

## IKV BRIEF

### A HAPPY END TO CROATIA'S EUROPEAN ODYSSEY

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EU.

As the clocks struck 00.00 and the calendars showed 1 July 2013, Croatia's long and arduous journey towards the European Union (EU) came to an end, when it officially became the 28<sup>th</sup> member state of the EU. After Slovenia, Croatia is the second among the successor states of former Yugoslavia and the first Western Balkan country to join the

Croatia's membership is a cause for celebration as it marks the end of an era in the country's recent history. However, EU policy-makers' increasing preoccupation with overcoming the effects of the prolonged Eurozone crisis, coupled with the worrying state of the Croatia's finances is a major cause for concern. The current article will provide a historical perspective of Croatia's path to the EU, and analyze the significance of Croatia's accession not only for the country itself, but also for the Western Balkans and the EU overall. It will argue that Croatia's membership is significant not only because it proves that enlargement policy works, but also because of the strong message it sends to the other countries in the region. The third section will elaborate on the immediate challenges Croatia will need to address to utilize on its membership. Finally, it will attempt to contribute to the ongoing debate about the future of EU enlargement.

### ***Croatia's path to the EU***

Croatia, which declared its independence in 1991 and fought a bloody war two decades ago, has undergone a dramatic transformation to qualify for joining the 27-member bloc. This transformation has included handing over once-celebrated national heroes to the International Tribunal for the former Yugoslavia (ICTY) in the Hague; reconciling with its neighbors; overcoming an entrenched culture of corruption; and addressing some bilateral disputes left unresolved since the disintegration of Yugoslavia.

Croatia and EU formally established contractual relations with the signing of the Stabilization and Association Agreement (SAA) in October 2001. The SAA required Croatia to undergo vast political, economic, and human rights reforms in order to be granted EU candidate status and to enjoy better access to the EU market.

In February 2003, Croatia officially submitted its application for membership to the EU. In its April 2004 opinion (*avis*) concerning Croatia's membership application, the

Commission confirmed that Croatia was a functioning democracy, with stable institutions guaranteeing the rule of law and no fundamental problems regarding the respect for fundamental rights, and therefore recommended launching accession negotiations with Croatia. However, the Commission underscored that Croatia needed to make additional efforts in the fields of minority rights; return of refugees; judicial reform; regional co-operation and the fight against corruption. Additionally, the Commission highlighted that Croatia needed to maintain full cooperation with the ICTY<sup>1</sup>. Croatia's EU integration process was seriously hampered by the Croatian government's lack of cooperation with the ICTY namely Zagreb's failure to hand over General Ante Gotovina who was accused of the crimes committed against ethnic Serbs in the region of Krajina in the scope of the so-called Operation Storm.

In June 2004, the European Council officially confirmed Croatia's status as a candidate country. In December 2004, the Council mandated that the Commission prepare negotiating directives with a view to launching accession talks with Croatia on 17 March 2005. The Council underscored that the opening of accession talks with Croatia was conditional upon Zagreb's demonstration of full cooperation with the ICTY.

Zagreb's hopes to start accession talks on 17 March 2005 were shattered when the EU leaders decided to delay the launch of accession talks due to Croatia's insufficient cooperation with the ICTY. Finally, on October of that year, Zagreb was given a green light to start accession talks based on a favorable opinion on its cooperation with the Hague tribunal by then ICTY Chief Prosecutor Carla Del Ponte. Croatia and Turkey started their accession negotiations simultaneously on 3 October 2005. Hague indictee General Gotovina's capture in the Spanish Canary Islands in December 2005, removed an impediment from Croatia's path towards the EU. Additionally in 2005, the SAA entered into force. Ironically, General Gotovina, whose indictment has caused ruptures in Croatia's EU integration process, was acquitted in November 2012.<sup>2</sup>

Croatia's negotiations with the EU were carried out on the 35 chapters of EU legislation widely known as the *acquis communautaire*. Croatia's accession talks entered an impasse in December 2008, when Slovenia unilaterally blocked the opening of nine negotiation chapters and the closing of two chapters due to the disagreement over the demarcation of the maritime border on the Bay of Piran. Under immense pressure from the EU, Zagreb and Ljubljana agreed to refer the issue to international arbitration after a ten-month stalemate, and thus paving the way for Slovenia to lift the veto on Croatia's accession talks. On 30 June 2011, Croatia completed negotiations on 35 chapters of the *acquis*. In October 2011, the Commission confirmed that Zagreb made significant progress in fulfilling the political criteria and should be ready to join the 27-member bloc in July 2013. In December 2011, the European Parliament gave Croatia's

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<sup>1</sup> "Croatia: Commission recommends opening of accession negotiations" 20.04.2004, EU press release, [http://europa.eu/rapid/press-release\\_IP-04-507\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-04-507_en.htm?locale=en). Accessed on 02.07.2013.

<sup>2</sup> "Hague war court acquits Croat Generals Gotovina and Markac", BBC New, 17.11.2012, <http://www.bbc.co.uk/news/world-europe-20352187>, accessed on 02.07.2013.

membership a green light and the Council confirmed Croatia's date for entry as 1 July 2013. On 9 December 2011, Croatian President Ivo Josipović and then Croatian Prime Minister Jadranka Kosor signed The Accession Treaty in Brussels.

Since signing of the Accession Treaty, Croatia's performance has been closely monitored by the EU through monitoring reports prepared by the Commission. In October 2012 the Commission outlined ten additional priority actions that Croatia needed to address in the areas of judiciary and fundamental rights; justice, freedom and security and competition policy. In March 2013, the Commission confirmed that Zagreb successfully addressed the priority actions and was ready to become a member of the EU as planned.

On 22 January 2012 Croats went to the polls and, despite historic low turnout of around 44%, gave green light to EU membership, with 66% voting in favor of EU membership<sup>3</sup>. The Accession Treaty was then ratified in the Croatian *Sabor* on 9 March 2012, with all 136 members of the parliament voting in favor of joining the EU.

Croatia encountered problems with Slovenia during the ratification process of its Accession Treaty. For an aspirant state to officially become a member of the EU, the Accession Treaty has to be ratified by all member states in accordance with their domestic procedures. Slovenia refused to ratify the Accession Treaty due to an unresolved bilateral dispute dating back to before the break-up of Yugoslavia. The dispute concerned the debt owed by the now-defunct *Ljubljanska Banka* to its Croat depositors.<sup>4</sup> Ultimately, Zagreb and Ljubljana reached a compromise on the issue; whereby Ljubljana agreed to initiate the procedure of ratification for Croatia's Accession Treaty in return for Zagreb suspending the lawsuits filed by Croatian banks with regards to the issue. The dispute was to be resolved through negotiations in the auspices of the Bank for International Settlements in Basel.<sup>5</sup> The Slovenian Parliament ratified Croatia's Accession Treaty on 2 April 2013, removing the ultimate obstacle on Croatia's membership to the EU. The ratification procedure of the Accession Treaty was finalized on 7 June 2013, as Germany's upper house of parliament *Bundesrat* put the formal seal of approval on Croatia's EU membership.<sup>6</sup> Ultimately, on 1 July 2013, Croatia officially became the 28<sup>th</sup> member state of the European Union.

### ***Significance of Croatia's EU membership***

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<sup>3</sup> "Croatia EU referendum: Voters back membership" BBC News, 22.01.2012, <http://www.bbc.co.uk/news/world-europe-16670298>. Accessed on 02.07.2013.

<sup>4</sup> "Slovenia puts €172mn price tag on Croatia's EU entry", Andrew Rettman, EU observer, 22.09.2012, <http://euobserver.com/enlargement/117629>. Accessed on 02.07.2013.

<sup>5</sup> "Croatia and Slovenia Reach Bank Deal", Balkan Insight, 07.03.2013, <http://www.balkaninsight.com/en/article/croatia-and-slovenia-reach-deal-on-ljubljanska-banka>. Accessed on 02.07.2013.

<sup>6</sup> "Bundesrat unanimously ratifies Croatia's EU accession treaty" dailyportal.hr, 07.06.2013, <http://daily.portal.hr/266691/Bundesrat-unanimously-ratifies-Croatia-s-EU-accession-treaty.html>. Accessed on 02.07.2013.

Croatia's accession is significant for various reasons. First and foremost, Croatia's EU membership is a milestone for Zagreb, marking the end of a dark chapter in the country's recent history and demonstrating how a country, which has experienced a war two decades ago, can transform itself to a stable democracy and fulfill the obligations of EU membership. Second, Croatia's membership has symbolic importance for the remaining Western Balkan states, implying that if the other aspiring EU members follow the footsteps of Croatia and implement the necessary reforms, they too will be rewarded with membership in the EU. Third, Croatia's membership is a success for EU's enlargement policy, proving once again that, despite the economic woes of the Eurozone and an ongoing narrative about "enlargement fatigue", the EU rightfully deserves the Nobel Peace Prize it was granted last December and continues to live up to its *raison d'être* of "promoting peace and reconciliation in Europe".

Croatia has been through a demanding accession process compared to the 2004 and 2007 entrants. In fact, lessons learned from the 2004 and 2007 enlargement waves most notably the unilateral accession of the Greek Cypriot Administration of Southern Cyprus (GCASC) prior to the resolution of the Cyprus dispute; and Bulgaria and Romania's premature membership were instrumental in redesigning the ground rules for Croatia. The EU's imbalanced use of conditionality resulting in the unilateral accession of the GCASC in 2004, prior to the resolution of the Cyprus dispute due to intense pressure from Athens and Paris, has perpetuated the division of the island of Cyprus. Furthermore, GCASC, has uploaded its policy preferences to the EU-level and instrumentalized its membership to derail Turkey's EU membership process. In that sense, GCASC's unilateral membership, a decision still regretted by many influential policy-makers, has increased the importance of resolution of bilateral disputes prior to accession. Therefore, the Commission has attributed considerable importance to the resolution of Croatia's disputes with its neighbors. Moreover, Bulgaria and Romania's accession, despite their poor record in the fight against corruption and organized crime, has put the performance of aspirant states in the fight against corruption and organized crime in the spotlight. Six years since they became EU members, both countries are still subject to post-accession monitoring. The EU has therefore, started attributing a great deal of importance to candidate states' performance regarding rule of law, the resolution of bilateral disputes, and the implementation of the reforms. These lessons learned have increased the pressure on Zagreb.

### ***Poor timing for accession***

Croatia's accession has been complicated by EU's economic woes and Croatia's poor economic performance. EU policy-makers' inability to cope with the effects of the Eurozone crisis effectively has raised questions about success of the European project and has caused the EU to be viewed as a crisis-ridden project. The timing of Croatia's accession is not ideal, as EU policy-makers are currently struggling to restore economic

growth in the Eurozone and address record-high youth unemployment rates across the EU.

Croatia's economy has felt the effects of the global financial crisis. The 4.4 million nation's economy has contracted nearly 12 percent since 2009 and is not expected to record positive growth until 2014.<sup>7</sup> Foreign direct investment has plummeted from 4.2 billion euro in 2008 to 624 million euro in 2012.<sup>8</sup> Corruption is endemic and red tape runs rampant. According to Eurostat figures, with a GDP per capita of around 61 percent of the EU average, Croatia is the third poorest country in the EU, after Bulgaria and Romania. The unemployment rate is hovering around 20 percent and youth unemployment reached 52.1 percent in the first quarter of 2013, the third highest in the EU, following Greece and Spain. Major international credit rating agencies have reduced Croatia's investment rating to "junk".<sup>9</sup> Against this gloomy background, the Croatian public is cautious to celebrate the country's membership to the EU. One thing is clear: Croatia's economic worries have now become the EU's, and EU membership does not offer a quick fix to the economy.

Furthermore, Croatia's membership in the EU does not imply the reform process is complete. Croatia will need to keep up the reform momentum in consolidating its economy, putting its banking sector in order, and curbing corruption in order to avoid relegation to the EU's periphery. Joining the Eurozone and the visa-free Schengen area are the major milestones Zagreb will aspire to reach in the near future.

### *Whither EU enlargement?*

There is an unofficial consensus among analysts that the pace of EU enlargement is likely to slow down after Croatia's accession. No accessions are foreseen in the immediate future, until at least 2020. It is true that the EU leaders' preoccupation to restore growth and find a panacea to Eurozone's economic woes has relegated further enlargement to the bottom of the EU's list of priorities. However, this does not imply that the EU will stop enlarging or delivering on the commitments it has already made; on the contrary, certain recent developments suggest that the enlargement process is "alive and kicking".

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<sup>7</sup> "Spring 2013 forecast: The EU economy – slowly recovering from a protracted recession" Delegation of the European Union to the Republic of Croatia, 06.05.2013, <http://www.delhrv.ec.europa.eu/?lang=en&content=4784>. Accessed on 02.07.2013.

<sup>8</sup> "Croatia's economy: Coming in" The Economist, 25.05.2013, <http://www.economist.com/news/europe/21578424-new-european-union-member-old-economic-worries-coming>. Accessed on 02.07.2013.

<sup>9</sup> "Moody's Cuts Croatia To Junk" Croatia Week, 01.02.2013, <http://www.croatiaweek.com/moodys-cuts-croatia-to-junk/>. Accessed on 02.07.2013.

Montenegro, which started accession talks with the EU in June 2012, has closed two chapters<sup>10</sup> in its accession negotiations. The screening of key chapters on judiciary and fundamental rights and justice, freedom and security is still in progress.

Serbia, once a Balkan pariah, has received a green light from the European Council to start accession negotiations by January 2014.<sup>11</sup> The decision follows the historic deal reached between Serbia and its breakaway region of Kosovo in the EU-facilitated dialogue over the highly contentious issue of North Kosovo, which paved the way for the normalization of relations between the two countries.

Kosovo, whose status remains contested due to non-recognition by five member states, has been given a starting date for negotiations towards a SAA, perceived as an initial step towards submitting a membership application.

The Commission, in its 2012-2013 Enlargement Strategy indicated that Albania has fulfilled most of the twelve priorities required for it to be granted candidate status. The 23 June general elections viewed by the EU as a litmus test for the country's democratic credentials were hailed by key European figures.<sup>12</sup> Combined with international monitors' relatively positive assessment of the conduct of the elections, this implies that Albania is highly likely to receive candidate status by end of this year.

Positive developments in some countries do not indicate that the picture is rosy in the rest of the enlargement countries. Some recent developments have cast doubt on the credibility of the EU enlargement. Turkey's path to the EU has primarily suffered from the lack of a common vision among EU policy-makers. Turkey's accession negotiations have stalled for the last three years due to the unilateral vetoes of certain member states and the Cyprus dispute. The recent momentum gained thanks to the Commission's efforts in reinvigorating the reform process through the "positive agenda" initiative and the new French leadership's decision to unblock the negotiation chapter on regional policy (Chapter 22) one of the five chapters<sup>13</sup> blocked during Sarkozy's term in office, have been overshadowed by the duel of words between Brussels and Ankara over the Turkish government's handling of the peaceful protests against a planned urbanization project in Istanbul's Gezi Park. The Intergovernmental Conference for the opening of the chapter on regional policy, initially scheduled for 26 June 2013, will now be held after the release of the Commission's annual progress report in October, due to Germany's

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<sup>10</sup> The chapters opened and provisionally closed are "Science and Research" and "Education and Culture".

<sup>11</sup> "Brussels summit greenlights EU accession talks for Serbia", Deutsche Welle, 28.06.2013, <http://www.dw.de/brussels-summit-greenlights-eu-accession-talks-for-serbia/a-16912901>. Accessed on 02.07.2013.

<sup>12</sup> "EU praises Albanian elections", Andrew Gardner, European Voice, 25.06.2013, <http://www.europeanvoice.com/article/2013/june/eu-praises-albanian-elections/77641.aspx>. Accessed on 02.07.2013.

<sup>13</sup> The other negotiating chapters blocked by France are "Economic and Monetary Policy" (Chapter 17), "Fiscal and Budgetary Provisions" (Chapter 33) and "Institutions" (Chapter 34). "Agriculture and Rural Development" (Chapter 11) is blocked both by the Council and France.

reservations. This development was increasingly viewed by Ankara as an attempt by the current German leadership to increase its voter appeal with a view to the upcoming September 2013 elections.<sup>14</sup>

Meanwhile, Macedonia has spent yet another year in the EU's waiting room, despite the Commission's call that the accession talks be launched for the fourth consecutive year, due to the name dispute with Greece. The paralysis in Skopje's Euro-Atlantic integration has been fuelling nationalism in Macedonia and threatening to upset fragile ethnic construction in the country.

Bosnia-Herzegovina's squabbling politicians have missed yet another deadline for the implementation of the European Court of Human Rights (ECtHR) *Sejdić and Finci v. Bosnia-Herzegovina* ruling, which stipulates that the Bosnian constitution be amended to allow members of ethnic groups other than Bosniaks, Croats and Serbs run for high-level governing posts. The implementation of the ECtHR ruling is a precondition for the entry into force of the SAA and will allow the country to submit a viable membership application to the EU.

Iceland's European perspective seems to have entered a limbo. A champion in opening and closing chapters, Iceland, has so far opened 27 out of 35 chapters and provisionally closed one-third of the 35 chapters, since it started accession talks with the EU in July 2010.<sup>15</sup> However, accession talks entered an uncertain period in May, as the newly-elected center-right coalition government suspended accession talks and declared its intention to hold a referendum on whether to continue the membership process.

Against this rather complicated picture, enlargement continues to be the EU's most powerful tool in contributing to stability and security in the European continent, as evidenced by Croatia's membership. Therefore, EU leaders need to renew their commitment to the enlargement process and avoid forsaking this powerful policy in order to capitalize on short-term political goals. The aspirant states on the other hand, need to undertake the relevant reforms and acknowledge that there are no shortcuts to membership.

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<sup>14</sup> "No EU-Turkey talks until October", Andrew Rettman, EU observer, 25.06.2013, <http://euobserver.com/foreign/120635>. Accessed on 02.07.2013.

<sup>15</sup> "EU and Iceland: over two thirds of negotiation chapters now open" Europa EU Press Release, IP/12/1399, 18.12.2012, [http://europa.eu/rapid/press-release-IP-12-1399\\_en.htm](http://europa.eu/rapid/press-release-IP-12-1399_en.htm). Accessed on 02.07.2013.