



# BULLETIN

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## The Impact of Enlargement to Croatia on the Functioning of the European Union

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*The accession of Croatia to the EU, which is scheduled to take place on 1 July, will not essentially change the functioning of the Union, mainly due to the small socio-economic potential of that country. However, its membership may have relevance to some EU policies, especially those concerned with enlargement and energy. Since these are essential elements of the foreign policy of Poland, it should be interested in cooperation with Croatia in these areas, including through the Visegrad Group, while paying particular attention to Croatia's potential in shaping enlargement policy of the EU in the Western Balkans and in creating an integrated gas market in the future.*

Croatia will probably be the only Western Balkan country to enter the EU this decade because other countries in the region are still at early stages of integration. Therefore, the implications of enlargement to the Balkans on the functioning of the EU can only be analysed for Croatia.

**Enlargement and the EU budget.** The fact that the EU will expand to include Croatia has not affected negotiations on the Multiannual Financial Framework 2014–2020 (MFF). As a Member State, Croatia will benefit from 2014 from commitments of around €11.7 billion (€10 billion in payments with a contribution of €3 billion). Hence, allocations for that country are a marginal part of the EU budget (about 1.2% of €960 billion) and were not in question when the budget was tailored.

The new EU budget will be more modest, and Croatia will be excluded from the use of the Instrument for Pre-Accession Assistance because of its entry into the Union. Despite this, the negotiations on the new MFF showed that funds allocated to support countries covered by enlargement policy will be similar to those available under the current financial framework.

**Institutional Capacity of Croatia.** Croatia's influence on the EU decision-making process will be rather small. The country will receive seven of 352 weighted votes in the EU Council. Croatia's position will not change fundamentally after the simplification of the voting procedure in the Council after 2014. However, due to the requirement of unanimity in some areas, such as EU enlargement policy, Croatia will help shape them on equal footing with other Member States.

The estimate of 12 Croatian members of the European Parliament may be reduced to 11 due to the need to adapt the institution to the provisions of the Lisbon Treaty. As for the European Commission, the scenario from the accession of Bulgaria and Romania could be repeated, when the health and consumer protection portfolio was split until the end of the Commission's term. The latter area is likely to be entrusted to a Croatian commissioner. Nevertheless, its small institutional capacity—which reflects the size of Croatia compared to other Member States—does not mean that the country cannot be an attractive partner to build coalitions in the decision-making process, especially in areas where the role of that country may be visible.

**EU Enlargement Policy.** Croatia will strengthen the group of countries that supports further rounds of enlargement of the EU and will be active in this policy, especially in the Western Balkans. This is not only because it is part of the foreign policy priorities of that country, which is interested in the rapid integration of underdeveloped countries in the region, but also because of high public support (about 60 percent) for further rounds of enlargement.

Croatia's membership will change the perception of the region, because that country will assume the role of a link between the EU and the Balkans and will be an important country for the transfer of experience from the accession negotiations with the Union to other countries in the region. However, unresolved bilateral disputes (e.g., a border dispute with Serbia) carry a risk that Croatia will seek to use its position as a Member State to solve conflicts with its neighbours in the same way Slovenia did in the past, which resulted in a slower pace of EU enlargement in the region (an unresolved dispute over a sea border on the Adriatic was reason enough for Slovenia to freeze the EU's talks with Croatia in 2009 for 10 months even though 68% of Slovenians supported EU enlargement at the time, then one of the highest levels of support in the Union).

Croatia will strengthen the group of Member States that supports greater EU openness, including to countries that are not covered by enlargement policy. This will result from the benefits of Croatia's accession, combined with its neighbourhood of underdeveloped countries and the structure of the Croatian economy, in which tourism is an important sector. However, Croatia's location between Central Europe and the Adriatic explains why the country will support not only those Member States that want to broaden their cooperation with Eastern Partnership countries but also those interested in strengthening the southern dimension of European Neighbourhood Policy (ENP).

**Cohesion Policy and Common Agricultural Policy (CAP).** As a beneficiary of EU's cohesion policy, Croatia will be keen to maintain its generous allotment of resources. This means that the country will support the group Friends of Cohesion, which also includes Poland. Croatia will also benefit from EU subsidies under the CAP, but in the debate over the future shape of this policy—despite its location largely in Southern Europe—that country may not be one of the outright proponents because the agriculture sector in Croatia comprises only 5% of total employment.

**Croatia and the European Gas Market.** The Croatian government has taken steps to increase the country's importance in terms of energy security, especially in the integrated gas market. This was reflected by the launch a year and a half ago of a two-way gas interconnector with Hungary (with a capacity of 6.5 billion cubic metres per year). Its importance will increase if an LNG terminal (with a capacity of 10 billion cubic metres) is constructed on Krk island (the project has been planned for years, but is significantly delayed). This facility would allow Croatia to join the Central European North-South gas corridor. However, in January 2013, the country signed a contract with Gazprom for the construction of a connection to the South Stream gas pipeline, which will allow Croatia to fully meet its internal energy needs. The agreement may indicate that the construction of the Adria LNG facility is not a priority for Croatia in the coming years.

**Conclusions and Recommendations.** The EU's enlargement to the Western Balkans will not significantly influence budget negotiations in the future because the region's economies are small and the Union will probably expand only to one country at a time for now. Even the accession of several Balkan states would have little impact on EU budget expenditures. In addition, the importance of the EU's general budget is likely to decrease due to the development of other transfer mechanisms in the euro area, including a separate budget for the EU17+.

Due to its location and the recent accession negotiations experience, Croatia will probably become an important country in the EU's enlargement policy in the Western Balkans. Poland, as a country that promotes this policy, should use these circumstances to develop a common approach towards the region by enabling Croatia to cooperate with the Visegrad states in the V4+ formula. After their accession to the EU, other Balkan states probably will also support further rounds of enlargement. Moreover, these countries—including Montenegro, which is next in line for accession—are likely to be open to both bringing the Eastern Partnership countries closer to the EU and to wider cooperation with non-European partners from the Mediterranean. Therefore, from the Polish perspective it is worth more actively supporting reforms in the Balkan countries, not only in the context of enlargement policy, which is important for Poland, but also because this will help win the Balkan region's support in an enlarged Union for joint activities in the east and could balance the Balkan states' interest in the southern dimension of the ENP.

Croatia has the potential to play a greater role in the gas market, but at a regional rather than European level. This will only happen if the construction of the Adria LNG terminal is completed. The uncertainty of this project makes the terminal in Poland's Świnoujście (due to open in late 2014) the only facility in the coming years to allow supplying the North-South gas corridor from any source. This opens an opportunity for Poland to transport gas to Central European markets beyond the Czech Republic and Slovakia. However, in the long term, in the context of the creation of the internal gas market, closer cooperation between the V4 and Croatia would increase the capacity of Central Europe in gas trade with Western European partners.