

# Croatia's EU Accession: Economic Implications for the Balkan Countries

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July 1<sup>st</sup> 2013 is officially set as the date when Croatia joins the European Union, effectively becoming its 28<sup>th</sup> member state. Thus, in less than a month, the country will be leaving the Central Europe Free Trade Agreement (CEFTA) – a common market free trade agreement between the non-EU countries in Southeast Europe – forfeiting the CEFTA benefits and joining the vast EU market. Post Croatia's EU accession, Croatian trade with its non-EU trade partners will rely solely on each country's respective Stabilization and Association Agreement (SAA), a bilateral trade agreement with the EU; hence, many Croatian exports will face new or higher import tariffs and quotas in the CEFTA countries. The European Commission has conducted negotiations with the CEFTA countries on changing their Stabilization and Association Agreements to account for Croatia's EU accession, or to allow for a transition period for Croatia beyond July 2013. Yet the CEFTA countries are not eager to renounce the preferential trade regimes they would soon be enjoying against Croatia: indeed, many see this as an opportunity to gain a competitive edge against Croatian products and increase their market share on the CEFTA market.

Out of the remaining CEFTA countries (Serbia, Macedonia, Montenegro, Bosnia and Herzegovina, Kosovo, Albania, and Moldova), Bosnia and Herzegovina is by far Croatia's main trade partner. Albeit Croatia's primary trade partner is, in fact, the European Union (61.3% of all trade in 2011), it is followed by Bosnia and Herzegovina (6.7% of total trade in 2011). The Croatian Chamber of Commerce reports that while only about 21% of total Croatian exports are exported to the CEFTA market, the situation is quite different when it comes to agricultural and food exports: about 45% of Croatian exports in this sector are intended for the CEFTA market. Thus far, Croatian products have dominated the CEFTA market: brands, well established and recognized by CEFTA consumers. Yet from July on, with the newly imposed tariffs and quotas, these Croatian products are likely to become more expensive (and thus less demanded) on the CEFTA market. On the other hand, however, Croatia will surely benefit from the access to 500 million consumers within the EU market; even so, its products will not be immediately competitive with the already established brands. Hence, many wonder if, with its EU accession, Croatia will be effectively forfeiting 27 million consumers in the CEFTA market.

According to the CEFTA Trade Statistics 2012 Half Year Update, in the first half of 2012, 59% of all Croatian exports to CEFTA were exported to Bosnia and Herzegovina, and 55% of all CEFTA imports in the country came, again, from Bosnia and Herzegovina. The new trade regime from July 2013 will enact changes and spell challenges for both countries. For one, although according to its SAA, Bosnia could export goods to the EU market sans high tariffs and quotas, the country's multiple governments have failed to agree on how to meet EU hygiene codes, a requirement for exporting to the EU. As recently reported by Deutsche Welle, although Bosnian farms have already met many of the EU regulations, such as those on sanitation standards, the governments struggle to agree on how to prove they are up to code. Thus the country is at the verge of losing its main agricultural export market in Croatia. On the other hand, however, with the fading competitiveness of Croatian products on the Bosnian market, Bosnian producers have a chance to increase their market share at the domestic market, and increase agricultural exports to other CEFTA countries.

Yet with the expected deficit of exported goods in Bosnia and Herzegovina (in the amount of 250 million Euros, the Euro amount of current Croatian exports there), the other CEFTA countries are looking to expand their exports to Bosnia and Herzegovina. Serbian and Macedonian businesses, in particular, are looking into the opportunities that the lower competitiveness of Croatian products on the CEFTA market would open for their own. The Serbian Ministry of Foreign and Internal Trade and Telecommunications announced in late May 2013 that it fully expects Croatia's EU accession to bring about Serbian dominance in the CEFTA region. Furthermore, the President of the Serbian Chamber of Commerce noted that the Chamber supports the newly established tariffs and quotas for Croatian products, in accordance with the Serbian SAA with the EU, for this regime would support and foster the domestic agriculture and food producers.

Macedonian business are too looking forward to increasing exports in the region, as well as, becoming more competitive on the domestic market. For one, Macedonian wine exports will particularly benefit from Croatia's EU accession: thus far, Macedonian wine export to Croatia has been regulated by a quota, wherein only 6.75 liters could be exported to the country. As of June 1<sup>st</sup> 2013 this quota will be annulled, and Macedonian wine exports will be regulated by the quota the country is allowed to export to the EU. At present, Macedonia may export a total of 39.9 liters of wine to the EU market; yet, the Macedonian authorities are negotiating with the EU to increase this preexisting quota by the Croatian quota that had been valid thus far. The Macedonian wineries are eager to export even tenfold the amount of wine they had exported to Croatia thus far, due to the high demand for wine on the Croatian market. With the bustling tourism on the Croatian coast, demand for expensive regional wines

there is quite high, and still rising. Thus Macedonian wine producers are looking forward to expanding their competitiveness on this market.

Interestingly enough, some Macedonian companies even see Croatia's EU accession as an opportunity to introduce their products to the wider European market. For one, the managers of the food company "Vitaminka" reported for the Macedonian business magazine "Kapital" that they are looking to move part of their production facilities to Croatia. From there, they wish to introduce their products to the European markets. Yet others warn that Macedonian exports to Croatia will now face a steeper competition from all European products, some of which might very well be offered at prices cheaper than the ones of the Macedonian exports. For one, the CEO of one of Macedonia's most profitable confectionary companies, Evropa, Ms. Savka Dimitrova, has recently expressed similar sentiments. Indeed, confectionary products are one of the main Macedonian exports to Croatia.

On a different note, all countries in the region are hoping to attract Croatian investments; namely, with the higher tariffs and quotas, it might be a wise move for Croatian business to move part of their production facilities to the CEFTA countries. Thus, their products would not be facing the CEFTA import regulations. Additionally, this would allow them to evade the higher production costs that would come with Croatia's EU membership. Some Croatian factories have already acted to move part of their production facilities to the CEFTA countries, mainly to Bosnia and Herzegovina. Thus, Podravka (a food company) already has part of its production facilities in Macedonia, and Vindija (dairy products company) is investing in increasing its production facilities in Serbia. Krash (a confectionary factory) and Franck (a coffee and snacks factory) have both relocated some of their production facilities to Bosnia and Herzegovina, and TDR (cigarette manufacturer) is considering doing the same. Cigarettes, in particular, will face much higher import tariffs in CEFTA: in Bosnia and Herzegovina tariffs will rise from 0% to 15%; 15% to 57% in Serbia; 27% to 42% in Macedonia; and 0% to 10% in Kosovo.

Yet many Croatian companies report that they will not let prices in the CEFTA market rise due to the new tariffs and quotas; instead, they would accommodate the costs. Some, like Atlantic Group, already have production facilities both in the CEFTA region and in some EU countries, and will thus face no changes in the volume of their business post July 1<sup>st</sup>. Hence, some leading analysts in the region even go as far as to forecast no major changes in the CEFTA market after Croatia's EU accession. Thus, now, less than a month before Croatia joins the Union, what remains is to observe the trends and changes in trade in the CEFTA and EU markets and to let statistics shed light on the future market developments.

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