Executive Summary

For more than a decade after the end of the war in 1995, Croatia enjoyed steady growth in foreign investment, buoyed by a growing economy, low inflation, a stable exchange rate and developed infrastructure. However, investment activity slowed substantially in 2008 and has not regained momentum, due mostly to structural problems that continue to plague the economy, now in its sixth year of recession. The banking system weathered the financial crisis well, but a bloated and complex bureaucracy, underperforming state enterprises, low transparency, and an inefficient judicial system have all contributed to poor economic performance over the past five years.

The present Government of Croatia (GOC) came into power in December 2011, and has pledged to take urgent legislative and administrative steps to reduce barriers to investment and foster development in key sectors—particularly tourism, energy, infrastructure, and irrigation/environment. In one of the most important reforms, the GOC established a special investment regime with accelerated permitting and other benefits for projects that are considered of strategic importance, such as infrastructure or larger manufacturing investments. Another recent milestone was the announcement in April 2014 of new opportunities for investment in the exploration and production of oil and natural gas, with the first international tender in Croatia’s history for offshore exploration licenses in the Adriatic Sea. This represents a significant investment opportunity for U.S. oil and gas companies. In general, however, the new measures have not attracted significant new investments.

Croatia became a member of the European Union (EU) on July 1, 2013. Entry into the EU should enhance stability and provide new opportunities for trade and investment. The GOC is currently working on establishing conditions and improving its administrative capacity to make accessible approximately $15 billion in EU funds through 2020. Despite some recent progress, however, additional legal and administrative reforms are crucial for Croatia to attract a broader spectrum of investment. Investors still complain about high para-fiscal fees, rigid labor laws, and slow and complex permitting procedures, and a slow, sometimes unpredictable legal system. Although it is now a member of the EU, Croatia still lags behind many other EU members in certain areas that are important to investors, such as registering property, investor protection, cross-border trade and bankruptcy procedures. It does better, somewhere closer to average among the EU 28, in terms of availability of loans, starting a business, connecting to the power grid and enforcing contracts. The GOC readily admits the country’s investment climate needs improvement, but insists it is committed to attracting foreign investment and to making Croatia an attractive destination for all interested investors, foreign or domestic.

1. Openness to, and Restrictions Upon, Foreign Investment

Croatia is open to foreign investment, and the Croatian government continues to prioritize attracting foreign investment. All investors, both foreign and domestic, are guaranteed equal treatment by law. However, bureaucratic and political barriers remain. The greatest of these
continues to be the country’s inefficient and sometimes unpredictable legal system. The backlog of unresolved judicial cases peaked at 1.6 million in 2004 and has slowly been reduced to 773,349 pending cases. Because of the large number of pending cases, even the simplest matters can take years to resolve. Investors agree that an unpredictable regulatory framework, lack of transparency in administrative procedures and lack of structural reforms weigh heavily upon the investment climate. New corporate income tax legislation and a Strategic Investment Act, which came into force recently, are intended to help investors streamline large projects.

Corruption remains an issue, although there have been strong anti-corruption efforts in recent years, particularly high-profile prosecutions of senior members of prior governments, including a former Prime Minister sentenced to a ten-year prison term in 2012 for taking bribes. The business community believes that in some cases, bureaucratic and permitting procedures suffer delay as officials anticipate extra-legal payments.

The Company Act defines the forms of legal organization for domestic and foreign investors. The following entity types are permitted for foreigners: general partnerships; limited partnerships; branch offices; limited liability companies; and joint stock companies. The Obligatory Relations Act regulates commercial contracts. Croatia published a draft Industrial Strategy in January 2014, which identified key economic sectors including pharmaceutical production, metallurgy, ICT services and electronic equipment. As part of the Strategy, the GOC also listed priorities including strategic cooperation between industry and education, restructuring public administration, stabilizing the investment climate and developing the capital market by creating alternative sources of financing. The Ministry of Economy has the lead on industrial policy, and is open to answering inquiries regarding the application of the strategy. Relevant contact information can be found at www.mingo.hr/default.aspx?id=3398.

The country continues to pursue privatizations through the Office for State Asset Management (DUUDI), formerly known as the Agency for Public Asset Management (AUDIO). Information regarding state-owned assets can be found at www.duudi.hr, currently available only in Croatian. Information on selected assets for privatization can also be found at the website of the Agency for Investments and Competitiveness (www.aik-invest.hr/en). While foreign investors generally do not face direct discrimination in privatization processes, problems with bureaucracy and timely judicial remedies can significantly slow progress for projects. In addition, state involvement in the economy remains strong, resulting in inefficiency, overstaffing in both state-owned companies and public administration, and heavy resistance to needed structural reforms. The GOC, however, does view privatization as a means to reduce the budget deficit and increase output, and is working to privatize or seek partners in a number of state-owned assets.

There are no reviewing or screening mechanisms to exclude foreign investment, nor are there any restrictions on foreign investment. The website of the Croatian Chamber of Economy (www.hgk.hr) provides a useful English-language guide, “How to Start Up an Enterprise in Croatia,” as well as sector-specific and general reports.

The Competition Act defines the rules and methods for promoting and protecting competition. In theory, competitive equality is the standard applied with respect to market access, credit and other business operations, such as licenses and supplies. In practice, however, state-owned
enterprises and “strategic” firms may still be perceived to receive preferential treatment. The Croatian Competition Agency is the country’s competition watchdog, determining whether anti-competitive practices exist and issuing sanctions on infringements. It has determined in the past that some subsidies to state-owned firms constituted unlawful state aid. Information on authorities of the Agency and past rulings can be found at www.aztn.hr.

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings for Croatia.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Year</th>
<th>Rank or value</th>
<th>Website Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI Corruption Perceptions index</td>
<td>2013</td>
<td>(57 of 177)</td>
<td>cpi.transparency.org/cpi2013/results/</td>
</tr>
<tr>
<td>Heritage Foundation’s Economic Freedom index</td>
<td>2013</td>
<td>(87 of 177)</td>
<td><a href="http://www.heritage.org/index/ranking">www.heritage.org/index/ranking</a></td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>2013</td>
<td>(37 of 142)</td>
<td><a href="http://www.globalinnovationindex.org">www.globalinnovationindex.org</a></td>
</tr>
<tr>
<td>World Bank GNI per capita</td>
<td>2012</td>
<td>$13,490</td>
<td>data.worldbank.org/indicator/NY.GNP.PCAP.CD</td>
</tr>
</tbody>
</table>

2. **Conversion and Transfer Policies**
The Croatian constitution guarantees the free transfer and repatriation of profits and invested capital for foreign investments. Article VI of the U.S.-Croatia Bilateral Investment Treaty (BIT) establishes protection for American investors from government exchange controls that limit current and capital account transfers, and limits on inward transfers made by screening authorities. The BIT obliges both countries to permit all transfers relating to a covered investment to be made freely and without delay into and out of each other’s territory. The Croatian Foreign Exchange Act permits foreigners to maintain foreign currency accounts and to make external payments.

The Foreign Exchange Act also defines foreign direct investment (FDI). For example, use of retained earnings for new investments/acquisitions is considered FDI, whereas financial investments made by institutional investors such as insurance, pension and investment funds are not. The law also liberalizes foreign exchange transactions for Croatian entities and individuals, allowing them to invest abroad. Generally, this law liberalized foreign exchange transactions, but it also introduced criteria for the possible imposition of capital controls.
The U.S. Embassy in Zagreb has not received any complaints from American companies regarding transfers and remittances. The risk of currency devaluation or significant depreciation is low. However, the exchange rate of the Croatian kuna is more tightly linked to the euro than the U.S. dollar.

**3. Expropriation and Compensation**

There have been no cases of expropriation of foreign investments by the government since Croatia’s independence in 1991. Article III of the BIT covers both direct and indirect expropriations. The BIT bars all expropriations or nationalizations except those that are for a public purpose, carried out in a non-discriminatory manner, are in accordance with due process of law, and are subject to prompt, adequate and effective compensation.

Croatian law gives the government broad authority to expropriate real property under various economic and security-related circumstances, including eminent domain. However, it includes provisions that guarantee adequate compensation, in either the form of monetary compensation or real estate of equal value to the expropriated property in the same town or city. The law includes an appeals mechanism to challenge expropriation decisions by means of a complaint to the Ministry of Justice within 15 days of the expropriation order. The law, however, does not describe the Ministry’s adjudication process, and the fact that the Ministry of Justice represents the government, which initiates expropriations, could be an area of potential concern.

**4. Dispute Settlement**

The Croatian constitution provides for an independent judiciary. The judicial system consists of courts of general and specialized jurisdictions, and its core structures are the Supreme Court, County Courts, Municipal Courts, and Magistrate/Petty Crimes Courts. Specialized courts include the Administrative Court and High Commercial and Lower Commercial Courts. A Constitutional Court determines the constitutionality of laws and government actions and protects and enforces constitutional rights. Municipal courts are courts of first instance for civil and juvenile/criminal cases. The High Commercial Court is located in Zagreb and has appellate review of lower commercial court decisions. The Administrative Court has jurisdiction over the decisions of administrative bodies of all levels of government. The Supreme Court is the highest court in the country and, as such, enjoys jurisdiction over all civil and criminal cases. It hears appeals from the County, High Commercial, and Administrative Courts. The government continues efforts to reform the judiciary, including reducing the backlog of cases, reforming the land registry, training court officers and reducing the backlog and length of bankruptcy procedures.

Alternative dispute resolution has been implemented at the High Commercial Court, the Zagreb Commercial Court and six municipal courts around the country. An important move to reduce the case backlog is the ongoing redistribution of non-disputed decisions to public notaries. As of last year, there were an estimated 773,349 pending cases in the judicial system. There has been a reduction in the backlog of enforcement cases and the enforcement of judgments, which make up over 10 percent of all pending cases. The Act on Enforcement serves to decrease the burden on the courts by passing responsibility for the collection of financial claims and seizures to the
Financial Agency (FINA), which is responsible for paying claimants once the court has rendered a decision ordering enforcement. FINA also has the authority to seize assets or directly settle the claim from the bank account of the person or legal entity that owes the claim. More information can be found at www.fina.hr. The Ministry of Justice is also pursuing a court reorganization plan that is intended to increase efficiency, and reduce the backlog of cases.

Article 19 of the Act on Enforcement states that judgments of foreign courts may be executed only if they “fulfill the conditions for recognition and execution as prescribed by an international agreement or the law.”

The Bankruptcy Act is internationally harmonized and corresponds to the EU regulation on insolvency proceedings and United Nations Commission on International Trade Law (UNCITRAL) Model Law on Cross-Border Insolvency. The World Bank has estimated that the recovery rate for liabilities of firms in bankruptcy in Croatia is approximately 42.9 percent of the Organization for Economic Cooperation and Development (OECD) average. The Commercial Court of the county in which a bankrupt company is headquartered has exclusive jurisdiction over bankruptcy matters. A bankruptcy tribunal decides on initiating formal bankruptcy proceedings, appoints a trustee, reviews creditor complaints, approves the settlement for creditors, and decides on the closing of proceedings. A bankruptcy judge supervises the trustee (who represents the debtor) and the operations of the creditors’ committee, which is convened to protect the interests of all creditors, oversee the trustee’s work and report back to creditors. The Act establishes the priority of creditor claims, assigning higher priority to those related to taxes and revenues of state, local and administration budgets. It also allows for a debtor or the trustee to petition to reorganize the firm, an alternative aimed at maximizing asset recovery and providing fair and equitable distribution among all creditors.

The Financial Operations and Pre-Bankruptcy Settlement Act, in force since late 2012, introduced a new “pre-bankruptcy” procedure designed to expedite proceedings that have traditionally been slow and inefficient in Croatia, and establishes timeframes for the initiation of bankruptcy proceedings. One of the most important provisions of pre-bankruptcy is that it allows a firm that has been unable to pay all its bills to remain open during the proceedings, thereby allowing it to continue operations and generate cash under financial supervision in hopes that it can recover financial health and avoid closure.

There have been instances of investment disputes involving U.S. companies in Croatia. As a result of the very long timeframes involved in obtaining judgments in court, in addition to questionable transparency in some cases, companies often try to resolve disputes without seeking a judicial remedy. The Embassy encourages out of court dispute resolution when possible. The GOC has generally been unresponsive to requests from U.S. companies to assist in resolution of long-standing disputes. According to the latest available analysis by the European Council for Efficiency of the Judicial System, civil litigation in Croatia lasts an average of 462 days, compared to the European average of 235 days.

Although underutilized, both mediation and arbitration services are available through the Croatian Chamber of Economy. The Chamber’s permanent arbitration court has been in operation since 1965 (http://en.hgk.hr/about/permanent-arbitration-court/). Arbitration is
voluntary and conforms to UNCITRAL model procedures. The court received 34 new cases in 2013. There are currently no arbitration matters involving U.S. companies, though one U.S-affiliated institution has been involved in an arbitration process for over two years. The Chamber’s Mediation Center has been operating since 2002; see [http://en.hgk.hr/about/mediation-centre](http://en.hgk.hr/about/mediation-centre). The Arbitration Act covers domestic arbitration, recognition and enforcement of arbitration rulings, jurisdictional matters and procedures. Once an arbitration decision has been reached, the judgment is executed by court order. If no payment is made by the established deadline, the party benefiting from the decision notifies the Commercial Court, which becomes responsible for enforcing compliance. Arbitration rulings have the force of a final judgment, but can be appealed within three months.

Article X of the BIT sets forth several mechanisms for the resolution of investment disputes, defined as any dispute arising out of or relating to an investment authorization, an investment agreement, or an alleged breach of rights conferred, created, or recognized by the BIT with respect to a covered investment. Croatia recognizes binding international arbitration, which may be defined in investment agreements as a means of dispute resolution. For example, the GOC currently has two open arbitration cases with a private investor in the national oil company. Croatia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration: the 1923 Geneva Protocol on Arbitration Clauses; the 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions; the 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions; and the 1961 European Convention on International Business Arbitration. In 1998 Croatia ratified the Convention that established the International Center for the Settlement of Investment Disputes (ICSID).

5. Performance Requirements and Investment Incentives

Croatia’s Trade Related Investment Measures (TRIMs) agreement under the World Trade Organization (WTO) went into effect in 2000. Croatia has no trade-related investment measures in place at the present time, nor does the government intend to introduce any such measures in the future. Accordingly, Croatia did not seek to list any measures for elimination under the provisions of the WTO Agreement on TRIMs. Croatia is committed to maintaining measures consistent with the TRIMs agreement, which it has applied from its date of accession.

The Investment Promotion Act (IPA), amended in 2013, offers incentives for micro-enterprises, tax incentives including lower taxes on profits, as well as financial incentives for investments that create new jobs and for training associated with an investment project. These incentives are available for projects valued from $68,000 to $4 million. Of particular interest are substantial available reductions in the tax rate on profits depending on the size of the investment. A reduction of 50 percent applies for a maximum of ten years for companies that invest up to $1.4 million and create at least five new jobs. This reduction rises to 75 percent for companies investing $1.4-$4.1 million and creating at least 10 new jobs, and to 100 percent for companies that invest over $4.1 million and create at least 15 new jobs. Incentives for new job creation range from $4,500 to $12,000, depending on the investment.
Incentives are also available for development and innovation activities that improve or modernize products, production series, processes and technologies; business support activities such as customer support or logistics and distribution centers; programming and ICT centers; and activities that create tourism services with high value added, such as accommodations, health tourism, conference tourism, nautical tourism, cultural tourism, as well as entertainment and recreation centers.

Amendments to the IPA have created two new categories. First, incentives now apply for the capital costs of an investment project, such as an investment in long-term assets with a value of at least $7 million. Second, new incentives apply to labor-intensive investments creating 100, 300 or 500 new jobs within three years from the start of the investment. The full IPA can be found at www.minpo.hr/UserDocsImages/Investment%20Promotion%20and%20Development%20of%20Investment%20Climate%20Act.pdf.

A Strategic Investments Act went into effect in November 2013. This Act is intended to facilitate and accelerate procedures for projects deemed to be of strategic interest for Croatia based on 12 conditions listed in the Act. Strategic projects can include private or public investments in energy, tourism, infrastructure, transport, electronic communications, the environment, municipal economy, agriculture, forestry, water management, fisheries, health, or culture. A project may be considered strategic if it contributes to the employment of a large number of people, improves manufacturing or service standards, implements or develops new technologies, offers sustainable growth, or helps advance the competitiveness of the economy.

The minimum amount for an investment to be considered strategic is approximately $27 million. All investments over this amount are considered strategic, and will be entitled to accelerated permitting and registration procedures. Investments will also be treated as strategic if they are valued at $3.6 million or more, and are either implemented in geographic areas of special state concern (e.g. underdeveloped or war-affected regions/islands), or are in the agriculture and fisheries sector. A guide for investors interested in applying for status under the Strategic Investments Act can be found at www.mingo.hr/userdocsimages/Vodici/Zakon%20o%20strate%C5%A1nim_vodi%C4%8D_eng _12.pdf. A provisional translation of the Act is available at www.mingo.hr/default.aspx?id=3221.

The Act on Spatial Planning and Construction allows investors to secure permits through an e-licensing system, which is a novelty in otherwise cumbersome permit acquisition procedures. The investor may obtain a license valid for three years, which will allow for a three percent change in the dimensions of the project from start to finish. The e-licensing system can be accessed at http://dozvola.mgitu.hr.

Croatian law does not impose performance requirements on foreign or domestic investors. Article VII of the BIT prohibits mandating or enforcing specified performance requirements as a condition for a covered investment. The list of prohibited requirements is exhaustive and covers domestic content requirements and domestic purchase preferences, the “balancing” of imports or sales in relation to exports or foreign exchange earnings, requirements to export products or services, technology transfer requirements and requirements relating to the conduct of research.
and development in the host country. Article VII of the BIT makes clear, however, that a party may impose conditions for the receipt or continued receipt of benefits and incentives.

The Ministries of Economy and Defense operate an offset program for defense procurements worth over EUR 2 million, requiring local sourcing of a portion of the contract. More information on the application and regulation of the offset program can be found at www.hgk.hr/djelatnost/gosp_industrija/offset-program.

Although procedures for obtaining business visas are generally clear, they can be cumbersome and time-consuming. Foreign investors should familiarize themselves with the provisions of the Act on Foreigners. Questions relating to visas and work permits should be directed to the Croatian embassy or a Croatian consulate in the United States. The U.S. Embassy in Zagreb maintains a website with information on this subject at http://zagreb.usembassy.gov/service/other/entry.html.

6. Right to Private Ownership and Establishment

Both foreign and domestic legal entities have the right to establish and own businesses and engage in remunerative activity. Foreign investors can acquire ownership and shares of joint stock companies. The lowest amount of initial capital for establishing a joint stock company is HRK 200,000 ($35,000) and the nominal value per share cannot be less than HRK 10 ($1.75). The minimum initial capital for establishment of a limited liability company is HRK 20,000 ($3,500), while individual representation per investor cannot be less than HRK 200 ($35). The Company Act was amended in 2012 to make it easier and less costly to establish a small business. Article 49 of the Constitution provides that all entrepreneurs have equal legal status, and that monopolies are forbidden.

The government’s e-government initiative “Hitro.hr” (www.hitro.hr) provides an on-line business registration component that reduces the time it takes to register a company to four days. Hitro.hr offices are located in more than 60 Croatian cities and towns. Business registration is the first step in a plan to make more government services available on line in the coming years.

7. Protection of Property Rights

The right to ownership of private property is established in the Croatian Constitution and in numerous acts and regulations. A foreign physical or legal person incorporated under Croatian law is considered to be a Croatian legal person. The Ownership and Property Rights Act establishes procedures for foreigners to acquire property by inheritance as well as legal transactions such as purchases, deeds, and trusts. In order to acquire property by means other than inheritance or as an incorporated Croatian legal entity, foreign citizens require the approval of the Ministry of Justice. Approval often takes months or longer, owing to a lengthy interagency clearance process. While citizens of EU member states are afforded the same rights as Croatian citizens in terms of purchasing property, the right of all other foreigners to acquire property in Croatia is based on reciprocity. Reciprocity exists on a state-by-state basis with the United States. Croatia’s Ministry of Foreign and European Affairs has confirmed the existence of reciprocity for real estate purchases for residents of the following states: Alabama, Arizona,
Alaska, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Louisiana, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, North Carolina, North Dakota, Rhode Island, Tennessee, Texas, Virginia, Washington, West Virginia, as well as Iowa and Oklahoma (with a condition of permanent residence). Residents of other states could face longer waiting periods while the Ministry confirms that Croatian nationals can purchase real estate in those states without restrictions.

However, a foreign investor, incorporated as a Croatian legal entity, may acquire and own property without ministry approval. The purchase by any private party of certain types of land (principally land directly adjacent to the sea or in certain geographically designated areas) can be restricted. Both Croatian and foreign citizens may mortgage property and pledge real and tangible property.

When purchasing land for construction purposes, potential buyers should determine whether the property is classified as agricultural or construction land. The Agricultural Land Act allows for additional fees of up to 50 percent of the value of the land to be diverted from agriculture due to construction; as such, this law should be considered when purchasing land. The Agricultural Land Agency works with local governments to review potential agricultural land purchases. However, the Agricultural Land Act no longer covers the sale of privately owned farmland, which is now treated solely as the subject of a sales agreement between the parties. Buyers of this type of land should be aware of potential unresolved issues with land ownership.

Clarifying Croatia’s land registry system is an ongoing process. Although Croatia continues to process a backlog of cases, potential investors should seek a full explanation of land ownership rights before purchasing property. Note that Croatia’s land records are available on line (see www.pravosudje.hr and www.katastar.hr). There can be ambiguous and conflicting claims to property, making it necessary to verify that the seller possesses clear title to both land and buildings (which can be titled and owned separately). Inheritance laws have led to situations in which some properties can have dozens of legal owners, some of whom are deceased and others of whom emigrated and cannot be found. It is also important to verify the existence of necessary building permits, as some newer structures in coastal areas have been subject to destruction at the owner’s expense and without compensation for not conforming to local zoning regulations. Investors should be particularly wary of promises that structures built without permits will be regularized retroactively. The Act on Legalization of Buildings and Illegal Construction came into effect in August 2012 and should help to resolve ambiguities regarding ownership of real estate. For all these reasons, it is highly advisable to seek competent, independent legal advice in this area. The U.S. Embassy maintains a list of English-speaking attorneys (http://zagreb.usembassy.gov/service/special-consular-services.html).

Land ownership is distinct from ownership of buildings or facilities on the land. Investors interested in acquiring companies from the Office for State Asset Management (DUUDI) should seek legal advice to determine whether any deal also includes the right to ownership of the land on which a business is located, or merely the right to lease the land through a concession. Inconsistent regulations and restrictions on coastal property ownership and construction have also provided challenges for foreign investors in the past. Legislation restricts coastal construction and commercial use within 70 meters of the coastline.
Croatian intellectual property rights (IPR) legislation includes the Patent Act, Trademark Act, Industrial Design Act, Act on the Geographical Indications of Products and Services, Act on the Protection of Layout Design of Integrated Circuits, and the Act on Copyrights and Related Rights. Texts of these laws are available on the website of the State Intellectual Property Office (www.dziv.hr). Although some areas of IPR protection remain problematic, Croatia is currently not on the U.S. Special 301 Watch List. Problem areas continue to be concentrated in piracy of digital media and counterfeiting. Due to its geographical position, Croatia is also one of the transit routes for various contraband products bound for other countries in the region. There have been no problems reported with regard to registration of intellectual property in Croatia by American companies.

As a WTO member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS). A WTO/TRIPS Working Group in June 2001 accepted Croatia’s IPR legislation. Croatia is also a member of the World Intellectual Property Organization (WIPO). For a list of international conventions to which Croatia is a signatory, consult the State Intellectual Property Office’s website at www.dziv.hr.

The person at U.S. Embassy Zagreb responsible for handling IPR related issues is Theodore Fisher, tel (+385 1) 661-2200.

The U.S. Embassy maintains a list of English-speaking attorneys (http://zagreb.usembassy.gov/service/special-consular-services.html).

Contact information for the American Chamber of Commerce in Croatia can be found at www.amcham.hr.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at http://www.wipo.int/directory/en/.

8. Transparency of the Regulatory System

Croatia’s adoption of EU laws, norms, and practices has provided pressure for reform in recent years. Nevertheless, bureaucracy and regulation remain overly complex and time consuming. The Procurement Act makes public procurement more transparent, as it entails strict obligations for disclosure of public procurement on the internet. The law is intended to make the procurement process easier for businesses bidding on public tenders by cutting bureaucratic procedures. The law requires the publication of all procurement procedures valued at more than HRK 70,000 ($12,200). A website detailing all published public procurement transactions can be found at http://nabava.vjetrenjaca.org, a website created to draw attention to the procurement procedure and possible controversies surrounding it.

The tax on corporate profit is a flat 20 percent. A 12 percent tax is charged on dividends and capital gains that exceed HRK 12,000 ($2,100). For a detailed description of existing tax legislation, please consult the Tax Administration’s website at www.porezna-uprava.hr/en_propisi/_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx. The Institute of Public
Finance maintains a useful table of Croatian taxes at [www.ijf.hr/upload/files/file/ENG/taxtable.pdf](http://www.ijf.hr/upload/files/file/ENG/taxtable.pdf). Croatia also maintains a 25 percent value-added tax (VAT). Some companies have had difficulty with the tax authorities due to different understandings of how certain goods and services are affected by VAT. Detailed information about customs can be found at [www.carina.hr](http://www.carina.hr).

Investors have complained that the tax code is not applied equally, nor are tax opinions of a binding nature, which makes it difficult to plan for future costs of investment. There are also a number of so-called “para-fiscal” fees, which are an extra burden to business. The business community is currently working with the government to try to identify which of these fees will be eliminated.

New legislation and changes to existing legislation which could have a significant impact on citizens are made available for public debate. Although Croatia’s regulatory system does not specifically discriminate against foreign investors, transparency in developing legislation and regulation is often hampered by an inefficient public administration, lack of intra-governmental coordination, and reliance on expert advice from “national champions,” sometimes giving the latter a privileged position in influencing new regulations.

### 9. Efficient Capital Markets and Portfolio Investments

Croatia's securities markets are equally open to domestic and foreign investment. There are no restrictions that disrupt foreign investment in the securities market and financial markets in Croatia. Foreign residents may open non-resident accounts and may do business both domestically and abroad. Article 24 of the Foreign Currency Act states that non-residents may subscribe, pay in, purchase, or sell securities in the Republic of Croatia in accordance with regulations governing securities transactions. Non-residents and residents are afforded the same treatment in spending and borrowing. These and other non-resident financial activities regarding securities are covered by the Foreign Currency Act, available on the central bank website ([www.hnb.hr](http://www.hnb.hr)).

The Capital Markets Act regulates all aspects of securities and investment services, and defines the responsibilities of the Croatian Financial Services Supervisory Agency (HANFA). The Act also specifies who is responsible for information listed in a prospectus, and obligates the issuer to publish periodic financial reports as well as information about changes in corporate structure and voting rights. The Act was amended in 2013 to fully harmonize with EU directives on capital markets. The full text of the Act and amendments are found at the HANFA website ([www.hanfa.hr/EN/nav/189/capital-market-act-.html](http://www.hanfa.hr/EN/nav/189/capital-market-act-.html)), in Croatian language. In 2013, transactions on the Zagreb Stock Exchange totaled HRK 3.8 billion (approximately $680 million) with an additional HRK 18.24 billion ($3 billion) in registered OTC transactions. According to the Central Depository and Clearing Company, 857,742 Croatian citizens own stocks.

Only authorized companies (brokerage houses and banks) may deal in securities in Croatia. Such activities must be licensed by HANFA and entered in a court register. A brokerage may only be a private or public limited company based in the Republic of Croatia, and its only permitted
activity is transactions in securities. The type of permitted activity depends on the amount of share capital. A brokerage company may establish a branch abroad in order to deal in securities in the respective country. Foreign brokerage companies authorized for transactions in securities may establish a branch in Croatia, provided they obtain a license from HANFA. The Investment Fund Act provides for the establishment of derivative funds, index funds and other funds in accordance with EU legislation.

The private sector, both domestic and foreign owned, enjoys open access to credit on market terms. The banking sector, now overwhelmingly privatized and consolidated, is highly developed and becoming more competitive. More than 90 percent of total banking sector assets are foreign-owned. As of February 2014 there were 29 commercial banks and five savings banks, with assets totaling HRK 411 billion ($74 billion). The largest bank in Croatia is Zagrebacka Banka, with assets of HRK 106.5 billion ($19 billion), for a market share of 25.9 percent of total banking assets in Croatia. Second-largest is Privredna Banka, with HRK 66.8 billion ($12 billion), or 16.2 percent of total banking assets. The third largest is the Erste Bank, with assets of HRK 61 billion ($11 billion), for a 14.8 percent market share in Croatia.

The government uses the market to finance government expenditure. Government debt instruments must be bought through an intermediary such as a commercial bank, and are tradable on exchanges. Nearly all Croatian workers under age 40 are required to pay five percent of their gross salary into a pension fund of their choice. Additional voluntary savings with government matching of 25 percent has also been introduced.

Securities are traded on the Zagreb Stock Exchange (ZSE), established in 1991. There are three tiers of securities traded on the ZSE. The Securities Act requires that all companies with more than 100 shareholders and share capital of at least HRK 30 million ($5.5 million) be listed as public stock companies. The intention of this law was to increase transparency and encourage companies to obtain low-cost equity financing, which would result in higher turnover and trading volumes. Companies must meet high disclosure and operating requirements to be fully listed. A detailed explanation of all requirements is provided at www.zse.hr in English.

Measures governing takeovers are prescribed by the Act on Takeovers of Joint Stock Companies, which has been harmonized with EU requirements. The Act was amended in order to improve shareholders’ protection in the takeover process, and to unambiguously spell out the rights and obligations of acquirers. To date, there has only been one attempted hostile takeover on the ZSE, which failed.

10. Competition from State-Owned Enterprises

Legislation provides that private enterprises are allowed to compete with state-owned enterprises (SOEs) under the same conditions with respect to access to markets, credit and other business operations. In practice, however, there are often accusations that political influence in the SOEs has a negative effect on competition and tenders. The State Property Management Act regulates the Office for State Asset Management (DUUDI), which is responsible for all SOEs and their activities in sectors as diverse as railways, electricity, shipbuilding and tourism. The supervisory boards of SOEs are currently structured to include government figures, most often ministers, and the boards often report directly to the government.
SOEs are currently not in a position to invest in R&D at the same rate as their private sector competitors, and the GOC is hoping to privatize shares of SOEs to raise funds for R&D. It should be noted that companies the GOC deems to be of strategic importance will not be privatized.

SOEs are subject to the same taxation policies as private sector competitors. They are required to submit annual reports and to undergo independent audits.

11. Corporate Social Responsibility

The Croatian Business Council for Sustainable Development (www.hrpsor.hr) promotes corporate social responsibility (CSR), and is a member of CSR Europe’s Network of National Partner Organizations, Global Compact and the Global Reporting Initiative. The Croatian Chamber of Economy adopted a Code of Business Ethics in 2005 and founded the Community for Corporate Social Responsibility. The Chamber also grants an annual award to companies considered leaders in CSR. Their website includes annual reports by leading companies that detail activities related to corporate social responsibility as well as a list of companies with best practices.

Corporate governance is regulated by law, and a Corporate Governance Code of Ethics was established by the HANFA for the ZSE. Publicly listed companies are required to upload their annual corporate governance reports on the ZSE website. The latest copy of the Corporate Governance annual report can be found at www.hanfa.hr/EN/nav/111/giku---english.html. In addition, the Accounting Act requires large companies to apply International Financial Reporting Standards (IFRS). Small and medium-sized businesses may apply Croatian Financial Reporting Standards.

12. Political Violence

The risk of political violence in Croatia is low. Following the breakup of Yugoslavia and the subsequent wars in the region, Croatia has emerged as a stable, democratic country and is a member of NATO and the EU. Relations with neighboring countries are generally good and improving, although some disagreements regarding border demarcation and residual war-related issues persist.

There is little domestic anti-American sentiment. There have been no reported incidents involving politically motivated damage to American projects or installations in Croatia.

13. Corruption

The business community and others perceive corruption to be prevalent in Croatia, including major public companies, the health sector, universities, public procurement systems, the construction sector, and land registry offices. Though corruption remains a concern, there have been strong efforts at stamping it out. The scope of prosecutions indicates that the GOC remains serious in its efforts to fight corruption. Investigations have targeted senior members of prior
governments, including a former Prime Minister who was convicted in 2012 of taking bribes and sentenced to a ten-year prison term. Significantly, prosecutors have also indicted the chairman and CEO of a foreign company charged with providing these bribes. In addition, the long-time head of the Croatian Chamber of Economy was recently arrested for corrupt behavior, including abuse of position and embezzlement. Croatian prosecutors have secured corruption convictions of a number of high-level GOC officials, including ministers, high-ranking officials, and senior managers from state-owned companies.

The Law on Criminal Procedure grants prosecutors the authority to investigate crimes, including organized crime and corruption. Prosecutors continue to pursue additional corruption-related investigations against former senior government officials.

The State Prosecutor’s Office for the Suppression of Corruption and Organized Crime (USKOK) is tasked with directing police investigations and prosecuting these cases. USKOK is headquartered in Zagreb, with offices in Split, Rijeka and Osijek. In addition, the National Police Office for Suppression of Corruption and Organized Crime (PN-USKOK) conducts corruption-related investigations and is based in the same cities. Specialized criminal judges are situated at the four largest county courts in Croatia, again in Zagreb, Rijeka, Split, and Osijek, and are responsible for adjudicating corruption and organized crime cases. The cases receive high priority in the justice system. The Ministry of Interior, the Office for Suppression of Money Laundering, the Tax Administration, the Anti-Corruption Sector of the Ministry of Justice, and the National Council for Monitoring the Implementation of the National Strategy for Suppression of Corruption all have a proactive role in combating and preventing corruption.

Croatia has laws, regulations and penalties to effectively combat corruption. The Criminal Code and the Criminal Procedure Act define the roles of USKOK and PN-USKOK and define the tools available to authorities to fight corruption. The criminal code also provides for asset forfeiture. If a case falls under USKOK’s jurisdiction, it is assumed that all of a defendant’s property was acquired through criminal offences unless the defendant can prove the legal origin of the assets in question. Pecuniary gain in such cases is also confiscated if it is in possession of a third party (e.g. spouse, relatives, or family members) and was not acquired in good faith. The Croatian Criminal Code covers such acts as trading in influence, abuse of official functions, bribery in the private sector, embezzlement of private property, money laundering, concealment and obstruction of justice. In 2010, the legal framework to combat corruption was further improved. The Act on the Office for the Suppression of Corruption and Organized crime provides broad authority to prosecute tax fraud linked to organized crime and corruption cases. Additional laws for the suppression of corruption include: the State Attorney’s Office Act; the Public Procurement Act; the Act on Procedure for Forfeiture of Assets Attained Through Criminal Acts and Misdemeanors; the Budget Act; the Courts Act; the Conflict of Interest Prevention Act; the Corporate Criminal Liability Act; the Money Laundering Prevention Act; the Witness Protection Act; the Personal Data Protection Act; the Right to Access Information Act; the Act on Public Services; the Code of Conduct for Public Officials; and the Code of Conduct for Judges. The Labor Act contains whistleblower protections, but their effectiveness has yet to be proven. Croatian laws and provisions regarding corruption apply equally to domestic and foreign investors.
Croatia has not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, but it is a member of the Group of States Against Corruption (GRECO), a peer monitoring organization that allows members to assess anticorruption efforts on a continuing basis. Croatia has been a member of INTERPOL since 1992. Croatia cooperates regionally through the Southeast European Co-operative Initiative (SECI), the Southeast Europe Police Chiefs Association (SEPCA), and the Regional Anti-Corruption Initiative (RAI). Croatia is a member of Eurojust, the EU’s Judicial Cooperation Unit, and is a signatory to the UN Convention Against Corruption.

The Croatian Criminal Code includes penalties for both giving and accepting bribes (at Articles 253, 293 and 294), which range from six months to ten years imprisonment. Trading in influence (Article 295) is punishable by six months to five years imprisonment, and engaging in bribery related to trade in influence (Article 296) by one to eight years. Bribes by a local company to a foreign official are also punishable under Croatian law. If it is established that a local company is engaged in criminal behavior, the company may also be banned from conducting operations, depending on the gravity of the crime.

Transparency International Croatia is the main non-governmental watchdog involved in anticorruption efforts. In addition, GONG, a non-partisan citizens’ organization founded in 1997, monitors election processes, educates citizens about their rights and duties, encourages communication between citizens and their elected representatives, promotes transparency within public services, manages public advocacy campaigns, and assists citizens in self-organizing initiatives. The Partnership for Social Development is another nongovernmental organization active in Croatia dealing with the suppression of corruption.

Contact information for Transparency International can be found at www.transparency.hr/en/contact. Contact information for GONG can be found at http://gong.hr/hr/o-gong-u/kontakt.

14. Bilateral Investment Agreements

Croatia does not have a foreign investment law; foreigners receive national treatment under existing legislation. Investments by American citizens are covered by the U.S.-Croatian Bilateral Investment Treaty (BIT), which entered into force in June 2001. The treaty fulfills the principal U.S. objectives for agreements of this type. Notably:

- All forms of U.S. investment in Croatia are covered
- Covered investments receive the more favorable option of national treatment or most-favored-nation (MFN) treatment, both while being established and thereafter, subject to certain specified exceptions
- Specified performance requirements may not be imposed upon or enforced against covered investments
- Expropriation is permitted only in accordance with customary standards of international law
- Parties are obligated to permit the transfer, in a freely usable currency, of all funds related to a covered investment, subject to exceptions for specified purposes
• Investment disputes with the host government may be brought by investors, or by their covered investments, to binding international arbitration as an alternative to domestic courts.

For further information about BITs and for the text of the U.S.-Croatian BIT please see www.state.gov/e/eb/ifd/bit/117402.htm (under “Croatia”).

Croatia and the United States do not share a bilateral taxation treaty or a free trade agreement. Croatia has signed investment protection treaties/agreements with the following countries, but not all of the agreements have entered into force:

Albania, Argentina, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Cambodia, Canada, Chile, China, Cuba*, Czech Republic, Denmark, Egypt, Finland, France, Greece, Germany, Hungary, India, Indonesia*, Iran, Israel, Italy, Jordan, Kuwait, Latvia, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia*, Morocco*, Netherlands, Oman**, Poland, Portugal, Qatar**, Romania, Russia**, San Marino, Serbia, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, United States, Zimbabwe**.

* neither ratified nor in force
** ratified, but not in force

The Ministry of Foreign and European Affairs offers a country by country overview of bilateral treaties that Croatia has signed with each country: www.mvep.hr/en/foreign-politics/bilateral-relations/overview-by-country.

15. OPIC and Other Investment Insurance Programs

Croatia is eligible for financing and political risk insurance coverage from the U.S. Overseas Private Investment Corporation (OPIC). In 2004, OPIC provided $250 million in political risk insurance to support financing for the construction of a major motorway. For more information about OPIC, see www.opic.gov.

Croatia is a member country of the Multilateral Investment Guarantee Agency (MIGA). For more information see www.miga.org.

The estimated annual U.S. dollar value of local currency used by the U.S. Embassy in Croatia was approximately $11.3 million for 2013. The Embassy currently purchases local currency from a local commercial bank at the market rate. A major devaluation is considered unlikely.

16. Labor

Croatia has an educated, highly skilled, and relatively high cost labor force compared other countries in the region. The estimated average cost to employers in Croatia was HRK 7,939 (approximately $1,433) per month as of December 2013, and the average net wage was HRK 5,515 ($995). The minimum wage is regulated by the Minimum Wage Act, which ensures a continuous minimum wage increase over longer periods of time. Minimum wage increases are
calculated from the minimum-to-average wage ratio from the previous year, increased by the percentage of real GDP growth in the previous year.

Amendments to Croatia’s labor laws have been aimed at increasing labor market flexibility by shortening the mandatory notification period before employee dismissal, and reducing generous severance package requirements. However, due to strong collective agreements, it is often difficult to dismiss employees who are covered by such agreements, especially in state-owned enterprises. The Act on Representation, which deals separately with collective bargaining, limits the period that collective agreements remain in force once they have expired. Further liberalization of labor legislation has been controversial in Croatia, and labor unions come out strongly against any changes perceived to be detrimental to job security. Unions have a strong role independent of political parties and they have so far been successful in blocking further meaningful reform of labor laws. However, unions mainly represent workers whose salaries are linked to the State budget. Croatia still fares poorly in terms of both the time and expense involved in hiring and firing employees.

The Labor Act regulates employee and employer relations through employment contracts. Full-time employment must not amount to more than 40 hours per week, plus a maximum of eight hours paid overtime, and employees are entitled to at least four weeks of paid annual leave and seven days of personal leave. The Labor Act also provides special protections for workers in dangerous occupations, for those who work at night, and for minors aged 15 to 18.

Workers are entitled by law to form or join unions of their own choosing, and workers exercise this right in practice. In general, unions are independent of the government and political parties. The Labor Act prohibits anti-union discrimination and expressly allows unions to challenge firings in court; however, in general, attempts to seek redress through the legal system are seriously hampered by the inefficiency of the court system.

Articles 73-85 of the Act on Foreigners covers the issuance of work permits for foreigners. While there are quotas (determined annually) for work permits for foreigners, there are no quotas for foreigners who execute key positions in companies or representative offices. Likewise, there are no quotas for business visas.

17. Foreign Trade Zones/Free Ports

Croatia has several Free Trade Zones (FTZs), some of which are in areas affected by war in the 1990s. Special incentives are offered to users of FTZs, although these zones have lost some of their meaning since Croatia joined the EU and its customs area as of July 1, 2013.

The Act on Free Trade Zones allows foreign-owned or domestic companies in FTZs to engage in manufacturing, wholesale (but not retail) trade, foreign trade, banking and other financial activities. The Act also defines the payment structure for profit taxes through 2017. The Act on Profit Tax covers business in FTZs, but users are eligible for tariff waivers on imported products. FTZs are exempted from any Croatian emergency measures or other restrictions pertaining to foreign trade or currency transactions. Users of the zones may freely store their goods and
production equipment in the zones, and enjoy simpler customs procedures. Tax and customs exemptions ceased to be valid once Croatia joined the EU on July 1, 2013.

The Ministry of Entrepreneurship is responsible for overseeing the operation of FTZs. The following locations currently have FTZs: Kukuljanovo, Osijek, Rijeka, Slavonski Brod, Split, Splitsko-Dalmatinska, Ploce, Pula, Varazdin, Zagreb. Detailed information regarding the laws and procedures that cover the use of FTZs can be found at www.croatianfreezones.org.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Privatization has been the main source of FDI since Croatian independence. Large state assets such as utilities and banks were sold by the government, usually through international tenders, and in some cases through initial public offerings (IPOs). New or greenfield investments have lagged in recent years. In April 2014, the GOC opened hydrocarbon exploration and production in the Croatian part of the Adriatic Sea, and it hopes this will generate more foreign investment. The Office for State Asset Management, the agency responsible for state asset sales, has shares in 651 companies. The value of the state’s holdings in these companies is estimated at HRK 144 billion ($26 billion). Information regarding the Office for State Asset Management can be found at www.duudi.hr.

According to the Croatian National Bank, total FDI stock in Croatia at the end of 2013 was EUR 26.8 billion ($37 billion), with investments in the financial, wholesale/retail and real estate sectors accounting for half the total. Croatian FDI stock abroad amounted to just EUR 93 million ($128 million) at the end of 2013. Net FDI inflows to Croatia in 2013 were EUR 437 million ($604 million), one of only three years since 1999 in which FDI totaled less than EUR 1 billion. Austria is the largest source of foreign investment in Croatia, accounting for 26.5 percent of total FDI since 1993. Germany is second with 12.4 percent, followed by the Netherlands with 11.9 percent and Hungary with 8.5 percent. The United States is ranked no. 30, with total FDI in Croatia of just EUR 19 million ($26 million). However, this figure nets out repatriated profits; American firms have invested billions of dollars in Croatia since 1993. In addition, because transactions are often executed through third countries, and because the Croatian National Bank records country of origin of the final transaction leading to the investment, statistics on the origin of FDI can underestimate U.S. investment in the country. For example, many U.S. corporations have investments in Croatia through West European subsidiaries.

The leading destinations for Croatian outward investment were the Netherlands, Serbia, and Bosnia and Herzegovina. In 2013, Croatian companies invested approximately EUR 33 million ($46 million) abroad.

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Croatian Bureau of Statistics</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Amount</td>
<td>Year</td>
</tr>
</tbody>
</table>

18
**TABLE 3: Sources and Destination of FDI**  
Croatia, 2012

<table>
<thead>
<tr>
<th>Source of data</th>
<th>Inward Direct Investment (US Dollars, Millions)</th>
<th>Outward Direct Investment (US Dollars, Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Croatia</td>
<td>10,803</td>
<td>35%</td>
</tr>
<tr>
<td>U.S. Bureau of Economic Analysis</td>
<td>3,510</td>
<td>11%</td>
</tr>
<tr>
<td>Source of data</td>
<td>2,916</td>
<td>9%</td>
</tr>
<tr>
<td>Total Inward</td>
<td>1,873</td>
<td>6%</td>
</tr>
</tbody>
</table>

"0" reflects amounts rounded to +/- USD 500,000.


19. **Contact at Post to learn more:**  
For more information on the investment climate in Croatia, you may contact:  
- Economic Section  
- U.S. Embassy Zagreb  
- Ulica Thomasa Jeffersona 2, 10010 Zagreb
- Tel (+385 1) 661-2200
- E-mail: InvestmentClimateCroatia@state.gov