

**ANSWER:**

Astra International is State owned company, which engages in foreign trade with the same rights and obligations as any other Croatian foreign trade company.

**IV.8 Free Zones**

**QUESTION 159:**

**What is the number of free zones in Croatia? What is their economic significance in the whole economy? (L/7466, page 58)**

**ANSWER:**

There are 7 customs zones operating in Croatia which are situated in Zagreb (2), Rijeka, Split, Zadar, Ploce and Osijek.

When doing business in the zones, the users do not pay customs duty on imports of goods if the goods are intended for production and consumption in the customs zone. Considering the state of war and insecure conditions in the last five years, only a negligible volume of foreign trade has been realized in these zones. Although all kinds of activities are permitted to be carried out in the zones, the users limited their activities to those which required least investments, as for example: warehousing, small processing jobs, repackaging of goods and the like.

After the new Law on Zones took effect on June 13, 1996, which provides for benefits with regard to tax payment as well as for foreign trade and exchange privileges, and after the situation in the region has stabilized, it is to be expected that the interest in the establishment of zones will increase in the time to come as well as economic benefits which will flow from the use of free zones.

**IV.9 Subsidy Policy**

**QUESTION 160:**

**Referring to question number 24 of the document WT/ACC/HRV/7, the reply to that question seems to be incorrect. The basis for all subsidies is the annual state budget and often there are extra-budgetary incentive funds. There are indicators that Croatia is substantially using subsidies in Industry and Agriculture from different sources. A full description of all current subsidization, state aid and other budgetary and non-budgetary assistance programs to industry, business and agriculture, would be appreciated. The information should include: (a) description of the assistance program; (b) policy objectives pursued by the government through the program; (c) legal authority for the program; (d) forms of assistance; (e) to whom is the program available and under what conditions; (f) total value of aid or level of subsidization; (g) duration of program, i.e. its initiation and foreseen expiration.**

**ANSWER:**

The Republic of Croatia does not have a subsidy program "per se", rather an industry rehabilitation and reorganization program. The Government of the Republic of Croatia finances the payroll of the following seven industrial companies completing the program: Sisak Steel, TPK-EPO Zagreb (steel), Valjaonica Kumrovec (steel refining), Dalmatinca (textile), Diokom (textile), Pazinka (textile), and Velebit (textile). The accumulated amount of financing thus far is 26.5 million kunas or approximately \$3.16 million. Within the next nine months all of the above mentioned companies will have completed the rehabilitation and reorganization program. The Law on Croatian Railways, submitted to the WTO Secretariat in July of 1995, provides for subsidization of the railways during the war and the post war rehabilitation period. In 1995, the subsidies amounted to approximately \$200

million, as for 1996, the subsidies will also amount to approximately \$200 million. The Law on Ocean Public Transportation Lines stipulates that the Government will provide for the difference between revenue and expenses (if it is negative) for popular tourist lines and connections. For 1995, the subsidy amounted to \$31 million and forecasted at approximately \$35 million for 1996.

Concerning agriculture and food industry the Republic of Croatia does not carry out any subsidizing outside the support program for agriculture which is an integral part of the state budget. As to the level of incentives and subsidies in agriculture, an overview is given in "Overview of financial incentives and input subsidies in Croatian agriculture for year 1995" (factual expenditures) and "Overview of financial incentives and input subsidies in Croatian agriculture for year 1996" (projected data).

Tourism as a commercial enterprise (hotel management, hospitality, tourist and travel agencies) has not been subsidized. However, the war has decreased tourism to 1/4 of the pre-war level leading to the loss of market share (internationally), the loss of tourists and commercial transactions. Thus, for 1996 the Government of the Republic of Croatia has allocated 65 million kunas (from the state budget) for :

- The Croatian Tourism Association to implement the Promotion of Croatian Tourism Program for 1996 with the objective of regaining the lost market position and the development of the Croatian image as an attractive tourist destination;
- The Croatian Tourism Association to assist foreign tour operators in realizing the renewal of organized tourism in Croatia;
- The Ministry of Tourism to implement the Program of subsidizing a portion of the transport expenses in organized foreign and domestic air, road and sea tourist travel in five counties on the Adriatic Coast. The conditions for receiving this subsidy are bringing a group of tourists to Croatia between 1 May and 31 October 1996, stay of at least 7 days and utilize at least half-board and lodgings in some of the subsidized counties. The subsidy is available to all organizers of group tourist trips that fulfil the above mentioned preconditions and submit the required documentation to the Ministry of Tourism.
- The subsidy for air traffic amounts to 180 kunas per passenger (for Dubrovnik airport it is 220 kunas per foreign passenger and 50% reduction in price for domestic passengers). With regard to bus transportation, the subsidy depends on the size of the bus and amounts to: 1.1 kunas/km for a bus with 40 seats, 1.5 kunas/km for a bus with 40-60 seats, and 2.2 kunas/km for a bus with more than 60 seats. For maritime traffic, the subsidy amounts to 20% of the price of the ticket for passengers and vehicles on regular lines, i.e. 1.5 kunas/litre of consumed fuel for specially leased vessels for the transfer of tourists arriving and departing.

The purpose of these subsidies is to increase the competitiveness and decrease the risk for organizers of tourist trips to Croatia.

**QUESTION 161:**

**Please confirm that there are currently no export subsidies on agricultural and agri-food products (L/7466, page 59).**

**ANSWER:**

Croatia does not apply export subsidies agricultural and agri-food products.

**V. INSTITUTIONAL BASE FOR TRADE AND ECONOMIC RELATIONS WITH THIRD COUNTRIES**

**QUESTION 162:**

**Apart from the expected membership in the WTO, preparation activities in Croatia are taking place towards building institutional relations with the European Union and entering the free trade zone of Central and Eastern Europe. Could you give us more information on the discussion (or negotiations) which are currently taking place in those two different contexts? (WT/ACC/HRV/5, page 3)**

**ANSWER:**

At the present moment, Croatia does not have any institutional relations or any agreement with the European Union. Croatia has negotiated a cooperation agreement with the European Union, which has been suspended by the European Union Council of Ministers in August of 1995.

With regard to the relations with CEFTA, Croatia has started discussions with the Czech and Slovak Republics; in addition, Croatia is in consultations with Hungary and Poland.

**QUESTION 163:**

**What specific merits and advantages can be gained by Croatia through building institutional relations with the European Union and entering the free-trade zones of Central and Eastern European countries? What are the preparations towards achieving that goal? (WT/ACC/HRV/5, page 3)**

**ANSWER:**

Croatia's geographical location as a mediterranean and Central and Eastern European country encourages trade among its neighbours, hence it is natural for Croatia to further develop trade relations with the European Union and the Central and Eastern European countries. The EU and Central and Eastern European countries account for the majority of trade with the Republic of Croatia.

Croatia is confident that the negotiations with the EU on the Trade and Cooperation Agreement will resume in the near future.

Presently, Croatia is in advanced discussions with the Czech and Slovak Republics on a free trade agreement; Croatia intends to start discussions with the other Central and Eastern European countries.

**QUESTION 164:**

**Please list the countries or entities (e.g., the EU) that enjoy preferential market access to Croatia's import market with regard to tariffs or other regulations of commerce, e.g., fees, quotas, licenses, etc.**

**Where appropriate, please specify the scope and nature of the preference by HS lines or commodity groups and indicate the margin of preference. (WT/ACC/HRV/3, Question 144)**

**ANSWER:**

At the present time, the only country which enjoys preferential market access to Croatia's import market is Bosnia and Herzegovina; under the Bilateral Agreement on Economic Cooperation signed on March 24, 1995. The Agreement provides for a free trade area between the Republic of Croatia and the Republic of Bosnia and Herzegovina and covers trade of all goods.

## **VI. SERVICES**

### **QUESTION 165:**

**Does Croatia intend to bind the policy outlined in the answer to question 11 in WT/ACC/HRV/3?**

#### **ANSWER:**

Croatia will be making an offer on Services in due course.

### **QUESTION 166:**

**With respect to banking, securities and other financial services, are there any measures of a horizontal nature (affecting all or many sectors, that limit market access or national treatment in the financial services sector, such as for investment authorizations, reciprocity measures, or other discriminatory practices, including those involved in privatization of state enterprises? If so, please describe the horizontal measures that currently would limit, or that you anticipate would limit, foreign participation in Croatia in financial services (as defined in paragraph 5 of the Annex on Financial Services) (WT/ACC/HRV/3)**

#### **ANSWER:**

As to the banking services and reciprocity measure issues, the Law on Banks and Savings Banks prescribes that foreign physical and legal persons may be the founders of a bank, foreign bank's branch and representative office of a foreign bank provided that principle of reciprocity is observed, which means that legal and physical persons, coming from the Republic of Croatia, are also allowed to establish a bank, branch or representative office in the country of a foreign legal person or a bank wishing to set up a bank, branch or representative office in the Republic of Croatia.

This reciprocity is assumed, meaning that it is assumed that mutuality or reciprocity exists, but if in doubt, certificate on existence of reciprocity is issued by the Ministry of Justice.

Since the reciprocity principle has been deeply rooted in the international law, our opinion is that this measure, prescribed by the Law on Banks and Savings Banks, cannot be classified under or characterized as discriminatory measure as the way the question is put might imply.

For further details please refer to the document WT/ACC/HRV/9 (services).

### **QUESTION 167:**

**Please describe any laws, regulations, or practices which limit in any way:**

- a. the ability of a non-resident financial service provider to provide cross-border into the territory of your country advisory and other auxiliary financial services, the provision and transfer of financial information, and financial data processing (as defined in paragraph 5 of the Annex on Financial Services);**
- b. whether residents of your country may purchase financial services in the territory of another party; (WT/ACC/HRV/3)**

#### **ANSWER:**

Lawyers are unable to provide legal services except in the procedures mentioned in page 5 of WT/ACC/HRV/9. Other legal services that they can provide are legal consultancy as independent specialized company or as a lawyer employed as a consultant in a firm or public office. It is proven in practice that foreign law firms conclude long-term cooperation contracts with domestic law firms as a means to access the domestic legal service market. There is no evidence of the number of, range

or scope of such cooperation contracts because there are no procedures of reporting of approving them.

There are no requirements concerning auditing services, except for performing joint auditing services with domestic auditing firms for foreign auditing firms in order to access domestic auditing service market.

For further details please refer to the document WT/ACC/HRV/9 (services).

**QUESTION 168:**

**With respect to the financial services (as defined in paragraph 5 of the Annex on Financial Services), are there any measures that would limit:**

- a. **the ability of a non-resident financial service provider to establish and expand a commercial presence in your country as a branch, an agency, a representative office, and as a wholly-owned subsidiary, either through de novo investment or through acquisition of existing enterprises?**
- b. **or deny national treatment to foreign financial institutions that seek to establish, expand or acquire an existing financial institution in Croatia?**
- c. **the ability of a foreign-owned financial service provider established in your country to compete to supply financial services on terms and conditions that are no less favourable than those applied to financial service providers of your country in like circumstances (including the opportunity to participate in any self-regulatory body, securities or futures exchange or market, clearing agency or other organization or association)? (WT/ACC/HRV/3)**

**ANSWER:**

With respect to operation of a bank established by foreign physical and legal persons, or a branch founded by a foreign bank, in carrying out their activities they should observe relevant regulations applicable in the Republic of Croatia. In this respect no difference is made between domiciled domestic banks and those aforementioned. Even more, according to the Law on Banks and Savings Banks they are assumed to be domestic banks and provisions of the same Law are applicable in an appropriate way to their activities, too.

The Law on Banks and Savings Banks prescribes certain eligibility conditions as to equity amount required for establishment of a bank or a branch of a foreign bank and thus, regarding the establishment, it is necessary that other legal requirements are complied with, too. Such requirements are equal to those ones to be complied with by the domiciled banks. In order that a foreign bank's branch may be established, necessary equity should amount to a level remarkably below a level required for establishment of a domiciled bank or a bank whose founders are foreign entities. In all cases, either of establishment of a bank whose founders are domestic entities, or a bank whose founders are foreign entities, or a branch of a foreign bank, an appropriate bank licence should be obtained from the National Bank of Croatia by such a bank or by a branch of a foreign bank.

Please refer to the attachment "The Establishment of Banks, Branches and Representative Offices". (WT/ACC/HRV/16)

**QUESTION 169:**

**Are there any restrictions on the temporary entry of the personnel of a financial services provider that is establishing or has established a commercial presence in your country? (WT/ACC/HRV/3)**