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## The Challenges of Accession to the European Union

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### Abstract

On the 21<sup>st</sup> of February 2003 Croatia submitted a request for membership in the European Union, thus starting a long process of preparation and negotiations on accession to the EU. A number of decisions that define the structure for negotiations were adopted in the period to follow. The Ministry of Agriculture, Fisheries and Rural Development was defined as responsible for Chapter 11, 12 and 13. Croatia's key negotiating requests concerned the determination of amount of financial envelope for direct payments, the terms of application and financing of the direct payments and the determination of production quotas. The overall process of accession negotiations was completed at the meeting of the Intergovernmental Conference on Croatian accession to the European Union on 30 June 2011. The financial envelope for direct payments determined on the basis of statistical data about the agricultural production realized and resource utilized in the defined reference period was set to 373 million Euros per year. Also, since 2014, Croatia could use the EU budget for Rural Development in the amount of 333 million Euros per year (additionally including national budget funds). Finally, the EU provides the legal framework and financial ability, but whether and how the funds will be used depends on the Member State.

*Key words:* subsidies, agriculture, negotiations, direct payments, rural development, CAP

## Introduction

### The submission of a request and the candidate status

The Republic of Croatia submitted the request for membership in the European Union on 21 February 2003. This was the date when a long process of preparation and negotiations on accession to the European Union started. After considering the request for membership and additional information provided, on 18 July 2004 the European Union granted Croatia candidate status meaning that Croatia gained the right to use the EU Pre-Accession Assistance program funds. In the following period, a number of decisions were made: the structure defined for negotiations on Croatian accession to the EU, participants nominated in the negotiations and principles and strategic guidelines for negotiations established. Furthermore, the Ministry of Agriculture, Fisheries and Rural Development was defined as responsible for the following: Chapter 11 (Agriculture and Rural Development), Chapter 12 (Food Safety, Veterinary and Phytosanitary Control), and Chapter 13 (Fisheries).

### The Working Group for preparation of negotiations

In the period to follow, the Working Group for preparation of negotiations was defined. This Working Group for the preparation of negotiations on Chapter 11 participated in an analytic review and assessment of compliance of Croatian legislation with the EU *acquis* (*Screening*) and in drafting the proposals of negotiating positions. Given the complexity of the agricultural chapter, a total of 26 subgroups were created within the Working Group for Chapter 11. Within the Working Group for Chapter 11 a little more than 400 members were nominated in the subgroups, including: employees of the Ministry of Agriculture, Fisheries and Rural Development as well as representatives of a number of other institutions, farmers' associations, Croatian Chamber of Economy, Croatian Employers Association, Trade Unions, Science, Companies and others. The group had a role not only in drafting the basic documents in the initial stages of the negotiations, but it was also a forum for informing the professional public about the most important aspects of preparing Croatia for the future EU membership.

### „Screening” and Benchmark for opening the Chapter

The first phase of the negotiations in Chapter 11 (Agriculture and Rural Development) included an analytical review (screening) that lasted from December 2005 to February 2006.

On 17 July 2006 the European Commission published a report on the results of the screening, based on which on 9 November 2006 the EU Council decided that Croatia should develop a strategy for improving agricultural statistics, as a precondition for starting the negotiations on Chapter 11 (the so-called Benchmark for opening the chapter).

This strategy was adopted by the Republic of Croatia's Government on 10 October 2007. The European Union confirmed on 2 April 2008 that the Benchmark for opening Chapter 11 was fulfilled. This was followed by the adoption of the Croatia's negotiating position for Chapter 11 (4 September 2008). However, the start of the negotiations was delayed due to the Slovenian blockade until 2 October 2009, when the European Union adopted its negotiating position on Chapter 11.

### Benchmarks for closing the Chapter

On 2 October 2009 the European Union adopted its negotiating position for Chapter 11 and announced that the Republic of Croatia must meet the following benchmarks in order to close the same chapter:

- the adoption of an implementation plan for the establishment of an Integrated Administrative and Control System (IAKS) that will be fully operational with the date of accession and achieving sufficient progress towards establishing the IAKS, including the establishment of a Land Parcel Identification System (LPIS);
- the adoption of an implementation plan for the establishment of Paying agencies that will be fully operational with the date of accession and achieving sufficient progress towards the establishment of this Paying Agency;
- the adoption of an implementation plan for the establishment of application of the common market organization (CMO) measures of the EU in sugar, fruits, vegetables and milk sectors, as well as achieving sufficient progress in the alignment with the EU legislation on the regulation of agricultural markets.

These benchmarks were fulfilled by adopting appropriate strategic documents at the session of the Croatian Government held on 11 and 19 February 2010.

### Negotiations

Negotiations between representatives of Croatia and the European Commission have included all the requirements of the Croatian negotiating position for Chapter 11, the most important of which were:

- defining the elements for the calculation of financial envelopes (statistical basis of agricultural production and resources, determination of reference period, determination of number of suckling cows, sheep, and goats),
- the terms of payment for direct payments to Croatian farmers from the EU budget after joining the Union;
- the transitional period and the percentage of co-financing from the EU and Croatian budget;
- the possibility of using funds from II pillar for direct payments,
- the possibility of funding certain measures from the national budget after accession,
- determining financial envelopes for mined land (determining reference period and area, existence of appropriate official databases),
- determining the financial envelope for the wine sector,
- setting quotas in the milk and sugar sectors.

#### Negotiating Principles in Chapter 11.

When it defined negotiating demands, the Croatian Government based them on the following basic principles:

- Croatia is prepared to apply the Common Agricultural Policy from the date of the accession to the European Union;
- Croatia expects that there will not be in a worse position on the common EU market than other EU member states;
- Croatia expects the acknowledgment of the consequences of the Homeland War on agricultural production, i.e. rural areas;
- Croatia sets realistic negotiating demands, which are based on official statistics and experiences from the previous rounds of enlargement.

#### Negotiating Requirements in Chapter 11.

In Chapter 11, Croatia has set a total of 46 negotiating requests, with varying degrees of negotiation responsiveness. The European Union has set up one negotiating request (transitional period for direct payments).

The key negotiating requirements of Croatia concerned the determination of

- the amount of financial envelopes for direct payments,
- the conditions of application and financing of the system of direct payments and
- the determination of production quotas for milk and sugar.

Important requirements were related to the determination of reference periods (which depend on the calculation of the financial envelope and the size of production quotas), as well as the conditions for the implementation of rural development measures.

Apart from these, the negotiations included a series of mostly technical but content-related issues such as the recognition of protected labels or the determination of wine-growing areas.

Benchmarks for closing Chapter 11. Informal Benchmark – the reform of a subsidies system

The "informal" Benchmark referred to an obligation of the Republic of Croatia to reform its direct payments system in agriculture and align it as much as possible with the system applied in the EU before the conclusion of the negotiations. The reform of the direct payments system began by amending the Law on State Aid to Agriculture and Rural Development (Official Gazette no. 83/2009, 153/2009, 60/2010, 92/2010) in 2009, 2010, 2011, and 2012. This modification of the subsidies system simplified the direct payments system by reducing the number of production-related payments (with more than 200 production-linked items in total 2), and also introduced a basic payment for plant production as a form of production-nonrelated payment. At the same time, a framework on which the construction of a landfill particles identification system (ARKOD) and IAKS started was established.

The Paying Agency

The Paying Agency for Agriculture, Fisheries and Rural Development was established under the Act of establishing the Agency for Payments in Agriculture, Fisheries and Rural Development (Official Gazette no. 30/2009). Based on the Agency's implementation plan, it was determined that on the day of the accession of Croatia to the European Union the Paying Agency would be ready to implement the market policy and rural development measures financed by the EU budget. The Paying Agency is responsible for establishing and implementing the IAKS, which will be used as an auxiliary tool for direct payments, complementary national payments and rural development measures related to areas and livestock. The Paying Agency is also responsible for establishing and maintaining ARKOD. By March 2011 all farms registered in the Register of Agricultural Holdings entered in the ARKOD system.

Organization of agricultural markets

The Law on the Organization of Agricultural Markets (Official Gazette no. 149/09, 22/11) includes all measures of market regulation, other than direct payments to farmers, in specific sectors.

These factors include: cereals, sugar, hops, olive oil and table olives, fruit and vegetables and their products, wine, live plants and flowers, beef, pig meat, sheep and goats, poultry, eggs, milk and milk products, honey products and other products (dried feed, ethanol and flax and hemp) was adopted in December 2009.

The law regulates the following market regulation measures:

- Market interventions (public intervention, private storage support, special intervention measures, adjustment of supply to market requirements, the system of production constraints, a special aid system);
- Rules relating to production and placement on the market;
- Recognition of producer and sectoral organizations and producer groups;
- Measures to be applied in trade with other countries (import and export licenses, customs quotas, export sugar quotas);
- Special measures for individual sectors (milk, sugar, wine, hops).

## Termination of negotiations

The negotiations about Chapter 11 were officially completed on 19 April 2011. The entire process of accession negotiations was completed at the meeting of the Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union on 30 June 2011 by closing the last three negotiating chapters.

## Review of the results of the accession negotiations on Chapter 11

### 1. Direct payments

#### *Financial envelope*

The financial envelope for direct payments in the amount of EUR 373 million per year was determined on the basis of statistical data on the agricultural production realized and resource used in the reference period 2005-2007, excluding milk, where reference was used as a reference for 2007. Croatia has been granted additional support that is envelope for mined land in the amount of 9.6 million Euros a year, and wine sector envelope in the amount of 10.8 million Euros a year.

#### *Transitional period*

According to the model applied to the 12 new EU member states that joined the European Union in 2004 and 2007 respectively the share of financing of direct payments from the EU budget will gradually increase over a transitional period of 10 years.

This will be according to the following dynamics: 25% in the first year of membership, 30% in the second year of membership, 35% in the third year of membership, 40% in the fourth year of membership, and in the following years, the share of the EU funding will increase by 10% annually.

### *Transfer of funds from the II pillar*

At the same time, in the first three years of membership, it is possible to use part (up to 20%) of the EU funds for rural development to finance direct payments, since immediately after accession to the EU, full utilization of these funds is not expected.

## 2. Rural development

Since 2014 Croatia is a beneficiary of the EU budget for rural development in a much larger amount in relation to the funds from the IPARD Program. This is the amount of EUR 333 million from EAFRD annually, which additionally includes the national budget funds. As regards rural development measures, it should be borne in mind that Croatia participates in their financing (mainly in the range of 20-25% compared to the permitted public funds), depending on the type of measures that will be applied and rural areas to the extent applicable.

## Membership in the European Union

The Republic of Croatia became a full member of the European Union on 1 July 2013. Full membership means that it should apply the Common Agricultural Policy (CAP), the same as all other Member States.



Fig. 1. Common Agricultural Policy  
*Зajедничка пољопривредна политика*



CAP (Figure 1) defines measures to cope with the following challenges: economic (food security, price volatility, economic crisis); environmental (GHG emission, soil depletion, water / air quality, habitats and biodiversity) and territorial (vitality of rural area and diversity of EU agriculture).

The objectives of the CAP are: viable food production, sustainable management of natural resources and climate action, and balanced territorial development.

### Trends in Croatia

Trends in cattle production in Croatia are presented below in the period before and after the accession to the EU. The total number of cows, and the number of dairy and dual purpose cows are shown in Table 1. The steady decrease of number of all cows can be noticed.

Tab. 1. The total number of cows in Croatia in the 2007-2016 period (HPA, 2017.)  
*Укупан број крава у Хрватској у периоду 2007-2016*

Year	All cows	Dairy and dual purpose cows	Milk recorded cows	Percent, %	Recorded herds	Herd size
2007	234,671	232,076	111,075	47.9	9.041	12.3
2008	226,000	222,540	120,001	53.9	9.122	13.2
2009	224,719	219,914	120,703	54.9	8.800	13.7
2010	209,336	198,773	106,585	53.6	7.427	14.4
2011	206,291	193,951	109,865	56.6	7.017	15.7
2012	191,354	178,004	102,390	57.5	6.982	14.7
2013	180,946	167,491	101,637	60.7	6.126	16.6
2014	178,827	164,347	100,871	61.4	5.767	17.5
2015	174,805	159,268	98,567	61.9	5.480	18.0
2016	167,628	151,274	93,080	61.5	4.950	18.8

Figure 2 shows the number of milk suppliers and delivered quantity of cow's milk in Croatia in the 2002 – 2016 period (HPA, 2017), while Figure 3 presents the total number of beef carcasses in the 2005 – 2015 period (HPA, 2017). Both figures show decreasing trends, with the highest decrease in the number of milk suppliers (from 65,000 in year 2002 to 8,371 in year 2016).

Furthermore, the quantity of delivered milk constantly decrease from year 2009. Decrease in milk production and decrease in the number of cows consequently resulted in decrease of beef carcasses.

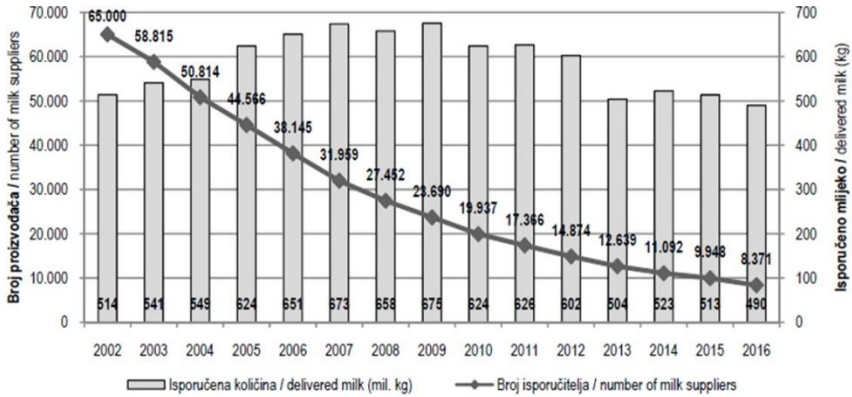


Fig. 2. The number of milk suppliers and delivered quantity of cow's milk in the 2002 - 2016 period (HPA, 2017)

*Број снабђивача млијеком и количина испорученог крављег млијека у периоду 2002-2016*

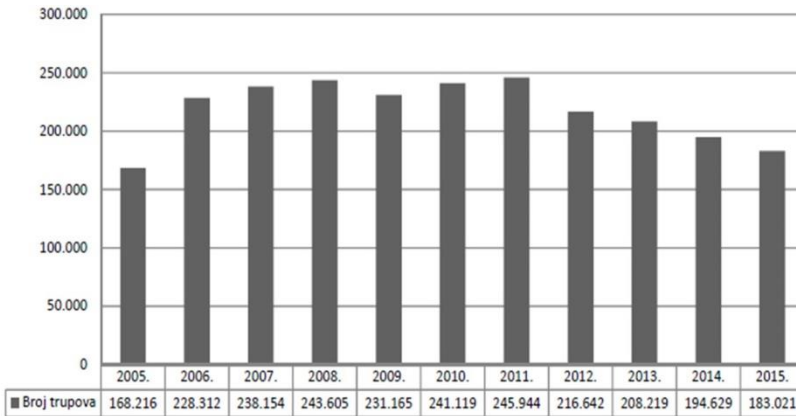


Fig. 3. The total number of beef carcasses in the 2005-2015 period (HPA, 2017)

*Укупан број говеђих трупова у периоду 2005-2015*

### Instead of a conclusion

Finally, it could be concluded that the European Union provides the legal framework and financial possibilities through the Common Agricultural Policy (CAP), but whether and how these will be used depends largely on the Member State.

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# Изазови приступања Еуропској Унији

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## Сажетак

Република Хрватска поднијела је 21.2.2003. захтјев за приступањем Еуропској Унији (ЕУ), чине је започео вишегодишњи процес припрема и преговора. У идућем раздобљу доноси се низ одлука које дефинирају структуру за преговоре о приступању, именују се судионици у преговорима, те се утврђују начела и стратешке одреднице преговора. Министарство пољопривреде, рибарства и руралног развоја одређено је носителџем преговора за поглавље 11, 12 те 13. Кључни преговарачки захтјеви РХ односили су се на утврђивање висине финансијске омотнице за изравна плаћања, увјете примјене и финансирања сустава изравних плаћања и одређивање производних квота. Цјелокупни процес приступних преговора завршен је на састанку Међувладине конференције о приступању Републике Хрватске Еуропској унији 30. липња 2011. затварањем три посљедња поглавља. Финансијска омотница за изравна плаћања у висини 373 милијуна еура годишње одређена је на темељу статистичких података о оствареној пољопривредној производњи и кориштењу ресурса у референтном раздобљу. Надаље, Хрватска је од 2014. године корисница ЕУ прорачуна за рурални развој у износу од 333 милијуна еура из средстава ЕАФРД годишње којима се додатно прибрављају средства националног прорачуна (углавном у распону од 20 – 25%), овисно о мјери. У коначници, ЕУ и ЦАП дају правни оквир и финансијске могућности, но хоће ли се и како исто користити, овиси о земљи чланици.

*Кључне ријечи:* потпоре, пољопривреда, преговори, директна плаћања, рурални развој, ЗПП

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