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EU announces aid to Croatia

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Report Highlights:

On June 6, 2003 the European Commission adopted its Annual Program for Croatia facilitated through the Stabilization and Association Process. As a result, Croatia will receive a total of 62 million euro, specifically 2.5 million euro to enhance and facilitate trade in industrial and agricultural goods through the Community Assistance for Reconstruction, Development and Stabilization (CARDS) program.

Includes PSD Changes: No
Includes Trade Matrix: No
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Summary

On June 6, 2003 the European Commission adopted its Annual Program for Croatia facilitated through the Stabilization and Association Process. As a result, Croatia will receive a total of 62 million euro, specifically 2.5 million euro to enhance and facilitate trade in industrial and agricultural goods through the Community Assistance for Reconstruction, Development and Stabilization (CARDS) program.

Background on the Stabilization and Association Process

The EU has committed 4.65 billion euro for the period of 2000-2006 for the purpose of assisting the five countries in making substantial progress towards greater European integration. The EU's Stabilization and Association Process is a regional approach to the Western Balkan states to further develop each individual state to establish a dependable rule of law, democratic governments, stable institutions and a free economy. The goal of this process is to move towards implementation of a free trade area and eventually to formal association with the EU, but first each country must embody the key democratic and free market principles of the EU. Financial and other assistance necessary to implement reforms and build capable institutions is carried out through the CARDS program.

Croatia's Annual Program 2003

The EU has committed 62 million euro to Croatia's Annual Program in 2003. The Annual Program is broken down into five categories for aid including (all values in euros): economic and social development, 17.5 million; democratic stabilization, 17 million; justice and home affairs, 12 million; administrative capacity building, 11.8 million; and environment and natural resources, 3.7 million.

Trade is included in the economic and social development category, and was specifically allocated 2.5 million euro in the annual program. Croatia primarily exports industrial and agricultural goods, thus the money is targeted to enhance and facilitate trade in these industries.

More specifically, in terms of agriculture, the funding will be used to develop Croatia's sanitary and phytosanitary services. Assistance is aimed at a capacity building program in the plant health area designed at helping Croatia to meet international accreditation standards, which will allow the potential export market to increase. In addition, the program will help bring plant protection products, plant quarantine, and pesticide residues into line with existing EU legislation. Croatia's Veterinary Directorate will also receive assistance in improving animal health, disease control practices, and implementing necessary animal health legislation to bring standards up to the EU's level. Additionally, proper training and new laboratory equipment is targeted in the program to receive financial assistance. Through modernizing the sanitary and phytosanitary standards, agricultural trade will be capable of increasing particularly to the EU.

Croatia and EU Trade

The EU is Croatia's most significant trading partner, of particular importance are Italy, Germany, and Austria. The EU provides a market for over 50 percent of Croatia's total exports, valued 2.5 billion euros in 2001. However, the trade balance is in the EU's favor, Croatia's deficit with the EU was approximately 3 billion euros in 2001. Furthermore, in 2002 imports from the EU increased 10 percent more than exports to the EU. In terms of

industrial products, exports include textiles and clothing as well as machinery products; imports include machinery, electrical, and transport equipment.

Croatia is a net importer of agricultural products, both from the world and the EU. In 2000, Croatia's trade deficit with the EU in terms of agricultural goods was 188 million euros. In 2001, exports to the EU grew by 87 percent to 79.5 million euros; at the same time imports also grew by 21 percent to 278.8 million euros, leaving the deficit close to 200 million euros and an increase of 6 percent over the prior year. Croatia is an exporter of poultry, cereals, sugar, and wine to the world and of sugar, hides and skins to the EU. On the other hand, Croatia imports a variety of agricultural goods from the EU primarily consisting of meats, fruits and nuts, and vegetables.

Background on Croatia's Agriculture Sector

Agriculture, fisheries, and forestry contribute 7.2 percent to Croatia's GDP and account for approximately 10 percent of exports and imports. Small family farms with an average size of 5 hectares own about 80 percent of the farmland and livestock.

In January 2002, the Croatian Parliament took large steps toward the free market by setting criteria for privatizing 1.1 million hectares of previously state-owned farmland. The criteria set upper bounds on how much land individuals and companies dealing with agriculture, livestock, and vines could purchase, and also established priorities for the purchase and defined the process for which land will be sold.

In July 2002, the Croatian Parliament approved a law on subsidies for farming, fishing, and forestry which was implemented in 2003. With implementation of the subsidy legislation, the highest annual subsidy increased from 202,000 euros to 270,000 euros for each officially registered farm having achieved a minimum level of production. By January 31, 2003, the deadline for required registration, more than 100,000 farmers had applied for the program. The legislation created four categories for which subsidies are available: 1. an income support scheme for non-commercial farms run by elderly; 2. production support scheme for commercial farms; 3. farm capital investment scheme to promote productivity and competitiveness of commercial farms; 4. a rural development plan.

In line with Croatia's Annual Program, in September 2002 the new laboratory responsible for certification of milk quality began analyzing samples. The Croatian government asserts that milk quality standards have been aligned with those in the EU, and these certificates are necessary for milk exports to the EU. However, preliminary testing results of the samples provided by 65,000 farmers showed that approximately 80 percent do not satisfy the defined quality requirements. Croatia's 2003 Annual Program put special emphasis on increasing phytosanitary measures to enhance accreditation and certification programs such as this.

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