



# Croatia

Population <sup>1</sup>	4,087,843
Area (km <sup>2</sup> ) <sup>1</sup>	56,590
GDP per capita (USD) <sup>1</sup>	14,915.37
TPES (Mtoe) <sup>2</sup>	8.75
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>3</sup>	16.19

Data from Orbis Crossborder Investment on energy projects and deals completed between 2015-2020<sup>4</sup>

Target industry	Number of projects and deals	Project/deal type	Project CapEx and deal value (million EUR)
Electric power generation, transmission and distribution	2 projects 2 deals	2 new projects 1 acquisition deal 1 minority stake deal	55m EUR total project CapEx 32m EUR total value of deals

Sources:

1. The World Bank 2018
2. ©IEA, World energy balances, 2020, [www.iea.org/data-and-statistics](http://www.iea.org/data-and-statistics), [webstore.iea.org/key-world-energy-statistics-2019](http://webstore.iea.org/key-world-energy-statistics-2019)
3. ©IEA 2020, CO<sub>2</sub> emissions from fuel combustion, [www.iea.org/data-and-statistics](http://www.iea.org/data-and-statistics), [webstore.iea.org/key-world-energy-statistics-2019](http://webstore.iea.org/key-world-energy-statistics-2019)
4. Orbis Crossborder Investment (2020), Bureau Van Dijk. Croatia is the destination country of the investment. Data represents the period 1 April 2015 - 1 April 2020. For more information see Annex II of this report.

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

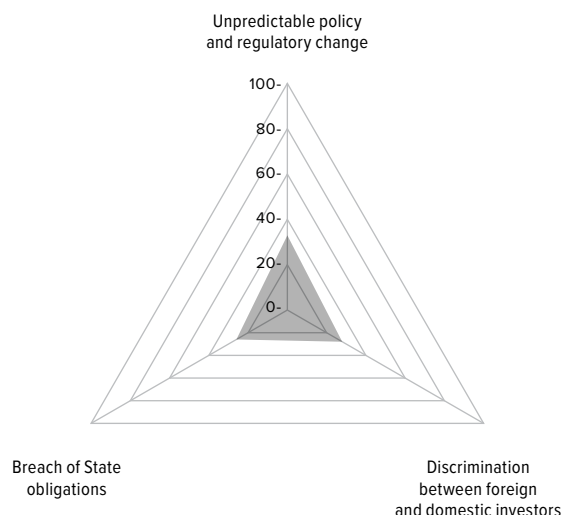
Among the three risks assessed in EIRA, *breach of State obligations* and *discrimination between foreign and domestic investors* are lower compared to *unpredictable policy and regulatory change*.

Croatia has a good performance on three indicators, and a moderate performance on one indicator. It has maintained a score of 74 on the indicator *rule of law*, and 71 on the indicators *management of decision-making processes* and *regulatory environment and investment conditions*. Its score on *foresight of policy and regulatory change* has increased from 52 to 57.

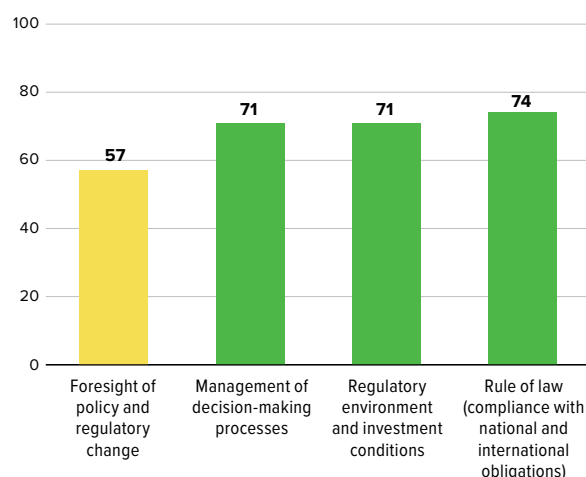
On a more detailed level, Croatia's overall sub-indicator performance is good. The highest-scoring sub-indicator is *respect for property rights* at 83. On *transparency* (79) and *regulatory effectiveness* (72), it has the same scores as last year. Following these sub-indicators is *restrictions on FDI* at 70, and *management and settlement of investor-State disputes* at 65. Its score on *institutional governance* is 63. On the sub-indicators *communication of vision and policies* and *robustness of policy goals and commitments*, its score has increased to 59 and 56, respectively.

While Croatia has the relevant policies and measures in place, there is potential for improvement. Attention should be given to strengthening the robustness of policy goals and commitments.

## RISK LEVEL



## INDICATOR PERFORMANCE



## YEAR-ON-YEAR COMPARISON

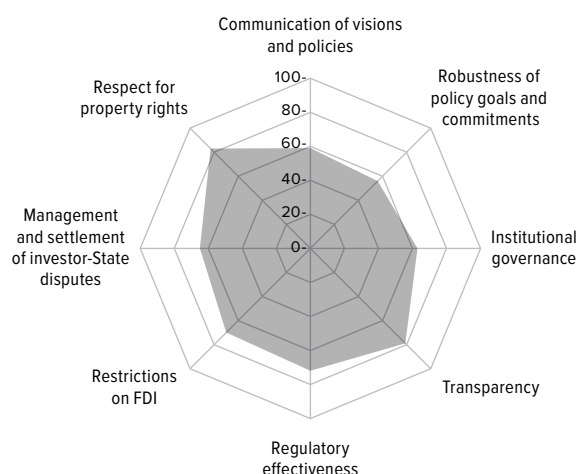
RISK AREAS	2018	2019	2020
Unpredictable policy and regulatory change	35*	34*	33
Discrimination between foreign and domestic investors	28*	28*	28
Breach of State obligations	26	26	26

INDICATORS	2018	2019	2020
Foresight of policy and regulatory change	49	52	57
Management of decision-making processes	71*	71*	71
Regulatory environment and investment conditions	71*	71*	71
Rule of law	74	74	74

\*These numbers have been adjusted due to identified errors in previous editions

## SUB-INDICATOR PERFORMANCE



## Foresight of policy and regulatory change

### QUICK FACTS

In February 2020, the Croatian Parliament adopted the new Energy Sector Development Strategy until 2030 with a view to 2050 (Energy Strategy).

In 2020, the Croatian Parliament adopted the Climate Change Adaptation Strategy for the period until 2040 with a view to 2070.

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

### STRENGTHS

Croatia is committed to the sustainable development goals and the European Green Deal. The newly adopted Energy Strategy aims to strengthen the energy market and integrate it entirely in the EU and international energy market. It sets various initiatives to enhance energy security, gradually reduce energy losses, increase energy efficiency, and limit the country's dependence on fossil fuels. The Energy Strategy is also committed to promoting renewables. The country's ultimate aspiration is to ensure the financial viability of renewable projects without State aid. The Government intends to eliminate renewable energy incentives throughout the Strategy's implementation period and replace them with a favourable tax regime. In December 2019, Croatia submitted to the European Commission its final Integrated National Energy and Climate Plan (NECP) 2021-2030. The NECP sets a 36.4% renewable energy target, one of the most ambitious among the EU Member States. Through the NECP, Croatia seeks to utilise the country's renewable energy potential fully.

The Ministry of Environment and Energy, with the assistance of the Energy Institute, monitors the implementation of the country's energy targets. Croatia must submit to the EU a progress report on the NECP every two years. The European Commission monitors the progress made by the EU Member States, and the EU as a whole, on the NECP targets. In April 2019, the Hrvoje Požar finalised the Green Book, which outlines the analytical foundations for preparing the country's new Energy Strategy. The premise, analysis, and results presented in the Green Book form the basis for public discussions on the transformation of the country's energy sector.

### AREAS FOR IMPROVEMENT

The Energy Strategy, the Climate Change Adaptation Strategy, and the NECP establish the framework for the country's future energy development. Croatia should now translate its priorities into action plans that set indicative targets, milestones, measurable progress indicators, and monitoring mechanisms. This approach will guide future actions at the national and local level, and help Croatia stay on track with its objectives and obligations.

## Management of decision-making processes

### QUICK FACTS

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

The Ministry of Economy, Entrepreneurship and Crafts develops policies for promoting investment in the country.

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

### STRENGTHS

In the last year, the Parliament adopted some amendments to strengthen the legislative framework of the energy sector, such as the Act on Amendments to the Electricity Market Act, and the Act on Amendments to the Act on Oil and Petroleum Products. The new Energy Strategy promotes cooperation among regional self-governments in implementing the energy goals. To this end, the regional energy agencies support national and local energy projects, and develop innovative mechanisms for financing. As required by the NECP, the Government is currently building the capacity of existing regional energy agencies engaged in climate change activities, and establishing new ones around the country.

The Croatian Official Gazette, Narodne Novine, is implementing the European Legislation Identifier (ELI) to enhance the quality and reliability of legal information available online. ELI makes information flow more effective and shortens the time for publishing legislation. It allows users to keep track of the work done by the Government. The Official Gazette website implements the first of three ELI phases. The online Sudski registar gives information on companies, associations and other legal or natural persons registered in the Court Register. As of 2020, a certified excerpt from the Court Register can be obtained online, and it can serve as a legally valid document with verification of authenticity.

### AREAS FOR IMPROVEMENT

Following the abolition of the Agency for Investments and Competitiveness in 2018, the central ministries have assumed its responsibilities. However, it is not uncommon for the central government ministries and the local self-governments to have separated, not fully-coordinated, strategies. Foreign investors will greatly benefit from the services of a unified one-stop shop which can help them navigate the country's multi-layered public administration.

The Parliament's Committee on Legislation should regularly publish consolidated versions of legal acts, with all the successive amendments, so interested persons can identify the new and repealed clauses. At present, it only prepares the consolidated versions of laws that have major implications and multiple amendments. For others, the public must rely on private law firms, which give access to the consolidated legal texts through paid subscription.

## 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 (CHA) 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 Croatian Power Exchange (CROPEX) intraday and day-ahead markets continue to grow. In July 2019, following a decision of HERA, the Croatian Energy Market Operator (HROTE) adopted the Rules for Organising the Electricity Market. In August 2019, CROPEX held its first Guarantees of Origin auction. Establishing a sales system for Guarantees of Origin was made possible through amendments, adopted in 2018, to the Renewable Sources and High-Efficiency Cogeneration Act 2015, and to the Regulation Establishing the Guarantee of Origin of Electricity 2012. The sales proceeds from the Guarantees of Origin auctions will be transferred to the incentivised system fund managed by HROTE. There will be auctions every two months moving forward. During the past year, the Ministry of Environment and Energy signed seven onshore oil and gas exploration agreements. Moreover, the CHA announced public calls to select the most competitive bid for geothermal energy exploration in the Križevci area.

Maintaining a regime open to foreign investment is one of Croatia's key priorities. On 17 October 2019, Croatia adhered to the OECD Declaration on International Investment and Multinational Enterprises. Through this Declaration, the Government commits to provide an open and transparent environment for international investment and encourage the positive contribution of multinational enterprises towards economic and social progress. Croatia has also introduced amendments to the Companies Act 1993 and the Court Register Act 1995 to facilitate the incorporation of limited liability companies. The simplified electronic registration replaces a previously costly and time-consuming procedure, and it significantly improves the conditions of conducting business.

### AREAS FOR IMPROVEMENT

The Government may limit its role in determining whether a project has strategic status. Before declaring a project strategic, there should be a publically available assessment of its economic, human resources, and environmental feasibility. The final decision on its status may also include detailed information on the evaluated parameters.

## 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

The Government successfully negotiated with the International Bank for Reconstruction and Development (IBRD) a EUR 100 million loan for the Justice for Business project. The project aims to reduce the administrative burden of companies and increase judicial efficiency. Its primary objectives include strengthening electronic communication with the administration, expanding the use of electronic services in the judiciary, reducing the number of old court cases, and creating better infrastructure. In March 2020, the Parliament began discussions on the amendments to the Law on the Bar 1994. The proposed amendments will allow foreign lawyers to provide legal services in Croatia and reduce the requirements for entry in the Directory of Foreign Lawyers.

The Croatian State continues to uphold the property rights of foreign investors. During the last year, there were no adverse changes observed in the legislative framework for expropriation. The Expropriation and Determining of Compensation Act 2014 has provisions on calculating the timelines and the amount of compensation for the acquisition of immovable property. Domestic laws exist for the protection of IP rights. The BITs signed by Croatia broadly define "investment" to include movable property, financial stocks, and goodwill.

### AREAS FOR IMPROVEMENT

Croatia is working towards a more effective administration and judiciary through the Justice for Business project. In keeping with this, the Government should establish systemised and effective dispute management measures. An investment ombudsman may also help effectively address the grievances of foreign investors and de-escalate conflicts.

Croatia should simplify property registration procedures. Currently, the cadastre and the land registry are both responsible for recording real property rights, but they function as two separate entities. This overlap can lead to inconsistent entries and legal uncertainty in real estate transactions. The Government should, therefore, consider consolidating the two parallel systems.

# IMPLEMENTATION STATUS



## Croatia

PROPOSED IN	EIRA AREAS FOR IMPROVEMENT	IMPLEMENTATION STATUS AS OF 1 APRIL 2020
<b>Indicator 1</b>		
<b>2018</b>	Finalise and adopt a long-term energy strategy, which sets the overarching framework for future actions, and ensure a seamless transition to the new strategy.	<b>Fully implemented.</b> In February 2020, the Croatian Parliament adopted the new Energy Sector Development Strategy until 2030 with a view to 2050. The newly adopted Energy Strategy sets in place a wide range of initiatives to enhance energy security, gradually reduce energy losses and increase energy efficiency, and reduce dependence on fossil fuels. In addition, it aims to strengthen the energy market and to integrate it entirely in the EU and international energy markets.
	Develop action plans that set indicative targets, milestones, measurable progress indicators, and monitoring mechanisms to ensure the implementation of the energy priorities.	<b>Work ongoing.</b> In December 2019, Croatia submitted its final Integrated National Energy and Climate Plan (NECP) 2021-2030, which describes actions for implementing a number of national energy priorities.
<b>Indicator 2</b>		
<b>2018</b>	Identify and repeal overlapping or contradictory provisions in energy sector legislation, sub-laws, and rules.	<b>Pending</b>
	Publish all the strategic documents and laws in foreign languages.	<b>Pending</b>
<b>2020</b>	Develop consolidated versions of legal acts, which integrate all the successive amendments.	<b>Improvement suggested in 2020.</b> Status will be updated in 2021.
	Establish a one-stop shop or similar agency to assist investors with complex administrative procedures, like obtaining permits and licenses for energy projects.	<b>Improvement suggested in 2020.</b> Status will be updated in 2021.
<b>Indicator 3</b>		
<b>2018</b>	Reduce the role of the Government in declaring a project strategic and include detailed information on the evaluation parameters.	<b>Pending</b>
<b>Indicator 4</b>		
<b>2018</b>	Set systemised and effective dispute management measures. Timelines for domestic courts to render decisions should be stated in the law and followed through.	<b>Work ongoing.</b> The Government successfully negotiated with the International Bank for Reconstruction and Development (IBRD) a loan of EUR 100 million for the Justice for Business project aimed to strengthen the country's economic climate. The primary measures include strengthening electronic communication with the administration, expanding the use of electronic services in the judiciary, reducing the number of old court cases, and creating better infrastructure.
	Streamline and reduce fragmentation of the legal framework on expropriation.	<b>Pending</b>
<b>2020</b>	Simplify property registration procedures and expedite the consolidation of the cadastre and land registry.	<b>Improvement suggested in 2020.</b> Status will be updated in 2021.