in the Adriatic Sea is the introduction of harmful aquatic organisms and pathogens through ships' ballast water and sediments. The quantity of ballast water released in the Adriatic ports of Italy, Croatia and Slovenia estimated for the year 2003 was around 8 million tons, of which around 80% was discharged in Italian Adriatic ports, while the remaining volume was shared between the Slovenian port of Koper and all the Croatian ports together. However, most of that ballast water arrives from locations within the Mediterranean (58%), and due to inter-Adriatic traffic (34%), while only 8% of ballast water volume released in the Adriatic ports is currently originating from ports located outside the Mediterranean Sea.<sup>xxx</sup> With expected changes in import and export flows, and especially if a major new oil export route is introduced from a deep-sea port in the Adriatic, those proportions would change considerably, so that a far larger ballast water volume discharged in the Adriatic Sea would be from vessels arriving from ports outside the Adriatic and Mediterranean Seas. Risk of introduction of harmful aquatic organisms and pathogens could in that case become significantly increased.

## **International Maritime Organization and protection measures for the Adriatic Sea**

The third element of the PSSA concept, building on the previous two – the identified attributes of the sea area, and vulnerability of these to impacts of international shipping – consists of measures within the competence of the IMO. These, under the terminology of the IMO Guidelines “Associated Protective Measures”, should be specifically tailored to address risks from the shipping activities in the area. Some of the measures may already be existing and applied in the area, while others can be proposed in the application for the PSSA. Some previous PSSAs were approved by the IMO on the basis of existing Associated Protective Measures only. Though still possible on paper, after the recent revision of the IMO Guidelines (and indeed their expected implementation in the IMO practice), this will in most cases no longer suffice for a convincing argument on the need for the PSSA. In the case of the Adriatic Sea, both the already existing and possible newly proposed Associated Protective Measures can be considered in the PSSA context.

### *Existing associated protective measures in the Adriatic Sea*

There are several sets of Associated Protective Measures adopted so far under the ambit of the IMO, either specifically for, or applicable to the Adriatic Sea. These include: (i) mandatory ship reporting system; (ii) routing systems; and (iii) Special Area status under the Annexes to MARPOL. The first two sets of measures were adopted by the IMO in recent years, upon joint proposals submitted by several Adriatic Sea countries.<sup>xxxii</sup>

The *mandatory ship reporting system* in the Adriatic Sea (ADRI-REP) was adopted by the IMO in December 2002, with entry into force on 1 July 2003. As of that date, all oil tankers of 150 gross tonnage and above, and all ships of 300 gross tonnage and above, carrying dangerous or polluting goods as cargo, need to report to the designated Adriatic coastal authorities their entry into the Adriatic Sea (at the latitude 40° 25' N), their position at several check-points (sectors), and their departure from the Adriatic. The primary objective of the system is to support safe navigation and protection of the marine environment through the exchange of information.

Moreover, there are several *routeing measures* in implementation in the Adriatic Sea as of 1 December 2004. This routeing system consists of traffic separation schemes in the North Adriatic Sea, as well as in the Gulf of Trieste, Gulf of Venice, for approaches to/from Koper and Monfalcone. Also, there are two precautionary areas (in the North Adriatic and in the Gulf of Trieste), and an area to be avoided in the North Adriatic. In addition to those mandatory measures, there are recommended directions of traffic flow in the Strait of Otranto, South and Middle Adriatic Sea.

Finally, the entire Mediterranean Sea area, the Adriatic Sea included, was declared a *Special Area* under MARPOL, Annexes I and V, in order to protect these sensitive sea areas against the discharge of oil or oily mixtures, and garbage.<sup>xxxiii</sup> Subject to the provisions of Annex I, i.a. any discharge into the sea of oil or oily mixtures from any oil tanker, and any other ship of 400 gross tonnage and above, is prohibited in the special area. As discussed above, recent evidence indicates that this prohibition is frequently violated by ships involved in international traffic in the Adriatic Sea.

### *Possible proposed associated protective measures for the Adriatic Sea*

A PSSA application, in proposing new measures, should *identify the legal basis* for each measure. In the case of the Adriatic Sea, two types of situations can emerge in this respect.

Firstly, measures with a legal basis already available under an existing IMO instrument in force can be proposed. These are primarily routeing measures, since the current routeing system in the Adriatic Sea would evidently need to be strengthened, at least in three segments in the Middle and South Adriatic: around the islands of Palagruža, Jabuka, and in the Strait of Otranto. Also, part of the existing routeing measures in the North Adriatic will need some adjustment due to the planned expansion of gas exploitation activities from the Adriatic continental shelf. For this type of measures to be proposed to, and adopted by, the IMO, no PSSA is essentially needed – though such measures would indeed strengthen the application for a PSSA. Equally so, they can be adopted through a special procedure at competent IMO bodies, and referred to in the PSSA application.

Secondly, some other measures possibly to be proposed for the Adriatic Sea in the PSSA context, do have – under the terms of the IMO Guidelines – the “legal basis available” in an IMO instrument, albeit that instrument is not yet in force. The case in point is the Ballast Water Convention,<sup>xxxiii</sup> and the “additional” or “more stringent” measures as envisaged in this Convention. If a proposal for certain measures in that category proves to be successful, that would be, in terms of Associated Protective Measures, the real and significant practical effect of establishing the PSSA in the Adriatic Sea.

A key consideration of whether such measures may be proposed is of a legal nature; and it is a matter of policy whether the proposed measures will thereupon be adopted at IMO. As to the legal conditions: according to the IMO Guidelines, any proposed Associated Protective Measures must have a legal basis. That condition is, by the letter of Guidelines, satisfied by the *adoption* of an IMO convention or other legal instrument.<sup>xxxiv</sup> The Ballast Water Convention was adopted at the IMO in February 2004. The Convention is, however, not yet in force, and will not, due to rather stringent requirements, enter into force for some years to come. The requirement for this is the ratification (or equivalent) of 30 states, the combined merchant fleet of which constitutes not less than 35% of the gross tonnage of the world’s merchant shipping.<sup>xxxv</sup> By way of illustration: to date, over two years after the Convention was adopted, only six states have ratified it, representing altogether – a mere 0.6% of world tonnage.<sup>xxxvi</sup>

The objective of that Convention is to ultimately eliminate the transfer of harmful aquatic organisms via ships’ ballast water and sediments. This goal is to be met through gradual introduction of technology for on-board ballast water *treatment*. Ballast water *exchange*, as currently used, is accepted as an interim measure only. However, until entirely phased out – and, under the Convention, that must happen by the year 2016 – there are still ten years to go for seas such as semi-enclosed Adriatic, where ballast water exchange poses very difficult and specific questions, often different from areas facing the open ocean.

According to the Convention, ballast water exchange must be conducted, whenever possible, at least 200 nautical miles from the nearest land and in water at least 200 meters in depth. Yet, in cases where the ship is unable to conduct ballast water exchange in a location so determined, exchange must be done as far from the nearest land as possible, and in all cases at least 50 nautical miles from the nearest land and in water at least 200 meters in depth. Considering the complex proce-

dure for ballast water exchange, there are no areas in the Adriatic Sea that can satisfy those conditions.

These provisions are of particular importance for shallow and narrow sea-areas, where ship-lanes are relatively close to the shores. European waters as a whole are largely characterised by the latter; and the Adriatic Sea is a prominent example. Where a particular sea or sea-area does not satisfy such basic requirements, coastal or port states can consider invoking procedures for additional, more stringent measures.<sup>xxxvii</sup>

For the Adriatic Sea, two different Associated Protective Measures related to ballast water may optimally be considered within the proposal to the IMO for a PSSA designation. First, designation of the Adriatic Sea as a No-Ballast-Water-Exchange Area for ballast water arriving in the Adriatic in ships from other seas. And second, mandatory ship reporting on ballast water entering the Adriatic Sea. Both measures should apply in the *entire* Adriatic Sea; and both should be considered as temporary – through 2016, or any later time, depending on whether the Ballast Water Convention enters into force, and indeed on-board treatment becomes globally applied by the shipping industry.

## **Croatian initiative for regional cooperation for the Adriatic Sea**

The idea of proclaiming the Adriatic Sea a PSSA is not entirely new; it was first mentioned in expert literature,<sup>xxxviii</sup> advocated by environmental NGOs, recently also by some politicians and media alike, and eventually stated in several regional policy documents. Notably, within the framework of the Mediterranean Action Plan, a sub-regional contingency plan for major marine pollution incidents in the Adriatic Sea was adopted by Croatia, Italy and Slovenia in November 2005. In that contingency plan, the three countries envisaged to “collaborate in designating PSSAs in the area covered by the Plan” and jointly propose these to the IMO, along with Associated Protective Measures.<sup>xxxix</sup>

Indeed, in addition to adopting specific protective measures, designation of a PSSA in the Adriatic Sea can provide a significant regional cooperative framework, in line with the EU policy, and also highlight the awareness of the vulnerability of the Adriatic Sea environment. It can moreover have an echo in domestic political scenes, due to increased public awareness of the need for marine environmental pro-

tection. There are therefore many valid reasons for pointing out the desirability of a PSSA status for the Adriatic Sea.

There was, however, one “missing link” between the *ideas* given on PSSA, and a concrete *proposal* for a PSSA elaborated. The IMO Guidelines prescribe strict requirements on how a PSSA proposal should be structured and what elements it needs to contain. Extensive, multidisciplinary expertise and access to data on virtually all aspects of the marine area (natural, navigational, socio-economic, legal) need to be employed in the forming of the PSSA proposal, and presented as information in a policy-relevant manner.

Croatia has, in addition to favoring the idea on the PSSA in the Adriatic Sea, recently undertaken also that preparatory part of the job missing so far on the Adriatic scale. In spring 2004, the Fridtjof Nansen Institute proposed the initiation of a cooperative project within the framework of the bilateral development assistance programme between Norway and Croatia, which would result in an expert study on the Adriatic Sea as PSSA. The project proposal was supported by the Croatian Ministry of the Sea, Tourism, Transport and Development, and a cooperative group involving the Institute of Oceanography and Fisheries in Split and Dubrovnik, the Croatian Hydrographic Institute, the Ruđer Bošković Institute in Zagreb, Det norske Veritas, and the Fridtjof Nansen Institute as project coordinator, was assembled in autumn 2004. The actual work on drafting the expert study proposal for the Adriatic PSSA started in April 2005, and was completed in March 2006, when the draft study was, through the Croatian Ministry of the Sea, distributed to the competent authorities of all the other Adriatic countries: Albania, Bosnia and Herzegovina, Italy, (the then) Serbia and Montenegro and Slovenia. At the same time, the Croatian Ministry of the Sea initiated the forming of a Joint Expert Group of the Adriatic countries on PSSA.

With the participation from all the six Adriatic states, and under Croatian chairmanship, the Joint Expert Group on PSSA met in Opatija, Croatia, on 20 April 2006, and discussed the text which resulted from the study made in the above-mentioned project.<sup>xl</sup> In Conclusions adopted at the meeting, the Joint Expert Group established a Correspondence Group, under the joint chairmanship of all the Adriatic countries, and with the technical support of the Croatian Maritime Authority.<sup>xli</sup> A timetable for the finalization of a joint proposal on Adriatic PSSA by end-2006 has been agreed upon, with the view of proposal submission to the IMO. It was agreed that the Joint Expert Group wo-

uld have its final meeting in January 2007, immediately followed by a ministerial conference of the Adriatic states, to be hosted by the Government of Croatia. If successful, this would then enable the joint Adriatic PSSA proposal to be submitted to the IMO.

## **ADRIATIC CONTRASTS AND COMMONALITY: PROSPECTS FOR REGIONAL COOPERATION**

Beyond the requirements to satisfy formal criteria contained in the IMO Guidelines and provide an expert basis for this, a PSSA proposal in the semi-enclosed Adriatic Sea with several littoral states is a more complex affair, if compared to those PSSAs proposed by a single country only. As an instrument of *regional* Adriatic cooperation on marine environmental protection from impacts caused by international shipping, a PSSA initiative here needs successfully to pass two key steps, and not only one. First, such an initiative, where two or more countries have a common interest in a particular area, should be formulated in coordination. An outcome based on consensus of the Adriatic States is an optimal, though not strictly legally required avenue, as evident in recent IMO practice.<sup>xiii</sup>

And second, such a regional cooperation towards PSSA, to have a real bearing on international navigation – which is an inherently global activity – needs to be approved at the global, IMO level. At that level, the Adriatic states can indeed, for all the reasons explained above, be in a position to make a strong case for a PSSA to be designated in the Adriatic Sea.

But will they cooperate regionally towards a joint proposal; and if so, why? A glance at the Adriatic Sea shows that the situation here is rather specific. The Adriatic Sea is a semi-enclosed sea, formed as a deeply indented gulf. Total length of the Adriatic Sea coastline (mainland and islands) extends over some 8,300 km. However, more than half of this length is due to the numerous islands forming an archipelago along part of the eastern Adriatic coast, in particular along the coast of Croatia, extending its coastline to well over 6,200 km, which is around 75% of the entire Adriatic coastline. For Croatia, this lengthy coast with its preserved marine environment is an important resource in itself, and a key generator of its economic development, especially due to growing tourism. Italy's Adriatic coastline, situated along the entire western coast, is significantly less indented, with a total length of close to



1,300 km (or around 15% of the Adriatic coastline). The remaining part of the entire Adriatic coastline extends along the opposite, eastern side and is shared between three countries, all still with a distant possibility of an EU membership: Albania, around 400 km of coastline; Montenegro, 290 km; and Bosnia and Herzegovina, 21 km. The only other EU member state on the Adriatic Sea coast, Slovenia, has 45 km of coastline, thus adding up the remaining 0.5% of the total length of the Adriatic coastline.

When it comes to maritime traffic and trade volume, however, the situation in many respects may look reversed, especially as to the proportions attributed to the eastern and western Adriatic coasts. By far the largest share of the maritime traffic and trade relates to Italian ports, which annually receive around 75% of the total commercial ship traffic and 80% of the total cargo transported. Croatia currently makes up around 10% of the total Adriatic traffic, both in terms of number of vessels and amount of cargo; though with an obvious tendency of growth. The remaining countries – Slovenia, Bosnia and Herzegovina (through the Croatian port of Ploče), Montenegro and Albania – all together make up the remaining 15% of the traffic and 10% of the cargo. Among their ports, however, the single Slovenian international commercial port of Koper is distinguished as the most important one, with an annual throughput (in 2005) of around 2,000 vessels and over 13 million tons cargo, thus larger than any other single port on the eastern Adriatic coast (excluding the Italian port of Trieste).

The significance of this difference from the perspective of marine environmental protection and resource management can be illustrated in the context of ballast water issues. Already if looking only at the three Adriatic countries – two EU members (Italy and Slovenia) and one candidate (Croatia) – they all show profoundly different circumstances. Italy is, due to maritime export, the biggest generator of ballast water introduction into the Adriatic Sea ports, accounting for over three quarters of the annual total. Slovenia's coastline is indeed a short one, yet this country is not a negligible contributor of ballast water in the Adriatic Sea, due to the maritime export volume from its single international port, Koper. Finally, Croatia has by far the longest coastline in the Adriatic Sea, yet it is currently contributing less ballast water import, due to its relatively low (yet increasing) volume of maritime export.

At the same time, however, Italy is by far the biggest Adriatic fishing nation, with its marine capture fisheries exceeding that of Croatia's

fleet by some eight to ten times, and that of Slovenia by around 100 times. Harmful effects of invasive alien species introduction through ships' ballast water (and other vectors) may result in devastating effects to fisheries, which is an important consideration for Italy. For Croatia, fisheries as well as aquaculture are significant not only in economic potential but also in employment, and thus demographic, terms – with a large number of Croatia's islands deteriorating in both population age and number. The social implications of fisheries, including even maritime country profile, are important considerations in some other Adriatic countries. Likewise, tourism, with all its economic, cultural, social and other effects, is an important consideration shared by the Adriatic countries, though to varying extents.

The shared feature of those different country cases is, however, the Adriatic Sea itself – a relatively narrow and shallow, semi-enclosed sea, deeply incised into the European mainland. This situation has, through history and in future projections alike, led to the Adriatic Sea serving as a traditional maritime transport and trade route – where, however, possible impacts by the growing international shipping in one area may easily be reflected in any other area, thus potentially in the entire region. All the Adriatic countries indeed share one important, lasting feature: they are all coastal states here, with a multitude of important activities, international shipping by both coastal and other countries being only one among these.

The Adriatic Sea is thus a region that inevitably needs to be oriented towards cooperation in approaching issues of joint concern, including marine environmental protection – yet where all the participants retain certain profoundly different features as their dominant. In that situation, to strike the right balance between the national regulation sphere, which can take into account each country's peculiarities, on the one hand, and regional cooperation based on commonality, on the other, will likely remain the key challenge for the Adriatic countries. However, in relation to third parties, i.e. to non-Adriatic flag states, a joint platform with uniform requirements will be preferable.

This is why the PSSA option as a concept balancing the apparently local and regional environmental protection interests, on the one hand, with the interests of international shipping and industry, on the other – also beyond the formal requirements of satisfying the given IMO criteria – may prove to be a feasible and useful avenue for the Adriatic Sea.

When seen in relation to the recently emerging context of regionalisation of the “European Seas”, which is an obvious trend and an important underlying element for the development of the newly proposed EU Marine Strategy Directive, the relevance of an Adriatic Sea PSSA is further enhanced. The EU Marine Strategy aims at the creation of marine regions and sub-regions as policy-relevant clusters – with the Adriatic Sea identified as one of several clearly designated sub-regions within the wider, less compact Mediterranean region. While the Strategy is directly applicable only to the EU member states and marine waters covered by their sovereignty or jurisdiction, member states are required within each marine region or sub-region to make every effort to coordinate their actions with third countries. An ability to cooperate on a PSSA may prove a key test-case for the Adriatic countries – EU members, candidates, or aspirants alike – towards a meaningful implementation of an otherwise broad EU Marine Strategy, on a specific and needed goal of Adriatic marine environment protection and sustainable development. An Adriatic PSSA would be an important first step in that direction. Institutionalization of all-Adriatic regional cooperation, perhaps through a body such as an Adriatic commission for marine environmental protection, involving all six Adriatic states – Albania, Bosnia and Herzegovina, Croatia, Italy, Montenegro and Slovenia – could be the next step worth considering.

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\* *Part of the research for this paper is based on the results of the international project “Expert Study on a Particularly Sensitive Sea Area in the Adriatic Sea”, which was directed by the author of this paper. The project was initiated in 2004 by the Fridtjof Nansen Institute, which coordinated and implemented it, in 2005-2006, in cooperation with the Institute of Oceanography and Fisheries in Split and Dubrovnik, the Hydrographic Institute of the Republic of Croatia, the Ruđer Bošković Institute in Zagreb, and Det norske Veritas in Høvik, Norway, for the purposes of the Croatian Ministry of the Sea, Tourism, Transport and Development. The project was funded by the Norwegian Ministry of Foreign Affairs, within the development cooperation programme between Croatia and Norway. The paper is also based on research done within the project “Marine Environmental Protection and Resource Management: The Changing Legal and Policy Framework for the Adriatic Sea”, led by the author and supported by the Research Council of Norway. The author wishes to acknowledge comments on an earlier draft by Douglas Brubaker, Øystein Jensen, Arild Moe, Olav Schram Stokke, and two anonymous reviewers; as well as many useful suggestions by the book editor, Katarina Ott. The views and opinions in this paper are the author’s only, and do not necessarily reflect the views of any agency or institution.*

i *The disaster of the oil tanker Prestige began in a storm off the Spanish coast of Galicia on 13 November 2002; six days later, the tanker broke in two. Oil spilled*

- thereafter into the sea amounted to 64,000 tons, resulting – in addition to pollution of the sea – in the pollution of several thousands kilometres of the coast and in huge material damage. For the initial EU reaction see: Commission of the European Communities (2002).
- ii These revised Guidelines replaced the “Guidelines for the Designation of Special Areas under MARPOL 73/78 and Guidelines for the Identification and Designation of Particularly Sensitive Sea Areas”, Resolution A.927(22), of 29 November 2001. The new “Revised Guidelines for the Identification and Designation of Particularly Sensitive Sea Area” was adopted by the IMO Assembly Resolution A.982(24) on 1 December 2005.
  - iii MARPOL is the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto; for the Convention with Annexes, including unified interpretations and amendments, see: MARPOL 73/78 (2002). SOLAS is the International Convention for the Safety of Life at Sea, 1974; for the Convention, with its Protocol of 1988, annexes and amendments, see: SOLAS (2004).
  - iv On the origins of the PSSA concept and considerations related to early proclamations, see: Gjerde and Freestone (1994).
  - v The major oil tanker accidents of the 1990s included those of Aegean Sea in 1992, Braer in 1993, Sea Empress in 1996, and Erika in 1999. All of these resulted in huge costs for clean-up operations, and to fisheries and tourism and other losses. See a review by Frank (2005).
  - vi MARPOL defines types of tankers and types of oils in detail. Heavy-grade oil, if spilled into the sea, may cause a particularly serious marine pollution event.
  - viii See: Regulation (EC) No 1726/2003 of the European Parliament and of the Council, of 22 July 2003, amending Regulation (EC) No 417/2002 on the accelerated phasing-in of double-hull or equivalent design requirements for single-hull oil tankers. For an interesting commentary, see Boyle (2006).
  - ix See a review by Tracey (2004).
  - x See the document: Designation of a Western European Particularly Sensitive Sea Area (2003).
  - xi Roberts [et al.], 2005. For yet another approach see Detjen (2006).
  - xii See document: Designation of the Baltic Sea as a Particularly Sensitive Sea Area (2003).
  - xiii See: Commission of the European Communities (2003:26-27), para. 7.4.
  - xiv The Urals grade is a blend of light sweet crude oil from the oil fields in Western Siberia (“Siberian Light”) and heavy sour crude oil from the fields in the Ural and Volga regions. Urals emerged in the international oil market in the 1970s, and is still used in the Transneft’s oil pipeline network.
  - xv Very Large Crude Carrier (VLCC) is a tanker with a capacity to carry 200,000-320,000 tons of oil as cargo; and thus more commercially attractive for long, overseas journeys.
  - xvi See: IHO (1953:17). As stated in the Preface to that edition: “These limits have no political significance whatsoever”.
  - xvii For a discussion on how to understand “region” and “regional” in the context of marine environmental protection, see Boyle (2000).
  - xviii See: Commission of the European Communities (2005).
  - xix Notes on the key natural features of the Adriatic Sea, as summarized in this section, draw on the material prepared for the project “Expert study on a Particularly Sensitive Sea Area for the Adriatic Sea” by Ivona Marasović, Adam Benović and

- Nedo Virgoč of the Institute of Oceanography and Fisheries in Split and Dubrovnik, as well as by Nenad Leder of the Hydrographic Institute of the Republic of Croatia.*
- xx *Recent developments introduced a measure of uncertainty on the prospects for Vlorë becoming a major oil export port, since the Albanian government – under public pressure due to environmental concerns, but also due to geopolitical considerations – informed that the terminal for the AMBO project would not be in Vlorë, but in the region of Porto Romano (Durrës); see Bulgarian Standart and Macedonian Utrinski Vesnik of 7 October 2006.*
- xxi *For instance, visits of large cruiser ships to Croatian ports in 2003 increased by around 190%; from 307 in 2002 to 582 ships in 2003. Most of those, i.e. 575, were concentrated in the larger Dubrovnik area. In the tourist season, the area around Dubrovnik is often daily visited by up to 10 such large cruisers.*
- xxii *Source: Summary of findings by DNV as presented in “Designation of the Adriatic Sea as a Particularly Sensitive Sea Area – First draft prepared for the Meeting of the Joint Expert Group on PSSA, 20 April 2006”, internal document, on file with the author.*
- xxiii *See: Lloyd’s Register Fairplay accident database, 1990-2004.*
- xxiv *See: IMO/UNEP (2004). In REMPEC data-base, “oil” is recorded for the period August 1977 to December 2003 (List A); and “HNS” for the period January 1988 to December 2003 (List B).*
- xxv *See, e.g. REMPEC (2004:13-18) and European Commission/Joint Research Centre (2002).*
- xxvi *For an excellent recent study on the subject of vessel-source pollution, see Khee-Jin Tan (2006).*
- xxvii *The analysis consisted of images from satellites equipped with Synthetic Aperture Radar (SAR), as performed from 1999 on by the Sensors, Radar Technologies and Cybersecurity (SERAC) Unit of the Institute for the Protection and Security of the Citizen at the European Commission DG Joint Research Centre (JRC) at Ispra in Italy.*
- xxviii *See: European Commission/Joint Research Centre (2001:10).*
- xxix *See: European Commission/Joint Research Centre (2005:10).*
- xxx *Based on the findings in the project “Ballast Water Issues for Croatia”, implemented by DNV and the Fridtjof Nansen Institute, 2004-2005.*
- xxxi *See the document: Establishment... (2003).*
- xxxii *MARPOL Annex I (Regulations for the Prevention of Pollution by Oil; Regulation 10) and Annex V (Regulations for the Prevention of Pollution by Garbage; Regulation 5).*
- xxxiii *The International Convention for the Control and Management of Ships’ Ballast Water and Sediments, 2004. The Ballast Water Convention was adopted at the IMO on 16 February 2004.*
- xxxiv *See para. 7.5.2(3) of the IMO Guidelines. In particular, para. 7.5.2(3.ii) of the Guidelines is unambiguous on that requirement, and its interpretation is a rather straightforward matter. That is further confirmed by the statement that: “This option obviously makes the legal basis very clear; the basis would have to be in an IMO-adopted instrument”; in: Identification and Protection... (2005:5).*
- xxxv *Article 18(1) of the Ballast Water Convention.*
- xxxvi *See: “Summary of Conventions as at 30 April 2006”, at IMO web-site: [www.imo.org](http://www.imo.org). Contracting states so far are: Maldives, Nigeria, Saint Kitts and Nevis, Spain, Syria and Tuvalu.*

- xxxvii *Ballast Water Convention, Regulation C-1 (Additional Measures), in conjunction with Article 2(3) of the Convention (More stringent measures).*
- xxxviii *See, e.g. Zec and Komadina (1996).*
- xxxix *The Plan was adopted by the Agreement between Croatia, Italy and Slovenia, in Portorož, November 2005. On PSSA, see especially para. 2.5.2 of the Plan.*
- xl *The study is contained in the document: "Designation of the Adriatic Sea as a Particularly Sensitive Sea Area – First draft prepared for the Meeting of the Joint Expert Group on PSSA, 20 April 2006", internal document, on file with the author.*
- xli *In accordance with the document titled: "Adriatic PSSA Joint Expert Group (JEG) – Conclusions of the First Meeting and Plan of Activities", of 20 April 2006, internal document, on file with the author.*
- xlii *PSSA in the Baltic Sea has been approved by the IMO in spite of strong opposition by one of the Baltic states, Russia, whose waters were exempted from the proposed area. The Baltic Sea has indeed experienced a significant growth in the volume of Russian oil export in recent years.*

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## GLOSSARY\*

**ACCEDING COUNTRY** – a country that has fulfilled the criteria for EU membership, signed the accession agreements and is waiting to become a full member of the EU. Currently, such status is enjoyed by Bulgaria and Romania.

**ACCESSION NEGOTIATIONS** – the negotiations conducted by a candidate country with the EU member states on the conditions to be met for full membership of the EU. The negotiations sponsored by the European Commission are conducted on all chapters of the *acquis*. The results of the negotiations are included in an Accession Treaty governing all the conditions for EU membership.

**ACCESSION PARTNERSHIP** – the main instrument for the pre-accession strategies of the applicant countries and the EU. Its purpose is to determine the priorities and the necessary financial assistance for each area during the harmonisation of it to the legislation of the Union. Each country has to work out a detailed programme for the application of the *acquis*, determine the timetable for assignments, and the human and financial resources necessary.

**ACQUIS COMMUNAUTAIRE** or **COMMUNITY ACQUIS** – the body of rights and obligations that binds and links all the member states in the EU. It does not cover only laws in the narrow sense, but also the common objectives laid down in given founding treaties. Each country that wishes to become a member of the EU has to accept the decisions in the foundation treaties and adjust its legislation with the community *acquis*.

**AGENDA 2000** – a document of the European Commission containing a programme of activities related to the development of the EU and the financial framework for enlargement with the new member states in the period 2000-2006.

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\* *Glossaries from the European Union* ([http://europa.eu/scadplus/glossary/index\\_en.htm](http://europa.eu/scadplus/glossary/index_en.htm)) and the *Ministry of Foreign Affairs and European Integration of the Republic of Croatia* ([http://www.mvpei.hr/ei/download/2005/06/15/Mali\\_leksikon.pdf](http://www.mvpei.hr/ei/download/2005/06/15/Mali_leksikon.pdf)).

ASSOCIATION AGREEMENTS, EUROPE AGREEMENTS – a special form of association agreement between the EU and separate countries of Central and Eastern Europe and the Baltic countries. The basic objective of an agreement was the preparation of the associated countries for EU accession. It was based on the principles of respect for human rights, democracy, the rule of law and the market economy. Europe Agreements were signed with ten countries: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

CANDIDATE COUNTRY– a country that has applied for the full membership of the EU and that has been given the status of a candidate country by the European Council based on a positive opinion of the European Commission. Such status is currently enjoyed by Turkey, Croatia and Macedonia.

CARDS (*Community Assistance for Reconstruction, Development and Stabilisation*) – a programme of EU technical and financial assistance for South East Europe (beneficiary countries: Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro and FYR Macedonia), meant for the implementation of the stabilisation and association process. CARDS priorities are: reconstruction, the return of refugees and displaced persons, the stabilisation of the region, the establishment of the appropriate institutional and legislative framework (democracy, human rights, rights of minorities, reconciliation, civil society, media independence, the fight against organised crime), sustainable economic development and economic reform oriented towards a market economy, social development, cross-border, trans-national and regional collaboration. Since 2005, Croatia has been using only the regional component of the CARDS programme, because, having gained the status of a candidate country, it has been given the opportunity to utilize the pre-accession programmes PHARE, ISPA AND SAPARD. → PRE-ACCESSION PROGRAMMS

CENTRAL EUROPE FREE TRADE AGREEMENT, CEFTA – the basic objectives of CEFTA are the harmonisation of the development of economic relations among the states signatories, the raising of the standards of living and securing of better employment opportunities, an increase in productivity, a rise in financial stability and the removal of trade barriers among the signatories. CEFTA created one of the pre-

paratory activities on the way to full membership in the EU. In December 1992 the Agreement was signed by the then Czechoslovakia, Hungary and Poland, in 1996 by Slovenia, in 1997 by Romania, and in 1999 Bulgaria. Croatia signed a CEFTA Accession Treaty on 12 December 2002, and became a full member on 1 March 2003. Since 1 May 2004, besides Croatia, Bulgaria and Romania have been members of CEFTA.

**COMMON AGRICULTURAL POLICY, CAP** – its objective is to provide reasonable prices of agricultural products for European consumers, appropriate incomes for farmers and the application of the principle of single prices, financial fairness and a preferential approach to EU agricultural products. It is one of the most important common policies of the EU, and about 45% of the EU budget is spent on its implementation.

**CONSTITUTIONAL TREATY** – on 29 October 2004 the prime ministers and foreign ministers of the 25 member states of the EU signed the European Constitution, the fundamental law of the Union, while representatives of the candidate countries, Bulgaria, Romania and Turkey, signed only the final part of the Constitution. The process of ratification of the European Constitution has to be completed in a period of two years. As the Treaty has so far been ratified by as few as 15 member states and two countries (France and the Netherlands) rejected it by referendum, the EU has introduced a period of deliberation to explore the options to resolve the current constitutional crisis. It is intended to replace all existing EU Treaties with a single consolidated document.

**CONVENTION ON THE FUTURE OF EUROPE** – an organised debate on the future of the EU started by the EU member states on the basis of the Laeken Declaration. According to the Declaration, the goal of the Convention was to initiate a broad debate on the key issues relating to the future of the EU and to prepare a Draft EU Constitution. The Convention started on 28 February 2002, and was concluded by presenting a proposal for a Draft Constitutional Treaty to the European Council in Salonica on 19 and 20 June 2003. The participants in the Convention, chaired by Valéry Giscard d'Estaing, were the representatives of the governments and parliaments of the EU member states and candidate countries, the representatives of the EU institutions and the representatives of social partners, non-governmental organizations,

youth and other stakeholders. The Convention on the Future of Europe was an innovation in the history of the EU, as previous intergovernmental conferences aimed at signing treaties had not been preceded by public debates open to all stakeholders. → LAEKEN DECLARATION

COPENHAGEN CRITERIA – principles and criteria for membership laid down at a meeting of the European Council in Copenhagen in 1993. The heads of member states of the EU agreed that it would accept the countries of Central and Eastern Europe as members if they met these political and economic criteria: (1) stability of institutions to ensure democracy, the rule of law, the respect for human rights and the rights of minorities, (2) respect for an effective market economy, and (3) ability to assume the obligations that derive from the *acquis*, including the implementation of the political, economic and monetary objectives. The EU retains the right to decide when it will receive new members.

COREPER → PERMANENT REPRESENTATIVES COMMITTEE

COUNCIL OF EUROPE – an intergovernmental organisation based in Strasbourg that encourages in the member countries the development of democracy, respect for human rights, the rule of law and promotes the European cultural heritage. The Council of Europe was set up in 1949 by 10 European countries (Belgium, Denmark, France, Ireland, Italy, Luxembourg, Norway, Netherlands, UK and Sweden) and has today 46 members. All members of the EU are also members of the Council of Europe. → EUROPEAN COUNCIL, COUNCIL OF THE EUROPEAN UNION

COUNCIL OF THE EUROPEAN UNION (often cited as the Council or the Council of Ministers) – the most important legislative body of the EU. Since it is composed of the ministers of the national governments of the member states, national interests are represented in this institution at the European level. Today, the Council of Ministers shares its legislative role in many areas with the European Parliament. This is the result of the democratisation process of European integration, in which the role of the European Parliament, the only democratically elected body at the European level, is becoming constantly stronger. Although in many areas it no longer makes independent decisions, in the Union, no decision of a legislative nature can be made without the involvement of the Council of Ministers. The composition of the Coun-

cil varies according to the area in which the decisions are being made. When this is, for example, the Common Agricultural Policy, the agriculture ministers of the member states sit in the Council, when it is to do with the arrangement of the trans-European railway networks, the ministers of transport or other appropriate departments of the national government will take their seats. Within the institutional triangle of the Union (EC, EU and European Parliament), the Council of the European Union represents the member states. → EUROPEAN COUNCIL, COUNCIL OF EUROPE

DEMOCRATIC DEFICIT – a term used to describe the fact that, owing to the complexity of its structure and decision-making process, the EU suffers from a lack of democracy and seems inaccessible and hard to understand to the ordinary citizen. In the professional literature this term also stands for the institutional set-up of the EU which is dominated by the Council of the European Union and the European Commission, the institutions combining legislative and executive powers. The role of the European Parliament, the only institution whose members are elected by direct vote, is relatively minor. However, owing to the growth in importance of the European Parliament over the years and numerous initiatives to simplify the organization of and decision-making process in the EU, as well as to ensure more transparency in its operation, the democratic deficit has been gradually reduced.

ECOFIN – Council of Ministers of the EU for economic and financial affairs.

ECONOMIC AND MONETARY UNION, EMU – the process by which member states of the EU harmonise their economic and monetary policies with the ultimate aim of adopting the single currency, the euro. The Maastricht Treaty completely developed the objective of monetary union, the method and timetable for its creation. The process of creating the EMU unfolded in three phases, the last of which was the foundation of the European Central Bank, the determination of exchange rates and the introduction of the single currency. The single currency was not adopted by three member states: Denmark, Sweden and the UK. The ten member states who joined the Union on 1 May 2004 must adopt the euro as soon as they meet the convergence criteria. They were not granted opt-out clauses during the accession negotiations.

EURO, the – single currency that on 1 January 1999 was accepted by 11 members of the EU (Austria, Belgium, Finland, France, Ireland, Italy, Luxembourg, Holland, Germany, Portugal and Spain), the ultimate aim being the total abolition of national currencies. Denmark and the UK used the right to remain outside the “euro zone” (according to the Maastricht Treaty), while Greece and Sweden did not formally satisfy the convergence criteria by the time mentioned. Greece, having met these criteria, entered the euro zone in 2001. The introduction of the euro as the single currency in the EU is the third phase of Economic and Monetary Union. The total replacement of national legal tender in the euro zone with euro bills and coins was carried out at the end of February 2002.

EUROBAROMETER – the name of a survey performed by the European Commission in the member states, aimed at monitoring the public opinion of EU citizens concerning the EU enlargement, social circumstances, health, culture, environmental protection, the euro, defence issues, etc.

#### EUROPE AGREEMENTS → ASSOCIATION AGREEMENTS

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, EBRD – was founded in 1991, the aim being to help the former communist countries in their transformation into market economies. In 27 countries, through investment into mostly private firms, either on its own or with partners, the Bank promotes structural and sectoral reforms, market competition, privatisation and entrepreneurship, the strengthening of financial institutions and legal systems, the necessary development of infrastructure for private sector development and the adoption of good corporate governance, including awareness of environmental protection. Croatia became a member of the European Bank for Reconstruction and Development on 15 April 1993. The bank’s headquarters is in London.

EUROPEAN CENTRAL BANK, ECB – administers the European central bank system, its task being to determine cash flows, manage foreign currency transactions, manage the official foreign currency reserves of the member states and look after orderly payments clearing. It was founded on 30 June 1998, when it took over the responsibility for implementing European monetary policy.

EUROPEAN COMMISSION, EC – a political body that represents the interests of the EU as a whole. It proposes laws, policies and programmes, and is responsible for the implementation of the decisions of Parliament and the Council. Until the accession of the new members, it was composed of 20 members (two each from France, Germany, Italy, Spain and the UK, and one each from the other countries). Members of the Commission are agreed on together by the member states, and they are confirmed by the European Parliament, to which the Commission is answerable. In the new mandate, 2004-2009, the Commission is composed of 25 members. The period of office of Commission members lasts for five years. Within the context of the institutional triangle of the Union (the European Commission, the Council of the EU and the European Parliament), the Commission represents the European Community.

EUROPEAN COMMUNITY – an expression that used to be used unofficially (until the negotiations concerning the EU) as a common term for all three communities: the European Coal and Steel Community, laid down by the 1951 Treaty of Paris, the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), founded in Rome in 1957. In unofficial EU communications all these three communities are referred to for short as the Community.

EUROPEAN COUNCIL – refers to the meeting of heads of state or heads of governments of EU member states with the President of the EC. Meetings are held four times a year, in order to discuss important EU issues. → COUNCIL OF EUROPE, COUNCIL OF THE EUROPEAN UNION.

EUROPEAN ECONOMIC AREA, EEA – created in 1992 by an agreement signed by the then 12 member states of the European Commission and 6 members of EFTA for the sake of the creation of a single market in which the freedom of the movement of people, goods, services and capital would be respected. Today the EEA consists of the 25 EU and 3 EFTA member states (Iceland, Liechtenstein, Norway). In the EEA area, about 80% of the regulations of the single EU market are applied.

EUROPEAN EMPLOYMENT STRATEGY, EES – one of the pillars of the Lisbon Strategy based on three objectives: (1) full employment,



(2) higher productivity and quality at work, and (3) social and territorial cohesion. → LISBON STRATEGY

EUROPEAN FREE TRADE ASSOCIATION, EFTA – an international organisation uniting the markets of Iceland, Liechtenstein, Norway and Switzerland into a free trade zone that is at the same time a platform for the participation of its three members (not including Switzerland) in the European Economic Area together with the 25 states of the EU. EFTA was founded by the Stockholm Convention of 1960 as an alternative to the EEC as it then was.

EUROPEAN INVESTMENT BANK, EIB – is a financial institution of the EU that was organised in 1957 by the Treaty of Rome. The objective of this institution is to contribute to the integration process and in general to the objectives of the EU, through the provision of long-term financial resources for certain capital projects in the Union and other countries worldwide.

EUROPEAN MONETARY SYSTEM, EMS – an agreement by which the member states of the EU linked their currencies so as to avoid great fluctuations in exchange rates and inflation. This monetary system, founded in 1979, was the forerunner of the Economic and Monetary Union.

EUROPEAN NEIGHBOURHOOD POLICY – a new policy calling on neighbours to the east and south of the EU to take part in the process of ensuring peace, stability and prosperity, its objective being to create a ring of friends around the borders of the new, enlarged EU.

EUROPEAN PARLIAMENT – the representative body of the inhabitants of the EU. Members of this Parliament have been chosen by direct ballot since 1979; the number of members chosen in a given Member State is in proportion to the population of the country as a share of the total population of the EU. The new Constitutional Treaty says that no matter how small a country is, it has the right to a minimum of six members in Parliament. National quotas for each new member are laid down in the Accession Treaties. The maximum number of members in the Parliament is also laid down by the Founding Treaty. The European Parliament currently has 732 members, and its remit includes: consideration of the proposals of the European Commission, participation in

the adoption of regulations, appointing and discharging members of the European Commission, the right to queries related to the work of the European Commission and the Council of the EU, division of authority in the adoption of the annual budget and supervision (with the Council) of the execution of the budget. In the institutional triangle of the Union (the European Commission, the Council and the European Parliament), the Parliament represents the citizens of the Union.

EUROPEAN UNION, EU – a supranational community created as a result of collaboration and integration that was started in 1951 by six countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands). After more than five waves of enlargement (1973, Denmark, Ireland and the UK; 1981, Greece; 1986, Portugal and Spain; 1995, Austria, Finland and Sweden; and the ten new members in 2004), the EU today has 25 members. The title of European Union was introduced in the European Union Treaty of Maastricht (1992). The first pillar of the EU consists of the three communities: the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (Euratom); the second pillar is its common foreign and security policy; and the third is collaboration in matters of justice and home affairs.

EUROSTAT – the statistical office of the EU collecting and processing comparable statistical data from the EU member states.

EVOLUTIONARY CLAUSE – a formulation from the Stabilisation and Association Agreement. In it, a state that starts the association process expresses its intention to join the EU, and the EU accepts this.

EXCESSIVE DEFICIT PROCEDURE – member states are obligated to avoid excessive budgetary deficits, i.e. they must maintain budgetary discipline, respecting two criteria: the budgetary deficit must not amount to a sum that is more than 3% of GDP, and the public debt must not exceed a sum equivalent to 60% of GDP. If these values are exceeded in some country, what is called an excessive deficit procedure is activated at the level of the Union. The procedure establishes the level of the deficit, measures to cope with it, and possible financial penalties. The Stability and Growth Pact stipulates the procedure if this is an excessive deficit.

EXCHANGE RATE MECHANISM, ERM – the germ of the Economic and Monetary Union. This was a system of adjustable exchange rates in which the exchange rates of the member states fluctuated within set limits. It was expected that this system would stabilise exchange rates, control inflation and be a spur to trade. Also developed was the ERM II system, as aid to countries that do not have the euro so that, respecting common economic criteria, they can prepare for membership in the Union. → ECONOMIC AND MONETARY UNION

FINANCIAL PERSPECTIVE – the basic objective of this is to lay down seven-year political priorities and to curb overall growth in budgetary expenditure in the EU. It is the fruit of agreements between the European Parliament, the Council and the Commission, and determines the maximum amount and structure of expenditures anticipated. So far four such agreements have been made: the 1988-1992 Financial Perspective (the first Delors package), the 1993-1999 Financial Perspective (the second Delors package), the 2000-2006 Financial Perspective, which is the foundation for the Agenda 2000 financial package and the Financial Perspective 2007-2013. → AGENDA 2000

INSTRUMENT FOR STRUCTURAL POLICIES FOR PRE-ACCESSION, ISPA – was officially launched on 1 April 2000, the aim being to provide help to the EU candidate states in their preparations in the area of transport and environmental protection. The main priorities of the programme are: education concerning EU policies and procedures, assistance in reaching EU environmental protection standards, and expansion and linkage with trans-European transport networks. → PRE-ACCESSION PROGRAMMES

INTERREG III – an initiative of the Community, the aim of it being to enhance economic and social cohesion in the EU through the encouragement of the balanced development of the European continent via cross-border, trans-border and inter-regional collaboration. The initial idea of the Interreg initiative, adopted in 1990, was to prepare the border areas of member states for a community with no internal borders. Member states of the EU that take part in Interreg III can use the resources of the European Regional Development Fund for this purpose. States that are not EU members must finance their own participation in this initiative from their own resources and/or if the EC approves, from the EU assistance programme. At the EU level, within the context of the European Commission, the Regional Policy Directorate-General is charged with Interreg III affairs.

## LAEKEN DECLARATION → CONVENTION ON THE FUTURE OF EUROPE

LISBON STRATEGY – a set of joint strategic objectives adopted at the European Council meeting in Lisbon in March 2000, according to which the EU is to become the world's most competitive and dynamic knowledge-based economy by 2010, capable of sustainable economic growth, with the highest level of employment and strong economic and social cohesion.

MAASTRICHT CRITERIA, CONVERGENCE CRITERIA – principles laid down in the Maastricht Treaty of 1992, when the member states set up the EU and agreed on these criteria for the establishment of economic and monetary union and a single currency: (1) the rate of inflation can be at most 1.5% greater than the average rate of inflation of the three EU countries with the lowest inflation, (2) long-term interest rates must not be 2% higher than the average of the three EU countries with the lowest inflation, (3) the deficit of the national budget must not be greater than 3% of GDP, (4) the public debt must not be more than 60% of GDP, (5) the national currency must be in the normal ERM range (→ EXCHANGE RATE MECHANISM) during the two previous years.

NEW MEMBER STATES – Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia completed their negotiations and from being candidate countries became member states of the EU on 1 May 2004.

PERMANENT REPRESENTATIVES COMMITTEE (*Comité des représentants permanents*, COREPER) – a body consisting of the member states' permanent representatives (ambassadors) to the EU in Brussels. The Committee provides assistance to the Council of Ministers at a stage of preliminary negotiations and consultations about the proposals and drafts of instruments put forward by the European Commission. The COREPER's task is to prepare the decisions and discuss other issues of political importance for the meetings of the Council of Ministers.

PHARE PROGRAMME – an assistance programme set up in 1989 after the fall of communism in the countries of Central and Eastern Eu-

rope, the objective of it being the reconstruction of these countries. At first it covered only Poland and Hungary and was called Pologne-Hongrie: *Assistance à la restructuration économique* (hence the acronym of today). In time it spread to the countries of CEE. Apart from giving help to the reconstruction of the economies of these countries, PHARE was the main financial instrument of the pre-accession strategy of the ten countries of Central and Eastern Europe that submitted applications for EU membership. The objectives of PHARE are mainly directed to building up institutions and the financing of investments in candidate countries. → PRE-ACCESSION PROGRAMMES

PRE-ACCESSION PROGRAMMES – As a form of aid for preparation of the countries of Central and Eastern Europe for membership in the EU, the EU founded three programmes for the 2000-2006 period: PHARE, ISPA and SAPARD. The PHARE programme concentrates on the building up of institutions, participation in Community programmes, economic and social cohesion and industrial restructuring. The SAPARD programme deals with the modernisation of agriculture and rural development, while ISPA supports infrastructure projects in the area of transport and environmental protection.

PRE-ACCESSION STRATEGY – a form of assistance that was supposed to facilitate the economic and political transition in the countries of CEE. The European Council adopted it in 1994, and it was based on a deepening of the associated countries and EU institutions, development of the association agreements, financial aid via PHARE and preparations for integration into the single market.

SAPARD (*The Special Accession Programme for Agriculture and Rural Development*) – a special EU accession programme for agricultural and rural development meant for candidate countries. The objective of the programme is to assist candidate countries to overcome problems of structural adjustments in their farm sectors and rural areas and to afford assistance in the implementation of the *acquis* in the area of the Common Agricultural Policy, and the whole of the relevant legislation. The programme was launched at the beginning of 2000, and the candidate states have the right to make use of it until they join the Union. → PRE-ACCESSION PROGRAMMES

**SCREENING** – the first stage of negotiations for EU membership. It consists of determining the areas of a candidate country’s legislation that must be adjusted with the EU *acquis* and evaluating the current level of compatibility of the country’s legislation with the EU rules and the need for further adjustments. The screening serves as a basis for bilateral negotiations between the EU member states and each of the candidate countries.

**SINGLE MARKET, INTERNAL MARKET** – the conceptual framework for the unification of the economic area in the EU through the realisation of the four freedoms, as they are called – freedom of movement of people, goods, services and capital without any internal borders. Today the concept “internal market” is used more, and this is how the same meaning is defined in the European Union Treaty, i.e. the abolition of all internal barriers to the functioning of the four freedoms. The Single European Act of 1986 was the first to make essential amendments to the Treaty of Rome (which paved the way for the creation of a common market) necessary for the establishment of a single market, and at the beginning of 1993 the internal market of the EU started functioning.

**SOCIAL POLICY PROTOCOL** – adopted in 1991 in Maastricht, and signed by 11 EU countries (the UK did not sign it). It was subsequently signed by Austria, Finland and Sweden. In it, the signatory countries express their intention of increasing employment, improving living and working conditions and so on. This area was later included within the purview of the Amsterdam Treaty, and the Social Policy Protocol ceased to exist as a separate entity.

**STABILISATION AND ASSOCIATION AGREEMENT, SAA** – a new generation of Europe agreements offered to the countries of SEE as part of the stabilisation and association process. The Agreement governs the general principles, political dialogue, regional collaboration, the free movement of goods, the movement of labour, the foundation of legal entities, the provision of services and capital, harmonisation of laws, implementation of laws and rules of market competition, justice and internal relations, political and financial collaboration. The Agreement gives a signatory country the status of potential applicant for membership in the EU. Croatia signed such an agreement with the EU on 29 October 2001 and it entered into force on 1 February 2005.

STABILITY AND GROWTH PACT – the foundation for the third degree of the establishment of the Economic and Monetary Union, which started on 1 January 1999. Its objective is to ensure budgetary discipline in the member countries after the introduction of the single currency. According to the provisions of the Pact, the European Council can penalise a Member State that does not undertake measures to reduce an excessive budgetary deficit.

STABILITY PACT FOR SOUTH EASTERN EUROPE – a political document agreed on 10 June 1999 in Cologne, with the strategic objective of the convergence of the countries of SEE on the Euro-Atlantic structures and the strengthening of mutual collaboration. The pact sets up a framework for the collaboration of the states of SEE, the member states of EU, the USA, the Russian Federation, international organisations (including international financial institutions) and various regional initiatives. In Croatia, it is the Ministry of Foreign Affairs and European Integration that is charged with the coordination of all activities related to the Pact.

STRUCTURAL FUNDS, COHESION FUND – these constitute a part of the structural policy of the Union, the objective of which is to reduce the gap in development between the rich and the poor regions and member states of the EU and to promote economic and social equality. The four structural funds are *the European Regional Development Fund, ERDF*; *the European Social Fund, ESF*; *the European Agricultural Guidance and Guarantee Fund, EAGGF* and *the Financial Instrument for Fisheries Guidance, FIFG*. The Cohesion Fund was set up in 1993 in order additionally to reinforce structural policy. It is meant for cohesion countries the per capita GDP of which is less than 90% of the Union average, and its aim is to finance environmental protection and transport infrastructure. They make about one third of the EU budget.

EUROPEAN INNOVATION SCOREBOARD – contains a number of standardised indicators of innovation activities. The EC adopted the first such document in 2001.

TRANSITION INDICATORS – a system of qualitative indicators for the transition countries that are published by the EBRD. In accordance with them, in values of from 1 to 4+, grades are given to the restructuring and privatisation of the corporate sector, the liberalisation of the market and the condition of financial institutions.

**TREATIES OF ROME** – these were signed in 1957 in Rome during the foundation of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). They also set up a customs union among the countries of the ECSC (European Coal and Steel Community, founded in 1951 by the Benelux countries, Germany, France and Italy) and defined the objectives for the creation of a common market to ensure the free movement of people, goods, services and capital. When the Maastricht Treaty (the European Union Treaty) came into force, the European Economic Community was renamed the European Community.

**TREATY OF NICE** – entered into force on 1 February 2003. It is the result of an intergovernmental conference that started in February 2000 and ended in December of the same year. The Conference dealt with the composition and work of the EU institutions after the following waves of enlargement. By the entry into force of this Treaty and the EU enlargement with the accession of new countries, changes were introduced in the composition and the manner of functioning of the European Parliament, Council of the European Union, European Commission, Court of First Instance of the European Communities, European Court of Auditors, Economic and Social Committee and the Committee of the Regions.

**TREATY ON THE EUROPEAN UNION, EU TREATY** – a treaty that set up the European Union and defined the objectives of the EMU, the single currency, common foreign and security policy, a common defence policy, the introduction of Union citizenship and close cooperation in justice and internal affairs. The member states signed it in 1992, and ratified it in 1993.

**URUGUAY ROUND** – trade talks that started in 1986 in Uruguay. It was only in 1994 that an agreement was signed by the ministers of 125 countries meeting in Morocco. Although the negotiations lasted many years, they are considered to have been successful because they covered a number of trade matters and heralded the foundation of the WTO.

**WHITE PAPER** – an EU document with proposals for future activities in a given area. In some cases it follows a Green Paper published to launch a consultation process at European level.



## List of useful web addresses

Name of Institution	URL	Description
Delegation of the European Commission to the Republic of Croatia	<a href="http://www.delhrv.cec.eu.int/">http://www.delhrv.cec.eu.int/</a>	Information about EU activities in Croatia
EFTA	<a href="http://www.efta.int/">http://www.efta.int/</a>	A site concerned with the European Free Trade Area
European Economic and Social Committee	<a href="http://eesc.europa.eu/">http://eesc.europa.eu/</a>	Information about the activities of the Committee and generally about EU policies
EU Business	<a href="http://www.eubusiness.com/">http://www.eubusiness.com/</a>	News from Europe and the EU
EU in the USA	<a href="http://www.eurunion.org/">http://www.eurunion.org/</a>	Publications, information about the EU in the USA; a list of web sites of EU member states
EU Observer	<a href="http://www.euobserver.com/">http://www.euobserver.com/</a>	EU site with the most recent news from Europe
European Investment Bank	<a href="http://eib.eu.int/">http://eib.eu.int/</a>	Site of the European Investment Bank
European Central Bank	<a href="http://www.ecb.int/">http://www.ecb.int/</a>	Site of the European Central Bank, for the European currency, the euro
Statistical office of the EU, Eurostat	<a href="http://europa.eu.int/comm/eurostat/">http://europa.eu.int/comm/eurostat/</a> <a href="http://epp.eurostat.cec.eu.int/">http://epp.eurostat.cec.eu.int/</a>	
Council of the European Union	<a href="http://ue.eu.int/">http://ue.eu.int/</a>	Official site of the Council of the EU
European Commission	<a href="http://europa.eu.int/comm/index_en.htm">http://europa.eu.int/comm/index_en.htm</a>	Official site of the European Commission

European Commission	<a href="http://ec.europa.eu/comm/external_relations/">http://ec.europa.eu/comm/external_relations/</a> <a href="http://ec.europa.eu/regional_policy/index_en.htm">http://ec.europa.eu/regional_policy/index_en.htm</a>	Information about the work of the European Commission outside the EU Site concerned with the advancement of regional competitiveness, increasing and improving employment and the even development of urban and rural areas
European Parliament	<a href="http://www.europarl.europa.eu/">http://www.europarl.europa.eu/</a>	Tasks, members, information
European Movement	<a href="http://www.europeanmovement.org/">http://www.europeanmovement.org/</a> <a href="http://www.mvpei.hr/MVP.asp?pcpid=1123">http://www.mvpei.hr/MVP.asp?pcpid=1123</a> <a href="http://www.mvpei.hr/ei/download/2006/01/31/omnibus_prosinac_05.ppt">http://www.mvpei.hr/ei/download/2006/01/31/omnibus_prosinac_05.ppt</a>	Information, programmes, association
Ministry of Foreign Affairs and European Integration	<a href="http://www.eu-pregovori.hr/">http://www.eu-pregovori.hr/</a> <a href="http://www.mvpei.hr/ei/default.asp?ru=137&amp;sid=&amp;akcija=&amp;jezik=1">http://www.mvpei.hr/ei/default.asp?ru=137&amp;sid=&amp;akcija=&amp;jezik=1</a>	Review of results of research into public opinion about views of Croatian citizens about the EU Site about negotiations between Croatia and the EU European integration glossary
Stability Pact	<a href="http://www.stabilitypact.org/">http://www.stabilitypact.org/</a>	Site about the SEE Stability Pact
PUMA	<a href="http://www.oecd.org/topic/0,2686,en_2649_37405_1_1_1_37405,00.html">http://www.oecd.org/topic/0,2686,en_2649_37405_1_1_1_37405,00.html</a>	OECD site about public sector governance and organisation
SIGMA	<a href="http://www.sigmaweb.org/pages/0,2-987,en_33638100_33638151_1_1_1_1_1,00.html">http://www.sigmaweb.org/pages/0,2-987,en_33638100_33638151_1_1_1_1_1,00.html</a>	Site concerning the OECD and EU government administration and public sector reform in SEE project

Narodne novine	<a href="http://www.nn.hr/clanci/sluzbeno/2006/0323.htm">http://www.nn.hr/clanci/sluzbeno/2006/0323.htm</a>	Complete wording of Communication Strategy for informing the Croatian public about the EU and preparations for membership
The Court of Justice of the European Communities	<a href="http://curia.europa.eu/">http://curia.europa.eu/</a>	
European Court of Auditors	<a href="http://www.eca.eu.int/">http://www.eca.eu.int/</a>	Site of the institution that oversees the revenue and expenditure of the EU
Croatian Found for Regional Development	<a href="http://www.fondrr.hr/index1.htm">http://www.fondrr.hr/index1.htm</a>	
EU center	<a href="http://www.eucenter.org/">http://www.eucenter.org/</a>	Information about tertiary education institutions, local government, small and medium sized enterprises, and funding possibilities
Regio.hr	<a href="http://www.regio-hr.com/">http://www.regio-hr.com/</a>	
Citizens Signpost Service	<a href="http://europa.eu.int/citizensrights/signpost/">http://europa.eu.int/citizensrights/signpost/</a>	Information about the rights of citizens and their opportunities in the EU
General Directorate for Employment and Social Issues of the EU	<a href="http://ec.europa.eu/employment_social/index.html">http://ec.europa.eu/employment_social/index.html</a>	Information about the programme of social policy, employment, the European Social Fund, conditions and organisation of work, social inclusion, equality between men and women

International Labour Organization	<a href="http://www.ilo.org">http://www.ilo.org</a>	
United Nations Economic Commission for Europe	<a href="http://www.unece.org/">http://www.unece.org/</a>	Forum for communication among states; statistical and economic analyses and environmental protection analyses
OECD	<a href="http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1_1,00.html">http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1_1,00.html</a> <a href="http://www.dzs.hr/">http://www.dzs.hr/</a>	
Central Bureau of Statistics of the Republic of Croatia	<a href="http://www.europa.eu.int">http://www.europa.eu.int</a> <a href="http://europa.eu.int/comm/dgs/communication/index_en.htm">http://europa.eu.int/comm/dgs/communication/index_en.htm</a> <a href="http://eur-lex.europa.eu/en/treaties/index.htm">http://eur-lex.europa.eu/en/treaties/index.htm</a> <a href="http://europa.eu.int/constitution/futurem/documents/offtext/doc151201_en.htm">http://europa.eu.int/constitution/futurem/documents/offtext/doc151201_en.htm</a>	Official site of the EU Site about European communication policy Complete texts of legal documents of the EU Site concerning the Laeken Declaration on the Future of Europe
European Union	<a href="http://europa.eu.int/eur-lex/lex/JOHtml.do?uri=OJ:C:2004:310:SOM:EN:HTML">http://europa.eu.int/eur-lex/lex/JOHtml.do?uri=OJ:C:2004:310:SOM:EN:HTML</a> <a href="http://europa.eu.int/constitution/ratification_en.htm">http://europa.eu.int/constitution/ratification_en.htm</a> <a href="http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_first_en.pdf">http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_first_en.pdf</a>	Complete wording of the European Constitution Treaty Table of EU referenda Review of results of public opinion research in the EU (Eurobarometer 65, July 2006)

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Lisbon strategy	<a href="http://ec.europa.eu/growthandjobs/index_en.htm">http://ec.europa.eu/growthandjobs/index_en.htm</a>	Information about the Lisbon Strategy; links to the main documents; statistics and reports
Croatian Employment Institute	<a href="http://www.hzz.hr/">http://www.hzz.hr/</a>	Information about jobs vacant, active employment policy in line with EU guidelines, demand on the labour market, and publications concerned with the promotion of employment
Government of the Republic of Croatia	<a href="http://www.vlada.hr/">http://www.vlada.hr/</a>	

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