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Croatia: accession negotiations with the EU overshadowed by parliamentary elections

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In 2011 Croatia entered the final stage of its accession negotiations with the EU. The completion of these negotiations will probably coincide with the parliamentary elections which should be held in November or December this year. The elections are likely to bring about a change of government, as public support for Jadranka Kosor's cabinet and her party, the Croatian Democratic Union (HDZ) has been declining; the left-wing opposition is likely to take power. Therefore, the government's main goal is to complete the accession negotiations in the first half of the year, in order to sign the accession treaty and hold the EU membership referendum before the parliamentary elections. The HDZ believes that only the successful completion of the accession negotiations could increase its chances of a good result in the upcoming elections. At the same time, fearing a further fall in support, the government will avoid any decisions and reforms that would be controversial for the public, especially in the sphere of the economy; such decisions could also increase Euroscepticism among the Croatian public, and result in the rejection of EU accession in the referendum. The government in Zagreb hopes that the currently implemented anti-corruption strategy and reform of the judiciary, as well as the advanced process of adaptation to EU conditions, will be enough to complete the negotiations. This strategy has a serious chance of success, considering that there is considerable support for Croatia's membership among the EU countries and institutions. Another reason is that further prolongation of the negotiations could aggravate hostility towards the EU among the Croatian public, and would be a bad sign for other Balkan states with membership aspirations. However, subordinating Croatian policies to the completion of negotiations in the first half of the year could prove to be adverse for Croatia itself in the longer term, as it would put off the necessary structural reforms.

Internal factors

Jadranka Kosor's cabinet enjoys modest public support (about 24.1%¹) because of the persistently bad economic situation and serious corruption allegations against members of the HDZ, the ruling coalition's main party. Moreover, the government is weakened by internal conflicts within the HDZ. Due to its weak position, the government has limited capacity to

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¹ <http://www.tportal.hr/vijesti/hrvatska/94833/Kosoricina-vlada-nepopularnija-od-Sanaderove.html>

implement radical reforms; moreover, the opposition is seeking to undermine the democratic legitimacy of the cabinet and to hold early elections.

The main factor undermining support for Kosor's cabinet is the bad economic situation and Croatia's slow recovery from recession. So far, the government has pursued a conservative policy and avoided taking radical economic reforms in the face of the global economic crisis. The cabinet assumed that the situation on global markets would get better soon, which was supposed to return Croatia to the path of economic growth. This strategy has proved to be ineffective. On the contrary, Croatia is currently one of the region's few countries which has noted a renewed decline in GDP in 2010 (it fell by 5.8% in 2009, and 1.5% in 2010). This has also triggered a significant rise in unemployment, from 9.7% in 2009 to 18.2% in December 2010.

Neither has the Croatian government taken any steps to consolidate public finance, such as reducing the extremely high expenditure on the extensive state sector, or introducing reforms to the health care and welfare benefits system. To decrease the budget deficit, the government has confined itself to increasing VAT and introducing the so-called crisis tax on personal income (under public pressure it soon withdrew from the latter decision). This did not significantly improve the budget balance, and was followed by Standard and Poor lowering Croatia's credit rating to BBB- level in December 2010. Other problems that make it more

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difficult to overcome the economic crisis are the unfavourable investment climate, numerous barriers to doing business, and sizeable para-fiscal charges for entrepreneurs. These factors have accelerated the decline in foreign investments during the crisis², and are currently discouraging new investors.

The government's position is also affected

by the anti-corruption campaign initiated in 2009 under pressure from the EU, which resulted in the arrests of many HDZ members in late 2010, including Ivo Sanader, the long-standing chairman of the party and Prime Minister in 2003-2009, the ministers of economy and defence in his government, and the party's treasurer. Also, arrests were made among people linked to the party who had sat on supervisory boards and the boards of directors of major state-owned companies. This has shaken public support for the government, which is widely regarded as corrupt³.

The numerous arrests are supposed to demonstrate that the government is fighting corruption at the highest level. It cannot be ruled out that the ongoing investigation and testimony by the former Prime Minister will result in extending the circle of suspects to other members of the government. These actions may even shake the position of Prime Minister Kosor, who was a close associate of Sanader and a minister in his cabinet for years. On the other hand, there are suppositions that the campaign carried out by Prime Minister Kosor is an instrument of political struggle, aimed at eliminating people associated with the former PM from the HDZ and the government, and as a result, at strengthening her control over the party. Apart from a few cases, the spectacular arrests have not led to specific people being charged. Moreover, no investigations have been initiated against certain other members of the government whom the media accuse of corruption. This gives rise to doubts whether the government is determined enough to break the ties of corruption, or whether it is only simulating such activity in order to eliminate its political adversaries, while at the same convincing the EU that Croatia is making active efforts to fight corruption.

² In 2009, the value of foreign direct investments fell by 55.2% compared to 2008, and totalled €1.87 billion; <http://daily.tportal.hr/63031/FDI-in-Croatia-reduced-by-55-2-to-EUR-1-87-billion-in-2009.html>

³ According to the Gallup Balkan Monitor survey conducted in June/July 2010, 89% of respondents consider the government to be corrupt. Gallup Balkan Monitor. 'Insights and Perceptions: Voices of the Balkans'; www.balkan-monitor.eu

The government's failures and mistakes are being efficiently exploited and publicised by the opposition, who themselves are being supported by President Ivo Josipović, the most popular politician in Croatia. For over a year, the opposition parties have demanded the resignation of the government and early elections. So far these demands have been merely a political game, as taking power would oblige them to confront the bad economic situation and the problems in the accession negotiations. However, if – as the government expects – the recovery of the global economy improves the economic situation in Croatia and the accession negotiations head for rapid completion, the opposition will make intensive efforts to remove the government and hold early elections. The coalition of left-wing parties, led by Zoran Milanović, currently includes the Social Democratic Party, the Istrian Democratic Assembly, the Croatian People's Party, and the Croatian Party of Pensioners. At the moment it enjoys the support of 43.7% of voters, while support for the ruling coalition is currently standing at 27.8%. However, the left-wing coalition is afraid that the ruling party may take advantage of the successful completion of the negotiations and the improvement of

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the economic situation. They would thus prefer the government to collapse before its term is out. It can be expected that the opposition will publicise all the government's failures and the corruption allegations against its members.

Considering the escalating criticism of the government and its falling popular support, Prime Minister Kosor decided to reshuffle her government in December 2010. The ministers of finance and construction were dismissed and a Ministry for Invest-

ments was created. These decisions were supposed to improve the government's image, while the nomination of professionals respected in the business community to ministerial posts associated with the economy was intended to demonstrate that the government is determined to overcome the consequences of the crisis. However, these actions have not yielded the expected results, and the cabinet's economic policy is still receiving criticism from the public.

No radical change in the government's economic policy should be expected in the pre-election period. Measures to reduce spending have met with resistance from the general public, as they require a reduction in employment in the state sector and cuts to social benefits. These moves may spark off strikes and protests by influential trade unions and war veterans' associations. The tense situation in public finance also calls the reforms demanded by the EU into question, as they require substantial financial outlays at the initial stage. After Croatia's financial ratings were lowered, the cost of servicing the country's foreign debt rose significantly, which poses a threat to budget stability in the coming months (in March 2011 Croatia has to refinance bonds worth €750 million). Continuing the current economic policy may undermine Croatia's competitiveness in the long run, and significantly impede its return to the path of economic growth.

Holding early elections at this time could prove to be more advantageous for Croatia in the long run. A new government with strong electoral legitimacy would be much more determined to implement reforms. This would allow for a more dynamic modernisation and transformation of the economy and state institutions, and ultimately, better preparation for EU membership.

The uncertain outcome of the membership referendum

While implementing reforms, the government must also consider the extent of public support for the accession, and the high level of Euroscepticism among its citizens. Even though all important political groups and elites favour Croatia's membership in the EU, public opinion polls show that a considerable part of society has long been opposed to their country's membership in the EU⁴. According to a survey conducted in February 2011, less than half of the Croatian public favour EU membership (49.4%, a drop of 3.7% since June 2010), while 40.3% of respondents opposed membership⁵. The outcome of the membership referendum that should be held within 30 days of signing the Accession Treaty is thus far from certain⁶. The government hopes that a widespread information campaign promoting EU membership will increase public support for accession; the government will also avoid implementing controversial reforms that could reduce this support further.

The main reasons for such low public support for EU membership are the negative assessment of the conditions offered, and scepticism about the potential benefits that accession to the EU would bring Croatia. Public opinion there feels that the criteria their state has to meet before becoming a member do not take their particular social and economic conditions into account. One of the problems is the obligation to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY), which forces the state to submit for trial people who are regarded as national heroes by a large part of Croatian society. Most

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Croatians consider their nation to be a victim of the war, and therefore believe that their compatriots should not be held criminally liable for actions that resulted from an absolute necessity, namely the need to defend the country. Also, due to extensive state aid for the industry and agriculture in Croatia, access to European Union funds is not – according to public opinion – likely

to compensate for the profits and privileges lost in such sectors as agriculture, the shipbuilding and steel industries. The necessity to adapt to the EU's competition principles may trigger the collapse of entire sectors of the country's economy. Distrust of the EU also results from Croatia's long-standing dispute with Slovenia: the latter had blocked the former's accession negotiations, and thus forced Croatia to sign an arbitration agreement that resolved a border dispute between the two countries. The previous governments led by Ivo Sanader and Ivica Račan are also responsible for the public attitude towards the EU: while implementing the reforms that caused public protest, these governments justified themselves with the obligation to adapt Croatian legislation to EU standards.

The high level of Euroscepticism also stems from social distrust of the national political elite and successive governments⁷ who have been unable to handle the accumulating social problems. Reluctance to join the EU can be interpreted as a vote of no confidence in the political elites who support integration regardless of its social consequences. The referendum is scheduled to take place before the elections, so it cannot be ruled out that the public will use it to manifest its objections to the ruling party.

⁴ According to the survey conducted in spring 2010, only 38% of the public thought that EU membership would be beneficial for Croatia, and 45% thought otherwise. Only 26% of respondents favoured membership in the EU, while 31% were against the idea. Data provided by Eurobarometer, spring 2010.

⁵ Niti polovica hrvatskih građana/ki nije sigurna želi li ulazak u EU, http://www.promocija-plus.com/javno_mnijenje/index_javno_mnijenje.htm

⁶ The result of the referendum is binding, regardless of turnout. The constitution of the Republic of Croatia, article 86.

⁷ Support for the accession to the EU has little to do with people's political and partisan preferences. The levels of support among the electorate of two major parties – the HDZ and the SDP – are similar, at 63% and 57.5% respectively. Niti polovica hrvatskih građana/ki nije sigurna želi li ulazak u EU, *op.cit.*

Preparations for the accession and negotiations

After Jadranka Kosor took office as Prime Minister in July 2009, the accession negotiations accelerated significantly. Thanks to Kosor, an agreement was signed with Slovenia, which had been blocking progress in the accession negotiations for over a year because of a border dispute. At the same time, the government has initiated reform of the judiciary, intensified the fight against corruption, and prepared the plan for a restructuring of the shipbuilding industry.

For the moment, Croatia has provisionally closed 28 out of the 35 negotiation chapters. However, the remaining 7 chapters include the areas which are most problematic for Zagreb, such as fisheries, agriculture, the judiciary and fundamental rights, and the competition policy.

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According to the report published by the European Commission in November 2010 assessing the state of Croatia's preparations for EU membership (legal status as of September 2010), significant progress was noted in all areas, but it was yet considered insufficient for completing the accession negotiations.

In the area of the judiciary and fundamental rights, legal solutions were adopted to strengthen the independence of judges

and improve their qualifications. However, it is hard to predict whether and how the new regulations will be implemented in practice. Even though the effectiveness of the judiciary has been improved, trials still tend to be protracted. There has been improvement in the area of human rights, although problems remain when it comes to respecting the rights of national and ethnic minorities. Great importance is also attached to the effectiveness of the government's fight against corruption and organised crime.

Other issues important for concluding the negotiations in this chapter include the following matters: Croatia's resolution of its war legacy, i.e. judging war crimes committed by Croatian nationals, respecting minority rights, and the return of refugees. For some EU member states (the Netherlands, Belgium, and Denmark) the report by Serge Brammertz, the prosecutor of the International Criminal Tribunal for the former Yugoslavia (ICTY), due to be published in mid-June 2011, will be of critical importance. So far, Croatia's cooperation with the Tribunal has been regarded as unsatisfactory, as Croatia has failed to provide documents for the trial of several Croatian army generals. On the other hand, the fact that the trial has been concluded is to Zagreb's advantage. As the accession negotiations come to an end, as does the activity of the Tribunal, some NGOs have tried to expose the lack of political will to account in national courts for the war crimes committed by Croatians⁸. Organisations such as Amnesty International and Human Rights Watch have tried to put pressure on EU member states and institutions, so that these issues are considered while assessing Croatia's readiness for accession. If their efforts are successful, the completion of the negotiations may be delayed.

In the area of competition policy, the government's main task is to restructure the shipbuilding and steel industries, which are sustained thanks to substantial state aid. Shipyards provide a large number of jobs (there are around 12,000 shipyards employees, and a further 35,000 are employed in affiliated enterprises), and account for 15% of Croatia's exports. Several unsuccessful attempts have been made to privatise the shipyards. Since unemployment has already increased significantly, the Croatian government will avoid making any decisions that would lead to mass redundancies in this sector. To this end, Zagreb has

⁸ Por. Croatia: Behind a wall of silence: Prosecution of war crimes in Croatia, http://www.amnesty.eu/content/assets/Doc2010/Croatia_BehindWallofSilence.pdf

presented the European Commission with a new plan for restructuring the shipyards which states that they should remain state-owned. The government has drawn attention to the economic crisis, and is hoping that the EU will relax its position on this issue, and allows state aid for the shipbuilding industry to be continued. In agriculture, Croatia has applied for a record number of exclusions and adjustment periods (29). The government is not ready to make any concessions in these negotiations, as farmers are the HDZ's traditional electorate, and are often unfavourably disposed towards the EU. A similar attitude can also be noted in the negotiations concerning the fishing industry.

The European Commission has also voiced its doubts concerning the quality of the Croatian state administration. This is a matter of great importance for the EU in the context of implementing and applying the EU legislation and meeting the membership requirements. The EU has highlighted overstaffing, incompetence, and the overly complex and fragmented structure of central and local government. A fundamental reform of this system would produce serious public resistance in regional centres, and would require layoffs. In a period of record unemployment levels in Croatia, the government will probably avoid this kind of decision.

The EU policy

The attitude of the EU member states will be crucial in completing the accession negotiations. Despite growing 'enlargement fatigue', Croatian accession seems to be a foregone conclusion⁹. The decision to complete the accession negotiations in the first half of this year is supported by Hungary (which holds the presidency in the EU Council) and most of the member states (including Germany, Italy and Austria). The EU institutions, including the

European Parliament¹⁰, are also working to complete these talks.

Bearing in mind the negative experience with Bulgaria and Romania, the member states are paying special attention to the effective fight against corruption and the independence of the judiciary. Paradoxically, the arrests of former government of-

⁹ Even Germany, which is sceptical about further EU enlargement, does not question Croatia's prompt accession to the EU.

¹⁰ <http://www.europarl.europa.eu/pl/pressroom/content/20110124IPR12358/html/Croatia-EU-enlargement-front-runner>

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officials (including the spectacular detention of Ivo Sanader), which were supposed to prove the cabinet's will to combat corruption at the highest level, have actually marred Croatia's reputation on the international stage and within the EU. One sign of this was the numerous amendments proposed to the resolution concerning Croatia which have been prepared by the European Parliament, most of them concerning the fight against corruption (it was emphasised that corruption is widespread in Croatia, and deeply affects its system of government). The consolidation of this image may impede Croatia's accession process.

The completion of negotiations may be delayed if the EU chooses to wait for the Croatian governments' efforts to bring about tangible results. However, it is not the only option, as the member states will still be able to influence Croatia's domestic situation even after completing the negotiations, by making the ratification of the accession treaty dependent on solving this country's crucial problems. Moreover, about two years will elapse from the completion of negotiations to full accession, a period which can be used for full adjustment to the EU requirements. The EU has also developed a Cooperation and Verification Mechanism under which Romania and Bulgaria were placed. If the member states have some reservations, this mechanism could also be applied to Croatia.

Another issue that may affect the negotiation process is that of appending amendments to the Lisbon Treaty to the accession treaty. If there is a chance that these amendments will be negotiated and adopted by autumn 2011, the EU states are likely to step up the

accession negotiations and sign the treaty with Croatia. An important argument for the government in Zagreb is the weak public support for EU membership. If socially sensitive reforms are implemented, this support could decrease even further, and result in the rejection of EU membership in the referendum. This would adversely affect the EU's image, and would have a negative impact on the effectiveness of EU policy towards the Balkan states which are closely watching the process of Croatia's accession to the EU. These countries are already weary of the ongoing reform process, which has not brought any tangible results and has not brought the prospect of membership significantly closer. If Croatia rejected EU membership in a referendum, this would reinforce the remaining Balkan states' concerns that the accession process requires such a great effort of reform that it is ultimately not worth it. A similar effect could be produced by further delays in negotiations with Croatia.

Prospects

For Prime Minister Jadranka Kosor, her government and the HDZ party, the completion of accession negotiations in the first half of the year is the last chance to improve their poll ratings and prevent defeat in the parliamentary elections. PM Kosor will focus on implementing the judiciary reform and stepping up the anti-corruption campaign. However, in other problematic areas (the shipbuilding and steel industries, agriculture, fisheries, state administration) the government is counting on the EU's flexibility, which would allow Croatia to successfully complete the negotiations. If they are not completed under Hungary's presidency, their completion in the second half of the year may be much more difficult, due to the EU's own internal schedule (negotiations on a new financial perspective are to be launched), and the upcoming parliamentary elections in Croatia itself. Moreover, the two states who will hold the presidency in the EU Council in 2012, Denmark and Cyprus, are sceptical of Croatia's membership in the EU, and towards the policy of enlargement in general. This could cause a significant delay of the accession negotiations, and postpone Croatia's membership.

Since decisions concerning the accession of new states are taken unanimously, it cannot be ruled out that some member states will decide to block the completion of accession talks for individual reasons. However, if the internal situation in Croatia remains unchanged, the completion of accession negotiations in the first half of the year seems very likely.



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