



# Croatia

Population <sup>1</sup>	4,124,531
Area (km <sup>2</sup> ) <sup>1</sup>	56,590
GDP per capita (USD) <sup>1</sup>	13,383.68
TPES (Mtoe) <sup>2</sup>	8.47
Energy intensity (toe/10 <sup>3</sup> 2010 USD) <sup>2</sup>	0.14
CO <sub>2</sub> emissions - energy (MtCO <sub>2</sub> ) <sup>2</sup>	15.90

Sources:

1. The World Bank 2017

2. ©IEA 2018, [www.iea.org/statistics](http://www.iea.org/statistics)

Croatia's overall risk level against the assessed areas is **low**.

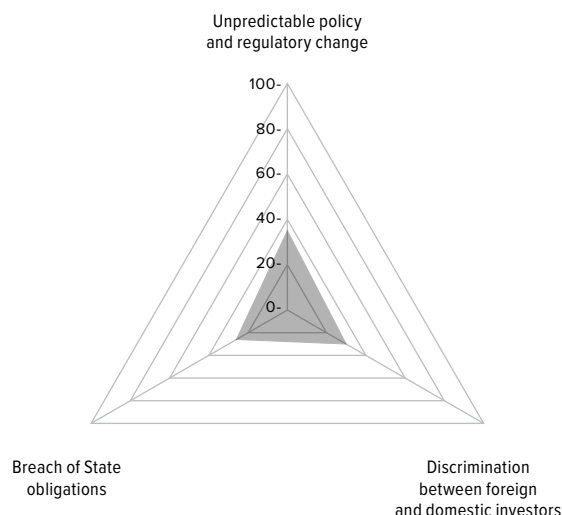
The risks *breach of state obligations* and *discrimination between foreign and domestic investors* are on the same level as in 2018. *Unpredictable policy and regulatory change* remains the area with the highest risk, although its level has gone down by a point.

Croatia has a good performance on three of the EIRA indicators, and a moderate performance on one indicator. It has maintained a score of 74 on the indicator *rule of law*, 69 on *regulatory environment and investment conditions* and 68 on *management of decision-making processes*. The score for *foresight of policy and regulatory change* has increased from 49 to 52.

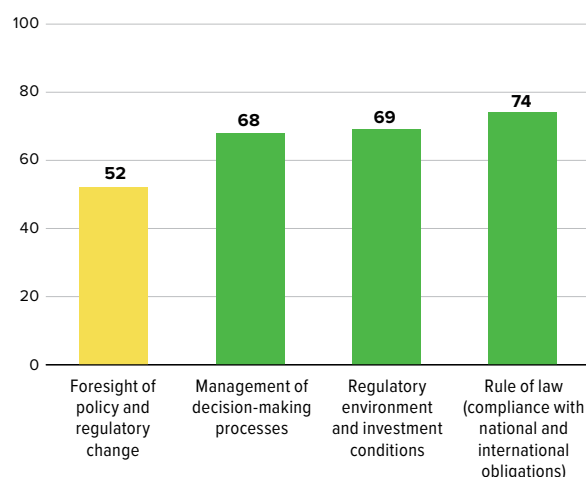
On a more detailed level, Croatia's overall sub-indicator performance is good. The highest scoring sub-indicator is *respect for property rights* with 83 points. *Transparency* (74) and *regulatory effectiveness* (72) have received the same scores as in 2018. They are followed by *management and settlement of investor-State disputes* and *restrictions on FDI*, both at 65 points. *Institutional governance* stands at 63 points. The score for *communication of vision and policies* has increased and is now at 55. *Robustness of policy goals and commitments* remains the lowest-scoring sub-indicator with 48 points.

Croatia provides attractive conditions for investors and is working in the right direction. Attention should be given to better communicating its vision and policies as well as strengthening the robustness of policy goals and commitments.

## RISK LEVEL



## INDICATOR PERFORMANCE



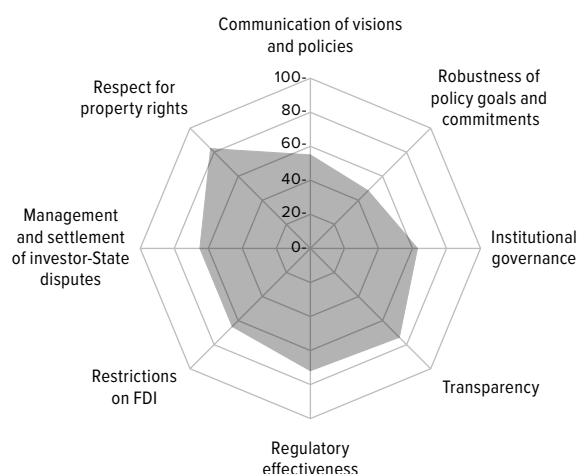
## YEAR-ON-YEAR COMPARISON

RISK AREAS	2018	2019
Unpredictable policy and regulatory change	36	35
Discrimination between foreign and domestic investors	30	30
Breach of State obligations	26	26

INDICATORS	2018	2019
Foresight of policy and regulatory change	49	52
Management of decision-making processes	68	68
Regulatory environment and investment conditions	69	69
Rule of law	74	74

## SUB-INDICATOR PERFORMANCE



## Foresight of policy and regulatory change

### QUICK FACTS

In 2009 Croatia published the Energy Strategy 2020. The Government is presently preparing a new energy strategy with the country's vision for 2030 and 2050.

The Electricity Market Act 2013 was amended in 2018 to enhance the structure of the energy market and align the electricity sector with EU legislation.

The Energy Act 2012 regulates measures to ensure secure and reliable energy supply and efficient power generation.

### STRENGTHS

In 2018, Croatia strengthened its legal framework for the energy sector through various legislative and regulatory reforms. Working towards its priorities of resource diversification and the enlargement of the gas market, Croatia adopted a new Gas Market Act 2018. The LNG Terminal Act was also adopted in 2018. The Act intends to ensure the realisation of the Krk floating LNG terminal project and potentially improve the country's energy security. Although Croatia has already achieved its 2020 target for renewable energy, it is still working towards further developing the renewables sector. Actions have also been taken in line with the target set for energy efficiency.

The Ministry of Environment and Energy continues to monitor the progress of the energy targets. In its monitoring duties, it is assisted by the Energy Institute Hrvoje Požar and the Croatian Bureau of Statistics. In 2018, the Bureau published the statistical analysis of the energy data collected in 2017. Additionally, the short-term energy indicators are accessible online for each month of the assessment year. The latest data on GHG emissions is made available annually by the Ministry of Environment and Energy.

### AREAS FOR IMPROVEMENT

As the expiration date for Croatia's current energy strategy is approaching, the Government should expedite the finalisation and adoption of the National Energy and Climate Plan for 2021-30, which will provide the overarching framework for future actions. Particular attention should be paid in achieving a seamless transition to the new strategy, and ensuring that the future goals are consistent and coordinated with the existing ones.

It is reiterated that measures should be taken to translate the main priorities into binding action plans with defined responsibilities, deadlines and monitoring mechanisms. This approach will help provide clarity regarding the entire policy process, from agenda setting to its execution and evaluation.

## Management of decision-making processes

### QUICK FACTS

The main body responsible for implementing the energy goals is the Ministry of Environment and Energy.

Investment-related issues fall under the Ministry of Economy, Entrepreneurship and Crafts.

In 2018, the Ministry of Economy, Entrepreneurship and Crafts took over the responsibilities of the Agency for Investments and Competitiveness related to the promotion and facilitation of investments.

Croatia enacted the Act on the Right of Access to Information in 2013.

### STRENGTHS

To streamline the legislative framework, the Government passed amendments to critical laws such as the Energy Efficiency Act 2014, the Act on the Regulation of Energy Activities 2012 and the Thermal Energy Market Act 2013. While the legislative initiative in the energy sector lies with the Ministry of Environment and Energy, multiple ministries were involved in the process to ensure consistency in cross-sectoral issues. To this end, informal consultations were conducted on the ministerial level and between the relevant Government departments.

The right of access to information is monitored by the Information Commissioner. The latest report on the Implementation of the Act on the Right of Access to Information was published in March 2018. The Government has created an open data portal for facilitating access to information. The services are continually updated, and new features have been added. To enhance transparency, Croatia has also established a portal for providing information on electronic public procurement.

### AREAS FOR IMPROVEMENT

As mentioned in EIRA 2018, the Government may consider identifying and repealing overlapping laws. Presently, the energy sector is governed by multiple primary legislation, sub-laws and rules. Additionally, there are special laws and secondary frameworks for regulating certain matters. This may give investors the impression that the sector is over-regulated.

Efforts should be made to increase the availability of laws and judicial decisions, both online and in print. Generally, the printed versions in Croatian are official while the electronic versions in other languages are considered unofficial translations. To facilitate the ease of doing business for local and foreign investors, the official translations of laws and strategic documents in foreign languages should be developed.

## Regulatory environment and investment conditions

### QUICK FACTS

The Croatian Energy Regulatory Agency (HERA) is the authority in charge of regulating energy activities.

The Croatian Hydrocarbon Agency is responsible for monitoring the exploration and exploitation of hydrocarbons.

Competition issues are dealt with by the Croatian Competition Agency.

The Strategic Investment Project Act 2018 regulates the criteria and application procedure for strategic investment projects.

### STRENGTHS

The HERA maintains its functional and financial independence. On 1 March 2019, the new Methodology for Determining the Amount of Tariff Items for Guaranteed Electricity Supply entered into force. Under the Methodology, the tariffs will be determined more often and based on a reference price calculated through data obtained from the Hungarian stock exchange (HUDEX). Further, the Gas Market Act 2018 strengthened HERA's powers by reallocating the price regulation of gas supply from the Government to the regulator.

The legislative framework continues to be supportive of foreign investment. In 2018, Croatia increased its efforts to remove obstacles and further facilitate investments. The adoption of the Act on the Exploration and Production of Hydrocarbons 2018 was an important step in this direction. It aims at streamlining licensing procedures and eliminating bureaucratic redundancies. The full process of issuance of exploration licences and the conclusion of contracts for exploitation, fees and other issues are integrated into this Act. In addition, the Renewable Energy Sources and High-Efficiency Cogeneration Act came into force on 1 January 2019, to boost the interest of investors.

### AREAS FOR IMPROVEMENT

As mentioned last year, the final decision on whether a project qualifies as strategic lies with the Government. To increase transparency, the role of the Government in this regard may be reduced. Decisions classifying individual projects as strategic may include detailed information on the evaluated parameters. Moreover, efforts should be made to define the implementation and monitoring mechanisms for such projects. The economic, human resource and environmental feasibility of projects should be assessed before being declared strategic.

## Rule of law

### QUICK FACTS

Croatia ratified the Energy Charter Treaty in 1997.

Croatia ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States in 1998.

Provisions against expropriation of immovable property are stated in the Expropriation and Determining of Compensation Act 2014.

### STRENGTHS

Disputes between foreign investors and the Government may be resolved in domestic courts or through international arbitration directly, without the requirement of exhausting local dispute resolution mechanisms. Judgements rendered in EU Member States are recognised and enforced under the EU regulations. On 29 January 2019 the new Act on International Private Law came into force. The Act provides the legal framework for recognition and enforcement of foreign decisions falling outside EU regulations and international agreements. Arbitration and mediation mechanisms are encouraged and translated into the law. There have been no retroactive changes introduced to laws in the past year.

Property rights of foreign investors are consistently upheld by the Croatian State. There are detailed provisions for calculating the timelines and the amount of compensation that must be paid by the Government for the acquisition of immovable property. Domestic laws exist for the protection of intellectual property rights and BITs signed by Croatia define the term "investment" to include movable property, financial stocks and goodwill.

### AREAS FOR IMPROVEMENT

In line with previous recommendations, systemised and effective dispute management measures need to be in place. Timelines for domestic courts to render decisions should be stated in the law and followed through. Moreover, an investment ombudsman may be established to address the grievances of foreign investors and provide advisory services.

The Expropriation and Determining of Compensation Act provides the general framework for expropriation. However, there are concurrent special laws in place that also contain provisions on this issue. This may lead to confusion for investors not acquainted with the country's legal system in terms of the laws and conditions of expropriation applicable to them. For this reason, efforts may be made to streamline the laws and reduce fragmentation.