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Subject: Information on the results of the EU Accession Negotiations with Croatia

Delegations will find attached the above-mentioned document, submitted by the Commission services¹.

¹ This document has been transmitted to the Council in English only.

Information on the Results of the EU Accession Negotiations with Croatia

Compiled by the Directorate General for
Enlargement

European Commission

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The EU accession negotiations with Croatia were opened on 3 October 2005 and concluded on 30 June 2011. This document has been prepared by the Commission's departments. Its purpose is to provide a user-friendly guide to the draft Accession Treaty. This report covers all negotiating chapters, and provides a summary of the issues covered in the draft Accession Treaty for each of them. It is for information purposes only and does not represent the European Commission's interpretation of the Accession Treaty.

In line with the negotiating framework, a certain number of transitional periods have been agreed, limited in time and scope. The authentic text of the agreement reached in the accession negotiations on the conditions of admission and the adjustments of the treaties on which the Union is founded are laid down in the draft Accession Treaty itself due to be signed by the end of 2011. Croatia is expected to join the European Union on 1 July 2013.

Chapter 1: Free movement of goods

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors this general principle is complemented by a harmonised regulatory framework, following the “old approach” (imposing precise product specifications) or the “new approach” (imposing general product requirements). The harmonised European product legislation, which needs to be transposed, represents the largest part of the *acquis* under this chapter. In addition, sufficient administrative capacity is essential to notify restrictions on trade and to apply horizontal and procedural measures in areas such as standardisation, conformity assessment, accreditation, metrology and market surveillance.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below. The following transitional arrangement was agreed:

- Market authorisations for medicinal products granted before accession have to be upgraded to comply with the level of quality, efficacy and safety in accordance with the Directive. Croatia will have to complete this upgrading of marketing authorisations and documentation for medicinal products at the latest 4 years after the date of accession.

Chapter 2: Freedom of movement for workers

The *acquis* under this chapter provides that EU citizens of one Member State have the right to work in another Member State. EU migrant workers must be treated in the same way as national workers in relation to working conditions, social and tax advantages. This *acquis* also includes a mechanism to coordinate national social security provisions for insured persons and their family members moving to another Member State.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below.

In line with the transitional arrangements on free movement of workers set out in the 2004 and 2007 enlargements, the following measures related to the freedom of movement for workers from Croatia into current Member States have been agreed:

- a two year period during which national measures will be applied by current Member States to Croatia. Depending on how liberal these national measures are, they may result in full labour market access;
- after this period, reviews will be held: one automatic review before the end of the second year after accession and a further review at the request of Croatia. The procedure includes a report by the Commission, but leaves the decision on whether to apply the *acquis* up to the current Member States;
- the transitional arrangement should in principle come to an end after five years, but may be prolonged for a further two years in those current Member States where there would be serious disturbances of the labour market or a threat of such disruption;
- safeguards may be applied by Member States up to the end of the seventh year.

Furthermore a standstill clause will apply, whereby current Member State labour markets cannot be more restricted than that prevailing at the time of the signature of the Accession Treaty. Current Member States must give preference to Croatian nationals over non-EU labour.

Austria and Germany have the right to apply flanking national measures to address serious disturbances or the threat thereof, in specific sensitive service sectors on their labour markets, which could arise in certain regions from transnational provision of services.

Under the transitional arrangements the rights of Croatian nationals who are already legally resident and employed in a current Member State are protected. The rights of family members are also taken into account consistent with the practice in the case of previous accessions.

On the basis of reciprocity, Croatia may apply restrictions equivalent to the national measures applied by the respective Member State.

Chapter 3: Right of establishment and freedom to provide services

Member States must ensure that the right of establishment of EU national and legal persons in any Member State and the freedom to provide cross-border services is not hampered by national legislation, subject to the exceptions set out in the Treaty. The *acquis* also harmonises the rules concerning regulated professions to ensure the mutual recognition of qualifications and diplomas between Member States; for certain regulated professions a common minimum training curriculum must be followed in order to have the qualification automatically recognised in an EU Member State. As regards postal services, the *acquis* also aims at opening up the postal services sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 4: Free Movement of Capital

Member States must remove, with some exceptions, all restrictions on movement of capital both within the EU and between Member States and third countries. The *acquis* also includes rules concerning cross-border payments and the execution of transfer orders concerning securities. The directive on the fight against money laundering and terrorist financing requires banks and other economic operators, particularly when dealing in high-value items and with large cash transactions, to identify customers and report certain transactions. A key requirement to combat financial crime is the creation of effective administrative and enforcement capacity, including co-operation between supervisory, law enforcement and prosecutorial authorities.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below.

- Croatia may maintain certain restrictions on the acquisition of agricultural land by EU/EEA nationals for 7 years from the date of accession, with the possibility of a 3-year extension. This extension may be limited to selected geographical areas particularly affected.
- Restrictions on the acquisition of real estate, with 3rd countries, which existed in Croatia on 31 December 2002, may be maintained.

Chapter 5: Public Procurement

The *acquis* on public procurement is based on the general EU Treaty principles of transparency, equal treatment, and non-discrimination. Three specific EU directives coordinate applicable procurement procedures of contracting authorities in the classical sector (e.g. public authorities), entities in the utilities' sectors and entities in the fields of defence and security. Moreover, specific EU directives apply to review procedures, including rules on independent review bodies.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 6: Company law

The company law *acquis* includes rules on the formation, registration, merger and division of companies. In the area of financial reporting, the *acquis* specifies rules for the presentation of annual and consolidated accounts, including simplified rules for small- and medium-sized enterprises. The application of International Accounting Standards is mandatory for some public interest entities. In addition, the *acquis* specifies rules for the approval, professional integrity and independence of statutory audits.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 7: Intellectual property law

The *acquis* on intellectual property rights specifies harmonised rules for the legal protection of copyright and related rights. Specific provisions apply to the protection of databases, computer programs, semiconductor topographies, satellite broadcasting and cable retransmission. In the field of industrial property rights, the *acquis* sets out harmonised rules for the legal protection of trademarks and designs. Other specific provisions apply for biotechnological inventions, pharmaceuticals and plant protection products. The *acquis* also establishes a Community trademark and Community design. Finally, the *acquis* contains harmonised rules for the enforcement of both copyright and related rights as well as industrial property rights. Adequate implementing mechanisms are required, in particular effective enforcement capacity.

The following specific arrangements have been agreed:

- Community trade marks and designs registered in Member States before the date of accession shall be extended to the territory of Croatia on the day of accession, in order to ensure equal effect throughout the Community.

- Supplementary protection certificates (SPC) for medicinal and for plant protection products will be applicable to any medicinal or plant protection product which, on the date of Croatia's accession, is protected by a valid basic patent and for which the first marketing authorisation was obtained after 1 January 2003 provided that an application for a certificate will have to be submitted within six months from the date of Croatia's accession.
- Croatia has agreed to set up a specific mechanism to protect the rights granted by a patent or an SPC for a pharmaceutical product filed in a Member State at the time when such protection could not be obtained in Croatia for that product.
- According to this mechanism, the holder, or his beneficiary, may rely on the rights granted by that patent or SPC in order to prevent the import and marketing of that product in the Member State or States where the product in question enjoys patent or SPC protection, even if this product was put on the market in Croatia for the first time by him or with his consent (in practice the mechanism protects EU patent-holders from so-called "parallel import" of medicines from Croatia if prices of this medicine are lower in Croatia than in Member States). Such a specific mechanism was also granted during the 5th enlargement.

Chapter 8: Competition policy

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), to scrutinise mergers between undertakings, and to prevent governments from granting state aid which distorts competition in the internal market. Generally, the competition rules are directly applicable in the whole Union, and Member States must co-operate fully with the Commission in enforcing them.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession. Two protocols in this area were added to the Accession Treaty.

- Regarding the shipbuilding sector, the restructuring and privatization of the shipyards in difficulties shall be carried out in compliance with the conditions agreed with the EU. Upon accession, the Commission will be empowered to order Croatia to recover the restructuring aid granted since 2006 to the yards in difficulty which have not respected these conditions. In addition, Croatia will have to report regularly.
- On steel, upon accession, the Commission will be empowered to order Croatia to recover the state aid granted to CMC Sisak if the company has not reimbursed them by the date of accession.

Chapter 9: Financial services

The *acquis* in the field of financial services includes rules for the authorisation, operation and supervision of financial institutions in the areas of banking, insurance, supplementary pensions, investment services and securities markets. Financial institutions can operate across the EU in accordance with the ‘home country control’ principle either by establishing branches or by providing services on a cross-border basis.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below. The following specific arrangement was agreed: The EU agreed to the Croatian request to exempt Credit Unions from the full application of the capital requirements Directive. This means that the EU will not impose disproportionate requirements on Croatian Credit Unions that have a long tradition in Croatia in providing banking services to craftsman and other individuals. The Croatian authorities will supervise Credit Unions on the basis of specific national legislation.

Chapter 10: Information society and media

The *acquis* includes specific rules on electronic communications, on information society services, in particular electronic commerce and conditional access services, and on audio-visual services. In the field of electronic communications, the *acquis* aims to eliminate obstacles to the effective operation of the internal market in telecommunications services and networks, to promote competition and to safeguard consumer interests in the sector, including universal availability of modern services. As regards audio-visual policy, the *acquis* requires the legislative alignment with the Audiovisual Media Services Directive, which creates the conditions for the free movement of television broadcasts within the EU. The *acquis* aims to the establishment of a transparent, predictable and effective regulatory framework for public and private broadcasting in line with European standards. The *acquis* also requires the capacity to participate in the community programmes such as the ICT component of the CIP (Competitiveness and Innovation Programme) or the Safer Internet Programme, as well as the Media Plus and Media Training Programmes in the audiovisual fields.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 11: Agriculture and rural development

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement and control by an efficient public administration are essential for the functioning of the common agricultural policy (CAP). Running the CAP requires the setting up of management and quality systems such as a paying agency and the integrated administration and control system (IACS), and the capacity to implement rural development measures. Member States must be able to apply the EU legislation on direct farm support schemes and to implement the common market organisations for various agricultural products

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below. The following specific arrangements were agreed.

- **Horizontal issues**

- Direct payments

- Direct payments in Croatia will be phased in over a period of ten years starting at 25% of the EU direct payments in the first year of accession, 30% in the second, 35% in the third and 40% in fifth year of accession and thereafter in 10 % increments (see chapter 33).

- The total national envelop for direct payments per year for Croatia is EUR 373 million. In addition, and during a period of 10 years, Croatia will receive EUR 9.6 million annually of direct payments for de-mined land on the condition that this land is used for agricultural activities.

- Complementary national direct payments

- Croatia can complement direct payments up to 100 % of the level of direct payments in the EU which have to be financed from the national budget. However, during 2014, 2015 and 2016, Croatia can use up to 20% of its annual rural development funds to finance complementary national direct payments. The contribution from rural development funds is limited to the difference between: a) the level of direct payments applicable in Croatia for the year concerned, and b) 45% of the level of direct payments applicable in the EU.

- After accession, Croatia will have the possibility to grant coupled direct payments for suckler cows (max. 105,270 head) and sheep and goats (max. 542,651 head).

- The minimum level for receiving direct payments by beneficiaries is EUR 100.

- **Common Market Organisation**

- Sugar:

- The national sugar production quota for Croatia is 192,877 tonnes.

- During three years as of accession, Croatia has been granted an annual import quota of 40,000 tonnes of raw cane sugar at an import duty of EUR 98/tonne.

- Geographical indications and traditional terms:

- A number of denominations of wine and spirits will be protected at EU level as geographical indications or traditional terms.

Animal products

The milk quota for Croatia is 765,000 tonnes.

- **Rural development**

In 2013, Croatia will benefit from a full year allocation under the Instrument for pre-accession for rural development (IPARD).

In the next programming period for rural development 2014 -2020, Croatia can

- grant a special support for semi-subsistence agricultural holdings as well as a special support to facilitate the setting up of producer groups.

- apply a minimum contribution from rural development funds to LEADER which is half of the contribution applicable to the other Member States (if such a requirement is set in the rural development programme 2014-2020).

- support up to 75% of the costs of investments by agricultural holdings which are intended to improve the protection of waters against pollution caused by nitrates from agricultural sources (Nitrate Directive) during a period of four years as of accession.

- **Quality policy**

Croatia can continue, for 12 months after accession, the national protection of geographical indications and designations of origin for agricultural products existing at national level on the day of accession.

Chapter 12: Food safety, veterinary and phytosanitary policy

This chapter covers detailed rules in the area of food safety. The general foodstuffs policy sets hygiene rules for foodstuff production. Furthermore, the *acquis* provides detailed rules in the veterinary field, which are essential for safeguarding animal health, animal welfare and safety of food of animal origin in the internal market. In the phytosanitary field, EU rules cover issues such as quality of seed, plant protection material, harmful organisms and animal nutrition.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below. The following specific arrangements were agreed:

- **Laying hens**

Laying production cycles that started before the day of accession in cages which are not compliant with EU standards can be continued in these cages for a period of maximum 12 months after accession. Eggs from such cages have to be identified with a special mark and can only be placed on the Croatian market.

- **Establishments:**

Croatia has been granted a transitional period until 31 December 2015 for establishments in the meat, milk, fish and animal by-products sectors in order to meet structural EU standards (EU standards on hygiene requirements have to be fully respected). Products from such non-compliant establishments have to be identified with a special health mark and can only be placed on Croatian market and on markets of third countries.

- **Quality of seeds and propagating material**

Croatia has been granted a transitional period until 31 December 2014 with regard to the marketing of certain varieties of beets, cereals, oil and fibre plants, fodder plants, vegetables and seed potatoes which have not passed yet the Distinctness, Uniformity and Stability (DUS) examinations. Such plants and seeds may not be marketed in the territory of other Member States.

- **Special regime for the Neum corridor**

Products of animal origin coming from Croatia and transiting through the territory of Bosnia and Herzegovina at Neum ('Neum corridor') before re-entering Croatia via Klek or Zaton Doli, may be exempted from the required veterinary checks. Croatia has to have fully equipped and staffed points of entry to the north and south of the corridor in place as well as effective technical surveillance systems to ensure efficient controls. Consignments must not be transported in open vehicles via the Neum corridor and the vehicles have to be properly sealed. The transit of live animals with the exception of pet animals through the 'Neum corridor' is prohibited.

Chapter 13: Fisheries policy

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (CFP). The scope, the objectives and the principles of the CFP are laid down in a framework regulation (Council Regulation (EC) N° 2371/2002). The CFP provides rules for the conservation of living aquatic resources, the limitation of the environmental impact of fisheries, conditions of access to waters and resources, structural policy and the management of the fleet capacity, control and enforcement, aquaculture, common organisation of the market and international relations. The CFP is based on sound scientific advice and provides a framework for data collection.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangement set out below. The following specific arrangements were agreed:

- Croatian fishermen may continue to use bottom trawls in waters on depths less than 50 meters at the minimum distance of 1.5 nautical miles from the coast until 30 June 2014. The vessels must be registered and operate in the Western Istria region determined from the point with geographic coordinates $\varphi=44.52135$ and $\lambda=14.29244$ with a line due north and a line due west. During the same period and for all vessels of less than 15 meters length overall, bottom trawls may be used in waters over 50 meters deep at a minimum distance of 1 nautical mile from the coast on condition that all other spatial and temporal restrictions Croatia currently applies are maintained.
- The specific category of non-commercial fisheries (subsistence fishermen), i.e. the small scale artisanal fishing for personal use needs to be phased out by 31 December 2014.

- For investments of all sizes of companies supported from the European Fisheries Funds on the islands Mljet, Vis, Dugi otok and Lastov, a higher co-finance rate (of max. 85%) can be applied.
- Based on existing bilateral agreement between Slovenia and Croatia, a limited mutual access to the coastal waters of the other country has been agreed between Croatia and Slovenia. The mutual access rights will apply as of the full implementation of the arbitration award resulting from the Arbitration Agreement between Slovenia and Croatia, signed in Stockholm on 4 November 2009.

Chapter 14: Transport Policy

EU transport legislation aims at improving the functioning of the internal market by promoting safe, efficient and environmentally sound and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, inland waterways, combined transport, aviation, and maritime transport. It relates to technical and safety standards, security, social standards, state aid control and market liberalisation in the context of the internal transport market.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below.

- For road transport, for the first 2 years following the accession of Croatia, transport companies established in Croatia will be excluded from operating transport services exclusively within the borders of the other Member States (cabotage), and operators established in the other Member States are excluded from providing such services in Croatia. This transitional period can be extended by a maximum of 2 additional years.
- In the area of maritime transport and with regard to the freedom to provide services within Member States (maritime cabotage), public service contracts concluded before the date of accession may continue to apply until 31 December 2016.
- Furthermore, until the end of 2014 cruise services carried out between Croatian ports by ships smaller than 650 gross tonnes shall be reserved to ships registered in, or flying the flag of Croatia, which are operated by Croatian shipping companies. In turn, until the same date, the Commission may, upon a substantiated request by a Member State, decide that ships benefiting from this derogation shall not carry out cruise services between ports of certain areas of a Member State other than Croatia in case of serious disturbances of the internal transport market caused by such operations in the areas concerned.

Chapter 15: Energy

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), conditions for equal access to resources for prospection, exploration and production in the hydrocarbon sector, the internal energy market (opening up of the electricity and gas markets, promotion of renewable energy sources), energy efficiency, nuclear energy and nuclear safety and radiation protection.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 16: Taxation

The *acquis* on taxation covers extensively the area of indirect taxation, namely value-added tax (VAT) and excise duties. It lays down the scope, definitions and principles of VAT. Excise duties on tobacco products, alcoholic beverages and energy products are also subject to EU legislation. As concerns direct taxation, the *acquis* covers some aspects of taxing income from savings of individuals and of corporate taxes. Furthermore, Member States are committed to complying with the principles of the Code of Conduct for Business Taxation, aimed at the elimination of harmful tax measures. Administrative co-operation and mutual assistance between Member States is aimed at ensuring a smooth functioning of the internal market as concerns taxation and provides tools to prevent intra-Community tax evasion and tax avoidance. Member States must ensure that the necessary implementing and enforcement capacities, including links to the relevant EU computerised taxation systems, are in place.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements as set out below. Croatia has committed itself to accept and comply with the principles of the Code of Conduct for Business Taxation. Transitional arrangements and two derogations are granted to Croatia in the field of indirect taxation (VAT and excise duties).

- **VAT**

Croatia is allowed to apply under certain circumstances a lower VAT exemption and registration threshold for taxpayers of the equivalent of € 35,000 in national currency without any time limitation and to continue exempting international transport of passengers from VAT, with the right to input tax deduction. Croatia is granted a transitional period until 31 December 2014 to exempt from VAT the supply of building land, with or without buildings built on it. In consequence, the right of deduction of input tax on goods and services used as inputs in the course of construction of buildings on the building land, will remain unchanged during the transitional period and the current system of full right of input tax deduction applied in Croatia for all the supplies related to the construction of buildings on building land is maintained.

- **Excise Duties**

Croatia has been granted a transitional arrangement to apply, until 31 December 2017, lower excise duties on cigarettes than the minimum level set in the *acquis*.

Chapter 17: Economic and Monetary policy

The *acquis* in the area of economic and monetary policy contains specific rules requiring the independence of central banks in Member States, prohibiting direct financing of the public sector by the central banks and prohibiting privileged access of the public sector to financial institutions. Member States are expected to co-ordinate their economic policies and are subject to fiscal and broader economic and financial surveillance. New Member States are also committed to complying with the criteria laid down in the Treaty in order to be able to adopt the euro in due course after accession. Until then, they will participate in the Economic and Monetary Union as a Member State with a derogation from the use of the euro and shall treat their exchange rates as a matter of common concern.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession. It will participate in EMU upon accession with the status of a country with a derogation under Article 139 of the Treaty on the functioning of the European Union.

Chapter 18: Statistics

The *acquis* in the field of statistics requires the existence of a statistical infrastructure based on principles such as professional independence impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. These principles are laid down in the European Statistical Code of practice. National statistical institutes act as reference and anchor points for the methodology, production and dissemination of statistical information. The *acquis* covers methodology, classifications and procedures for data collection in various areas such as macro-economic and price statistics, demographic and social statistics, regional statistics, and statistics on business, transport, external trade, agriculture, environment, and science and technology. No transposition into national legislation is needed as the majority of the *acquis* takes the form of regulations

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 19: Social policy and employment

The *acquis* in the social field includes minimum standards in the areas of labour law, equality, health and safety at work and anti-discrimination. The Member States participate in social dialogue at European level and in EU policy processes in the areas of employment policy, social inclusion and social protection. The European Social Fund is the main financial tool through which the EU supports the implementation of its employment strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 22, which deals with all structural instruments).

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 20: Enterprise and Industrial policy

EU industrial policy seeks to promote industrial strategies enhancing competitiveness by speeding up adjustment to structural change, encouraging an environment favourable to business creation and growth throughout the EU as well as domestic and foreign investments. It also aims to improve the overall business environment in which small and medium sized enterprises (SMEs) operate. It involves implementation of strategies for increasing competitiveness of sectors, including restructuring of loss making enterprises. EU industrial policy mainly consists of policy principles and industrial policy communications. EU consultation forums and Community programmes, as well as communications, recommendations and exchanges of best practices relating to SMEs aim to improve the formulation and coordination of enterprise policy across the internal market on the basis of a common definition of SMEs. The implementation of enterprise and industrial policy requires adequate administrative capacity at the national, regional and local level.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 21: Trans-European networks

This chapter covers the Trans-European Networks policy in the areas of transport, telecommunications and energy infrastructures, including the Community guidelines on the development of the Trans-European Networks and the support measures for the development of projects of common interest. The establishment and development of Trans-European Networks and the promotion of proper interconnection and interoperability of national networks aim to take full advantage of the internal market and to contribute to economic growth and the creation of employment in the European Union.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 22: Regional policy and coordination of structural instruments

The *acquis* under this chapter consists of framework and implementing regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds and Cohesion Fund programs reflecting each country's territorial organisation. These programs are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. Member States must respect EU legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects. Member States must have an institutional framework in place and adequate administrative capacity to ensure programming, implementation, monitoring and evaluation in a sound and cost-effective manner from the point of view of management and financial control.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below. In order to ensure continuation

of the ongoing multiannual operational programmes under pre-accession assistance (IPA component III and IV) after accession these programmes will be considered as programmes adopted under Structural Fund/Cohesion Fund regulations. Negotiations focused on the legislative and institutional framework, administrative capacity, programming, monitoring and evaluation, financial management and control, eligibility and financial issues.

Croatia has been granted an extension of the eligibility end date and the deadline for automatic de-commitment to the 31 December of the third year following the year of the annual budget commitment under its operational programmes adopted under the current Structural Funds Regulation. In line with this, other relevant provisions of the *acquis* (e.g. on closure of the operational programme, submission of reports) and the respective reference dates have been adapted accordingly.

Institutional framework

Croatia has formally designed institutional structures for the implementation of cohesion policy as established and confirmed by Government Decision on the Strategic Documents and Institutional Framework for the Utilisation of the Structural Instruments in October 2010.

Croatia's institutional framework for the implementation of EU cohesion policy builds directly on the existing implementation structures for relevant IPA components. Croatia has adopted Organisational Development Strategies for horizontal bodies and one per each of the operational programmes. In view of a smooth transition from IPA to Cohesion Policy, the EU will closely monitor Croatia's full and timely implementation of the government decisions related to building up and strengthening administrative capacity and Croatia's progress in bringing the capacity of all the managing authorities, intermediate bodies and other relevant bodies to the required level in good time before accession.

Eligibility

All of Croatia's 3 level 2 regions shall be eligible for assistance under the Convergence objective. From the date of accession, Croatia will also be eligible for Cohesion Fund assistance.

From the date of accession, all level 3 areas along Croatia's land borders and all level 3 maritime border areas shall be eligible areas for cross-border cooperation under the European territorial cooperation objective. All of Croatia's statistical regions at level 2 will be included in a joint or in separate groupings of regions for the purpose of transnational cooperation and the whole of Croatia's territory shall be eligible for interregional cooperation.

Financial issues

Before any payment by the European Commission (for pre-financing or interim payments) is made, Croatia submits to the Commission a description of the management and control systems. The description of the implementation systems shall be accompanied by a report setting out the results of an assessment of the systems set up and giving an opinion on their compliance with relevant provisions of the *acquis*. The acceptance by the Commission of this report is a pre-requisite for the pre-financing amount.

Chapter 23: Judiciary and fundamental rights

EU policies in the area of the judiciary and fundamental rights aim to maintain and further develop the Union as an area of freedom, security and justice. The establishment of an independent and efficient judiciary is of paramount importance. Impartiality, integrity and high standards of adjudication by the courts are essential for safeguarding the rule of law. This requires a firm commitment to eliminating external influences over the judiciary and to devoting adequate financial resources and training. Legal guarantees for fair trial procedures must be in place. Likewise, Member States must fight corruption effectively as it represents a threat to the stability of democratic institutions and the rule of law. A solid legal framework and reliable institutions are required to underpin a coherent policy of prevention and deterrence of corruption. Member States must ensure respect for fundamental rights and EU citizens' rights as guaranteed by the *acquis* and by the Charter of Fundamental Rights.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 24: Justice, freedom and security

EU policies aim to maintain and further develop the Union as an area of freedom, security and justice. On issues such as border control, visas, external migration, asylum, police cooperation, the fight against organised crime and against terrorism, cooperation in the field of drugs, customs cooperation and judicial cooperation in criminal and civil matters, Member States need to be properly equipped to adequately implement the growing framework of common rules. Above all, this requires a strong and well-integrated administrative capacity within the law enforcement agencies and other relevant bodies, which must attain the necessary standards. A professional, reliable and efficient police organisation is of paramount importance. The most detailed part of the EU's policies on justice, freedom and security is the Schengen *acquis*, which entails the lifting of internal border controls in the EU. However, for the new Member States substantial parts of the Schengen *acquis* are implemented following a separate Council Decision to be taken after accession.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below.

External borders and Schengen

Croatia has been granted a transitional measure according to which it may maintain its joint Border Crossing Points with Bosnia and Herzegovina, until the Schengen Borders Code is amended or until its accession to Schengen, whichever comes first.

The *acquis* in the field of Justice and Home Affairs will be implemented as of accession, with the exception of some parts of the Schengen *acquis*. This is due to the fact that the lifting of internal border controls will not happen upon accession, but afterwards, following a separate, unanimous decision by the Council. This procedure has been followed also for past accessions to Schengen. The said Council decision shall be taken in accordance with the applicable Schengen procedures and while taking into account a Commission report confirming that Croatia continues to fulfil the commitments undertaken in its accession negotiations that are relevant for the Schengen *acquis*.

Chapter 25: Science and research

The *acquis* in the field of science and research does in principle not require transposition of EU rules into the national legal order. Compliance relates to the existence of the necessary conditions for effective participation in the EU's Research Framework Programmes and contributing to the EU objectives on research and innovation policy. In order to ensure the full and successful association with the Research Framework Programmes, Member States need to ensure the administrative capacity and scientific excellence in the field of research and innovation. They also need to take a number of policy measures and implement actions aiming at increasing investment in research, ensure mobility of researchers and have good quality research institutes open to participation from all entities from the European Research Area. Efforts on innovation are also required to contribute to the Innovation Union flagship initiative.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 26: Education and culture

The areas of education, training, youth sports and culture are primarily the competence of the Member States. The *acquis* in these fields consists mainly of a cooperation framework through programmes and the so-called open method of coordination (OMC), which aims to convergence of national policies and attainment of shared objectives. In the field of education and youth, Member States need to ensure sound management of decentralised EU programmes. The *acquis* also binds the Member States to facilitate the education of the children of EU migrant workers and to prevent discrimination against EU nationals. In the field of culture, the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, ratified by the EC, is a major element of the *acquis*.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 27: Environment

EU environment and climate change policies aim to promote sustainable development, shift to a low carbon and resource efficient economy and protection of the environment for present and future generations. Key principles are preventive action, the polluter pays principle, fighting environmental damage at source, shared responsibility and the integration of environmental and climate considerations into other EU policies. The *acquis* comprises over 200 legal acts covering horizontal legislation (including climate change), water and air quality, waste management, nature protection, industrial pollution control and risk management, chemicals, noise and civil protection. Compliance with the *acquis* requires significant investment. A strong and well-equipped administration at national and local level is imperative for the application and enforcement of the *acquis*.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below. They are accompanied by a clear plan for the implementation of the *acquis*.

The potential transboundary impact of the transitional arrangements is limited. They do not lead to significant distortions of competition. The transitional arrangements include detailed legally binding intermediate targets. This ensures a controlled implementation during the entire transition period. The targets will be recorded in the Accession Treaty. The scope of transitional arrangements is, wherever possible, specified through lists of individual installations. The transitional arrangements are backed up by detailed financing strategies.

Horizontal legislation / climate change

- Croatia will join the EU Emission Trading System (EU ETS) not before 1 January 2013, when the third trading period of the EU ETS starts.
- Croatia will join the EU ETS for aviation activities as of 1 January 2014.
- Linked to the above, Croatia will join the standardised and secured system of registries foreseen under the EU ETS on these dates.
- Croatia will have a percentage of 26% added to the annex of the EU ETS Directive, being the increase in the percentage of allowances to be auctioned for the purpose of Community solidarity and growth in order to reduce emissions and adapt to the effect of climate change. These calculations are based on the provision that the community-wide quantity of allowances as a result of the accession of Croatia will only be increased by the quantity of allowances that Croatia shall auction.

Air Quality

- Croatia needs to set an exposure reduction target and an average exposure indicator for the air pollutant PM 2,5. The reference year is the second year after the end of the year of Croatia's accession. The average exposure indicator for that reference year shall be the average concentration of the year of accession and the first and the second year after accession. The exposure reduction target shall then be calculated in relation to the average exposure indicator in that reference year.

Waste Management

- One transitional period has been granted until 1 January 2019 for Croatia to bring its landfills for waste in compliance with the *acquis* requirements.
- A second derogation was granted until 1 January 2021, with intermediate deadlines of 1 January 2014 and 2017 in order to reduce the amount of biodegradable waste going into landfills.

Water Quality

- Croatia has a transitional period until 1 January 2024, with intermediate deadlines with intermediate targets of 1 January 2019 and 1 January 2021, to bring its treatment systems in line with the *acquis* requirements as regards urban waste water.
- A second derogation until 1 January 2019 was granted during which Croatia will have to reach certain parameters for drinking water.

Industrial Pollution and Risk Management

- For integrated pollution prevention and control (IPPC), where installations have to reduce their emissions of pollutants: the latest date to bring about compliance, with intermediate deadlines, is 1 January 2018. A total of 67 installations is concerned.
- Eleven large combustion plants have been granted a derogation to reduce their emissions until 1 January 2018.
- Emissions of volatile organic compounds need to be reduced for a specified list of installations until 1 January 2016, with several intermediate deadlines. Also, the obligation for the operator to demonstrate that the best available techniques are being used shall for coating processes in shipbuilding with regard to certain installations in Croatia apply only as from 1 January 2016.

The lists of installations for which these derogations hold are put into the treaty.

Chemicals

- For the regulation on registration, evaluation, authorisation and restriction of chemicals (REACH), Croatia will have a maximum of six months upon accession to adapt to the registration obligation for non phase-in substances and to the deadlines for pre-registration of phase-in substances, 12 months upon accession for the registration of pre-registered phase-in substances and at least 6 months upon accession for sending applications for authorisations of substances on the authorisation list.

Chapter 28: Consumer and health protection

The chapter covers the interests of EU citizens as regards consumer policy, notably safety and economic interests, and public health. The *acquis* in the area of **consumer protection** includes: rules for the governing of consumer protection, including injunctions and access to justice; aspects related to the consumer's general product safety, such as dangerous imitations, liability for defective products and the Union's Rapid Alert System (RAPEX).

The *acquis* in the area of **public health** covers tobacco control, blood, tissues, cells and organs, patients' rights in cross-border healthcare, communicable diseases, as well as topics such as cancer screenings, mental health, etc. The implementation and enforcement of consumer and health protection policies require adequate administrative capacities and infrastructure at national, regional and local level. As regards consumer protection, this refers to effective market surveillance and appropriate independent judicial and out-of-court dispute resolution mechanisms, as well as informing and educating the consumer and ensuring a role for consumer associations.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 29: Customs union

The customs union *acquis* consists almost exclusively of legislation which is directly binding on the Member States. It includes the EU Customs Code and its implementing provisions, the combined nomenclature, common customs tariff and provisions on tariff classification, customs duty relief, duty suspensions and certain tariff quotas, and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors, export of cultural goods as well as on mutual administrative assistance in customs matters and transit. Member States must ensure that the necessary implementing and enforcement capacities, including links to the relevant EU computerised customs systems, are in place. The customs services must also ensure adequate capacities to implement and enforce special rules laid down in related areas of the *acquis* such as external trade.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below to ensure smooth application of Customs rules after Croatia's accession.

- provisions ensuring continued validity after accession of proof of origin issued before accession in the framework of preferential agreements concluded by Croatia with third countries. Such a measure is necessary in order to respect the legitimate expectations of operators;
- provisions applicable upon discharge of certain economic regimes (customs warehousing, inward processing, outward processing, processing under customs control and temporary importation).
- provisions concerning remission, recovery and repayment of duties. Such provisions are necessary for the proper management of the resources.

Chapter 30: External relations

The *acquis* in this field consists mainly of directly binding EU legislation which does not require transposition into national law. This EU legislation results from the EU's multilateral and bilateral commercial commitments, as well as from a number of autonomous preferential trade measures. In the area of humanitarian aid and development policy, Member States need to comply with EU legislation and international commitments and ensure the capacity to participate in the EU's development and humanitarian policies. Applicant countries are required to progressively align its policies towards third countries and its positions within international organisations with the policies and positions adopted by the Union and its Member States.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 31: Foreign, security and defence policy

The foreign, security and defence policy is based on legal acts, including legally binding international agreements, and on political documents. The *acquis* consists of political declarations, actions and agreements. Member States must be able to conduct political dialogue in the framework of CFSP, to align with EU statements, to take part in EU actions and to apply agreed restrictive measures. Applicant countries are required to progressively align with EU statements, and to apply restrictive measures when and where required.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Chapter 32: Financial control

The *acquis* under this chapter relates to the adoption and implementation of legal and institutional measures based on of internationally agreed and EU compliant principles, standards and methods of public internal financial control (PIFC) that should apply to the internal control systems of the entire public sector, in particular as regards national income and spending. Moreover, it relates to the *acquis* in the field of the protection of EU financial interests and the protection of the Euro against counterfeiting.

More particularly, the *acquis* requires the existence of efficient, effective and transparent financial management and control systems and; functionally independent internal audit; the relevant organisational structures; a constitutionally anchored operationally and financially independent external audit organisation to assess, amongst others, the economy, efficiency, effectiveness and quality of the PIFC system. This chapter also includes the *acquis* on the protection of EU financial interests and the fight against fraud involving EU funds as well as cooperation in the protection of the Euro against counterfeiting.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession at the latest.

Chapter 33: Financial and budgetary provisions

This chapter covers the rules on the financial resources necessary for funding the EU budget ('own resources'). These resources are made up mainly from contributions from Member States based on traditional own resources from customs duties and sugar levies; a resource based on value-added tax; and a resource based on the level of gross national income.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession.

Financial package for Croatia

This chapter also covers the financial allocations for Croatia as a Member State. The amounts and arrangements agreed are set out below. Croatia will also participate in the EU's other actions and programmes (internal policies) as from its accession. As there exist no pre-allocated envelopes by Member State for this other expenditure, specific amounts for Croatia are not fixed and are therefore not included in the Accession Treaty.

Structural measures

For structural measures, the following amounts in commitments were agreed for 2013 (accession 1 July 2013):

<i>€ millions, current prices</i>	2013
Structural Funds	299.6
Cohesion Fund	149.8
European Fisheries Fund	8.7

As there is not yet a financial framework in place for the EU beyond 2013, no specific amounts for the above structural measures from 2014 were agreed. However, it has been agreed that Croatia will be subject to a continued phasing-in of these structural measures in 2014 and 2015. Accordingly, Croatia will receive funding at a rate of 70% in 2014 and 90% in 2015 of 'normal' funding in those years, with an adjustment to be made to ensure, insofar as the limits of the new *acquis* allow, an increase of funds for Croatia in 2014 of 2.33 times the 2013 allocation, and in 2015 of 3 times the 2013 allocation.

Agricultural / rural development

As regards agriculture and rural development funding it was agreed that there would be

- a) no post-accession rural development funding in 2013,
- b) full access to rural development funding from 2014, i.e. with no phasing-in,
- c) a full, 1-year allocation of IPARD pre-accession funding available to Croatia in 2013 (€27.7 million), and
- d) access to the full amount of 25% of direct payments in 2013.

Temporary financial instruments

The package also includes three temporary financial instruments in favour of Croatia in 2013 and 2014: a "Schengen facility", a "Transition facility" and a "Cash-flow facility". The following amounts were agreed:

<i>€ millions, current prices</i>	2013	2014
Schengen facility	40	80
Transition facility	29	
Cash-flow facility	75	28.6

Chapter 34 - Institutions

This chapter covers the institutional and procedural rules of the EU. When a country joins the EU, adaptations need to be made to these rules to ensure this country's equal representation in EU institutions (European Parliament, Council, Commission, Court of Justice) and other bodies and the good functioning of decision-making procedures (such as voting rights, official languages and other procedural rules) as well as elections to the European Parliament. EU rules in this chapter do not affect the internal organisation of a Member State, but acceding countries need to ensure that they are able to participate fully in EU decision-making by setting up the necessary bodies and mechanisms at home and by electing or appointing well-prepared representatives to the EU institutions. After concluding the accession negotiations, specific rules for the interim period until accession ensure a smooth integration of the country into EU structures: an information and consultation procedure is put in place and, once the Accession Treaty is signed, the acceding country is granted active observer status in the European Parliament and Council as well as in Commission committees.

Croatia will take over and implement the *acquis* under this chapter as from the date of accession, subject to the specific arrangements set out below. Transitional arrangements agreed are limited in time and scope.

Parliament

For the remainder of the 2009-2014 parliamentary term, Croatia will be allocated 12 seats in the European Parliament. As from 2014, the composition of the 751 seats of Members of Parliament will be determined on the initiative of the European Parliament and with its consent by a decision of the European Council (Article 14(2) TEU).

Council

Until 31 October 2014/31 March 2017, the qualified majority is calculated in accordance with the regime laid down in Article 3(3) of Protocol n. 36 on transitional provisions, as amended by Article 20 of the Act of Accession of Croatia. The weighting of votes for Croatia will be set at 7. The qualified majority threshold is fixed at 260 votes out of 352, whereas the blocking minority requires 91 votes. Furthermore, a Member State may request the verification whether these 260 votes represent at least 62% of the total population of the Union.

Commission

A national of Croatia will be appointed to the Commission as from the date of accession.

Economic and Social Council and the Committee of the Regions

Until the entry into force of the decisions of the Council on the new composition of the two advisory committees (Articles 301 and 305 TFEU), Croatia will be granted 9 members in each committee.

Other issues

The number of judges of the Court of Justice and the General Court will be increased by 1 to 28. As regards other institutions, organs, bodies, committees and agencies established by the Treaties or secondary law, Croatia will be adequately represented in accordance with the existing rules. The 22 official languages of the EU will be supplemented by the Croatian language. In this context, due attention should be paid to the training of suitably qualified conference interpreters and translators.

Chapter 35 – Other issue

This chapter includes miscellaneous issues which come up during the negotiations but which are not covered under any other negotiating chapter. Chapter 35 is dealt with at the end of the negotiating process.

European Development Fund

Croatia will accede to the EDF as of the entry into force of the new Multiannual Financial Framework of Cooperation following its accession to the Union and will contribute to it as from the 1 January of the second calendar year following the date of its accession.

Research Fund for Coal and Steel (RFCS)

Croatia will participate fully in the RFCS from the day of accession. It will pay its contribution to the RFCS calculated according to the same methodology followed for the 12 new Member States. Payments will be made in four annual instalments starting in 2015.

Arrangements for the Interim Period

Arrangements are specified for the period between the conclusion of the accession negotiations) and the date of accession. The main elements of these arrangements in the form of an exchange of letters between the European Union and Croatia are an 'information and consultation procedure' and an 'active observer status' during the period between the signature of the Accession Treaty and accession.

Implementation and management of pre-accession funds in Croatia

Provisions in the Accession Treaty establish the rules for the implementation, after accession, of the pre-accession funds under the Instrument of Pre-accession Assistance.

European Investment Bank

Provisions on the amendments to the Statute of the European Investment Bank will be included in the Accession Treaty covering the addition of Croatia to the list of members of the Bank, arrangements for an increase to the capital and reserves (including an agreed transitional measure with contributions from Croatia to be paid in 8 instalments) and provisions with regard to its representation on the Board of Directors.

Arrangements with regard to goods transiting the Neum corridor

The Accession Treaty will provide for a special regime to be established that allows partial waiving of entry/exit summary declarations for goods crossing the Neum corridor. The Council, acting on the basis of a proposal from the European Commission, will define before the accession of Croatia the terms of the special regime.

Safeguard clauses

The Accession Treaty will feature three safeguard clauses: a general economic safeguard clause, a specific internal market safeguard clause and a specific JHA safeguard clause. The general economic safeguard clause covers any sector of the economy or economic situation of a given area, both in current Member States and Croatia. The internal market safeguard clause covers all sectoral policies involving economic activities with cross border effects and can also be invoked in case of threats to the financial interests of the EU. The JHA safeguard clause covers mutual recognition in the area of criminal law and civil matters. Both the internal market and the JHA safeguard clause may be applied vis-à-vis Croatia only. Safeguard measures may be taken under these three clauses until the end of a period of three years after accession, but they may remain in force beyond this period. However, any safeguard measure shall be maintained no longer than is strictly necessary and must be proportional in scope and duration.

Monitoring

It was agreed that the Commission shall closely monitor all commitments undertaken by Croatia in the accession negotiations, including those which must be achieved before or by the date of accession. The Commission's monitoring shall focus in particular on commitments undertaken by Croatia in the area of the judiciary and fundamental rights, including the continued development of track records on judicial reform and efficiency, impartial handling of war crimes cases, and the fight against corruption. In addition, the Commission's monitoring shall focus on the area of justice, freedom and security, including the implementation and enforcement of Union requirements with respect to external border management, police cooperation, the fight against organised crime, and judicial cooperation in civil and criminal matters, as well as on commitments in the area of competition policy

including the restructuring of the shipbuilding industry and the restructuring of the steel sector.

The Commission shall issue six-monthly assessments up to the accession of Croatia on the commitments undertaken by Croatia in these areas as an integral part of its regular monitoring tables and reports. The Council, acting by qualified majority on a proposal from the Commission, may take all appropriate measures if issues of concern are identified during the monitoring process. The measures shall be maintained no longer than strictly necessary and, in any case, shall be lifted by the Council, acting in accordance with the same procedure, when the relevant issues of concern have been effectively addressed.

Arrangements on a possible one-off transfer of Assigned Amount Units under the Kyoto Protocol to Croatia

All signature countries of the Kyoto protocol have been allocated an Assigned Amount Unit, which is a sort of carbon credit representing the allowed amount of greenhouses gases a country is permitted to emit per year. The EU has agreed to give Croatia extra carbon credits under the provision that Croatia drops its complaint against the decision of the Compliance Committee under the Kyoto Protocol. (Croatia stated in September 2011 its intent to announce the drop of the complaint at the COP 17 meeting in Durban in December 2011).
