

### The importance of environmental protection: Croatia in the European Union accession process

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## Chapter 12

# THE IMPORTANCE OF ENVIRONMENTAL PROTECTION: CROATIA IN THE EUROPEAN UNION ACCESSION PROCESS

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## ABSTRACT

One of the most demanding European Union policy areas, the environment has become important in the accession negotiations process. Transposition of the *acquis*, ensuring its adequate implementation and absorbing the pre-accession funds constitute an enormous task for any, particularly a small, candidate country. Croatia is, in this respect, facing a great challenge and this article shows that there is still a long way to go. The lack of financing strategies and carefully planned time-tables for implementation of the obligations sends a clear message that decisions should be made and actions taken immediately.

### **Key words:**

Croatia, environment policy, European Union, Environmental Action Plans, Stabilisation and Association Agreement, Accession Partnership, Pre-accession Programmes, negotiations, CARDS, PHARE, ISPA, IPA

## INTRODUCTION

The environment is considered a serious social and economic issue that needs to be addressed comprehensively if we are to accomplish and preserve the quality of life for ourselves and the generations to come. Environmental policy began in response to local problems, but later spread across national borders, for environmental degradation caused general concern and induced thorough scientific research.

Over the years, the EU has shown a great interest in environmental protection and most probably became a global frontrunner in this issue. It was realised as early as the 1970s and 1980s that the inter-governmental organisation or supranational body, as it was, would have a great impact on its members. Since that time, the EU has created an impressive number of legislative documents and policy papers related to the environment. Some of these have been more effective than others, which have been ineffective due to the lack of stringent penalties or to reluctance on the part of governments in EU member states.

Nevertheless, quite a lot has been achieved. For the environment, the accession process is a great opportunity and impetus for action. As a candidate for EU membership, Croatia is facing great challenges. From institutional to administrative and financial demands, Croatia has to fulfil a great number of goals in a very limited time – the currently available EU funds and programmes might be a useful tool to meet the requirements posed by the EU.

The aim of this article is to present the background and context of the environmental policy in the EU, with the emphasis on the process in Croatia, mainly based on the use of the pre-accession programmes – to present what is yet to come and what needs to be addressed, based on both the current state of affairs as well as the authors' personal knowledge and experience in dealing with both environmental issues and EU affairs.

## ENVIRONMENTAL POLICY

One might argue that it all started in the late 1960s in Sweden when a decrease of the wood stock was detected, which resulted in a serious analysis of the correlation between industrial activities and forest degradation. The polluting countries thought they had “solved” their problems by building tall chimneys to ensure that pollutants would be

taken into the atmosphere and transported hundreds of kilometres away. It was only when the economic consequences of environmental degradation were extensive enough that a substantial and holistic analysis of the problems and possible solutions was performed. Scientific research proved that the soil acidification present in Sweden, a country the economy of which relies on the wood stock, was a result of the high industrialisation of the countries in the West – pollutants in the air were carried by air currents across borders (McCormick, 1999).

The protection of the environment is an ideal example of how certain policies need to be addressed on the international level, although specific problems are raised locally (Connelly and Smith, 1999). The outcome of the growing concern and interest in the environment was the United Nations Conference on the Human Environment held in Stockholm in 1972. This was the starting point of the global environmental protection policy: the international community recognised the importance of the problem of the depletion of natural resources as well the significance in relation to the future development of the world. They stressed the need for a common approach in solving global problems, such as climate change or water pollution, as well as, and most importantly, consciousness of the co-dependency of the living world on this planet.

One of the most important dates in environmental history is surely 1992, when the UN conference in Rio was held. At that moment, the whole world was involved in the discussion on the mutual dependence of economic development and environmental protection. Not only did government representatives, academia and scientists participate, but the non-governmental organisation (NGO) community as well. It was a truly global conference. The conclusion was that environmental protection should not be a limiting factor for economic development but its integral part and impetus and that the balance between them was necessary and also possible. The result of those discussions was a new principle, so embraced and exploited by many later, named “sustainable development”.<sup>i</sup> This concept was unique in the sense that it focused on the long-term goals and interlinked the economic, social and environmental aspects of life.

Consequently, the environment has become an increasingly popular topic not only for academia and professionals, but for the public as well – today being environmentally conscious is practically even synonymous with being trendy. At the same time, the movement has outgrown the borders of states and even continents, and the idea of protect-

ing the planet against reckless and thoughtless destruction has become part of our everyday lives. The optimism and idealism of the 1990s has been overshadowed by concerns about globalisation. For that reason the 2002 UN conference in Johannesburg dedicated to the achievements in creating and maintaining sustainable development was a great disappointment (IEEP, 2005). Not only were the targets set in 1992 in Rio not met, but also the level of interest and involvement of the countries that have an important global impact was extremely low. Nevertheless, the EU remained a positive example – although many issues have not been resolved, quite a number of actions have been undertaken with the ultimate goal of achieving sustainable development (European Commission, 2005b).

## **THE EUROPEAN UNION AND THE ENVIRONMENT**

The European Communities, later the European Union, were originally created as an economic trading block. Through time, economic interests were outgrown and it evolved into a community that places the environment and sustainable development among its core principles, even in its treaties. European environment policy has become increasingly ambitious over the course of time and has resulted in significant environmental improvements (Connelly and Smith, 1999; Mintas-Hodak, 2004). At the same time, competitiveness, as well as economic growth and jobs, are vitally important, sometimes leaving environmental and sustainability principles aside rather than being integral to them.

Recently, due to other issues emerging on the EU level, especially political matters such as the European Constitution or social reforms in its members, the environment is no longer high on the agenda. On top of that, the recent enlargement has induced higher costs and necessitated reforms in the functioning of the EU institutions, resulting in a reluctance for further enlargement. Also, periodically, the EU is rethinking its existence, which is obviously happening right now; therefore other issues are put aside, while national interests are in focus. Certainly, an impact on the environmental sector exists and time will show to what extent.

It has become evident that environmental protection is a demanding and very costly segment in all EU activities. Environmental

policy does not have a sectoral character like other EU policies. On the contrary, it is a significant part of all the segments of human life – from health and human rights to social welfare and economic growth, and therefore environmental aspects have to be addressed in all of them. Year by year the size and complexity of regulation is expanding and demands strong commitment from and the understanding of all the stakeholders.

In the past, in certain cases enlargement resulted in improvements in the EU environment policy (European Commission, 2006). Those members who had had a significant experience in the environmental sector influenced EU policy making in a positive manner, promoting their national policies when joining the EU. One must not forget that the member states have a variety of attitudes towards the protection of the environment – some are more enthusiastic than the others, some have a stronger public awareness of the importance of the problem and some lack both the public and governmental decisiveness to make a change (EEA, 2005b). On the other hand, if the latest enlargement with ten new countries in its best sense becomes as efficient as predicted, the EU will continue to be a role model in the environmental sector. The intergovernmental and supranational character of the EU enables it to impose binding laws on its members, which is significant for the environmental sector, since their implementation is sometimes extremely demanding.

Today, many problems are rooted in the way Europeans use land, the economic conditions and the ways of life. Recent reports have shown that the trends in caring for the environment are not encouraging (EEA, 2005b). Individual awareness of the impacts of certain activities on the environment and their link to health would definitely make a difference. Public polls have shown that there is a great support from the EU citizens for preservation and improvement of the state of environment, as a result of a growing public awareness of the gains over the past decades, ever since environmental action has been recorded (Eurobarometer, 215/2004). The main reason is that Europeans value the quality of life. Reports from EU institutions (both the Commission and European Environment Agency) have proven that there is need for joint action from governments and citizens to shape economic development in line with “the Earth’s carrying capacity”. Consequently, the more Europe uses the opportunity to achieve an environmentally sound development the greater is the chance that it will affect global trends. Another issue should not be forgotten – many argue that EU environ-

mental policy is not focused or efficient enough, that it is not adequately strong to induce radical changes in the society (EEB, 2006). Most likely, greater attention should be given to the political willingness to implement the *acquis* at the national level. Otherwise, the state of affairs and the outlook will be worse than if no action had been undertaken.

Politically, the EU considers environmental protection a bright example of its international leadership. The Union tends to present the decisiveness of its twenty five members that in jointly deciding on their goals and the means to achieve them, for the purpose of securing social justice, economic prosperity and a sound environment for its citizens, as a model for the rest of the world.

## **ENVIRONMENTAL ACTION PROGRAMMES**

As the EU is a supranational authority, its policy-making institution, the Commission, has an important role for all its members and, of course, future members. In line with EU international activities related to the environment, through the decades the Commission has created a line of environmental action programmes (EAPs) that were supposed to be used as a framework for future actions. Six of those programmes have been prepared and presented – through time they developed from those in the seventies that were strictly focused on strong regulation and control mechanisms, via those in the eighties that introduced market instruments, to the very latest measure, which is focused on the creation of thematic strategies for each sector identified as resulting in major environmental damage (EEA, 2005a).

The first and second EAP were adopted for the period 1973-1981. They were both based on the UN Conference on the Human Environment held in Stockholm in 1972 and were to some extent idealistic in approach. This was the beginning of Community environment policy, therefore both action plans were focused on the prevention, reduction and containment of environmental damage, the conservation of an ecological balance and the rational use of natural resources. It was the first time that an environment policy document was created for its own purpose without being subordinated to internal market objectives. The approach in those two plans was top-bottom.

The third EAP, 1982-86, and the fourth EAP, 1987-1992, were more related to the completion of the internal market. The third was

concentrated on the risks and benefits of environmental policies to the internal market. The fourth was adopted in the same year the environment gained its own chapter in the Treaty. It was focused on the economy of the environment: environmental aspects were a part of the production process in order to reduce energy or material inputs in the production cycles, resulting not only in the improvement of the state of the environment, but in production costs reduction, and hence in more favourable outcomes for each side. Finally, both small and large companies had to be involved, with the realisation that the investments in production would be significant, while the benefits would be achieved in the medium-term perspective. Furthermore a set of new economic instruments was introduced – taxes, subsidies and tradable emission permits.

In 1990s the fifth EAP was in place with some innovations, based on external factors that influenced and changed the approach to the environment:

- sustainable development approach,
- integration of the environmental dimension into the sectoral policies,
- new market-oriented instruments,
- role and involvement of the public, NGOs and local authorities,
- defining medium and long-term objectives.

At the same time, there was a certain resistance from some member states. Now that measures had become specific, they called for application of the subsidiarity principle so that environmental policy was brought down to the national instead of the EU level. As a response to that, a number of less stringent measures were introduced – softer and more voluntary. It should be concluded that the Commission overestimated the willingness of its members to adopt the legislation and principles and the economic problems cast a shadow over the promotion of the new incentives.

In recent times, especially with the fifth EAP, it has become evident that certain sectors need to be specially addressed in the environmental context – those that were identified as the main sources of environmental deterioration<sup>ii</sup>. The integration of environmental aspects into sectoral policies would be used to induce changes. Precisely for that reason, the last, sixth EAP, is crucial for imposing the need to create thematic strategies for the environment, in order to create strong sectoral guidance, with a clear timetable for the necessary action. The integration of the environment into sectoral policies is a continuous process and its successfulness depends on a mixture of political commit-



ment, appropriate structures in place, processes and even individual efforts. Only if public and business jointly participate with government will it be possible to create new objectives and revalue the presently available instruments. The sixth EAP takes the inadequacies of the previous EAPs and underlines them as new strategic goals, pointing out and introducing cooperative approaches with industry. The aim is to influence key environmental areas – climate change, nature protection, health and the environment, sustainable use of natural resources and waste management (European Commission, 2001).

It can be assumed that the shift from the top-bottom approach and insistence on the transposition of the *acquis* to the concept of having different thematic strategies, which requires careful strategic planning and assessment, will be highly beneficial for the EU candidates. Instead of having independent legislation to adopt and implement, thematic strategies would introduce a clearer context and timeframe.

## ACCESSION PROCESS

The EU accession process related to environment is the challenging one – to become a member, the candidate has to make efforts to fulfil the requirements set by the EU by regulating the adoption of the environmental *acquis*, composed of more than three hundred different regulations related to the air and water pollution, chemical, waste management, biotechnology, protection from the radioactive radiation and preservation of natural resources. The environmental chapter is considered to be one of the most complex ones. The combination of building or rebuilding the economy in transition while fulfilling the environmental standards is characterised as a challenging process, if not close to impossible. It is of the utmost importance that the standards are adopted by future members, not only for the benefit of the general state of the environment in Europe, but also to prevent “environmental dumping” in countries that have less rigorous legislative frameworks. Priorities in transposing the *acquis* include:

- framework legislation,
- measures initiated from the international conventions signed by the EU,
- reduction of global and transboundary pollution,
- nature protection to preserve natural resources, and
- measures that ensure the functioning of the internal market.

The costs of compliance are relatively higher for countries with a low population, Croatia being a case in point. Therefore, the Commission has proposed the creation of financial strategies to evaluate the real costs of compliance. Those strategies need to be in line with the national strategy for the adoption of the *acquis* and must have a clear timetable of concrete investments, especially for the key areas – water and air quality and waste management. This is essential for the appropriate and efficient use of the pre-accession instruments, which will be referred to later.

Obviously, all these would also present a long-term benefit for the candidates. Not only would they be able to function on the common market, they would be able to improve the quality of life, reduce the costs of health protection as well as those costs resulting from the deterioration of forest, agricultural land or fish stock. A study financed by the Commission concluded that over the period 1999-2020, the overall benefits of compliance with the environmental *acquis* for candidate countries (excluding Croatia) would amount to between 134 and 681 billion euros, assuming full implementation is achieved in 2010 (ECOTEC, 2001).

## **CROATIA'S PATH**

In October 2005 the European Council decided that the negotiations with Croatia should begin. Only six months later, Croatia started the first part of the negotiations related to the environment. The screening phase for *Chapter 27 Environment* of the negotiation process, it was claimed, was likely to last longer than that for other chapters. The explanatory phase of the screening was used to prepare the national review and evaluation of what had already been done, and which actions were crucial for the further transposition. Of course, that is a serious and not an easy task. Not only does it require a revision of the legislation that is in force in Croatia at the moment, but also entails a serious and profound evaluation of what can possibly be achieved in a realistic timeframe, in which way and with which financial sources. In this respect, it is essential to use the pre-accession funds in the most efficient way, at the same time consulting other possible sources of financing, especially bilateral.

It is to be expected that certain areas will be identified for which Croatia might request transitional periods. Based on the experience of

other candidates, it would not be possible to expect approval in some issues such as:

- transposition of directives into the national legislation,
- framework legislation (air, waste, water, environmental impact assessment, access to information),
- nature protection (habitat and birds),
- legislation related to product regulation, and
- introduction of new technologies.

Transitional periods can be expected in areas where there is a need for substantial investment in the infrastructure, which is then prolonged through a longer period of time, without jeopardising the economic development.<sup>iii</sup> If the procedures are not changed in the Commission, for each and every sub-sector of the environment, Croatia would have to prepare a detailed plan of transposition and implementation, which would include a specific and detailed timeframe and required administrative capacity for successful implementation of the adopted regulation<sup>iv</sup>. Part of this process is the complexity of using the financial assistance from the EU in the most effective way. As was the case with other candidates, Croatia has to acknowledge its comparative advantages and promote investment in the environment sector in order to create and develop its competitive areas.

Through the last six years, the relationship between the EU and its members on one side and Croatia on the other has been defined through different documents. It was the aim of these papers to define the economic relationship and in addition to address other issues, such as the environment. It will become clear through this short review to what extent these documents affect national policy making, especially in the context of the pre-accession funding.

*Stabilisation and Association Agreement*, signed by Croatia in 2001, was the beginning of the contractual relationship between the EU and Croatia and was, in some aspects, utilized more extensively than had been foreseen (NN – Treaties, 14/02). Its aim was to prepare and induce reforms that would eventually lead to the EU membership. Specifically, in Title VIII *Cooperation Policies*, in Article 103, the Agreement stipulates the areas of environmental protection that need to be especially addressed, with the aim of “combating environmental degradation, with the view to promoting environmental sustainability”.<sup>v</sup> Along with this new type of European Agreement, the Commission has introduced a new CARDS programme in order to streamline its assistance (Council Regulation, 2666/2000). The representatives of the

Commission paid a visit to Zagreb in 2001 for the very first programming mission to Croatia.<sup>vi</sup> During consultations, Croatian representatives managed to secure a small, but relevant amount of funds for the environment. Through the CARDS programme 4.85 billion euros are planned to be provided to this region from 2000 to 2006 for investment, institution building, and other measures. Although these funds were not sufficient for all that is necessary, this framework was a starting point in identifying possibilities for other donors and partners as well.

After presentation of Croatia's application for EU membership in April 2003, the Commission prepared the *Opinion on Croatia's Application for Membership (Avis)*. Interestingly enough, six months after Croatia had handed in the answers to the questionnaire, in the conclusions of the Opinion, the environment was identified as a separate issue. It was emphasised that "very significant efforts would be needed, including substantial investment and strengthening of administrative capacity for the enforcement of legislation" and that "full compliance with the *acquis* could be achieved only in the long term and would necessitate increased levels of investment" (European Commission, 2004b). However, the Commission recommended that the negotiation process should be initiated.

In order to identify priorities that needed to be addressed in the stage of accession preparations, the Council adopted the *Decision on Principles, Priorities and Requirements contained in the Accession Partnership* with Croatia in November 2005 (European Commission, 2004c; European Commission, 2005a). The Accession Partnership highlights short-term (1-2 year period), medium-term (3-4 year period) and long-term priorities. These concern further development of the legislative framework as well as its effective implementation. Taking into account the substantial costs required for implementation and enforcement of the environmental *acquis* as well as the complexity of it, the time-driven division of priorities and planning is of the utmost importance.

Annually, in line with the Accession Partnership, Croatia has to prepare a *National Programme for the Integration into the EU* with the clear timetable of both specific legislative and non-legislative measures (Ministry of Foreign Affairs and European Integration, 2006). The progress in implementing the priorities is regularly monitored by the Commission through the annual *Progress Report*.<sup>vii</sup> The 2005 Report examined whether planned reforms referred to in the 2004 report had been carried out, investigated new initiatives, and assessed the overall

level of alignment in each of the areas under consideration. In the environment sector, the Commission recognized that most of the problems highlighted in the Avis remain present and continue to pose a threat to successful implementation of the acquis. The Opinion's conclusion that Croatia needs to make considerable and sustained efforts in the environmental sector does not appear to have led to any significant change in the overall importance attached to environmental protection by the government. One of the resultant tasks is the creation of the coordination structures and logical coordinating mechanism. They have to be in place horizontally, between the national competent authority and other relevant line ministries and state administration bodies to overcome the high fragmentation of responsibilities, and vertically, between the national and local environment authorities.

*The National Environmental Strategy*, adopted by parliament in 2002, is based on the principles of sustainable development and deals with the state of the environment, international obligations, key objectives and priorities and also includes the state of affairs and trends as well as actions to be undertaken in priority areas (NN 46/02).<sup>viii</sup> *The National Environmental Action Plan* attached to the Strategy comprises detailed action plans for individual thematic environmental protection areas and economic sectors. The plan includes objectives, measures to achieve objectives, the level of actions, authorized implementing bodies, time schedules and possible sources of finance. The document sets out preliminary implementation assessments of the targeted measures indicating the need for significant investment increases in these sectors, as pointed out in the Avis and the previously indicated strategic documents. Even so, we can argue that neither the strategy nor the plan has been an implementable document, lacking specific steps to the fulfilment of what has been envisaged, without efficient monitoring in place and guidance on the management of the possible financial sources.

## **FINANCIAL CHALLENGES OF THE ENVIRONMENTAL ACQUIS**

As already stated above, legal transposition is the first step of the accession process, but the implementation and enforcement of the legal acts are crucial matters that require careful financial planning. At the moment, Croatia is faced with this costly task of achieving full compliance with the environmental acquis. Transition periods or post-

ponement of implementation of certain directives due to their high cost implications will only be granted on the basis of sound justification within the implementation plans for the directives contained in *Chapter 27 Environment* of the acquis. The crucial component of the implementation plan is an investment or financial strategy for the implementation of the concrete requirements prescribed by the specific directive. Those investment strategies should be reflected in the overall national financial strategy for all the requirements in the environment sector. It should be used as a tool for the government to forecast the scale and timing of funds that are essential to fulfil the EU requirements (administration, staffing, monitoring equipment and infrastructure). That document is a precondition for efficient utilisation of the Structural and Cohesion funds available once Croatia is a member of the EU.

Since no thorough calculations connected with the fulfilment of obligations arising from harmonization of legislation have been made, the financial strategy is going to be the immediate priority in this sector. According to some rough estimates the total environmental investments aimed at reaching the average EU standards for water, air and waste sectors will amount to at least 1.5 to 2 thousand euros per capita, totalling 6.6 to 8.8 billion euros. To this amount, annual operating costs have to be added, which makes these expenditures extremely high. Most of the costs will be related to water protection and waste disposal.<sup>ix</sup>

Obviously, the EU financial assistance in the pre-accession period will only cover a minor part of all the resources required in the environment sector. However, it will significantly contribute to the development of administrative structures and capacities for future significantly larger financial allocations under the Structural and Cohesion funds. The uniqueness of the Croatian case is the number of available EU financial instruments in their different implementation and preparation stages. We are speaking about the CARDS programme 2001-04, Pre-accession programmes PHARE, ISPA and SAPARD 2005-06 and Instrument for Pre-accession assistance (IPA) from 2007 until membership. This situation makes the complex functioning of EU funds even more challenging.

## **CARDS Programme**

Within the CARDS 2001-04 cooperation policies framework, the environment and environmental integration into other policy areas

Table 1 CARDS 2001-04 allocations to Croatia\*

Budget years	Total national allocation (million euros)	Allocation to environment (million euros)	Share of the environment in total (%)	Areas of financed actions
2001	60	0.2	0.3	Municipal waste management strategy
2002	59	3.0	5.6	Environmental law approximation strategy Waste management in Dalmatian counties Water monitoring Support to environmental NGOs
2003	62	3.7	5.9	Environmental impact assessment Strategic impact assessment Access to environmental information and public participation Support to environmental NGOs Use of renewable energy sources
2004	81	3.8	4.6	Continuous approximation with the acquis in the sector of air, IPPC and water, renewable energy and energy efficiency
Total 2001-2004	262	10.7	4.0	

\* Due to unforeseen circumstances an additional 1.8 million euros were allocated to the environment sector within the 2001 programme and the allocation amount was reduced by 0.3 million euros within the 2003 programme.

have been clearly acknowledged. Environment, as cooperation policy, was reflected in two main documents – Country Strategy Paper (CSP) and Multi-annual Indicative Programme (MIP). CARDS support identified in MIP aims at improving the implementation and enforcement of existing national legislation, further alignment with environmental acquis, building capacity in the public administration and environmental NGOs, raising awareness of consumers and the private sector. The expectations of the accomplished actions are formulated in three straightforward results within MIP: an agreed strategy for EU approximation in the field of the environment, the systematic use of environmental impact assessment for investment proposals, and an improved system of environmental monitoring.

The financial agreements signed under the CARDS programme 2001-04 are worth 262 million euros. The financial allocations for the environment and natural resources are rather small compared to the overall annual allocation (Table 1). Co-financing is not required for projects within CARDS programme – in other words, they are in the form of grants.

CARDS 2001, 2002 and 2003 annual programmes in environment have been completely contracted, while the environment component of the budget year 2004 is currently in the process of tender preparation. This fact actually shows that planning, preparation and implementation of the programmes are time-consuming tasks to be performed according to stringent, sometimes rigid EU procedures, which primarily require a well-trained and experienced administration.

## **Pre-accession funds**

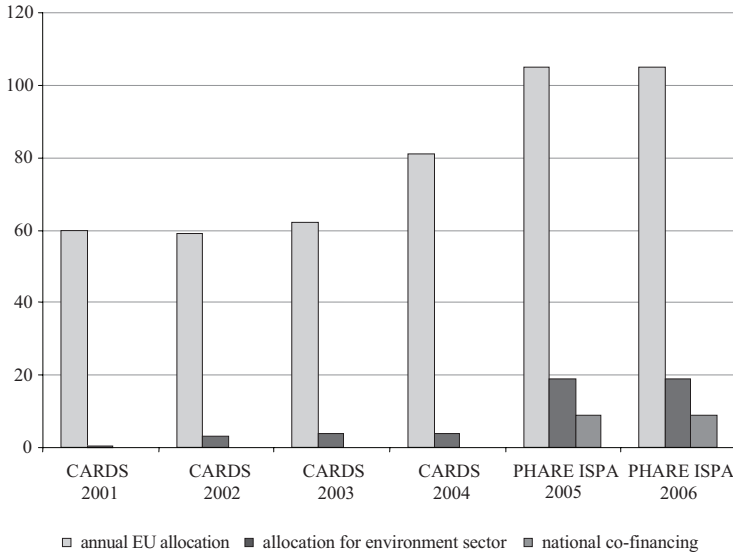
The strategic document of the Commission on progress in the enlargement process has elements of pre-accession strategy for Croatia and presents the basis for utilization of the EU pre-accession funds PHARE, ISPA and SAPARD (European Commission, 2004d). For the implementation of those programmes 105 million euros were allocated in 2005 and 140 million euros in 2006.<sup>x</sup>

The particularity of pre-accession programmes, in comparison to CARDS, are the substantially larger allocations, focused on financially larger projects with obligatory co-financing from the national budget as a tangible sign of commitment and ownership of the pro-



grammes. The co-financing rate varies in accordance with the rules of each programme.

Graph 1 European Union allocations to Croatia (million euros)



To contribute to the achievement of full compliance with the EU requirements in the negotiation of *Chapter 27 Environment*, the 2005 *PHARE* contribution of 4.5 million euros (5% of 2005 total) has been allocated to interventions in the enhancement of environmental inspection and designation of NATURA 2000 sites in Croatia.<sup>xi</sup> The latter will be extremely important in future structural fund investments since all interventions in these areas will be systematically assessed. In 2006, an additional 80 million euros are available but only around 5 million will be allocated for two projects in environment sector.

These figures demonstrate the tendency of the Commission to have focused and financially substantial projects to secure significant impact rather than the diffused actions that were found in *CARDS* programme. The *PHARE* assistance is clearly *acquis*-driven, in other words, it is focused on projects aimed at the transposition and implementation of *acquis* requirements.

In order to prepare Croatia for the accession, *ISPA* provides financial support to economic and social cohesion, in particular to the environment and transport (European Commission, 2004a). Financial assistance is provided only to the environmental projects identified as a priority in the national Environment ISPA Strategy. These projects should enable Croatia to comply with the requirements of the environmental acquis and Accession Partnership priorities, mainly in the areas of water supply, wastewater treatment and solid waste management (See Table 2).

*Table 2 Key Investment-Heavy Directives*<sup>xii</sup>

<i>Water Supply/Wastewater Treatment</i>	<i>Waste Management</i>
Urban Wastewater Treatment Directive	Landfill directive
Drinking Water Directive	Municipal Incineration Directives
Dangerous Substances into Water Directive	Hazardous Waste Directive
Nitrates Directive	Packaging Waste Directive
<i>Air Pollution Control</i>	<i>Industrial Pollution Prevention Control</i>
Large Combustion Plants Directive	Industrial Pollution Prevention Control (IPPC) Directive
Fuel Quality Directives	Volatile Organic Compounds (VOC) Solvents Directive
Air Quality Directives	

The allocation of ISPA funds to each country is calculated on the basis of the criteria of population, GDP per capita and surface area. Croatia has programmed the whole 2005-06 allocation for the environment sector – *Karlovac Water and Waste Water Programme* (ISPA funding 22.5 out of total 36 million euros) and the construction of the *Bikarac regional waste management centre* in Šibenik and Knin County (ISPA funding 6 out of the total of 8.8 million euros). Although all the available funds are programmed, at this stage the importance lies in project implementation, which has to be undertaken according to previously agreed stringent conditions. Apart from its primary focus on the “heavy” investments, ISPA has also contributed to building know-how and administrative capacity which has been supported by technical assistance in training on procurement procedures, financial management, project preparation of technical documentation and cost-benefit analysis. Solid project preparation is a basis for successful financing not solely for EU programmes, but also for any other available funding.

*SAPARD*, worth 25 million euros, aims at supporting sustainable agricultural and rural development. It is designed to solve problems affecting the long-term adjustments of the agricultural sector and rural areas and to help implement the acquis in matters of the common agricultural and related policies. The programming basis is the National Rural Development Plan in which measures for financing are identified. The Plan gives priority to the improvement of market efficiency, quality and health standards, retaining existing jobs and the creation of new employment opportunities in rural areas. In implementing these, due attention has to be given to provisions of environmental protection. In that sense, *SAPARD* will, by favouring projects with an environmental dimension, directly influence the integration of environmental considerations in Croatian agricultural and regional policy. The National Rural Development Plan with the identified priority measures was prepared in April 2006, but due to the demanding programme implementation procedures, the selection of projects will only take place by the end of 2006.

## **Future Instrument for Pre-accession Assistance**

Building on the experience from the recent accession process, the EU wants to rationalise the pre-accession aid it provides to the candidate countries and potential candidates of the EU. The Commission is currently in the process of proposing a regulation aimed at streamlining pre-accession assistance by enhancing coordination between the different components to incorporate the *CARDS*, *PHARE*, *ISPA* and *SAPARD* instruments into one – the Instrument for Pre-accession Assistance. The beneficiary countries will use its five components: I Transitional assistance and institutional building, II Cross-border and regional cooperation, III Regional development, IV Human resources development and V Rural development. Concerning the environment, the funds will be available under regional development component for *ISPA-like* investment projects<sup>xiii</sup> with emphasis on its *bridging function* to the Structural Funds available upon accession. Currently, for component III and IV national authorities in consultation with the Commission are preparing *Strategic Coherence Framework* document. They are also starting a discussion on *Operational Programmes* which identify priority measures to be financed by EU in the next three years. Although faced with uncertainty about what IPA will entail in the future, Croatia

Table 3 Outline of the changing programme priorities in Croatia

	Pre-accession programmes 2005-06	Instrument for pre-accession assistance since 2007	Structural funds and Cohesion fund 2007-13
CARDS 2001-04			
/	SAPARD – Rural development	Rural development	European Agriculture Fund for Rural Development (EAFRD)
/	ISPA – Transport and environment infrastructure		
Environment and natural resources		Regional development	European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund
Economic and social cohesion	PHARE – Economic and social cohesion	Human resources development	
Regional and cross-border cooperation	PHARE – Cross-border cooperation	Regional and cross-border cooperation	European Social Fund European Regional Development Fund
Institution building	PHARE – Institutional building ( <i>technical assistance, twinning</i> )	Assistance in transition and institutional capacity	/
Democratic stabilisation			
Justice and Home Affairs			

has to define its priorities and objectives to be able to utilise it to the full. In this respect know-how gained through project prioritisation and preparation to date will be a valuable experience in the future.

In the Table 3 a short overview of priorities under various EU programmes is presented, expanding from technical assistance to substantial infrastructural investments.

It must be stressed that Croatia has also been benefiting from a *Community programme* as third country in the sector of environment – *LIFE-Third countries* (2001-06). The objective was to complement other mentioned programmes in the establishment of capacities and administrative structures, the development of environmental policy and various action programmes. Croatia has shown high performance in proposing good quality projects and attained 5.7 million euros in a five-year period. Unfortunately, within the next EU financial perspective 2007-13, LIFE programme funds will be limited to the member states.

From the general overview of the available programmes and financial allocations, a substantial rise of funds in the environment sector is evident. From a yearly average of around 3 million euros, being the least funded sector through the CARDS programme, the allocation for the environment sector increased to 19 million euros per year under ISPA and PHARE in 2005 and 2006. The allocation from 2007 onwards is still under discussion. The figures presented so far confirm the importance of environmental protection in EU policy as well as the existing investment gaps in Croatia. The further increase of allocated funds would present a great advantage for the financially demanding sector of the environment but could only be successfully utilized if the required responsibility, ownership and capacity are in place.

## **Management of the assistance**

In the previous years, the assistance was implemented in the so-called centralised manner, which means that the Commission was responsible for the implementation of the programmes. Since October 2004 when Croatia became a candidate, it has initiated preparations for assuming full responsibility and ownership of CARDS and the pre-accession assistance programmes. This process, known as *decentralisation of financial assistance* lasted for about a year.

In the second half of 2005 the Commission accredited the Central Financing and Contracting Unit within the Ministry of Finance as

the implementing agency. From February 2006 the Commission conferred the management of CARDS, PHARE and ISPA on the Croatian authorities, allowing them to take full ownership of programming, tendering and implementation of those programmes. The Commission will only keep some functions of tendering and contracting ex-ante control. Conferral of management of SAPARD is expected to present a special challenge to Croatia, as it did to other candidate countries. The management of SAPARD goes one step further in terms of national responsibility to the so-called *extended decentralised implementation system*, which requires structures and implementing rules identical to those in member states.

Decentralisation of financial assistance is a sign of the Commission's confidence in national institutions to manage funds efficiently and according to the highest standards of sound financial management. It is also a part of the obligations that Croatia has to fulfil in the framework of *Chapter 32 Financial Control* of the acquis in the course of negotiations.

The importance of EU funds utilisation should be seen as an integral part of the negotiations process for all the chapters of the acquis. Projects should be seen as a tool for achieving the accession goals and their outputs and activities should be seen as part of the overall national EU integration planning process. Croatian absorption capacity will be closely monitored by the Commission and, based on those assessments, the future allocations will be calculated. The overall administrative capacity in the environment sector at national, regional and local level will determine the level of the absorption of available EU funds. Accordingly, an appropriate staffing policy is a key to successful institutional capacity strengthening, which requires a careful development of long-term plans to recruit and train staff. In order to streamline the allocated EU funds according to Croatia's particular needs to fulfil the stringent environmental standards imposed by the EU, additional efforts need to be dedicated both to the decision-making level in the administration to set the priorities in the environmental sector, as well as to the operational level, to successfully manage the programmes.

## CONCLUSIONS

The EU has taken the opportunity to embrace environmental protection as its own separate policy after the realisation that economic

prosperity is highly environment-dependent and affected by the depletion and deterioration of the natural resources. From non-existence in terms of policy, the environment has become one of the most important and demanding concerns, resulting in a substantial body of legislation and strategic policy documents. Those documents served as a framework for action, which led to the improved state of the environment in Europe. Consequently, during the fifth wave of enlargement, each candidate faced major challenges in alignment with the EU standards, primarily related to insufficient administrative capacities and scarce financial resources. The same, naturally, applies to Croatia, and therefore problems and tasks should be evaluated realistically time-wise as well as bearing in mind the available capacities at local, regional and national levels.

It is evident that one of the aspects of fulfilling the accession requirements would be an efficient usage of the pre-accession funds, bearing in mind the specific conditions Croatia is facing at the moment, handling a number of diverse programmes in their different phases of existence. Clearly, there needs to be logical sequence of operational phases – strategic planning and defining priorities, transposition, implementation plans and corresponding financial strategies, horizontal and vertical coordination in the administrative structure, strengthening institutional capacity – all essential preconditions for EU funds absorption.

The available EU funds are insufficient. Therefore there is a need for a detailed plan for attaining other sources in the coming years. In addition to the fact that EU and bilateral assistance needs to be used as efficiently as possible, extra sources should be foreseen and other economic incentives for environment protection should be promoted. Croatia has a unique opportunity to assess the present situation in the EU members concerning the environment and adopt the most efficient practices.

Transposition and implementation of the complex environmental acquis should not be considered a burden but an instrument to improve the environmental conditions and to endorse specific economic activities that could be considered a comparative advantage for Croatia. Finally, the efforts to comply with EU environmental standards are not limited to the government administrative structures. The mere awareness of the social and economic consequences if Croatia fails to preserve the environment should lend additional support to progress in this demanding area of change.

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- \* *The authors' positions in this article do not reflect the official standpoints of the respective institutions. The authors would also like to thank Katarina Ott and the anonymous referees on their valuable comments.*
  - i *"Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987).*
  - ii *The most important sectors identified as those that have the strongest influence on environment are agriculture, tourism, industry, transport and energy.*
  - iii *Substantial investment is required for sewage system, wastewater treatment, municipal waste management and drinking water supply.*
  - iv *Sub-sectors are Nuclear safety, Water protection and management, Monitoring of atmospheric pollution, Prevention of noise pollution, Chemicals, Industrial Risk and Biotechnology, Space and natural resources, wild fauna and flora, Waste management and clean technology.*
  - v *Cooperation priorities are numerous: water quality and wastewater treatment, prevention of air and water trans-boundary pollution, effective monitoring, climate issues, safe handling of chemicals, safety of industrial plants, waste management, soil erosion due to agricultural activities, protection of flora and fauna, effective planning, use of economic and fiscal instruments, implementation of environmental impact assessment and strategic impact assessment, approximation of laws, international conventions, regional and international cooperation, education and information. The Article also included the protection against natural disasters.*
  - vi *Programming mission is a process of consultation between the representatives of the Commission and Croatian delegation in order to identify priority areas for funding.*
  - vii *The Progress Report contains an analysis of the situation with respect to the political criteria for membership, an assessment of Croatia's situation and prospects with respect to the economic criteria for membership, review of Croatia's capacity to assume the obligations of membership, that is the *acquis*, and briefly examines the extent to which Croatia has addressed the Accession Partnership priorities.*
  - viii *In the Strategy the following general priorities in environmental protection have been established: enforcement of environmental regulation; raising public awareness of the need to protect the environment; integrated approach to pollution abatement (especially as regards air, the sea, water and soil) and actions targeted at the prevention of waste generation (waste management system); sustainable management of natural heritage and natural resources: soil, waters, the sea, landscape, the Adriatic coast and islands; reduction in the consumption of energy coming from non-renewable sources; enhancement of environmental quality in urban areas and improvement of health and safety, especially through industrial risk management.*
  - ix *A rough break-down of costs related to meeting the requirements that arise from legislative harmonization: water protection 40-45% of the total costs, waste disposal 35-40%, air quality protection 8-10%, nature protection 4-5%, industrial pollution control and risk minimization 2%, horizontal legislation harmonization 0.3-0.4% and the rest 0.1% (World Bank, 2003).*
  - x *In 2005 PHARE amounted to 80 million and ISPA to 25 millions euros. In 2006 PHARE amounted to 80 million, ISPA 35 million and SAPARD 25 million euros.*
  - xi *NATURA 2000 is the European ecological network of special areas of conservation aimed at protecting biodiversity.*



- xii Investment-heavy directives are those requiring substantial financial resources for their implementation.*
- xiii ISPA-like investment projects are costly infrastructure projects in water supply and treatment of wastewater and solid waste.*

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