

## The prospects for Croatia's co-operation with the Visegrad Group

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The Visegrad Group gained a new neighbour in the European Union on 1 July 2013. Given the geographic proximity, similar level of development and a number of shared interests, Croatia could become a valuable partner in Central European regional co-operation. Co-operation in the "V4+" format is possible in most of the Visegrad Group's priorities, primarily in: energy security, transport, neighbourhood policy and EU enlargement. V4 could be attractive for Croatia as a grouping which forms broader coalitions within the EU and is helpful in solving regional problems. However, making use of this potential in practice will depend on the determination to enhance co-operation, and its success may be thwarted by temporary bilateral issues.

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### Croatia's key partners in the EU

Croatia has strong economic and political connections with a few EU member states, which could become important partners in Zagreb's European policy. Croatia has traditionally kept very close relations with Germany. Germany is its second largest trade partner, and Germans are the most numerous group of tourists visiting Croatia. Croatia has especially strong bonds with two southern federal states, Baden-Württemberg and Bavaria, which are home to most of the Croatian diaspora in Germany (over 200,000 people). Germany was the advocate of Croatia's independence and was one of the first countries to recognise Croatia as a sovereign state. However, it was the last EU member state to ratify the accession treaty with Croatia and expressed dissatisfaction with the manner in which Croatia was implementing the regulations concerning the European Arrest Warrant. Germany is also increasingly sceptical about further EU enlargement, and this is contrary to Croatia's interests. Italy is Croatia's largest trade partner and a major investor, especially in the banking sector. It also has historic and cultural bonds with Cro-

atia, in particular with its coastal regions: Dalmatia and Istria. Croatia shares some common history with Austria too, which is the largest investor in Croatia. From among Croatia's neighbours within the EU, Slovenia is the country it has most in common with in terms of history and culture. However, Croatian-Slovenian relations became complicated over the past years due to disputes linked to their Yugoslavian legacy. Nevertheless, immediately before Croatia's accession, the two countries agreed on the way the contentious issues would be handled (e.g. the maritime boundary delimitation issue will be submitted to arbitration), and bilateral relations improved. The heads of state of Austria, Slovenia and Croatia met in August 2013 in Graz and promised to enhance their co-operation and hold regular trilateral meetings.

Out of all the Visegrad countries, Croatia has the closest relations with its neighbour, **Hungary**. For centuries, the kingdoms of Croatia and Hungary were connected through a personal union. The Balkan direction has traditionally been a priority in Hungary's foreign policy. Hungary backed Croatia's independence and clearly supported it in its efforts to join the EU. Even prior to Cro-

atia's accession, the two countries co-operated for example in the Quadrilaterale format (with Italy and Slovenia also participating). Accession negotiations with Croatia were finalised at the time of Hungary's presidency of the Council of the European Union. Their bilateral relations are not burdened with ethnic minority issues, which sometimes cause tension in Hungary's relations with its neighbours (Romania, Serbia, Slovakia and Ukraine). The Hungarian minority in Croatia is small and has extensive rights, as with the Croatian minority in Hungary<sup>1</sup>.

Although both parties are emphasising that their bilateral relations are exemplary, they are still not free from disputes. These disputes are primarily linked to the presence of Hungary's MOL company on the Croatian energy market. In 2009, it increased its stake in Croatia's strategic energy company, INA, to almost 50%, thus taking over control of the company's management<sup>2</sup>. Although INA's financial results have improved significantly since then, the Croatian government, which holds a 45% stake, has reservations about the company's management policy (for example, it is questioning what it sees as insufficient investment and the plan to close the Sisak refinery). The manner in which MOL took over control of the company has also given rise to controversy. In November 2012, a court of the first instance sentenced Ivo Sanader (Croatia's prime minister in 2003-2009) to 10 years in prison for accepting a bribe from representatives of the Hungarian company. Croatian prosecution authorities have been insisting since 2011 that the CEO of MOL, Zsolt Hernadi, be heard in court as a suspect. Hungarian prosecution authorities have refused to detain the CEO of Hungary's largest company, who is also an influential person in Hungary, arguing that in their refusal they are guided by 'national interests'. The Hungarian government has distanced itself from

<sup>1</sup> According to the 2011 censuses, 14,000 ethnic Hungarians live in Croatia (0.33% of the population) and 24,000 ethnic Croatians live in Hungary (0.24%).

<sup>2</sup> MOL held 25% plus one shares in the company from 2003.

this case, indicating that the state owned just a minority stake in MOL. However, after a court in Zagreb issued an arrest warrant concerning Hernadi on 27 September 2013, the Hungarian government cancelled the visit of the Minister of Foreign Affairs, Janos Martonyi, to Croatia and called upon MOL's management to investigate the possibilities of selling its stake in the Croatian company. This issue will make it difficult to reach a compromise in the negotiations which commenced on 18 September over the manner of INA management between the Croatian government and MOL. It will also adversely affect relations between the two countries.

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Croatia is also in co-operation with other EU member states as part of macro-regional initiatives. It is one of the countries covered directly by the European Union Strategy for the Danube Region (EUSDR), which includes all V4 states except for Poland. It also joined the Adriatic and Ionian Initiative (together with Italy, Slovenia, Greece, Albania, Montenegro, Serbia and Bosnia and Herzegovina). These countries sent a request to the European Commission to prepare an EU strategy for the Adriatic and Ionian region by 2014 that would resemble the EUSDR and the EU Strategy for the Baltic Sea Region (EUSBSR). These strategies could potentially form a platform for enhancing co-operation between EU member states and contribute to closer collaboration in the decision-making process within the EU. As part of the EU's European Territorial Co-operation, Croatia participates in two trans-national co-operation programmes: the Mediterranean programme and the South-

East Europe programme, where it collaborates, for example, with Hungary and Slovakia. In turn, it does not participate in the Central Europe programme (which covers all the V4 states among others). Croatia and its partners from the Visegrad Group are also members of the Central European Initiative, but as regards establishing closer co-operation between this region and the EU, this broad structure is not currently playing any major role.

### **Visegrad Group's co-operation with Croatia**

Croatians are emphasising that upon accession their country symbolically left the Western Balkan region. Due to historical bonds, the Central European is often counterposed to the Balkan in Croatian political thought (the concept of 'the escape from the Balkans'). However, from

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Croatia's point of view, the bonds with Central Europe also include bonds with Austria, Slovenia and northern Italy, and the intensity of co-operation with the V4 states is far behind Croatia's links with these EU member states. Croatian foreign policy has for years been focused on the accession process and resolving bilateral issues, related to the legacy of the collapse of Yugoslavia. Croatia's accession to NATO (2009) and the EU has entailed the need to optimise the formula for implementing its national interests within the new political framework. In this process, the bonds with Central Europe, including the Visegrad Group states, may become increasingly important. The indications that Croatia is interested not only in enhancing

political co-operation but also in acting together in particular sectors, which is part of co-operation within the V4, are promising signs. The cooperation could also be developed together with partners from Central Europe in the broad meaning of the term in the larger V4+ format. The Visegrad Group has over the past few years been increasingly more engaged in former Yugoslavia. This has traditionally been an important direction in foreign policy for the Czech Republic, Slovakia and Hungary. In the previous decade, the V4 states were engaged in multi-lateral co-operation with the countries classified as Western Balkan, mainly within the Regional Partnership format together with Austria and Slovenia, for example, by sharing their common experiences of the EU integration process. At present, the most important platform for regional co-operation with Austria and Slovenia for all the V4 states is the Salzburg Forum, which is a formula for the co-operation of interior ministries. Bulgaria and Romania joined it in 2006 to be followed subsequently by Croatia in 2012. Over time, Croatia and its partners from the Western Balkans, like the countries from the EU's eastern neighbourhood, have become a priority area for the Visegrad Group itself. The stimulus for establishing closer co-operation with Croatia came with the gas crisis in 2009, when Central and South-Eastern European countries had to face cuts in gas supplies as a consequence of the Russian-Ukrainian dispute. Croatia joined the consultations concerning regional energy security, which were initiated by the Visegrad Group. Since the Hungarian presidency of the V4 in 2009/2010, representatives of Croatia have participated in a number of Visegrad Group meetings (they usually joined the V4+Slovenia format) covering such issues as transport, regional development, justice and public administration. Other areas of co-operation appeared after the conclusion of the accession negotiations in 2011. During the negotiations regarding the EU's Multi-annual Financial Framework for 2014-2020,

Croatia joined the so-called Friends of Cohesion Policy group, which was co-formed by the Visegrad 'four'. It should be expected that Croatia, being a beneficiary of EU funds, will support a strong cohesion policy in the future, as do the V4 countries. Croatia and the Visegrad Group have common interests in all those areas where the 'four' co-operate especially closely, namely: energy security, transport corridors, neighbourhood policy and EU enlargement policy. The will to enhance co-operation was expressed in the common declaration by the ministers of foreign affairs of the V4 and Croatia, adopted shortly before Croatia's accession to the EU<sup>3</sup>. The agenda of the Hungarian presidency of the Visegrad Group<sup>4</sup> also provides for a general perspective for developing co-operation within the V4+Croatia format.

## Energy issues

Croatia participates in the Visegrad Group's flagship project, namely the creation of the North-South gas corridor. Zagreb also desires the creation of a common energy market and development of transport infrastructure. In November 2011, Croatia and other countries from the region joined the V4 initiative and signed a memorandum of understanding with the European Commission envisaging the construction of North-South system interconnectors. In September 2012, the Polish and Croatian transmission system operators, Gaz System and Plinacro, signed a letter of intent to create a gas corridor between the Baltic Sea and the Adriatic Sea<sup>5</sup>. The first interconnector (with a relatively large capacity of 6.5 bcm) as part of the

gas corridor was put into operation in 2011 and connected the systems of Croatia and Hungary. It is barely used but its significance could grow once a Croatian LNG terminal is launched or an attractive offer price appears in the north.

Although the launch of the Croatian LNG terminal has been planned for more than a decade, it is still unclear whether it will be built. The Adria LNG consortium<sup>6</sup> suspended the preparatory work for the construction of the Omisalj terminal on Krk island in 2010 as a consequence of the economic crisis and falling gas consumption in Europe. The Croatian government is calculating that the state-owned companies, Plinacro and HEP, could build a smaller gas terminal which would have a yearly capacity of 5 bcm and not 15 bcm as originally planned. The feasibility study is to be presented by the end of 2013. The Hungarian government is also considering whether the state-owned energy company, MVM, could join this investment.

However, Croatia is engaged in a number of competitive projects, which could postpone or even thwart the plans to build the LNG terminal. In January 2013, it signed an agreement

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with Gazprom under which a branch of the South Stream gas pipeline (with a 2.7 bcm capacity) running to Croatia will be built. Croatia also participates in the Ionian Adriatic Pipeline (IAP)<sup>7</sup> project, which is to be connected to the planned Trans Adriatic Pipeline (TAP) that in late June 2013 won the competition with the Nabucco consortium for supplying natural gas from

<sup>3</sup> Joint Declaration of the Foreign Ministers of the Visegrad Countries and Croatia on the Occasion of the Croatian Accession to the EU (26 June 2013), <http://www.visegradgroup.eu/calendar/2013/joint-declaration-of-the>

<sup>4</sup> Hungarian Presidency in the Visegrad Group (2013–2014), <http://www.visegradgroup.eu/documents/presidency-programs/20132014-hungarian>

<sup>5</sup> Declaration on Gaz-System S.A.'s co-operation with the Croatian transmission system operator, Plinacro D.O.O. (13 September 2012), <http://www.gaz-system.pl/centrum-prasowe/aktualnosci/informacja/arttykul/201544/>

<sup>6</sup> Its shareholders are E.On Ruhrgas (39.17%), OMV (32.47%), Total (27.36%) and Geoplina (1%).

<sup>7</sup> Joint Statement of Ministers of Foreign Affairs of Albania, Bosnia and Herzegovina, Croatia, Greece, Italy and Montenegro. Dubrovnik, June 12, 2013, <http://www.mvep.hr/files/file/2013/130613-jointstatement.pdf>

the Azerbaijani Shah Deniz II field to Europe. Given the low level of domestic gas consumption in Croatia (2.8 bcm in 2012), the construction of an LNG terminal may prove groundless once all these projects have been implemented. On the other hand, if the IAP gas pipeline is built, Croatia (set to dispose of half of its 5 bcm capacity) will be able to export some Azerbaijani gas, for example, to Hungary.

Croatia is also potentially an essential oil transit country via which supplies could be made to Hungary, Slovakia and the Czech Republic. If supplies to Central Europe via the southern branch of the Druzhba pipeline were to be reduced significantly, the Adria pipeline will gain significance. This pipeline transports gas from the Omisalj port in Croatia to the refinery in Budapest and will also

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transport it to Bratislava and possibly to refineries in the Czech Republic in the future, once the planned modernisation of the section connecting Adria and Druzhba is finalised. This is one of the reasons why Russian companies are interested in entering Croatia (including INA), which has been evident for a few years now.

Croatia also shares the Visegrad Group's stance on the use of nuclear energy. It wants this sector to be developed because of the possibility of ensuring competitive energy prices and low carbon emissions (Croatia's state-owned company HEP co-owns the Krsko nuclear power plant in Slovenia). Given the fact that its industry is relatively energy-intensive, Croatia may also be a valuable partner for the Visegrad Group as regards energy and climate policy issues.

## Transport

Another potential area for closer co-operation between Croatia and the Visegrad Group is transport infrastructure and its development along the North-South axis. Croatia is attractive to the V4 countries because of its access to the Mediterranean Sea (transport of goods and tourism). The Croatian government is planning to make Rijeka an important Adriatic Sea port again; the role this port was forced to relinquish to Slovenia's Koper and Italy's Trieste as a consequence of the Balkan Wars in the 1990s. Croatia has a well-developed network of road connections, and is planning to develop and modernise the railroad infrastructure, seaports, river ports and airports in the near future. However, the implementation of these investments will depend on the availability of external funding.

As regards railway connections, the most important investment will be the construction and modernisation of the railway line as part of the Vb – Rijeka Port – Karlovac – Zagreb – Koprivnica (border with Hungary) corridor. The connection between Rijeka and Budapest is to be modernised by 2020 (investments worth 2 billion euros, financed predominantly with EU funds). Plans include developing the container terminal in Rijeka and terminal construction on Krk island. Rijeka's connection with Central Europe also fits in with the Central European Transport Corridor (CETC-Route 65) concept, which connects Sweden via the Świnoujście – Szczecin ports through the Czech Republic, Slovakia, Hungary and Croatia to the Adriatic (Croatia's five regions are partner regions). Croatia is also interested in access to the intermodal corridor running from the Gdańsk/Gdynia/Sopot Tricity to the Adriatic Sea<sup>8</sup>. Zagreb would also favourably regard the development of the Vc – Hungary – Croatia – Bosnia and Herzegovina – Croatia – (Ploče Port) transport corri-

<sup>8</sup> The container terminals in Gdynia (BCT) and Rijeka (Adriatic Gate) are owned by one firm, ICTSI from the Philippines.

dor. The implementation of this corridor would improve connections between the eastern and southern parts of the country via Bosnia and Herzegovina (BiH) and strengthen the role of Croatia's Ploče port, which predominantly handles customers from BiH. This would enable the development of underinvested regions of Croatia and BiH, and establish a better connection between Dalmatia and Central Europe.

### **Eastern Partnership and Western Balkans**

Like the V4 countries, Croatia is a staunch supporter of continuing the process of EU enlargement, and will strive to ensure stabilisation in those countries which are neighbours of the EU. Given its location, Croatia is interested primarily in the accession of its Balkan neighbours: Montenegro, Serbia, and Bosnia and Herzegovina. It should be expected that Croatia will be actively engaged in the efforts to ensure that these countries join the EU as soon as possible. However, it will also be tempted to use the accession negotiations to force its neighbours to make concessions to it in bilateral disputes. This tactic was employed by Slovenia, which suspended progress in the EU–Croatia negotiations for almost a year. Croatian diplomats have declared on numerous occasions that their country does not intend to obstruct the accession of Serbia or any other state from this region. Croatia's co-operation with the Visegrad Group on the one hand would enrich V4 engagement for the Western Balkans with Zagreb's precious experience and, at the same time, would motivate Croatia to be constructively engaged in backing reforms in those Balkan countries which aspire to join the EU, and also to continuing the process of reconciliation with its neighbours.

Croatia has no major interests in the EU's Eastern Neighbourhood (the countries covered by the Eastern Partnership). Being the European Union's new frontier state which has joined the group of countries supporting enlargement

and strives to tighten co-operation with the V4, it can significantly strengthen the group of countries that want the EU to continue its engagement in the Eastern Neighbourhood. Since Croatia is a Mediterranean country, it is likely to be interested in the southern dimension of the European Neighbourhood Policy. However, this does not mean that it will turn its back on Central Europe's priorities, especially given the fact that Croatia has no well-developed links with North African or Middle Eastern countries.

### **Conclusions**

The V4 states supported Croatia during the process of accession negotiations, which were finalised during Hungary's presidency of the Council of the EU in the first half of 2011. The accession treaty was signed under the Polish presidency in December 2011. Both the achievement of co-operation (multilateral and bilateral alike) and the community of interests in many areas form essential political capital for establishing stronger bonds between the V4 and Croatia. However, it should not be forgotten that the V4's priorities in these areas do not necessarily match the interests of Croatia's vital partners in the EU, which may reduce Zagreb's determination in the joint effort to carve out a common Central European stance. It is not always in the interest of the V4's Western neighbours to attach high priority to infrastructural connections running along the North-South axis. Last but not least, the logic for development of this 'axis' also includes elements of competition, such as rivalry among the Mediterranean seaports and also between the Mediterranean and Baltic seaports, as well as possible parallel functioning of the Baltic and Adriatic LNG terminals. However, the countries should not be discouraged from co-operation due to this, and instead they should be prompted to use the multilateral co-operation instruments to align their interests and build synergistic solutions, since the idea of building stronger bonds be-



tween Croatia and the V4 is in the long-term interest of the region and the EU as a whole.

The V4 countries agree that the present shape of the Group needs to be maintained, however the V4+ format offers a good platform for cooperation with third parties. This format provides for meetings of representatives of the V4 and other states at various levels, depending on the issues on the agenda. This in particular concerns co-operation with those partners from the EU which are situated in the neighbourhood of the V4 states: Bulgaria, Romania, Slovenia and the Baltic states. A number of issues to which the Visegrad Group attaches high priority (the energy sector, cohesion, transport, EU enlargement and the Neighbourhood Policy) will also be the areas where co-operation with Croatia could be enhanced. Given the strong territorial aspect in the sectoral policies which the V4 and Croatia share, it would be advisable to include Croatia in the existing model of co-operation in the area of spatial planning (the V4+Bulgaria and Romania format).

Establishing stronger bonds with the V4 could prove an attractive instrument for Zagreb in cementing its bonds with its partners inside the EU and increasing its influence on European policy. What could further stimulate the enhancement of this co-operation is the fact that Croatia's accession to the EU coincided with the beginning of Hungary's presidency of the Visegrad Group (Hungary is the only V4 state to be Croatia's direct neighbour). Hungary has declared its desire to enhance Central European co-operation and gain the 'synergy' effect in connection with Hungary's parallel presidency of the V4 (mid 2013 – mid 2014) and of the Central European Initiative (2013). Hungarian diplomatic activity in the first months of Croatia's presence in the EU will have a major impact on the development of regional co-operation, since this will be the period when Croatia's political profile in the EU will crystallise.

## APPENDIX

### Croatia

Population	4.3 million
GDP <i>per capita</i>	10 295 euros
Economic growth	-1.0%
Inflation	2.6%
Budget deficit	-5.9% GDP
Public debt	59.7% GDP
Unemployment rate	16.7%

The latest data and forecasts for 2013.

Source: National Bank of Croatia, [www.hnb.hr/publikacije/bilten/arhiv/bilten-194/ebilt194.pdf](http://www.hnb.hr/publikacije/bilten/arhiv/bilten-194/ebilt194.pdf)

### Accumulated value of Foreign Direct Investments (1993–2013/Q1)

country	billions of euros
Austria	7.16
the Netherlands	4.08
Germany	3.12
Hungary	2.45
Luxembourg	1.73
France	1.39
Italy	1.30
Slovenia	1.14

Source: National Bank of Croatia, [www.hnb.hr/statistika/strana-ulaganja/e-inozemna-izravna-ulaganja-u-rh-po-zemljama-porijekla.xls](http://www.hnb.hr/statistika/strana-ulaganja/e-inozemna-izravna-ulaganja-u-rh-po-zemljama-porijekla.xls)

## Croatia's key trade partners and the V4 states (2011)

Exports	millions of euros	Imports	millions of euros
Italy	1511	Italy	2676
Bosnia and Herzegovina	1174	Germany	2049
Germany	967	Russia	1185
Slovenia	794	China	1153
Austria	547	Slovenia	1012
-		-	
Hungary	241	Hungary	490
Poland	103	Poland	339
the Czech Republic	94	the Czech Republic	314
Slovakia	89	Slovakia	151
V4 as a whole	527	V4 as a whole	1294

Source: Croatian Statistical Office, [www.dzs.hr/Hrv\\_Eng/ljetopis/2012/sljh2012.pdf](http://www.dzs.hr/Hrv_Eng/ljetopis/2012/sljh2012.pdf)

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