



## Serbia – Croatia – What awaits us after Croatia’s entry into the EU? Challenges for the Republic of Serbia’s regional policy

### Introduction

On June 19, 2013 in Belgrade, the Heinrich Böll Foundation (HBS) in Serbia, the European Movement in Serbia (EMinS) and the Democratization Policy Council (DPC) held expert debate entitled “*Serbia – Croatia – What awaits us after Croatia’s entry into the EU?*” The aim of the event was to promote an open discussion between policy makers and foreign policy experts in Serbia as well as with their counterparts from Croatia on the state of bilateral relations and the future development of that relationship after Croatia’s entry into the European Union.

The relationship between Serbia and Croatia has historically been crucial for the development of the Western Balkan region. Hopes were raised after regime changes in both countries in 1999-2000 that either Croatia or Serbia, or both, would become regional factors of democratization. These went unrealized. Both countries were absorbed with dealing with their own transition travails in the subsequent decade, devoting little energy to settle accounts (literally or figuratively) with their neighbours. Nevertheless, Serbian-Croatian relations remain critical to regional stability. The initiative undertaken by Croatian President Ivo Josipović and the previous Serbian President Boris Tadić to improve the relationship between the two countries and towards reconciliation played a key role in the promotion of the idea of regional cooperation in recent years. This is taking place not only bilaterally, but also an integral part of the integration process of the Western Balkan countries into the European Union. Relations between Belgrade and Zagreb experienced a setback with the entry into office of Serbia’s President Tomislav Nikolić, but have seen important steps towards normalization since Croatian Prime Minister Zoran Milanović visited Belgrade in March this year. With Croatia’s entry into the EU on July 1st, 2013, Serbia’s relations with Croatia change, as they are now also relations with the EU. This change automatically shifts attention to certain aspects of bilateral relations, especially to economic and trade relations. The roundtable was designed to shed light on the potential direction of Serbian-Croatian relations in the context of Croatia becoming the 28th member of the European Union.

The Belgrade roundtable brought together policy makers, foreign policy experts from academia, experts and representatives from the economy as well as representatives of civil society organizations from Serbia and Croatia. The meeting, in open roundtable format, was held under the Chatham House rule. This paper summarizes the proceedings, consisting of two separate but related discussions: the first on economic relations between Serbia and Croatia; the second on the state of bilateral relations more generally, including outstanding issues and disputes.



## I. Serbia and Croatia - economic relations: challenges and expectations

The discussion was opened by a speaker from Serbia who gave an overview of the most important effects of Croatia's EU entry on bilateral economic relations. There were two basic kinds of changes in trade relations, she stressed – changes in the customs regime and institutional changes. On July 1st the customs regime between Serbia and Croatia defined by the CEFTA free trade agreement will cease to apply as Croatia automatically leaves CEFTA when entering the EU. It will be replaced by the customs regime between Serbia and the EU that is defined in the Union's Stabilization and Association Agreement (SAA) with Belgrade. The SAA has been finally put in force after the last EU member state, Latvia, recently ratified the agreement. Under the SAA, Serbia will find itself in a more favorable position. As with the rest of the EU, there will be zero customs for export of industrial products from Serbia to Croatia; the same goes for most agricultural, food products, except for four categories for which there exist export quotas – sugar, wine, baby beef and trout. For Croatia, on the other side, the zero customs regime will end and exporters will have to pay customs for most products, ranging between 4 and 13 per cent. The participant added that, at Zagreb's request, talks have been underway since September 2012 between the European Commission and Serbia to renegotiate the SAA trade regime. Zagreb aims to keep the zero rates it enjoys under the CEFTA arrangement beyond July 1st – a request Belgrade rejects. The negotiations will not be completed by the time Croatia enters the EU, as originally intended. Concerning institutional changes in trade relations, Serbian products will have to meet EU standards in order to be exported to Croatia. This includes agricultural products that have to meet the EU's high hygienic standards. The participant assessed that this will be a real problem for Serbian producers. Thus, for example, there is no chance for Serbian milk to meet the criteria before Croatia enters the Union, especially after the aflatoxin-scandal that occurred in late 2012. Another institutional change will be Croatia's gaining access to EU structural funds, offering the country's economy a substantial market advantage in the neighbourhood. However, Croatian companies will lose the open access to public tenders they enjoyed in Serbia thanks to CEFTA. Under the SAA regime they will only gradually regain access to tenders. This speaker concluded that the economic effects of Croatia's EU-membership on bilateral trade relations with Serbia and the wider region will be mostly negative for Croatia, as Croatian products will become more expensive, and thus less competitive. Competitors from other non-EU countries in the region will step in, a chance for Serbia's economy. In that race, she added, Bosnia and Herzegovina will be Serbia's most serious competitor in relations to agricultural and food products.

One speaker from Croatia added the Croatian perspective to the discussion. She started with the remark that Croatia's EU-integration could serve as a role model for other countries in the region. She argued that the country's accession process had been fundamentally different from that of Slovenia, Bulgaria or Romania. Also, she added, all countries of the region share a joint historical background and thus face similar problems. She gave an overview of the most important changes the Croatian economy will face as a new EU member state. There will be a "terrible increase in competition" on the Croatian market after opening it for other EU countries. Agricultural products will face particularly serious problems competing on the Union's well-established market. As a new member state, Croatia will receive 800 million Euros in subsidies for its agriculture and rural development, plus an additional 1.1 billion Euros in other EU structural funds. Concerning the effect on economic relations between



Croatia and Serbia she, too, opined that conditions for import of agricultural products from Serbia to Croatia will substantially improve. On the other side, she saw no major disadvantages for Croatia's food processing companies in exporting to Serbia, except for a few products like Croatian cigarettes. This participant referred to the on-going discussion in both countries' publics on whether the changes in trade regime will lead to Croatian companies moving their food processing facilities to Serbia. She expressed the view that she does not expect a larger number of enterprises to take such decisions. She also noted that Croatia hopes for an increase in Serbian investments after it becomes a member of the European Union.

Another speaker from Serbia referred back to the CEFTA free trade agreement. He praised CEFTA as a great success that has made a massive contribution to regional economic cooperation. He reminded the audience that before the extension of CEFTA to Southeast Europe, regional economic relations had been based on "a complex set of bilateral arrangements." When the Western Balkan states entered CEFTA in 2007, non-tariff trade barriers presented the biggest problem in regional economic relations. Today, these are a rather marginal issue. He noted that while Croatia is now leaving CEFTA, many important issues have not even been begun to be tackled within the agreement framework. He listed the trade in services, the issue of intellectual property, as well as the failure to develop regional products and reach-out to third markets. The participant generally greeted Croatia's EU entry and opined that it will stimulate Serbia to modernize its products and production in order to be able to export to Croatia and the wider EU. Regarding Serbia's on-going negotiations on the SAA trade regime with the EU he expressed the view that "a revision of the agreement is certainly needed." Yet he criticized that some Croatian companies had put pressure on their government to negotiate for the maintenance of the zero customs regime they are enjoying within CEFTA. The speaker expressed his dissatisfaction over the state of economic relations between Serbia and Croatia. Serbia is only fourth among exporters to Croatia and suffers a persistent trade deficit. The country currently exports goods worth 400 million USD to Croatia and imports goods from its northern neighbour worth 500 million USD. These numbers, he opined, indicate that there is something wrong in bilateral economic relations. To underpin his argument, he added that Croatian investments in Serbia since the end of the war amounted to 500 million Euros while Serbian investments in Croatia amount only to 40 million Euros. All of these Serbian investments ended up as failures and before commercial courts in Croatia, he stated, insisting that political limitations apply to trade. One participant from Croatia reacted to these remarks and admitted there is "certain protectionism" under way when it comes to Serbian investments, while another added that "we have a general problem with foreign investments." Concluding his elaboration, the Serbian speaker noted that the triangle Croatia-Serbia-Bosnia and Herzegovina is of "extraordinary importance" to the economic development of the three countries. This triangle means great opportunities for Serbian products, but also new economic pressures.

Another participant expounded upon the centrality of regional cooperation for economic development. The food processing industry has great potential for cooperation, because there exist complementary products, for example. She mentioned pastry production as one example, in which Turkish investors have demonstrated interest. Another example she listed was FIAT-Zastava Kragujevac car production, where Italian companies providing components failed to deliver on time, leading to production bottlenecks. The speaker asked



why there had been no offers from ancillary companies from the region. She also referred to regional cooperation and reach out to third markets and mentioned the consortium FENIKS, a joint foundation by construction companies from Slovenia, Croatia, Serbia and Bosnia and Herzegovina that entered the Russian market. But she criticized that successful examples like this one remained very few because the often mentioned joint approach to third markets largely remained on the level of public relations campaigns of domestic governments, while serious institutional support is missing. On the problem of non-tariff trade barriers, she explained that these are not endemically regional, but rather a general problem in global trade relations, that in her opinion “will never be fully solved.” On Croatia’s entry into the EU and connected challenges for the Serbian economy, she noted that domestic companies had more than enough time to do their homework and to adjust production to the upcoming institutional and other changes.

The question of whether companies in Serbia are well prepared for the EU reaching its country’s border came up repeatedly in the discussion. One participant with business background explained that Serbian entrepreneurs know more about the EU than state institutions do. This was especially true for export-oriented small and medium enterprises. He mentioned Serbia’s problematic economic structure, especially its large public sector, where the preparation of the production for EU markets has proceeded too slowly. A speaker from Croatia explained that the country succeeded in bringing down the number of food processing companies with facilities that do not meet EU veterinary standards from 800 at the beginning of the accession negotiation process to some 20 at the moment of EU entry. She mentioned that such adjustment processes encounter a management and planning problem, since accession is a long-term process; the end date is not known until the final stages. In addition, the *acquis* can change in the course of accession. This happened in the case of Croatia, affecting agricultural products. Returning to the earlier discussion on joint outreach to third markets, one discussant noted that regional consortiums have started to return to markets Yugoslavia served until 1990: Russia, the Arab world, and some Asian countries. Several participants raised the issue of regional transport routes. One speaker stressed that regional transport routes, roads and railroads lost their importance for Europe during the Balkan wars of the 1990s and not regained them since. There is much talk in Serbia on a revival, centering around the construction of Corridor 10. He asked whether Croatia has an interest in regional routes regain their previous importance. Others mentioned the idea of a regional transport community or the development of the Sava River waterway. One Croatian speaker replied that Croatia does have an interest in regional transport revival, and that the framework of EU integration provides room for it. What is needed is an agreement of the countries in the region on joint development.

## II. Serbia and Croatia - bilateral relations: state of the art and perspectives

The second discussion focused mostly on classical bilateral issues and disputes and relations between Serbia and Croatia more generally. One official from Croatia noted that the media in both countries have created the picture that there has been a slowdown in bilateral relations since the new Serbian government came into office in 2012, but that this is not the case in practical communication and cooperation between the institutions of the two states.

Several participants referred to the mutual public perceptions of the other state and its citizens. One speaker noted two elements in perception of Serbia currently dominant in Croatia – on the one side there is the memory of the joint, Yugoslav, past and a certain nostalgia that's linked to it that seems to be on the rise, on the other side there continues to exist the heritage of the recent war(s) that burdens the perception of Serbia. He presented analysis on reporting on Serbia by Croatian media. He concluded that while there is generally rising attention for developments in Serbia, the qualitative analysis of reports produced a mixed picture. A Serbian discussant agreed the recent past still has great deal of influence on perceptions. Thus, in the Croatian perception there were more (Croat) victims killed in Vukovar than in Jasenovac in the Second World War. Much of the Serbian public is still convinced that only Serbs were killed at Vukovar. He stressed that media and the education system play crucial roles in changing existing mutual misperceptions. He explained that public perception of Croatia in Serbia follows a standard, annual rhythm with ups and downs, whereas downs are mostly connected with key dates from the recent joint war past. He mentioned that many students in Serbia have very limited knowledge of Croatia, for example knowing nothing about the town of Split, having never been there.

Many of those assembled broached the issue of bilateral disputes between Serbia and Croatia. One participant noted that the all bilateral disputes basically originate in the breakup of Socialist Yugoslavia. The discussion identified the most important of these disputes:

- 1) The rights of refugees. There are still 40,000 registered Serb refugees from Croatia living in Serbia. Unsolved issues include the regulation of their right to pensions they have acquired in Croatia, among others.
- 2) War crimes prosecution. There have been negotiations on cooperation on war crimes cases, and some progress, too, but the issue as a whole remains unsolved.
- 3) Missing persons. Some joint meetings of the two states' committees have taken place in recent years but with limited results.
- 4) Mutual indictments for genocide. One participant gave a negative judgment and stated that he doesn't "recognize any power nor any marked political interest for a solution."
- 5) The return of cultural goods stolen during the 1990s war from owners in Croatia, still hidden in Serbia.
- 6) Demarcation of the joint border. Disputes are less grave than in the case of the Croatian- BiH border, but nevertheless remain unsolved. The demarcation issue, as one participant note, "can be treated as a technical, but also as a political question."
- 7) Property restitution – this includes the non-implementation of Annex G of the UN-brokered Secession Agreement on former Yugoslavia. This refers to the "Tuđman-law of expropriation of Serb property" as one discussant labeled it. He noted that there are hundreds of lawsuits in Croatian courts filed by Serbian companies in order to have their property returned. He stressed that this legal situation forms one of the main



reasons why there are few Serbian investments in Croatia. Another speaker countered that there is still also occupied property of Croatian citizens in Serbia, who also still have problems gaining access to their property or regaining possession of it.

One speaker from Croatia concluded that overall “these are no big political questions, but they also aren’t small.” He moved the audience’s attention to the fact that none of these bilateral disputes were solved during Croatia’s long lasting EU accession process. Another participant explained this fact with the nature of the EU’s integration policy. In the Western Balkans, he noted, the EU integration toolbox has developed from a bureaucratic instrument applied in Central Eastern Europe into a strong democratization instrument. As this shift has happened more accidentally, the toolbox is still evolving and the integration process is still a learning-by-doing for the EU. There had been consent between Zagreb and Brussels that bilateral disputes should not be allowed to turn into obstacles for Croatia’s EU integration that was turned into a kind of dogma of the EU’s policy – despite the negative experience made with Slovenian-Croatian border dispute. This policy of not confronting bilateral issues pushed some of the disputes towards the end of Croatia’s accession process and created some problems – more so with BiH than with Serbia. The discussant added that the European Commission recently stated that it has learned some lessons from this experience and will change its handling of bilateral disputes in its future integration policy, but that it remains unclear how the EC is going to adjust its approach.

Apart from bilateral disputes, a speaker listed a number of changes that would occur in Croatia when it enters the EU, affecting Serbia: Serbian companies would gain access to public procurement tenders in Croatia; with trade relations being regulated by Serbia’s SAA with the EU, the purchase of land by Serbian citizens in Croatia will fall under a four-year moratorium; the rights of Serbia citizens who work in Croatia will need to be regulated anew; Serbian citizens with dual citizenship will be able to apply for jobs with EU-institutions; and Serbia will be able to make use of larger funds Croatia as an EU member state will be receiving for cross-border cooperation projects.

Another important topic the discussions focused on was the transfer of knowledge and experience on the EU accession process from Croatia to Serbia. One Serbian official emphasized that Serbia had excellent cooperation with Zagreb in tapping into the knowledge of state officials on EU integration. He explained that so far they had organized over 25 seminars and workshops in which Croatian officials involved in the country’s accession negotiation process trained participants and shared their knowledge. Over 800 officials from various state institutions in Serbia had participated in the trainings. He added that they plan to intensify these activities. A participant from Croatia with experience of the accession process and the EU’s institutions in Brussels shared his insights as important lessons learned for Serbia’s integration process. He expressed the view that the most important effect of entering the EU for a new member state is regulatory. Thus, Croatia will for example have to open its energy sector after July 1st. He noted that EU integration for all remaining Western Balkan candidate countries will present a challenge, because the environment inside the EU itself has changed. Enlargement is no longer a key topic in the EU. In the European Parliament, a limited number of MEPs deal consistently with the Balkans. No new MEPs have been added to that group, while at the same time some of the existing MEPs may leave parliament with the upcoming EP-elections to take place in May 2014. The speaker stressed that Serbia’s



accession process will take place parallel to the transformation of the EU itself. Nevertheless, he insisted, success will mainly depend on Belgrade's reform policy. In Croatia, he added, some 3,000 persons in the state administration worked on EU integration. The Croatian discussant shared a number of recommendations with the Serbian participants. He mentioned the need to form negotiating teams for all areas of the *acquis* and opined that these teams should best be composed of experts. In addition, he stressed the importance for a candidate country to develop a communication strategy towards the EU.

He finally noted that broad consent existed among key political forces in Croatia on the EU integration path and stated that this was an important precondition for a successful negotiation process. This notion was contested by another discussant who stated that the consent reached in Croatia between the government and key opposition parties, and the subsequent direct inclusion of the opposition into the negotiations with Brussels, had led to a kind of "suspension of the parliamentary process." Given the weak parliamentary tradition of the post-Yugoslav states, he considered this as a problematic side effect. Serbia's weak parliamentarianism presents an even more persistent problem than in Croatia. The Croatian speaker countered he does not see that a suspension of the parliamentary process having taken place, and expressed the view that the tasks of the accession process are difficult to handle if there is not at least a basic political consent in place. Another Croatian participant took a different position. He expressed his ambivalence over the issue, in weighing the need for a political consent against its negative effect, the suspension of the parliamentary process. He noted that part of that political consent was problematic. In both Croatia and Serbia there existed "irrational consents" that the societies have not confronted themselves with yet – particularly from the 1990s. In Croatia, the political consent on the EU perspective and the integration process had been "pretty irrational, mythical." Also, a problematic aspect of the political consent had been that it was a "consent of the elites" that led to an elite-driven, elite-dominated EU integration and reform policy process. The speaker concluded that "Croatia's experience with consent could be instructive for Serbia."

Several Croatian participants discussed the future of the cooperation between Croatia and Serbia and its role in wider regional cooperation in the Western Balkans. One of them opined that "the region is not unimportant for Croatia and Serbia." The region offers important potential for both countries. He stressed the readiness that existed in Croatia for future cooperation with Serbia and pointed to the fact that Croatia "didn't have such a relationship with Slovenia." With regard to bilateral disputes, he explained that "open bilateral issues are also imperatives for cooperation." Another Croatian speaker also referred to the prospect of Croatia's positioning vis-à-vis the Western Balkans region after its EU entry. In previous years, he noted, a kind of "escape from the region"-attitude dominated in Croatia. That attitude has recently changed. The first speaker raised the question of what model of cooperation the countries of the region should choose, referring to other examples, such as the Benelux states or the Nordic countries. He presented the conference of Western Balkan parliamentary committees on foreign policy as a successful format of regional cooperation. The parliaments of Croatia, Serbia, BiH and Montenegro take part in this initiative; so far two meetings have been organized. Another participant pointed to the fact that Serbia will take over chairmanship of the OSCE in 2015. This will be the first time since the end of the Yugoslav wars a Western Balkan country will occupy that position and an important step for the region as a whole.



A couple of discussants referred to Croatia's and Serbia's relationship with Bosnia and Herzegovina. One Croatian speaker opined that BiH remains one of the most important open issues in the region. A rapprochement between Croatia and Serbia could help solve the Bosnian problem. This view was questioned by another discussant who noted that Bosnia was a problem created by the European Union. It is part of the overall weakness of the Union's foreign and security policy that is a consequence of EU's overarching current crisis. He insisted that the Bosnian problem can therefore only be solved by the EU, not by its neighbours, as recent attempts by especially Zagreb have also demonstrated. He added that both Croatia and Serbia are currently united in their "escape from Bosnia." He pointed to the fact that as of July 1st, Bosnia's two neighbours will be in very different positions. Croatia, as an EU member state, will have the opportunity to directly influence the EU's Bosnia policy. The Croatian speaker countered that the current tendency in Croatia to avoid dealing with BiH will not end as of July because Croatia has not defined a new policy toward BiH – nor has Serbia. He added that there exist a couple of issues, cultural, linguistic, identity links with Bosnia because of which neither Croatia nor Serbia will be able to fully "escape from Bosnia."

Organizers and participants broadly agreed that the day's dialogue proved fruitful, and underscored the need to convene such discussions more often.

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