



CROATIA
INVESTMENT CLIMATE STATEMENT
2015

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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 remained mostly flat since, with 2014 marking the sixth year of recession. The banking system weathered the global 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 six years.

The current Government of Croatia (GOC) came into power in December 2011, and initially pledged to take urgent legislative and administrative steps to reduce barriers to investment and foster development in key sectors. However, the government has pursued limited reform initiatives in the face of persistent levels of high unemployment, though the European Union and global financial institutions have called for deeper structural reforms, particularly of the large public sector. Despite some recent progress, however, additional legal and administrative reforms are crucial for Croatia to attract a broader spectrum of investment. Privatization of state-owned assets continues to lag. Croatia became a member of the European Union in 2013. Entry into the EU should enhance stability and eventually provide new opportunities for trade and investment, but most direct economic benefits of EU entry have yet to be felt. Croatia is in line to receive a significant amount of EU funds that could spur some growth, though, like many other new EU states, has appeared to struggle to put in place the mechanisms to rapidly absorb the funds.

Despite these challenges, Croatia is not unfriendly to U.S. or other foreign investment. The GOC frequently pledges to improve the investment climate, though steps have been halting in the face of opposition from vested interests and key groups. Investors continue to complain about high para-fiscal fees, rigid labor laws, slow and complex permitting procedures, and a slow, sometimes unpredictable legal system. A recent positive step 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. Twenty offshore blocks were offered, and the process stands out as an example of efficient and transparent decision-making by the GOC. An additional announcement for onshore exploration was made in July of 2014. These represent significant investment opportunities for U.S. oil and gas companies and suppliers in this sector. The hydrocarbons sector represents the first real new investment opportunity Croatia has offered in many years.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Croatia is open to foreign investment, and the Croatian government continues to prioritize attracting foreign investors. 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 607,

702 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.

There are various interest groups that have been successful in stopping investments from being realized in the past, regardless of the origin of the investment. The government does make concerted efforts to counter such movements, with limited success.

Other Investment Policy Reviews

The World Bank Group published a "Doing Business" Economic Profile of Croatia in 2015.

Laws/Regulations of Foreign Direct Investment

There are no separate laws that affect incoming foreign investment. There is protection of competition of all market participants.

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.

Industrial Promotion

Croatia published the 2014-2020 Industrial Strategy of the Republic of Croatia in October 2014, which identifies key industrial activities considered to have the greatest capacity of growth, development and employment. The sectors identified include production of basic pharmaceutical products and preparations; manufacture of computers and electronic and optical products; manufacture of fabricated metal products; computer programming, consultancy and related activities (ICT); manufacture of electric equipment and manufacture of machinery and appliances.

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.

The four key areas of activity defined by the Industrial Strategy are to create a stable investment environment, to promote strategic cooperation of industry and the educational system, public administration restructuring, and capital market development. Each of these priority areas has a defined set of concrete measures to achieve the set objectives.

The Strategy also defines as priority the growth of industrial production volume at an average annual rate of 2.85%; 85,619 newly employed by the end of 2020, of which at least 30% are

highly educated; 68.9% labor productivity growth between 2014-2020, and 30% export increase in the same period by, to include focus on products with high added value.

Relevant contact information can be found at www.mingo.hr/default.aspx?id=3398.

Limits on Foreign Control

The Croatian government places no restrictions on foreign ownership or control. There is no sector-specific legislation that discriminates against market access. For example, over 90 % of the banking sector is foreign owned.

Privatization Program

The country continues to pursue privatizations through the Office for State Asset Management (DUUDI), formerly known as the Agency for Public Asset Management (AUDIO). The latest assessment has the Republic of Croatia owning shares in 651 companies. The value of the state's holdings in these companies is estimated at HRK 144 billion (USD 26 billion). 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.

Information regarding the Office for State Asset Management can be found at www.duudi.hr.

All tenders are published internationally and there are no restrictions on foreign investor participation in privatization. The bidding process is public.

Screening of FDI

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.

Competition Law

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.

Investment Trends

Investment is highly focused in retail, banking and tourism sector. Recently, the energy sector has become the object of increased interest, to include a first of its kind, since Croatia achieved independence, international tender for gas and oil exploration and exploitation, which was issued in April 2014 and is currently under negotiations.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	61 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2014	65 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	42 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

There are no limitations placed on converting, transferring or repatriating funds associated with an investment. The exchange rate is determined by the Croatian National Bank. The National Bank intervenes in the forex market to ensure the Euro-Croatian kuna rate remains stable as an explicit and longstanding policy. However, the exchange rate of the Croatian kuna to the U.S. dollar, while floating freely, is more tightly linked to the euro than the U.S. dollar.

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.

The Government of Croatia has sufficient mechanisms in place and tools at its disposal to effectively combat money laundering and financial crimes; incidences of these activities remain rare. The Anti-Money Laundering Department, Croatia's financial intelligence unit (FIU), oversees all non-bank financial institutions and designated non-financial businesses and professions.

Croatia is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Croatia_en.asp

Croatia is also a member of the Egmont group and exchanges information with other member countries on a regular basis. Records of exchange (although in Croatian) can be found in the Anti-Money Laundering Departments annual report at:

<http://www.mfin.hr/adminmax/docs/Godisnje%20izvjesce%20o%20radu%20Ureda%20za%20013.%20godinu.pdf>

Remittance Policies

There are not limitations, either by amount or time, to remittances. There no currency manipulation tactics in the economy or by the government. 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.

3. Expropriation and Compensation

Croatian Law on Expropriation and Compensation gives the government broad authority to expropriate real property under various economic and security-related circumstances, including eminent domain and strategic investments. 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 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. Parties not pleased with the outcome of the Ministry decision can take administrative action against the decision, but no appeal to the decision is allowed.

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.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The legal system in Croatia is Civil and provides for ownership of property and enforcement of legal contracts. The Company Act defines the forms of legal organization for domestic and foreign investors.

The Croatian constitution provides for an independent judiciary. The judicial system consists of courts of general and specialized jurisdictions. Core structures are the Supreme Court, County Courts, Municipal Courts, and Magistrate/Petty Crimes Courts. Specialized courts include the Administrative Court and High 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.

Civil litigation regarding intellectual property is handled by commercial courts, while criminal litigation is handled by municipal and county courts. In regard to misdemeanor violations of intellectual property right laws, misdemeanor courts are responsible. Administrative courts handle administrative disputes regarding intellectual property rights.

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 2014, there were an estimated 607,772 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.

Bankruptcy

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.

Investment Disputes

There have been instances of investment disputes involving U.S. companies in Croatia. The GOC has generally been unresponsive to requests from U.S. companies to assist in resolution of long-standing disputes. 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.

International Arbitration

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 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.

ICSID Convention and New York Convention

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 Washington Convention that established the International Center for the Settlement of Investment Disputes (ICSID).

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.”

Duration of Dispute Resolution

According to the 2015 edition of the EU Justice Scoreboard, resolution of non-criminal litigation lasts approximately 180 days, which places Croatia somewhere in the middle of all EU countries (http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2015_en.pdf). Investors are often encouraged to seek arbitration over litigation due to duration of domestic procedures.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

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.

Investment Incentives

The Investment Promotion Act (IPA), amended in 2013, offers incentives aimed at strengthening production activities and the use of new technologies, supporting research and development activities and stimulating employment. Investment incentives apply in cases where one or more of the following objectives are fulfilled:

- purchase of new equipment and modern technologies,
- increased employment and level of training of employees,
- development of products and services with higher added value,

- increase in entrepreneurial competitiveness,
- balanced regional development of the Republic of Croatia.

Incentive measures for investment projects refer to investment projects in manufacturing and processing activities, development and innovation activities, business support activities and high added value services. Specifically, the Act provides the following incentives: for microenterprises, tax advantages, eligible costs of new jobs linked to the investment project, eligible costs of training linked to the investment project, capital costs of the investment project, and labor-intensive investment projects. Incentive measures also pertain to development and innovation activities, business support activities and high added value services.

Incentive measures can be used by enterprises registered in the Republic of Croatia investing in fixed assets the minimum amount of USD 54,000 together with creating at least 3 new jobs for microenterprises (companies with up to 10 employees) and USD 160,000 together with creating at least 5 new jobs for small, medium and large enterprises.

Of particular interest are substantial available reductions in the tax rate on profits depending on the size of the investment and the number of new jobs created. A reduction of 50 percent applies for a maximum of ten years for companies that invest up to USD 1 million and create at least five new jobs. This reduction rises to 75 percent for companies investing USD 1 to USD 3.2 million and creating at least 10 new jobs, and to 100 percent for companies that invest over USD 3.2 million and create at least 15 new jobs.

Incentives for new job creation range from USD 3,200 to USD 9,700, depending on the investment. A non-refundable financial support of 10% is approved for expenses intended to create new jobs, with support ranging up to USD 3,200 per opening new jobs in counties with unemployment levels up to 10%. This support rises to 20% for opening new jobs in counties with unemployment levels between 10 to 20%, with support ranging up to USD 6,500. At last, non-refundable financial support of 30% is approved for expenses intended to create new jobs, with support up to USD 9,700 per opening new jobs in counties with unemployment levels above 20%.

Incentives for eligible costs of specific education and general education of employees connected to the investment project are approved in accordance with the regulations on state aid for education/training. The purpose of specific training is to acquire theoretical and practical knowledge which cannot be applied or can only partially be applied to other entrepreneurs or business activities. The aim of general training is to acquire general knowledge that can be applied to other entrepreneurs or business activities. The eligible costs for the purpose of training may include staff trainer costs, trainers' and trainees' travel costs, depreciation of tools and equipment to the extent that they are used for the training project, as well as trainees' costs.

The amount of incentives cannot exceed more than 50% of the eligible investment costs. 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.

Incentives for capital costs of the investment project are approved for investments over USD 5.4 million, generating 50 new jobs in the period of 3 years from the beginning of the investment. The following incentives can be approved in the amount of 10% of the eligible cost of investment for construction of the new factory, production facility or tourist facility, hospitality object, or for buying new machines (max amount up to USD 0.5 million) in counties where unemployment rate is from 10-20%. The incentive rises to 20% of the eligible cost of investment (max amount up to USD 1 million) in counties where unemployment rate is above 20%. Incentives for labor-intensive investment projects apply to labor-intensive investments creating new jobs within three years from the start of the investment. The incentive in the amount of 25% is approved for investment projects creating 100 and more jobs. The amount of incentive rises up to 50% for creating 300 and more jobs and the incentive in the amount of 100% refers to creating 500 and more jobs.

A Strategic Investments Act went into effect in November 2013, 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 the economy, energy, tourism, transport, infrastructure, electronic communication, postal services, environmental protection, public utilities, agriculture, forestry, water management, fishery, health care, culture, science, defense, judiciary, technology and education. Private investment projects refer to the investments in Production and Processing Activities, Development and Innovation Activities, Business Support Activities, Activities of High Added Value Services, Activities in Energy Sector, Infrastructure and Activities related to Agriculture and Fisheries. 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 USD 21 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 USD 2.8 million or more, and are implemented in the assisted areas, or in the units of local (regional) self-government of the 1st group or in the units of local self-government of the 1st and 2nd groups, in accordance with the act governing the regional development of the Republic of Croatia. Furthermore, the investments will be considered as strategic if they are implemented on the islands or are in the agriculture and fisheries sector. If the project has the possibility to be co-financed from the funds and programs of the European Union, the minimum amount for investment can be USD 10.6 million.

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%A1kim_vodi%C4%8D_eng_12.pdf. A provisional translation of the Act is available at <http://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 dozvola.mgipu.hr.

Research and Development

All foreign and domestic companies can participate in government financed or subsidized research and development programs. Foreign and domestic companies are viewed as equals in legislation that refers to participation on the market, in any form.

Performance Requirements

Croatian law does not impose performance requirements on foreign or domestic investors. Article VII of the U.S.- Croatia Bilateral Investment Treaty (BIT) in force since 2001 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 zagreb.usembassy.gov/service/other/entry.html.

Data Storage

There are no “forced localization” policies for investors in terms of goods and technology. Foreign IT providers are not required to turn over source code or give access to surveillance. There are no requirements for investors to maintain or store data within the territory of Croatia.

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 (USD 35,000) and the nominal value per share cannot be less than HRK 10 (USD 1.75). The minimum initial capital for establishment of a limited liability company is HRK 20,000 (USD 3,500), while individual representation per investor cannot be less than HRK 200 (USD 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

Real Property

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. However, 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.

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.

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 (zagreb.usembassy.gov/service/special-consular-services.html).

Intellectual Property Rights

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 nor is it listed in the notorious market report. 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.

Croatian law enforcement officials keep public records of seized counterfeit goods. According

to the latest available report from the State Agency for Intellectual property, in 2013, 360,571 counterfeit goods were seized, valued at approximately USD 34 million. Of the goods seized, over 50 percent were clothing, while 35 percent included sunglasses, purses and jewelry. Croatian customs officials and Ministry of Interior work together to locate and seize such goods.

As a WTO member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS). 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.

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/>.

Resources for Rights Holders

The person at U.S. Embassy Zagreb currently responsible for handling IPR related issues is Diana Matijas Vengar (+385 1) 661-2200. Contact information for the American Chamber of Commerce in Croatia can be found at www.amcham.hr.

Website for lawyers' list: <http://www.hok-cba.hr/en/phonebook>

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 Public 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 200,000 (USD 34,700) for goods and services and for construction work valued at more than 500,000 HRK (USD 87,000). A website detailing all published public procurement transactions can be found at nabava.vjetrenjaca.org, created to draw attention to the procurement procedure and possible controversies surrounding it.

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.

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 (USD 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.

Croatia also maintains a 25 percent value-added tax (VAT). Some companies have had difficulty with the tax authorities due to differing understandings of how certain goods and services are affected by VAT. Detailed information about customs can be found at 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.

9. Efficient Capital Markets and Portfolio Investment

Croatia’s securities and financial markets are open equally to domestic and foreign investment. 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).

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 European Union 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), in Croatian language.

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 (USD 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.

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

Money and Banking System, Hostile Takeovers

The private sector, both domestic and foreign owned, enjoys open access to credit on market terms. The banking sector is now overwhelmingly privatized and consolidated, highly developed, and becoming more competitive. More than 90 percent of total banking sector assets are foreign-owned. As of February 2015 there were 30 commercial banks and five savings banks, with assets totaling HRK 411 billion (USD 74 billion). The largest bank in Croatia is Zagrebacka Banka, with assets of HRK 106.8 billion (USD 19 billion), for a market share of 26.9 percent of total banking assets in Croatia. Second-largest is Privredna Banka, with HRK 65.8 billion (USD 11.5 billion), or 16.5 percent of total banking assets. The third largest is the Erste Bank, with assets of HRK 60.1 billion (USD 10.5 billion), for a 15.11 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.

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. It should be noted that companies the GOC deems to be of strategic importance will not be privatized.

Many SOE's are currently struggling to survive the weak economy and are at a disadvantage in terms of restructuring, as constraining collective agreements make it difficult to downsize and rationalize company structure, which makes the companies less competitive than similar privately-owned companies. 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.

OECD Guidelines on Corporate Governance of SOEs

In terms of SOEs, the Croatian Government adopted a Strategy for the Management of State Assets in 2013, which includes a section dedicated to the governance of state-owned enterprises. The strategy provides medium-term objectives and guidelines for managing state owned assets and is aimed at ensuring long-term efficient and transparent management. The strategy includes OECD Guidelines as a basis for SOE corporate governance in Croatia.

Corporate governance is regulated by law, and a Corporate Governance Code of Ethics was established by the HANFA for the ZSE. SOEs are subject to the same taxation policies as private sector competitors. They are required to submit annual reports and to undergo independent audits. 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---englsih.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.

Sovereign Wealth Funds

The Republic of Croatia does not own any sovereign wealth funds.

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.

OECD Guidelines for Multinational Enterprises

Croatia is not an adherent to the OECD Guidelines, however, the European Union, which is committed to the implementation and success of the OECD Guidelines, encourages both local and foreign companies to implement and follow the Guidelines within all EU countries.

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 European Union. 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 note the existence of corruption in Croatia, especially the health sector, public procurement systems, and the construction sector. During years of intensive reform in preparation for its accession to the EU, Croatia invested considerable efforts in establishing a wide-ranging legal and institutional anti-corruption framework so as to foster a more comprehensive approach. It has put in place a number of anti-corruption strategies, the most recent in 2015, which was adopted by the Croatian Parliament on February 27. Croatian prosecutors have secured corruption convictions against a number of high-level former GOC officials, including the former Prime Minister, former ministers, other high-ranking officials, and senior managers from state-owned companies.

The Law on Criminal Procedure grants prosecutors the leading authority to investigate crimes, including organized crime and corruption. Croatian prosecutors and police officers have proven to be proactive, and have developed a good track record of investigations into allegations of high-level corruption. The recent first instance conviction of a former Prime Minister for corruption and the ongoing criminal proceedings against a number of former ministers illustrate allegedly illegal links between politicians and businesses, often related to public procurement. While the high-level investigations signal the political will to prosecute high-level corruption, challenges still remain, notably when it comes to the effectiveness of the institutional framework and internal control mechanisms at both central and local levels, and the inter-institutional coordination, both horizontal and vertical, of anti-corruption policies.

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, all have a proactive role in combating and preventing corruption.

Croatia has adequate laws, regulations and penalties to effectively combat corruption. The Criminal Code and the Criminal Procedure Act define the tools available to the investigative authorities to fight corruption. The criminal code also provides for asset seizure and forfeiture. 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.

Croatian laws and provisions regarding corruption apply equally to domestic and foreign

investors. 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.

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 anti-corruption 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 gong.hr/hr/o-gong-u/kontakt

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Croatia has signed and ratified the UN Anticorruption Convention.

Croatia has signed but not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions,

Resources to Report Corruption

Contact information for Transparency International can be found at www.transparency.hr/en/contact. Contact information for GONG can be found at 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; and 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/afd/bit/117402.htm (under “Croatia”).

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**.

Bilateral Taxation Treaties

Croatia and the United States do not share a bilateral taxation treaty or a free trade agreement.

Croatia has entered into bilateral tax treaties with the following countries:
Albania, Armenia, Austria, Azerbaijan, Belgium, Belarus, BiH, Bulgaria, Montenegro, Czech Republic, Chile, Denmark, Estonia, Finland, France, Greece, Georgia, Indonesia, Iran, Ireland,

Iceland, Italy, Israel, Jordan, South Africa, Canada, Qatar, China, Korea, Kuwait, Latvia, Hungary, Macedonia, Malaysia, Malta, Morocco, Mauritius, Moldova, Netherlands, Germany, Norway, Oman, Poland, Romania, Russia, San Marino, Syria, Slovak Republic, Slovenia, Serbia, Spain, Sweden, Switzerland, Turkey, Ukraine, and Great Britain.

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). As of 2014, OPIC's active projects have included USD 88 million in funding and insurance for construction and financial services in Croatia. For more information about OPIC, see www.opic.gov.

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

16. Labor

Croatia has an educated, highly skilled, and relatively high cost labor force compared to regional averages. The estimated average cost per worker to employers in Croatia was HRK 7,809 (approximately USD 1,409) per month as of February 2015, and the average net wage was HRK 5,427 (USD 1,005). The minimum wage, currently HRK 3,017 (approximately USD 505) 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. High unemployment figures continue to plague Croatia, putting Croatia as 4th highest for 2014 in comparison with other EU countries. Latest official figures from February 2015 currently note 20.3% overall unemployment, while youth unemployment stands at 40%. However, the government has committed to increasing jobs, especially for youth, through various programs funded by the European Union.

The Labor Act regulates employee and employer relations through employment contracts. Full-time employment must not exceed 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. Legislation is harmonized with both EU legislation and international standards. Companies report that Croatia's labor law makes it relatively expensive to hire and dismiss employees in comparison to the United States and other countries in Europe at the same level of development.

Labor legislation protects the right of most workers, including police but excluding active military personnel, to form or join unions of their choice without previous authorization or excessive requirements. There are no regulations or statutory limitations blocking workers from forming or joining unions. Unions have a strong role independent of political parties and they have so far been successful in preventing large scale changes in labor laws. However, unions mainly represent workers whose salaries are linked to the State budget.

Labor legislation provides for the right to strike and to bargain collectively but with some

limitations. Workers may strike only at the end of a contract or in specific circumstances cited in the contract after they have gone through mediation. Either side in the mediation process may decide that the process is not progressing towards a solution, and the workers may then strike. When negotiating a new contract, workers are also required to go through mediation before striking. Labor and management must jointly agree on a mediator if a dispute goes to mediation. If a strike is found to be illegal, any participant may be dismissed and the union held liable for damages. The law prohibits antiunion 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. The law requires reinstatement if an employee is found by a court to have been terminated for union activity.

Amendments to Croatia's labor laws have been aimed at shortening the mandatory notification period before employee dismissal, and reducing 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.

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/Trade Facilitation

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 European Union and its customs area as of 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 European Union 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

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country	2013	57,500	2014	57,870	www.worldbank.org/en/country
Gross Domestic Product (GDP) (\$M USD)	2014	57,200			
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2013	18.7	2013		
	2014	6.5	2014	143	http://www.bea.gov/scb/pdf/2014/09%20September/0914_outward_direct_investment_tables.pdf www.hnb.hr*
Host country's FDI in the United States (\$M USD, stock positions)	2013	22.4	2013		www.bea.gov
	2014	-0.5	2014	5	http://www.bea.gov/scb/pdf/2014/09%20September/0914_inward_direct_investment_tables.pdf www.hnb.hr
Total inbound stock of FDI as % host GDP	2013	2.4%	2013		
	2014	4.6%	2014	4.5%	

*www.hnb.hr.

Discrepancies in figures are due to different methodologies for calculation used by the Republic of Croatia and United States. Note: World Bank and U.S. Bureau of Economic Analysis do not have GDP data available for 2014 at time of publishing.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	32,452	100%	Total Outward	4,330	100%
Austria	11,285	35%	Bosnia Herzegovina	810	19%
Hungary	4,128	13%	Slovenia	764	18%
Germany	3,517	11%	Serbia, Republic of	746	17%
Netherlands	2,908	9%	Syrian Arab Republic	424	10%
Luxembourg	1,871	6%	Marshall Islands, Republic	369	9%

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

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Information regarding sources of portfolio investment is not available for Croatia.

19. Contact for More Information

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