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**Working Paper**

## Protective Structures in Croatia

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The wiiw Balkan Observatory

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*Krešimir Jurlin*

Protective Structures in Croatia





# The wiiw Balkan Observatory

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## *About*

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at [www.balkan-observatory.net](http://www.balkan-observatory.net), the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



# The wiiw Balkan Observatory

## Measuring Costs of Protection

*This study has been developed in the framework of the Jubiläumsfondsprojekt Nr. 9957:  
Measuring the Costs of Protection in the Southeast European Countries.*

The objective of the project was to analyse quantitatively the costs of current protection in the Southeast European region or, to put it the other way around, to assess the potential benefits of liberalisation in the Balkans. In this way, the study was designed to be able to estimate the intra-regional gains and losses from breaking up fragmented structures and to show the policy implications that arise from this for each of the Balkan countries and the EU in the light of bilateral free trade agreements.

The programme was financed by the Jubiläumsfonds der Oesterreichischen Nationalbank.

For additional information see [www.balkan-observatory.net](http://www.balkan-observatory.net), [www.wiiw.ac.at](http://www.wiiw.ac.at) and [www.oenb.at](http://www.oenb.at)

## **Non-tariff barriers and other obstacles to trade between Croatia and the SEE countries**

### **Introduction**

In this paper we present a brief analysis of the sectoral issues of Croatian foreign trade, in order to evaluate the most important impediments to trade in the SEE region. The importance of regional cooperation in Southeast Europe should not be neglected, while stabilization and security is of the utmost importance to boost economic growth. Apart from finishing a network of FTAs on the regional level, it is important that all the SEECs move forward in trade liberalization, through WTO membership, signing SAA with the EU, in order to create opportunities for large scale investment, long-term cooperation and mergers and acquisitions on the regional level. Knowing that CEFTA maintained trade between its signatories at a level 2 to 3 times above normal, according to the size and distance of the countries, it appears that bilateral FTAs are very important for Croatian foreign trade.

Cooperation in various fields is very much needed, including elimination of all barriers to regional trade, providing for diagonal cumulation of origin, SPS and TBT policies, state aid and competition policy, which all should stimulate economic growth and trade in goods and services, in order to avoid the 'hub and spoke' structure versus the EU, moving fast from being a trouble area towards a business oriented fast-growing region.

To address this issue appropriately, we shall take into account the overall framework of the integration process. Croatia and the other SEE countries have concluded free-trade agreements which shall create favourable conditions for bilateral trade, and, possibly, stimulate investment and trade opportunities on the regional level. However, the analysis of possible effects of liberalization of trade versus the EU and countries of Central and Southeast Europe should encompass also many different developments that may influence its outcome. The overall framework of the process includes the following developments:

Croatia has joined WTO<sup>1</sup> and there is a framework of lowering the MFN tariffs on imports from the rest of the world, which shall diminish a foreseeable trade diversion towards the third countries. In addition, all other SEE countries are in the same process, which would mean that they will also open more to trade with the rest of the world.

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<sup>1</sup> Within a WTO trade accord, Croatian tariffs on industrial products should be reduced from 9.7% to 5.34% in the 5 years period ending at 1 January 2005, while the customs duties on agricultural products are to be lowered from 33.7% to 15.5% until 2007. While most of the tariff reduction was scheduled for the first year of application of the WTO accord, Customs Tariff Schedule for 2001 has brought average tariffs (weighted by 1999 imports) to 6.13%.

Bulgaria, Croatia, Macedonia and Romania have signed association agreements with the EU and are in the various stages on the road to full membership, while the other countries of Southeast Europe are lagging behind somewhat.

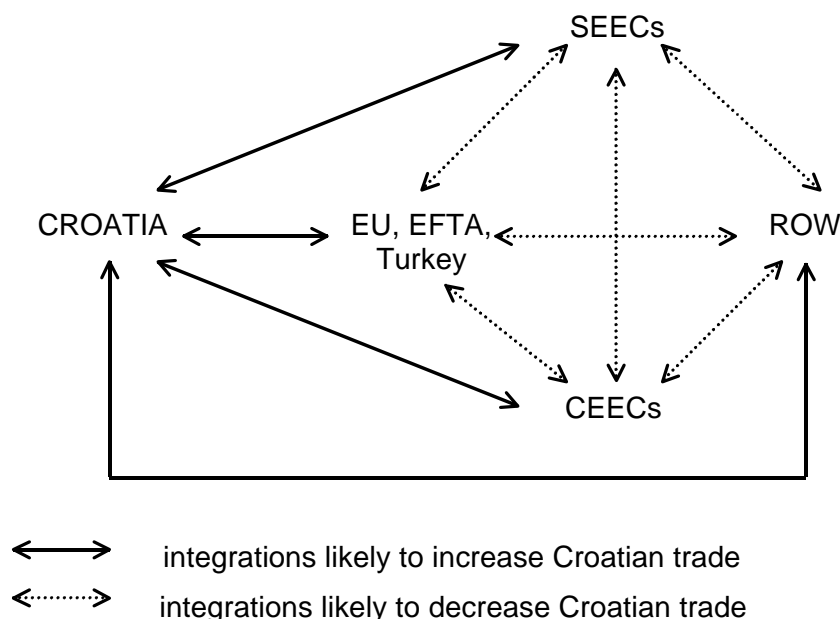
The EU will accept new 10 member countries, which shall further stimulate trade and investment flows between them, partly at the cost of the SEECs that are entering the lower integration level.

The European Union itself is lowering its MFN tariffs, and negotiates on FTAs with a number of countries, including Mediterranean countries, which would mean that SEECs shall have no significant trade preferences in the EU markets, compared to the other countries.

Some of these briefly described processes shall stimulate Croatian trade, while others may act detrimental. Figure 1 presents a scheme of the described processes and effects, with a tentative hypothesis of their effect on Croatian trade.

Figure 1

**Mid term integration processes**



It may be wrong to analyze the effects of SAA or of FTAs with the other countries using *ceteris paribus* assumption i.e. disregarding the other simultaneous integration processes. For instance, it would be wrong to model trade with Slovenia based only on its current foreign trade regime. Within 5-7 years, by joining EU, Slovenia shall have the opportunity

to further increase trade with the EU, as well as with other countries, by accepting the EU common tariff (with average tariff rate below 3%). Therefore, estimates of effects of FTA between Croatia and Slovenia (concluded in 1997) using a classical approach, may have lead to a conclusion that mutual trade would have significantly increased, while in fact the FTA has only retarded the inevitable lowering of bilateral trade once the two countries have entered into trade liberalization also with the other countries.

Most of the gravity models used were not able to deal with the complexity of trade relations in the Southeast Europe, with significant propensity to trade between the countries of former Yugoslavia, and very low trade between these countries and Albania, Bulgaria and Romania. To assess potential trade, it may be needed to add additional variables, such as common border, language similarity or compatibility of the production structure, due to historical belonging to the same state. Although very important, free trade agreements between the SEE countries cannot counteract 'normalization' of trade. It is not reasonable to expect that the share of countries of former Yugoslavia in total Croatian trade may reach the level recorded in '80ies, within a *de facto* economic and monetary union and rather high trade barriers towards other countries, while these barriers have been mostly lifted already.

In trade with the countries of former Yugoslavia, there are different trend components whereby free trade agreements are very important to counteract the 'normalization' of trade. Nevertheless, the share of countries of former Yugoslavia would incline to a level above the 'normal' level, due to cultural and language similarities<sup>2</sup>, although the increase of EU share in total Croatian trade would push down the shares of other countries in Croatian trade. It is interesting to note that FTA, established in 1997 has most likely stopped the downturn trend of trade between Croatia and Slovenia i.e. a 'reversal of trade diversion' which was the case when the two countries were parts of former Yugoslavia, 'overtrading' bilaterally at the cost of low trade with the rest of the world.

As indicated in Figure 2, Croatian trade with the countries of former Yugoslavia in the last decade was significantly below the 1987 figure, when these countries were belonging to the same state (federation), with relatively high tariffs versus rest of the world. Trade with particular countries of former Yugoslavia was developing differently throughout the last decade. Trade with Serbia & Montenegro recently emerged from very low figures, only to reach 5% of the pre-war level. Trade with Macedonia seems to have stabilized at 20% of the pre-war level, helped with the free-trade agreement signed in 1996, and moreover with easing the transit traffic through Serbia and Montenegro<sup>3</sup>. After falling low in the years of

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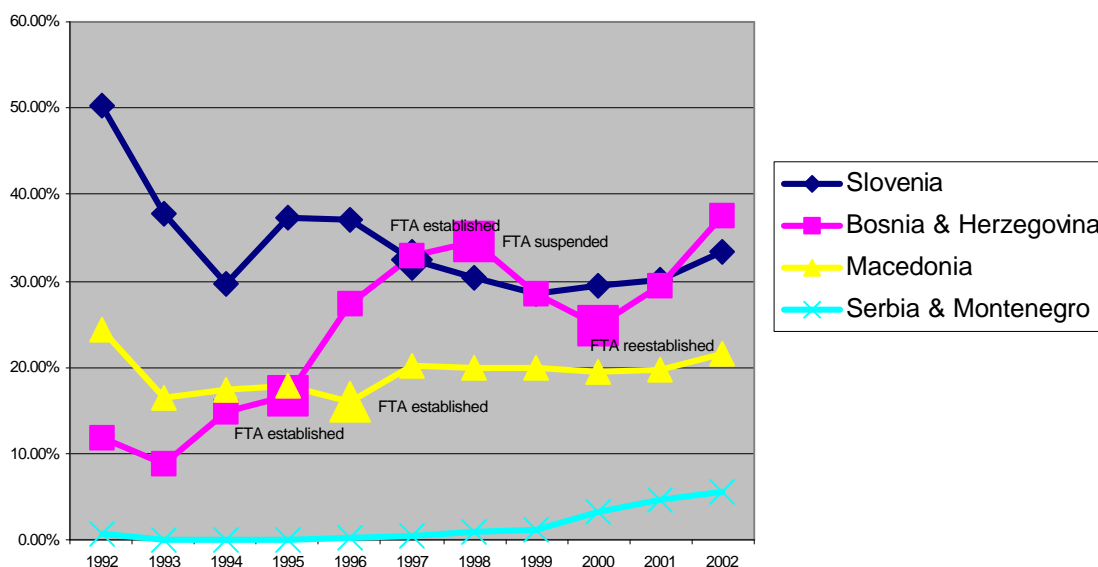
<sup>2</sup> Fidrmuc and Fidrmuc, (2000) found that neighboring countries tend to trade some 50% above the "normal" level, while the countries with common history and similar languages (Austria and Germany, Belgium and the Netherlands, Sweden and Norway) trade 2-3 times more than normal. The authors expect that trade between the CEECs shall remain significantly above the normal level.

<sup>3</sup> Croatia and Macedonia do not have a common border.

war, trade with Bosnia and Herzegovina started a significant upsurge from 1995, helped with free trade accord, and increase of consumption in Bosnia, as a 'peace dividend'. Elimination of tariffs means a lot in trade with the two countries, which is evident from a downturn in 1999 and 2000, when FTA was suspended, and a positive reaction again after 2001, when free trade was again introduced.

Figure 2

**Croatian trade with the countries of former Yugoslavia (% of 1987 trade)**



Source: Central Bureau of Statistics, 1987 data own estimation, based on the input-output tables

### *General considerations on the NTBs in the SEE trade*

Customs tariff rates in Croatia are rather low. Upon admission to the WTO, the average tariffs on industrial products went down from 9.7% to 6.5%, to be further reduced to 5.34% in the 5 years period ending in January 2005. The average customs duties on agricultural products went down from 33.7% to 25% upon accession, to be further lowered to 15.5% until 2007. Implicit tariff rate, calculated as percentage share of tariff revenues from customs duties and related charges in value of imports of goods shows more accurately the import duties actually paid, while encountering implications on free-trade agreements and tariff exemptions within drawback mechanism. With the implementation of the Stabilization and Association Agreement, implicit tariff went down from 5.8% in 2000 to a low 3.4% in 2002 and further to 2.6% in first half of 2003.

The highest implicit tariff protection applies to food, beverages and tobacco, while among industrial products only textile products have regular customs tariff around 10%, while for most of the raw materials, energy and industrial equipment, zero tariff rate apply (Table 1).



Table 1

**The list of the most protected product groups in terms of  
customs tariff actually paid in 2002:**

HS code	Product group	Av. tariff rate
2	MEAT	30,51
16	PREPARATIONS OF MEAT, FISH	26,70
4	DAIRY PRODUCE; EGGS; HONEY	24,79
18	COCOA AND COCOA PREPARATIONS	19,31
22	BEVERAGES, SPIRITS AND VINEGAR	16,63
19	PREP. OF CEREALS, FLOUR, STARCH OR MILK	15,36
7	EDIBLE VEGETABLES	14,77
20	PREP. OF VEGET., FRUIT, NUTS	14,17
24	TOBACCO	13,82
11	PRODUCTS OF THE MILLING INDUSTRY	11,88
15	ANIMAL OR VEGETABLE FATS OR OILS	11,76
17	SUGARS AND SUGAR CONFECTIONERY	11,65
8	EDIBLE FRUIT AND NUTS	11,52
62	NOT-KNITTED OR CROCHETED ARTICLES	11,52
61	KNITTED OR CROCHETED ARTICLES	9,46
21	MISCELLANEOUS EDIBLE PREPARATIONS	9,06
46	WICKERWORK	9,03
66	UMBRELLAS, STICKS, WHIPS	9,02
6	LIVE TREES AND OTHER PLANTS	8,79
64	FOOTWEAR, GAITERS ETC.	8,53
65	HEADGEAR AND PARTS THEREOF	8,12
42	ARTICLES OF LEATHER	7,92
96	MISCELLANEOUS MANUFACTURED ARTICLES	7,66
63	OTHER MADE UP TEXTILE ARTICLES	6,70
57	CARPETS AND OTHER TEXTILE FLOOR COVER.	5,44
23	RESIDUES AND WASTE; ANIMAL FODDER	5,23

We can argue that tariff barriers to trade in the Croatian case are rather low as compared to NTBs. A very simplified analysis<sup>4</sup> has shown that the static short-run impact (increase of trade) due to elimination of tariffs may range between 2,2% and 3,7% on the exports side and between 5,7% and 9,4% in imports. On the other hand, dynamic effects of deeper integration that would eliminate also NTBs, may be significantly larger, averaging 55.5% in terms of potential increase of exports in goods and services, within 6 years.

During the WTO admission procedure<sup>5</sup> Croatia has done a great deal in elimination of formal NTBs by adapting most of its legislation to the WTO rules, liberalization of the services market and lowering subsidies in agriculture.

<sup>4</sup> Croatia – Country Economic Memorandum, World Bank (2003)

<sup>5</sup> Croatia became the full member state of WTO in November 2000.

**Box: State aid to enterprises in Croatia in 2001**

State aid to enterprises (agriculture subsidies excluded) is estimated at 5.25% of Croatian GDP in 2001, as compared to 1% in the EU. Sectoral aid is twice as high as in the EU, while horizontal support is lower by 3 times. Out of HRK 8.5 billion, some 4.4 billion aid accounted for sectors such as shipbuilding, tourism and transport, a further 2.8 billion is aid in agriculture while a mere 0.6 billion comprises of horizontal support; 0.8 billion is regional aid.

The excessively used forms of state aid in Croatia are guaranties, tax credits and subsidized interest repayment.

*Source: State Aid to Enterprises in Croatia in 2001, Kesner-Škreb, Pleše, Mikic, Occasional Paper No. 18, Institute for Public Finance, Zagreb 2003*

All duties and charges levied on imports other than ordinary customs duties, as well as import quotas were abolished in 1996. The only quotas in Croatian imports are tariff quotas, resulting from bilateral trading agreements and global tariff quotas granting additional market access according the WTO accession agreement. Tariff quotas do not constitute quantitative restrictions but represent limitations to preferential access to Croatian market i.e. imports with tariffs lower than MFN tariffs. The allocation process is transparent and fair while there are clear criteria for allocation and any legal or natural person registered in Croatia may apply for tariff quotas, regardless of nationality of founders.

Until 1999, all tariff measures of fiscal nature, in the form of different excise taxes, depending on the origin of goods were eliminated. Also, quality standards on mineral fuels were changed by erasing the provisions enabling the dominant oil refining company (INA) to avoid high quality standards required for imported petrol, which was undermining the national treatment clause.

Croatia had amended its licensing regime and brought it in compliance with the WTO Agreement on Import Licensing Procedures. There is a rather short list of products subject to licences (commonly allowed by Articles XX and XXI of the GATT 1994) are imported and exported based on a licence. The share of products subject to licensing in total imports, according to 1999 trade data, has been 3.3% and the issuing is automatic.

Ending date was set for the exclusivity (until 1 January 2005) for HT – Croatian Telecommunications as the sole supplier of the fixed network infrastructure. Enhanced telecommunications services (e-mail, voice mail, on-line services, electronic data interchange, personal communication services, and mobile data services) and international connections were liberalized as from 1 January 2001). There are no measures, regulations

that condition the market access upon having representative in Croatia. Companies trading in oil derivatives shall have the storage facilities. Generally same measures apply for imported and domestic products in veterinary, sanitary and phytosanitary controls. There is no statutory monopoly in sales. Public Procurement Act is generally in line with international standards. There are no local regional or national preferences.

Product standards and technical regulations are defined as government-mandated rules and procedures that must be met in order to sell a product on a particular market. Croatia had started implementing the requirements of the TBT and SPS Agreements in national laws and regulations and had started implementing them before accession to the WTO. Generally, inspection requirements are identical for shipments by domestic producers and producers from exporting countries. Croatia has harmonized its border veterinary inspection system completely with the requirements of the SPS Agreement.

A further step forward is undertaken in the course of implementing the Stabilization and Association Agreement, tackling issues like subsidies, regional policy and competition policy, that also may act as NTBs.

However, there are still a number of formal and informal NTBs and impediments to trade, especially versus the SEECs. Firstly, there is a significant influence of recent war conflicts on the production and trade in the countries under review. On the *supply side*, production capacities were largely destroyed in war, obsolete while designed for highly protected Yugoslav markets or for exports to Russia or developing countries. With low investment and underdeveloped R&D, licensing and FDI in the situation when cooperation with the western companies was at the stalemate, these goods are largely not able to compete even in domestic market and in spite of presumably lower tariffs not able to capture large market shares in exports to the region. Following that, apparent we should take into account that spare capacities are mostly obsolete and cannot serve as a basis for significant increase of exports or to substitute imports from the EU countries. As example, Serbian produces cars were the leading brand in the Croatian market, while in the new situation they can hardly take any significant market share even with a considerably lower price.

Apart from that, there are sometimes significant limitations in the spare capacities. For instance, capacity utilization in the Croatian cement industry is estimated at 94%, so supply cannot easily respond to the new export opportunities. Another problem is that the SEE countries are rather small so it is difficult that their supply meets a variety of demand in the other countries. For instance, most of Croatian exports in fisheries are tunas, aimed almost exclusively to exports to Japan and simply too expensive for the SEE markets that may demand lower-range products.

*Demand-side* limitations are also significant with consumer preferences strongly against goods produced in the SEE countries. Apart from that, demand for imported production inputs is often very specialized or conducted with long-term agreements, backed also with rules of origin, so no significant change towards SEE origin imports may be expected.

A variety of *specific limitations* arise mostly as consequence of recent conflict in the region, ranging from the short-term problems such as payments procedure, infrastructure, border control and even reluctance of business people to travel to the countries while the memories on the recent war are still lively. There are also many long-term problems, including political and other risks, legal uncertainty that prevent long-term cooperation and mergers & acquisitions that generally create trade flows. For instance, in the succession process, significant property of business companies and private persons was not restituted, while firms generally do not have enough financial strength to invest in new distribution channels. Further NTBs shall be discussed in the preceding overview of the most important sectors.

## **Sectoral studies**

### **Introduction**

From the point of view of the economy as a whole, net effect of trade liberalization should be positive. However, some sectors may experience especially high rates of import growth and could face severe problems when faced with stringent competition. Generally, sectors that may be hit hardly are the ones highly protected, and/or not engaged in foreign trade as well as those that can not be competitive based on relative factor endowments.

It is very difficult to predict the reaction on the supply side to the threats and opportunities of the integration framework. The whole range of reactions is possible, from going out of business, specialization in one of the previously conducted business activities, giving up extra-profits while mostly retaining the market position, or even getting strength using new investments, be it domestic or foreign. Therefore, any assessment of the future developments on the sectoral basis should be taken as a very rough estimation.

Generally, the implications of trade liberalization on certain sectors of the national economy depend mainly of the following:

- effective tariff protection of a sector prior the abandonment of tariffs
- competitiveness of a sector
- spare capacities within a sector
- new investments in a sector, domestic and foreign
- overall economic policy
- changes in the structure of domestic demand and demand for exports

It is important to note that long-term restructuring trends, within the framework of the SAA shall be by far more important for sectoral restructuring of the Croatian economy than the SEE trade liberalization process. As the SEE countries also take part in the European integration process, markets of these countries are becoming highly competitive. This leads to conclusion that there may not be possible to export to these markets products that are not able to meet high demand of the western markets. Again, we assume that general sectoral restructuring according to the demand in the EU and specific factor endowments is the main process of which sectoral impacts of the SEE liberalization are only an important part.

Sectoral restructuring is also strongly connected with FDI and future investment may strongly affect Croatian exports. While the share of FDI firms in total exports ranged from 33% in Slovenia to 89% in Hungary<sup>6</sup>, the figure for Croatia stood at merely 16%, while the existing investment went largely to the companies active in the domestic markets. While new investment may flow into the previously mentioned sectors, SEE liberalization could also be important for attracting investment in production for the regional markets.

In order to isolate sectors that are most important in the SEE liberalization framework, we have focused on services, especially tourism as the leading export sector, food industry and tobacco, that show rather specific forms of NTBs, troublesome traditional exports (shipbuilding, textiles, footwear and furniture) the new emerging competitive industries (pharmaceuticals, electrical engineering and telecom equipment. and industries for which SEE integration is of vital importance (petroleum products and building materials).

### **SERVICES – what keeps the Croatian economy going**

Although opening the national economy will not influence the services sector the same manner as for industry and agriculture, certain fundamental changes may occur. Increased competition shall bring to positive trends in terms of prices and quality. Free access to SEE markets by all enterprises would intensify competition through freedom to establish companies with the same conditions as for domestic entrepreneurs, together with the right to compete for the public procurement. This would be to the advantage of domestic consumers and even more of the manufacturing industries that use business services. On the other hand, this would bring to a pressure to restructure and reduce costs and/or improve quality of the services rendered.

Any model of Croatian foreign trade shall take into account the fact that more than a half of Croatian exports earnings is registered in services. Services exports are really extremely

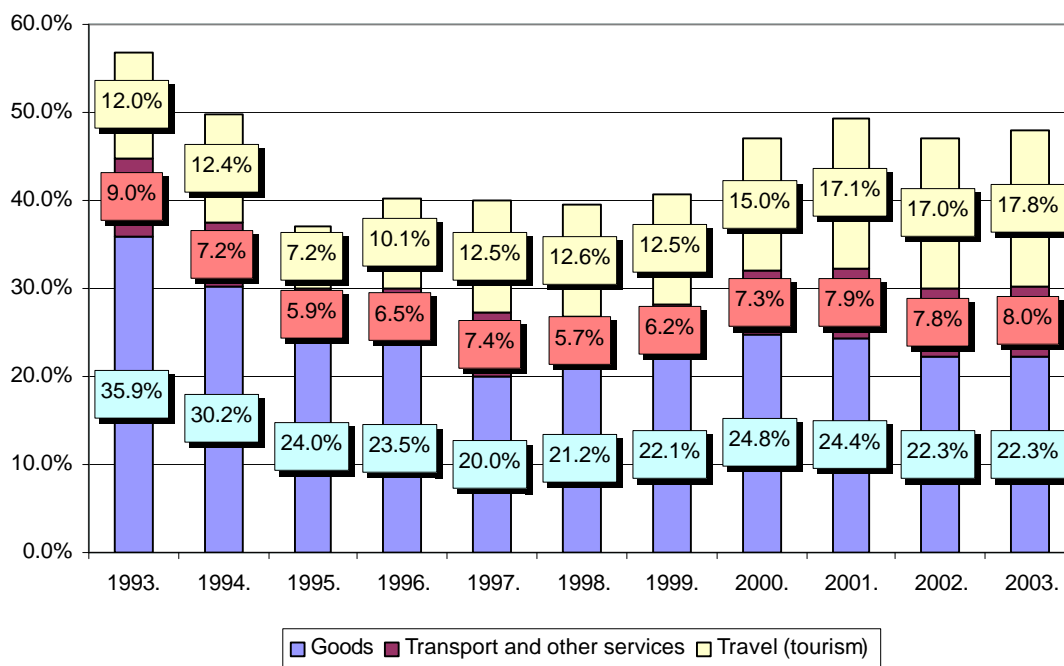
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<sup>6</sup> Hunya, G: (2002), "Recent Impacts of Foreign Direct Investment on Growth and Restructuring in Central European Transition Countries", WIIW Research Paper No. 284, WIIW, Vienna

important for Croatian foreign trade developments, which is a characteristic feature very few countries in the world and indicates a mechanism by which supply of foreign currencies generated by services may push upwards the exchange rate, lowering the competitiveness of exports in goods. The importance of tourism for the Croatian economy is immense. As evident from the **Figure 3**, the growth of tourist services made for the most of increase in total exports of goods and services.

Figure 3

**Croatia: exports of goods and services 1993. – 2003.**



Source: Croatian National Bank, data for 2003 estimated by author

In addition, with roughly 60% of the Croatian GDP, services are of crucial importance for the economy of the country. Furthermore, developments in services have great influence on the industry itself and they are influenced also strongly by the trade liberalization processes.

Commercial services were the least hit by the war and transition due to ever increasing demand for these services. In 1996, as compared to 1990, the gross social product of the sector actually increased by 5%, compared to a downturn by a third in the overall economy. In the same period, employment within the sector fell by 16% indicating a sound increase of the productivity. Transport (telecom included) shared the destiny of the overall economy, with a 30% decrease of GSP and a fall in employment by 35%

On the other hand, tourism (hotels and restaurants), once one of the most important activities of the country almost halved its GSP while employment fell somewhat less, by 22%. GSP in industry itself fell to a level as low as 56% of the 1990 figure, with worst outcome only in construction, which is no surprise as the post war reconstruction started somewhat later.

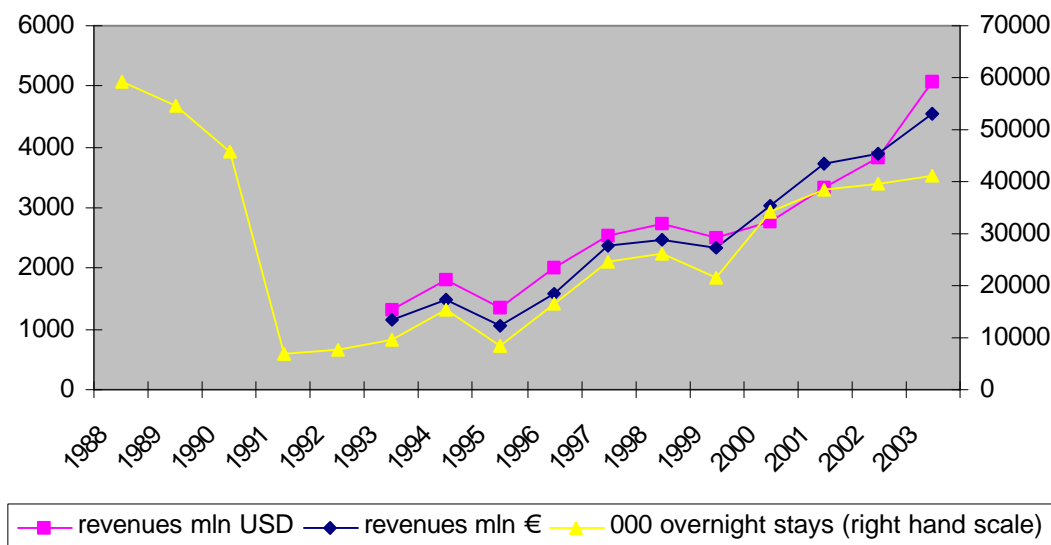
## **1.1 Tourism**

Tourism is the sector that by all means benefits from economic liberalization. Liberalization of business conduct by foreign persons, better supply of imported material inputs, lower price of service inputs together with easing of border control and infrastructure development (new roads) shall bring to a new quality in the sector. The process already brings to visible results as a large-scale investment process takes place in most of the existing facilities together with construction of new ones to meet changed demand of the higher income tourists. However, as highly volatile to political and security risks in the region, developments in tourism in the last 15 years constitute a U-shaped curve of recovery of the extremely depressed turnover in the war conditions – from some 50 million overnight stays in late 80ties to a mere 7-8 million in 1991 (Figure 4). Notwithstanding the importance of the recent growth in the sector, the 2003 figure is still below the level 15 years ago, and a cumulative direct loss in revenues ranges from EUR 35 to 40 billion.

Indirect losses may even surpass that figure as accumulated debts stopped investment and inhibited privatization. In some cases regional oligopolies were created with dispersed ownership structure that put restructuring on a stalemate. Apart from that, real estate registry is often not updated and spatial planning does not allow for investment in new facilities. A number of hotels are still closed while some of them have even been destroyed in war. With investment kept subdued, as of 2001, there were only seven hotels with five stars with only 6% of total number of beds in hotels, while almost 90% of beds were in three star hotels.

Figure 4

**Croatian tourism: overnight stays and revenues 1988-2003**



Significant new investment in the last years makes the situation somewhat better, while renewed demand enabled again for the profitability of the sector. Tourist income has increased from 12,5% GDP-a in 1999 to some 18% GDP in 2003, helped by opening of the market to private and foreign entrepreneurs, backed by implementation of the SAA.

In the period of economic recovery, tourism was the fastest growing sector, with a 32% increase in total gross value added in 2002 as compared to 1997. Share of 3.6% in GVA and 2.9% in employment is somewhat underestimated while there is a large share of small businesses in the sector not captured properly by the GDP statistics.

The number of overnight stays of foreign tourists in 2003 was 41.3 million, a 4% increase to 2002 (Table 2). With a quick change in the structure almost 60% of tourists are individual that spend more than those in organized tourism, and the same share stands for the guests from the West, prices increased by 10% and a strong revival of spending brought the income by some 30% in real terms in 2003 as compared to 2002.



Table 2

**Croatian tourism: number of overnight stays, 2002 and 2003**

Country	2002	2003	2003 index 2002=100	2002 structure	2003 structure
<b>Western countries</b>	<b>23385</b>	<b>25340</b>	<b>108</b>	<b>58,9%</b>	<b>61,3%</b>
Germany	10789	11056	102	27,2%	26,8%
Italy	4883	5323	109	12,3%	12,9%
Austria	3543	3585	101	8,9%	8,7%
Netherlands	1204	1497	124	3,0%	3,6%
<b>New EU members</b>	<b>14759</b>	<b>14282</b>	<b>97</b>	<b>37,2%</b>	<b>34,6%</b>
Slovenia	4993	5208	104	12,6%	12,6%
Czech Republic	4560	4558	100	11,5%	11,0%
Hungary	1733	1905	110	4,4%	4,6%
Poland	2186	1331	61	5,5%	3,2%
Slovakia	1223	1205	99	3,1%	2,9%
<b>Other Europe</b>	<b>1564</b>	<b>1700</b>	<b>109</b>	<b>3,9%</b>	<b>4,1%</b>
Bosnia and Herz.	787	848	108	2,0%	2,1%
Russian Federation	504	510	101	1,3%	1,2%
Serbia and Montenegro	43	84	195	0,1%	0,2%
Romania	53	63	119	0,1%	0,2%
Macedonia	61	61	100	0,2%	0,1%
Bulgaria	36	47	131	0,1%	0,1%
<b>TOTAL (inc. other)</b>	<b>39711</b>	<b>41323</b>	<b>104</b>	<b>100,0%</b>	<b>100,0%</b>

With 61.3% of overnight stays of tourists coming from Western countries, Croatia is not to be considered as a cheap destination. This share is due to above the average increase of the number of guests coming from the EU, which is a great success withstanding the recession in the EU and overall crisis in the European tourism. The increase is due to increase of overnight stays of guests from the second placed country on the list; Italy, but furthermore with increasing number of guests from the countries not highly represented yet, like Netherlands, France, Switzerland and Denmark.

New EU members have lost 2.5 share points to hold still strong 34.6% of the overall number of overnight stays. Stagnation of the number of visitors from the Czech Republic and Slovakia, together with a 40 % fall for Poland contributed to the overall fall by 3%. This fall is generally due to increase of prices causing a kind of crowding out by the tourists from the EU. Still, a 12.6% for Slovenia, 11% for the Czech Republic and almost 5% for Hungary makes for a significant share of overall tourist income of Croatia and largely compensates for the deficit in trade in goods that Croatia registers in trade with these countries.

Apart from Slovenia, other countries of former Yugoslavia, as well as other European countries that stay aside this round of enlargement are not among the highest ranked countries in the Croatian tourist books. This is no surprise knowing that citizens of these countries mostly cannot afford to travel and have holidays in Croatia. Only 2% share in the number of registered overnight stays of the neighbouring Bosnia and Herzegovina is rather low, however as a consequence of unregistered stays with the Croatian relatives.

Nevertheless, this low number is more due to informal barriers to trade in services, including unsolved problems of property of private and legal persons from B&H, as well as S&M and Slovenia that was confiscated or destroyed in the years of war. Apart from that, there are still problems of lately abandoned visa regime, unregulated air traffic, border control and in some cases fresh memories on the recent hostilities.

The importance of tourism for foreign trade modelling arises from the fact that the sector also benefits from trade liberalization, especially from the elimination of NTBs. In addition, tourism creates specific import demand for products as if luxury vessels, high-class hotel equipment, sophisticated food, which is generally imported from the EU countries. Again, what is the most important for trade modelling, Croatia may sustain a significant deficit of trade in goods due to high and increasing services surplus.

#### **Tourism – main features**

Share in total employment 2002	2,9%
Share in total exports of goods and services 2002	36.1%
Gross value added 2002/1997	1.32
Market access	limited
Most protected items	established regional oligopolies
Importance of transport costs	high
Most important barriers to trade	ownership rights, land registry, spatial planning
Lobbying groups strength	low
Importance of the SEE markets	very low
Competition in the Croatian markets	medium
Competitiveness of the sector	medium

### **1.2 Banking and telecommunications – foreign-owned oligopolies**

Business services (of which banking has the highest share) continued growth above the average, i.e. gross value added of the sector in 2002 was 20% above the 1997 level in real terms, while in current prices GVA of the sector increased by 61% due to a significant increase of prices. With almost 16% of the Croatian GVA and 6% of total employment, the sector is one of the most important and also leading in labour productivity

Croatian banking is internationalized to the extreme with all major banks in foreign ownership. Two leading banks are owned by Italian UniCredito and Gruppo Intesa and have the share in Croatian market of 29% and 20% respectively. Other banks are mainly Austrian, with four banks having a market share of 8-9% each. With the opening up of the market, interest rate spread has significantly dropped. However competition is not fierce, with domination of two large banks and a kind of specialization of the smaller banks, and further reduction of the prices of the banking services is still to happen. This stands mostly for the charges on money transactions, foreign exchange conversion and other banking services.

#### Financial mediation and business services – main features

Share in total employment 2002	6,0%
Gross value added 2002/1997	1.20
Market access	very limited
Most protected items	established foreign owned oligopolies
Importance of transport costs	-
Most important barriers to trade	economics of scale and scope
Lobbying groups strength	high
Importance of the SEE markets	low
Competition in the Croatian markets	medium
Competitiveness of the sector	high

Transport and communications, of which **telecom** is the most dynamic element, have a sound share of 11,4% in GVA and 6% in total employment. Although growth of the sector in real terms (constant prices) is only few percentage points above the average, if expressed in current prices, the GVA skyrocketed by 87% following immense increase of prices of telecom services. Due to a fall in employment, nominal productivity of the sector increased notably. With gross income of some EUR 1.5 billion and some EUR 200 million of annual investment in equipment and services it is the most dynamic sector of the Croatian economy.

The quality and availability of telecom services is rather good in terms of penetration of fixed and mobile phones and Internet connections. However, prices are still high due to limited competition in fixed telephone services with only one provider HT (Croatian Telecom), majority owned by Deutsche Telecom, having exclusive rights in the Croatian market, holding prices effectively higher than in Germany. In mobile communications aside HT there is second operator, Austrian owned VIPnet that pushed the prices down somewhat upon entering the market. However, prices of the services are significantly higher than in Slovenia, while the two compete mostly in gathering new clients and in offering new services, mostly through extremely expensive advertisements and commercials, by which they are at the top of the national list.

For the SEE trade modelling, it is important to note that regional financial markets are not integrated with existing barriers to cross border services. In some cases foreign banks own branches in more than one countries. Slovenian banks do not operate in Croatia because of the unsolved problems of frozen banking account. Indirectly, for trade modelling it is important to note that in Croatia financing of exports and new export oriented businesses is still subdued while the banks are oriented more on loans for individual clients. This backed up a large increase of spending for new imported cars in which only Slovenian based Renault has a significant benefit.

Apart from the increasing share of personal income spent on loan repayment also spending on mobile phones and telecom services leaves less demand for the other products, especially from the SEE region. In demand for the inputs of the two sectors again EU firms dominate. HT focuses on German firms as the main suppliers while banks invest in computers and furniture from Italy.

#### Telecommunication services – main features

Share in total employment 2002*	5,9%
Gross value added 2002/1997*	1.18
Market access	very limited
Most protected items	basic telephony services
Importance of transport costs	low
Most important barriers to trade	regulation, scale economics
Lobbying groups strength	very high
Importance of the SEE markets	low
Competition in the Croatian markets	very low

Note \* data refer to transport and communication sector

### Food industry and tobacco – specific forms of NTBs

#### 2.1 Agriculture and food industry

With 8.1% of gross value added and 15,5% of employment, agriculture is of vital importance for the Croatian economy. Further 4% account for food industry, which is the most important industrial sector. After losing one-third of industrial production and employment up to 1996, food industry has grown by 9,5% in 2002 as compared to 1997, which is almost twice lower than the industry average.

However, Croatian food industry is still the highly protected sector, especially for the most important products, like meat and products of meat, dairy products, beverages, preparations of cereals, fruits and vegetables (**Table 3**).

Table 3

**Most protected product groups**

HS	product group	tariff rate
02	MEAT	30,51
16	PREPARATIONS OF MEAT, FISH	26,70
04	DAIRY PRODUCE; EGGS; HONEY	24,79
18	COCOA AND COCOA PREPARATIONS	19,31
22	BEVERAGES, SPIRITS AND VINEGAR	16,63
19	PREP. OF CEREALS, FLOUR, STARCH OR MILK	15,36
07	EDIBLE VEGETABLES	14,77
20	PREP. OF VEGET., FRUIT, NUTS	14,17
11	PRODUCTS OF THE MILLING INDUSTRY	11,88
15	ANIMAL OR VEGATABLE FATS OR OILS	11,76
17	SUGARS AND SUGAR CONFECTIONERY	11,65
08	EDIBLE FRUIT AND NUTS	11,52
21	MISCELLANEOUS EDIBLE PREPARATIONS	9,06
06	LIVE TREES AND OTHER PLANTS	8,79
23	RESIDUES AND WASTE; ANIMAL FODDER	5,23
14	VEGETABLE PLAINTING MAT.; PRODUCTS N.E.S.	3,70
03	FISH AND CRUSTACEANS, MOLLUSCS	3,69
10	CEREALS	3,62
09	COFFEE, TEA, MATE AND SPICES	3,15
13	LACS, GUMS, RESIN	1,93
01	LIVE ANIMALS	1,71
12	OIL SEEDS AND FRUITS; FODDER	1,12
05	PRODUCTS OF ANIMAL ORIGIN N.E.S.	0,00
	AVERAGE ABOVE	10,46

Unlike for industrial products, liberalization in agriculture and food industry remains controlled and restricted to mutual exchange of concessions, mostly in form of tariff quotas. Croatian agriculture is more affected by the WTO accord and the SAA, while the EU is a strong exporter, sometimes with heavily subsidized exports. Apart from that, government policy towards the sector is strongly influencing its competitiveness and foreign trade flows, through subsidies for agricultural products.

There is rather good possibility to retain position in the domestic and regional markets should they continue in identifying the specific market niches, further restructure, improve quality and cut production costs. However, Croatian food sector has a significant overcapacity of former production destined to other Yugoslav republics. Capacity utilization in food and beverages: capacity utilization is 46%, ranging from 35% in processing fruit and vegetables to 66% in oils and fats.

In any case, the competitiveness, efficiency and productivity of Croatian agriculture, as well as in food and beverages industry is rather low which can be illustrated by a drop of

exports to the EU markets by 50% in the 1992-97 period, accompanied by increase of imports from the EU by 236%. The products are of average quality, with very poor marketing and relatively high prices. In domestic markets, there is a strong consumer preference towards imported products with international brand.

Manufacture of food products, beverages and tobacco in 2001 exported 15% of production, while the share of imports in production stood at 27%. In the manufacture of crude oil and fats exports made for 63% and in fish products the share was as high as 96%. Export to production ratios in poultry and dairy products are single digit. On the other hand, imports of potatoes, fish products, crude oils and fats as well as processing fruits and vegetables are higher than domestic production. The sectors with the lowest import penetration are bread (0%), poultry (8%), animal foodstuff (6%), wines (11%), beer (6%) and tobacco (5%). In the beer industry, imports are subdued due to consumer preferences and strong domestic brands, owned by Belgian Interbrew and Holland Heineken. Demand is stagnating due to increasing excise taxes.

While large state owned agriculture conglomerates are still facing huge problems, privatization in the food sector was rather successful and certain companies hold strong market shares in segments that are not fully open to competition like milk, mineral waters, ice-cream, confectionery products and food additives where a Croatian company holds a rather strong international brand. The leading private enterprise in the agribusiness, 'Agrokor' one of the largest companies in Croatia, with total income of some EUR 1.2 billion and a successful strategy of vertical integration, own distribution and acquisitions in the region. Agrokor is a private corporation with enterprises in production of oil, mineral water, beverages, ice cream and several other industries, having also control over the leading retail business selling foodstuff, holding some 30% of the respective market. The company holds some 70% of ice products in Bosnia and Herzegovina and recently acquired the leading Serbian firm Frikom as a strategy to enter the market, which is rather specific with economies of scale in the retail sector.

The SEE region is rather important for the Croatian food industry. Backed by consumer preferences among the Croats in B&H, food and agriculture accounts for ¼ of Croatian exports to that country, constituting a third of total exports of these products to the world. Apart of similar languages and past experience of the market, trade is stimulated by low transport costs and a rather liberal trade regime that provided for elimination of tariffs for all products. However, while Croatia eliminated tariffs immediately, B&H was due to do so this year, however it was postponed due to the fear of further increase of imports from Croatia. It seems that Croatian food industry is more competitive while EUR 250 million of subsidies (allocated in the 2004 budget) make it easier. In trade with meat and dairy products SPS measures strongly hinder trade between the two countries. While B&H permits imports only from the producers registered for exports to the EU, Croatia required veterinary

licence for each shipment because in B&H veterinary diagnostics and testing was not centrally controlled.

In exports to Slovenia, problems with allocation of tariff quotas are reported, not providing for full use of the preferential quotas. Other NTBs in the region include consumer and retailer preferences against regional products, which are generally inferior to those from the EU countries in quality, branding, design and advertising. Following are the exclusive contracts and refusals to deal as well as problems to cope with the scale economics and daily shipment to retail chains and hypermarkets that have the leading role in Croatian food retail.

### Food industry – main features

Share in total employment 2002	4,14%
Share in total goods exports	7.50%
Exports index 2002 (1997=100)	85
Industrial production 2002 (1997=100)	109
Average implicit tariff (2002)	10.5%
Effective rate of protection (2000)	14.7%
Most protected items	Meat (30%), Dairy products (25%)
Importance of transport costs	high
Most important barriers to trade	subsidies, quality control
Lobbying groups strength	high
Importance of the SEE markets	very high
Competition in the Croatian markets	medium

## 2.2 Tobacco

Tobacco is one of the most closed Croatian markets with imports to production ratio only some 5%. Although exports make for 33% of production, capacity utilization is not exceeding 67%. A half of total exports go to the region i.e. B&H, Slovenia, S&M and Macedonia. The leading Croatian producer, TDR, holds more than 90% of domestic markets, after acquisition of its main domestic competitor, and the business bears a healthy 29% profit rate. There are a number of NTBs and practices that enabled the Croatian producer to withstand a fierce pressure of the leading multinational companies in their aggressive strategies to enter Croatian markets.

Firstly, it is important to note that Croatian producer has solid price and quality competitiveness and, apart from licence production of the P&M brands, has developed largely accepted regional brands of good quality, which enables to compete with the leading world brands. With increase of productivity due to modern technology, low input costs and total vertical integration, it is a viable industry, faced only with stagnant local demand.

However, some specific measures were designed to help to assist the domestic producer. Previous to Croatian joining the WTO, there was a higher specific excise tax for the imported brands that was reordereed to do almost the same job. There are three groups of products according to the excise tax duty legislation. For Group A and B, excise duties are set at 5 and 5.40 HRK per pack, while the Group C (extra-expensive) is charged 8.90 HRK per pack. Most of the world leading brands qualify for the later group, while domestic producer has developed brands that are actually of high quality but comply with the regulations to be charged as Group A or B products while containing relatively high amount of medium-class tobacco.

Therefore, to be competitive, multinational companies had to set own production facilities in Croatia to cope with the regulations. An early attempt of British American Tobacco (BAT) to acquire control over a bankrupt tobacco factory in Zadar was counteracted by TDR, but without success, due to action of Croatian Agency for the Protection of Market Competition. Another TDR action to take control over all tobacco-dying facilities was also counteracted. Having settled these basic problems, BAT had to make additional efforts to meet the requirement of the over demanding Tobacco Law, requiring a building up of a factory equipped with specific quality control, including state-of the-art laboratories to be eligible to enter the market. Apart from that, TDR had managed to get control over the most important retail chains, through *de facto* exclusive contracts, and joint ownership on the largest retailer based on newsstand, redesigned to carry subtle advertisements for TDR products, while selling them also exclusively.

After almost 4 years of bureaucratic red tape, BAT has recently started capturing Croatian market in the large scale, with 6 new brands produced in Croatia and tailored specifically for Croatian markets. Although having only one distributor, BAT has penetrated large retail chains, offering very good contracts, and with very low prices of final products, which is possible while BAT has almost unlimited resources allocated for capturing the market. Now we get to the other side of a coin. It is common knowledge that BAT has a leading market position in some 80 countries and only three leading companies have control over all the important markets in the world (except Chinese). BAT and Phillip Morris have acquired ownership of the leading producers in Serbia and Montenegro, over TDR, which was also bidding, but without success. Therefore, TDR may easily lose its 10% share in the Serbian market, where, together with Bosnia and Herzegovina, TDR exports products worth over EUR 100 million per year. Although responding strongly to the competition, marketing a strong new brand, TDR attempts are considered mostly aiming to maintain the value of the tobacco business, said soon to be sold to Philip Morris. This is no surprise, while TDR has redirected its extra profits to the tourism business, acquiring the leading Istrian tourism firms in Rovinj and Vrsar, anecdotally transferring the monopoly from tobacco to tourism, although tourism is a highly competitive market.



Among the lessons for the SEE trade modelling it should be pointed out that we cannot extrapolate the existing trends in foreign trade while tobacco market in the region is not competitive i.e. competition is restricted. Cigarettes are specific products, while not being perfect substitutes. Globalization in the SEE may actually stop interregional trade while the world leading oligopoly may divide the markets.

#### **Tobacco products – main features**

Share in total employment 2002	0,11%
Share in total goods exports	1,84
Exports index 2002 (1997=100)	434
Industrial production 2002 (1997=100)	119,7
Average implicit tariff (2002)	13.8%
Effective rate of protection (2000)	25.3%
Most protected items	cigarettes (42%)
Importance of transport costs	medium
Most important barriers to trade	excise duties, access to inputs and retail
Lobbying groups strength	very high
Importance of the SEE markets	very high
Competition in the Croatian markets	very low
Competitiveness of the sector	very high

#### **Troubled traditional industries – problems of competitiveness**

The sectors that experienced the most intensive fall in industrial production in the 1990-96 period were mostly export-oriented. While shipbuilding and wood processing lost a half of the previous production, textile and footwear industries contracted to a third of the pre-transition level. However, while textile products, footwear and furniture kept losing their share in exports also in the recent years, shipbuilding was the most dynamic export sector, backed with large subsidies.

These sectors face tremendous problems as previously competitive as former Yugoslavia was the only low-income country before 1990 to enjoy tariff-free access to the EU markets for textiles, footwear and furniture while shipbuilding had a long tradition in the world market, incorporating a large part of industries also in the other neighbouring countries.

### **3.1 Shipbuilding**

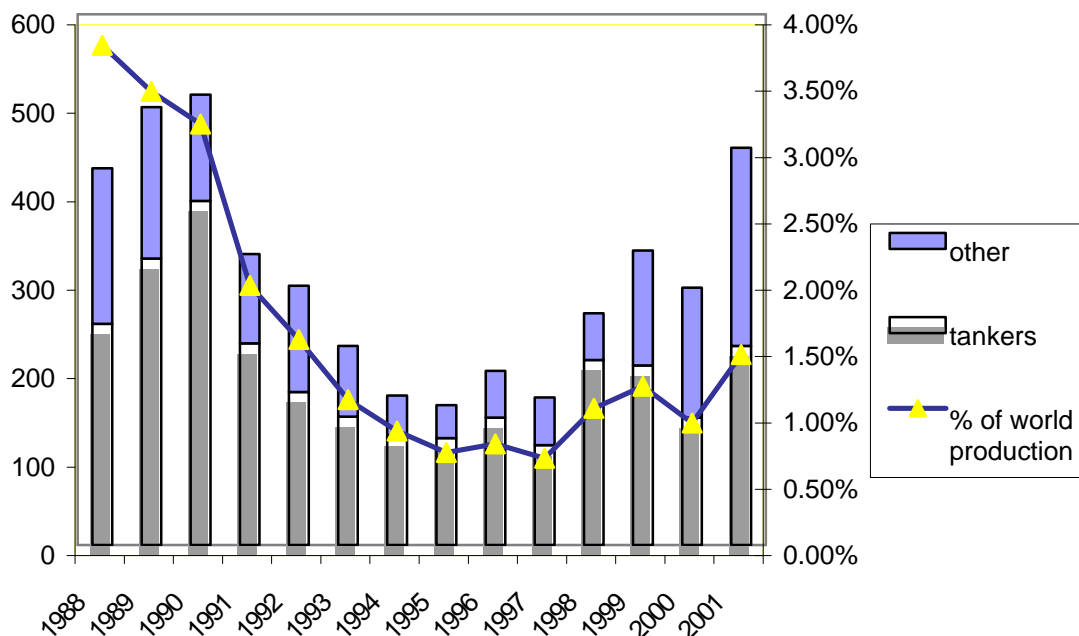
Shipbuilding is the sector with the highest increase of industrial production in the last 5 years, and among the few sectors that record also increase in employment. Industrial production of the shipbuilding industry has doubled in 2002 as compared to 1997, while the employment index stood at 119. Gross income of the sector has increased from HRK 2,1

billion in 1997 to 7,1 in 2001 or somewhat less than EUR 1 billion. Some 15 thousand persons were employed within the sector.

The revival came after production in shipbuilding fell from 500 GT in 1990 to below 200 in 1995 (Figure 5) The significant increase in the recent years brought the industry close to the pre-war level (with some restructuring in the production structure – from tankers to the freight ships). However, the world turnover in the sector increased significantly in the last 15 years, so the share in total world production (right hand scale) in 2001 was less than a half of the pre-war outcome.

Figure 5

**Industrial production of Croatian shipbuilding (MT) 1988-2001  
and share in the world production**



Source: Central Bureau of Statistics

The production of large vessels comprises of all types of ships and Croatian shipbuilding is present in the world market for some 50 years. This ensured a rather good quality image, together with prestigious awards earned and ISO 9001 certificates held by the largest shipyards. With its share of some 10% of total exports of goods, it is an industry of a great importance for national competitiveness. According to the Global Order Ledger (February 2003), with 42 ships contracted, with a deadweight of 2.336.275 tdw, Croatia is ranked 4<sup>th</sup> in the world, after South Korea, Japan and China, with more than 300 ships each.

However, recent growth of production and exports was not created by a significant new investment and capturing new markets, but mostly through the revival of previous market positions, using the existing facilities while investments were low. Share of shipbuilding in total investment in the 1990-2000 period averaged 0.5%, which is significantly lower than the share in total 2000 exports (7.4%). The sector is burdened by large share of imported equipment and raw materials, together with relatively high labour costs, incompatible with rather low value added of the ships produced.

It is estimated that approximately one third of the value of the ship is subsidized, mostly in the form of debt sanation. All the largest shipyards are still state-owned while they are not attractive for privatization due to immense losses within the industry. Even the previously successful privately owned mid-sized went into bankruptcy last year after serious of bad business contracts.

Importance for the shipbuilding industry for the export to the SEE market is negligible while these countries generally do not invest in new ships and have no resources to finance it. Apart from that, Croatia has specialized in production of large vessels, which does not match the demand of the SEE countries. However, there is a room for importing raw materials and semi-finished goods from the region while Croatia has imported iron products from Macedonia and B&H. In addition, free movement of labour can benefit the sector that urges for low-cost workforce it is difficult to obtain in the Croatian labour market.

#### Shipbuilding – main features

Share in total employment 2002	1,80%
Share in total goods exports	12.66%
Exports index 2002 (1997=100)	436
Industrial production 2002 (1997=100)	168
Average implicit tariff (2002)	0.7%
Effective rate of protection (2000)	-0.3%
Most protected items	boats (8-12%)
Importance of transport costs	low
Most important barriers to trade	subsidies
Lobbying groups strength	medium
Importance of the SEE markets	very low
Competition in the Croatian markets	high
Competitiveness of the sector	low

### 3.2 Textile and clothing industry

In the total gross value added of the country in 2000, clothing accounted for 1%, while providing for a significant 2.5% share in total employment. Between 1990 and 1996, employment in the sector declined by as much as 47% and in 1997-2002 period for further

18%, with the fall in industrial production by 23% bringing the sector close to ¼ of the pre-war level. This industry was once one of the main Croatian exporters with a developed business in the outward processing trade (OPT or LOHN). However, the sector is inevitably losing its position in the EU markets, crowded out by the producers from the countries with lower labour costs

Although decreasing by 24% in the 1992-2001 period, textile products still held a significant 8% share of total exports, 3.5 times more than the share in imports, while the sector is still protected with a 10% import duties. However, domestic producers are losing their position even in domestic markets, mostly to products from Italy, China and Turkey. In regional exports Croatian products also face strong competition of the products from the said countries with Armington elasticities working strongly in favour of our competitors that either have strong brands and developed distribution channels (Italy), compete with low prices (China), or both (Turkey).

Apart from labour costs, competitiveness in this sector depends on skills, high-quality raw materials and recently more upon new technologies and automation of the production process. Investments in the sector are rather low, although through decline in employment significantly improved productivity as the sectors reached maximum of intensity of labour with the lowest wages as compared to the other sectors of the national economy, meaning that further reduction of production costs is hardly possible. The only viable solution for Croatian textile industry is to enter more aggressively market segments where quality and design are more important than labour costs, following the example of Italy, with further specialization, acquiring modern technology and production and organization structure that can quickly adapt to the changes in fashion and market demand.

Croatian textile industry has a weak point in insufficient domestic production of yarn and fabrics that are mostly imported. This leads to an important barrier to exports while the products of the sector cannot qualify for preferential treatment in the markets where the FTA signed does not provide for diagonal cumulation of origin. While the SAA provided only for bilateral cumulation of origin, in Croatian accession to CEFTA, diagonal cumulation has been provided for. In trade with SEECs, rules of origin may strongly hinder export possibilities of Croatian producers.

Vartex, the leading manufacture is on a very short list with still viable production of inputs necessary to qualify the final products as Croatian origin. The firm exports a half of total production, mostly to the SEE region. Apart from the licensed Levis products, own brands are developed which are almost identical to the leading international brands, however market accepts them only for some 50% of the competitors prices. The main problem in the exports to the SEE region is access to distribution and retail channels while Croatian

firms were left without own retail stores in S&M and significant investment is needed to develop distribution again.

### **3.3 Production of leather manufactures and footwear**

The sector contributes by 0,3% to the Croatian value added and 0,9% to total employment. During the 1990-96 period employment dropped by as much as 57%, mainly due to a loss of East European markets, to decrease by further 32% until 2002. After falling to one-third of the pre-war production level until 1996, industrial production lost further quarter thereafter. Tariff rates for the finished products are averaging 8,5%, although imports are increasing while exports still have a significant 4% share in total.

In general, the sector has the same characteristics as textiles in terms of labour intensity and main competitors, although its competitiveness seems to be even worse. In short, it is a declining sector, unable to keep up with the trends in European and world markets. The industry proved not to be able to restructure and a significant number of producers went into bankruptcy. The remaining producers are heavily dependant on low-profit OPT business while there are no strong own brands.

The sectors SEE export possibilities are also hindered by consumer preferences and problems of origin for preferential treatment. The same stands also for the possibilities for imports from the SEE region, in spite of relatively low labour costs in these countries. However, a regional producer that may create a strong brand and develop a viable distribution system may be competitive in Croatian market while there are no significant NTBs.

### **3.4 Wood manufactures**

In 2002 timber, wood and furniture claimed a 1,2% share of gross value added and 2.2% in employment, half of which accounts for production of furniture. Previously a strong exporter, using a preferential access to the EU markets, the sector failed to keep up with the competition from Central and East European countries and the production fell by half until 1997. Wood and cork production followed the trend even later, with a fall of 6% in production and 12% in employment while the furniture sector shows some strength with the increase of 8% in production and a 15% fall in production until 2002.

Croatian wood industry significantly lost its competitiveness throughout the decade because of a lack of strategic thinking, marketing and design. The substantial deterioration of the furniture sector culminated in 2001, with a negative trade balance of the sector. It means that local producers have become not competitive even in the domestic markets

while marketing and design are inferior to the Italian furniture although quality is often better. With the elimination of tariffs according to the SAA and other FTAs, Croatian manufacturers were faced with strong competition that are mostly not able to meet. Producers from Italy and Slovenia and recently from the other Central Europe countries have much better quality and design to price ratio, while Croatian industry is stuck in low investment and unsuccessful privatization.

As the EU markets are restructuring towards more environmental friendly furniture, Croatian manufactures have not responded well, while increasing demand resulted in a significant increase of exports of timber and wood for which Croatian products are of high quality. Based on the quality of wood resources and a good tradition in the industry, recent competitiveness study set the target to increase production of final products from a mere EUR 300 million to 1.4 billion, while there is a room to increase exports from EUR 50 million to 1 billion. As labour costs in Croatia are higher than in Poland or Romania, quality, product development, design and marketing are crucial and the target withstands the creation of five new final products designed in Croatia per year.

The sector still faces significant problems including not functioning supply channel with basic raw materials industry undeveloped, limited drying capacities, while chipboard, veneer and plywood are mostly imported. Technology is obsolete in production, while in product development and organization managerial, vocational, technical and scientific, skills are inadequate. Lack of flexibility and innovations brought the sector very low on the competitiveness ladder. Croatian companies have no direct access to the retail sector in the EU so they mostly subcontract. That creates a risk and instability as well as lowers export prices.

#### Textiles, clothing, footwear, furniture – main features

Share in total employment 2002	5,4%
Share in total goods exports	19,54%
Exports index 2002 (1997=100)	118 (furniture), 81 (footwear), 79 (clothing)
Industrial production 2002 (1997=100)	108 (furniture), 74 (footwear), 77 (clothing)
Average implicit tariff (2002)	4% (furniture), 8% (footwear) 3%, -11% (clothing)
Effective rate of protection (2000)	11% (furniture), 19% (footwear) 20% (clothing)
Most protected items	not-knitted articles (textile clothes) 16%
Importance of transport costs	medium
Most important barriers to trade	access to retail
Lobbying groups strength	very low
Importance of the SEE markets	high
Competition in the Croatian markets	high
Competitiveness of the sector	low

High quality inputs in the segment of wood-plates and parquets have a great potential, especially withstanding large spare capacities. With developed design and marketing this could serve as a good basis for exports in more advanced market segments. On the other hand, as in the SEE region price competition is more important, Croatian exports of the wood industry do not have much prospect in these markets. Again, NTBs mostly include economies of scale to enter the existing distribution channels or create own retail.

### **Emerging regional industries: petroleum products and construction materials**

Apart from food industry, and to a less extent tobacco, only petroleum products and construction materials show trends towards a creation of regional integration. With the high importance of transport costs and stagnating EU demand, regional strategies towards mergers & acquisitions and long-term cooperation take place.

*Production of petroleum* has a high 3.2% in total Croatian value added, while the share in employment is somewhat lower, i.e. 0,4%, due to high productivity of the sector. From 1990 to 1996 employment in the sector fell only by 6%, while the production fell by 25% that indicates deteriorated productivity and a lack of restructuring of the sector. In the period 1997-2002 production was stagnant while employment fell by 15% to increase productivity. With 8,5% of total exports, the sector is very important for the overall economy, while the market contestability is rather low with imports accounting for only 1.2% of total. However, exports of the petroleum products to Slovenia decreased from 118 USD million in 1994 (21% of total) to 45 USD million (10%) in 2002. However, in export to B&H, petroleum products increased their share from 15% to 23% in the same years, from 51 USD million in 1994 to a high 164 USD million in 2002.

The leading producer INA was held in state ownership until 2003 and consolidated by focusing to the basic neurochemistry while other companies (organic chemistry, plastics and fertilizers) were divested and partly privatized. With selling a control package to Hungarian MOL, company continues on the way to become a strong regional company. The sector has significant capacities as previously destined to the countries of former Yugoslavia. The effective tariff protection previous to trade liberalization was some 50% i.e. the highest in the whole manufacturing industry. Investments were low and exports hindered by low quality i.e. high sulphur contents, which was allowed in the domestic markets. This constituted a kind of NTB, while most of developed countries produce the more expensive high quality gasoline. Considering high transport costs and still high protection, position of domestic producer is still strong.

Among the NTBs in the SEE region, there is a problem of confiscated gasoline stations in S&M, previously owned by INA. There are problems reported in exports to Macedonia whereby Greek based OKTA has a kind of exclusive right in distribution to the Macedonian

market. 2002. The exports to B&H may be hindered by introduction of high quality standards, and the measure is cited as intended to block Croatian exports.

#### Petroleum products – main features

Share in total employment 2002	0.40
Share in total goods exports	7.72%
Exports index 2002 (1997=100)	105
Industrial production 2002 (1997=100)	106.8
Average implicit tariff (2002)	3.2%
Effective rate of protection (2000)	37%
Most protected items	gasoline (16.4%)
Importance of transport costs	high
Most important barriers to trade	technical regulations
Lobbying groups strength	very high
Importance of the SEE markets	very high
Competition in the Croatian markets	low
Competitiveness of the sector	medium

The sector of *construction materials* has a share of 1.3% in both employment and value added, with 42% increase in production and 13% fall in employment in 2002 as compared to 1997, the sector is at the upturn, with strong demand due to post-war reconstruction and large-scale investment in infrastructure. Exports are also increasing, with a significant share of 4% of exports and 2,2% in total imports. The sector is also important in Croatian exports to B&H with 34 USD billion recorded in 2002. Production of cement and bricks was successfully privatized, and there are important activities of the leading cement producer, Našicecement that acquired producers of bricks in Western part of Croatia, but also in Serbia and Bosnia. This form of business strategies creates great potential for specialization and increase of regional trade.

#### Construction materials – main features

Share in total employment 2002	1.32%
Share in total goods exports	4.15%
Exports index 2002 (1997=100)	163
Industrial production 2002 (1997=100)	142
Average implicit tariff (2002)	1,5%
Effective rate of protection (2000)	9,3%
Most protected items	cement (14%)
Importance of transport costs	very high
Most important barriers to trade	segmented markets
Lobbying groups strength	medium
Importance of the SEE markets	very high
Competition in the Croatian markets	low
Competitiveness of the sector	high



## Future exports strongholds

It may be very hard to predict which sectors would lead in the trade creation within the dynamic framework, while it may be those that are underrepresented in the Croatian exports. Apart from the sectors that recorded significant growth in the recent years (tourism, communication equipment, pharmaceuticals), we expect that the exports would restructure according to specific factor endowments. While Croatian GDP *per capita*, labour costs, education level and interest rates compare to the CE countries, we believe that 'new' competitive sectors will be those that are currently significantly underrepresented, compared to the most successful CECs. We should also not forget that natural endowment in tourism may strongly influence structure of exports, absorbing a significant part of Croatian production factors.

Compared to total EU imports, as well as to EU imports from the CECs, Croatia lags behind in exports of more advanced products (machinery, electrical appliances, instruments and vehicles) (Table 4). Compared to the average of the 4 CE countries, the product group that is mostly underrepresented in Croatian exports is vehicles, making for 17.6% of CECs exports to the EU, and a mere 1,6% of Croatian EU exports. Very significant break is also evident for machinery, with a 9.1% gap, electrical machinery and equipment with 6.3% and mineral and metal products, with a 3.1% gap. These sectors may have a long-term potential to increase their share in total Croatian exports. On the other hand, it appears that certain labour-intensive activities such as clothing and footwear, as well as the resource intensive chemical industry and wood may lose their shares once Croatian exports restructure following the CECs path. However, the final outcome depends largely by the specific competitiveness of the mentioned sectors.

Table 4

### Structural comparison of EU imports from Croatia and CEC4

	CEC 4			Croatia			GAP	
	1993	2000	Change	1993	2000	Change	1993	2000
Vehicles	8,10%	18,60%	10,40%	3,60%	1,60%	-2,00%	-4,50%	-17,00%
Machinery and mechanical appliances	8,10%	16,00%	7,90%	2,50%	5,90%	3,40%	-5,60%	-10,10%
Electrical machinery and equipment	7,80%	16,30%	8,40%	4,10%	8,80%	4,70%	-3,70%	-7,50%
Mineral and metal products	18,60%	13,50%	-5,10%	8,00%	10,90%	2,90%	-10,60%	-2,60%
Precise instruments	1,40%	1,60%	0,20%	0,40%	0,90%	0,50%	-1,00%	-0,70%
Other	2,20%	1,40%	-0,80%	2,00%	1,00%	-1,00%	-0,20%	-0,40%
Agriculture and food products	7,20%	2,50%	-4,70%	5,50%	2,70%	-2,80%	-1,70%	0,20%
Minerals and fuels	3,70%	2,20%	-1,50%	8,80%	5,30%	-3,50%	5,20%	3,10%
Wood, pulp, paper, furniture	11,70%	10,20%	-1,40%	13,40%	16,10%	2,70%	1,80%	5,90%
Chemical products, plastic and pharmac.	11,30%	7,80%	-3,50%	14,40%	14,10%	-0,30%	3,20%	6,30%
Textiles, clothing, footwear	20,20%	10,00%	-10,20%	37,30%	32,70%	-4,60%	17,10%	22,70%

Note: CEC4 refers to Slovenia, Slovakia, Czech Republic and Hungary

Source: Own calculation, based on COMEXT data

## 5.1 Pharmaceuticals

Pharmaceuticals are one of the most prominent Croatian industries. Turnover in manufacture of pharmaceuticals is some EUR 0.5 billion, making for 4% of industry total. There are 5 thousand persons employed in the sector, accounting for 1,7% of jobs in industry. utilization rate: 34%. The sector is highly internationalized with low barriers to trade, exports to production ratio of 55% and a 73% share of imports in total production.

Pliva d.d. Zagreb is the most important firm in pharmaceuticals in Croatia, backed by own licence for antibiotic azitromycin, developed in the 80ies. Income from royalties sold to US based Pfizer for distribution in the western markets brought to some EUR 0.8 billion, contributing to the profit rate of some 20%. While the patent rights expire in 2006, the company is focused in acquisition, of few smaller companies in Denmark and in the UK. while buying out of the US based Sidmak and Polfa in Poland, company strongly goes international. New research institute become operational in 2002, marking the process of focusing towards R&D and new products while activities other than pharmaceuticals were sold or outsourced. The focus is on the research of new substances and development of generic products while Croatian regulations on patents enabled development of generic substances even before the protection has expired. The future of the company depends predominantly of the success in R&D activities and operation in the Western markets. With more than 60% of income from the Western markets and orientation to the Russian markets, the SEE is not the most important region for the company.

### Pharmaceuticals – main features

Share in total employment 2002*	1,30%
Share in total goods exports*	9.78%
Exports index 2002 (1997=100)*	90
Industrial production 2002 (1997=100)	103
Average implicit tariff (2002)	2.1%
Effective rate of protection (2000)	6,6%
Most protected items	certain medicaments (4%)
Importance of transport costs	low
Most important barriers to trade	licences, procurement
Lobbying groups strength	high
Importance of the SEE markets	medium
Competition in the Croatian markets	medium
Competitiveness of the sector	high

Note \* data refer to chemical sector

Production structure in Croatia is compatible to the structures in the other countries of former Yugoslavia, not competing to the other SEE producers. Therefore, the future trends would mostly depend on the developments in demand, together with liberalization and regulation of the procurement procedures. Apart from procurement, the main NTBs include

licences for medicaments and laboratory animals, for which the importers have to pay EUR 100 and 150 respectively for each shipment, regardless of value.

Apart from that, trade is limited with distribution systems that often have long-term contracts with producers. In addition, international markets are marked with a system of exclusive rights, patents and licences that limit free competition, together with domination of the leading world oligopolies. In conclusion, modelling of future trends of trade in the SEE region should be rather conservative.

## **5.2 Electrical engineering and telecom equipment**

Employment in the sector of production of electrical and optical equipment fell by 44% in the 1990 – 1996 period while the fall in industrial production was somewhat less i.e. 39% indicating that the sector was not severely hit by the loss of markets, war and transition. The sector recorder a unprecedented productivity growth with a fall of employment by 15% and increase of output by 30% in the 1997-2002 period. With the share of 0.8% of total value added and 1% in employment it is a rather important sector, withstanding also 4.2% of total exports. Communication equipment add to that with 3.3% of total exports and with the increase of 3.2 times as compared to 1992 it is (together with tobacco) the most dynamic Croatian export sector, although contributing only with 0.3% to total employment and value added.

Effective protection of the sector is low. The domestic markets for household appliances are held to a large extent by producers from Slovenia and Italy while Croatia has a strong position in specialized production – investment goods (generators, transformers, industrial appliances and telecom equipment). The telecom producing company is owned by Swedish Ericson, employing 1000 persons, 80% of which have high education degrees and 80% of income originating from exports to non-EU European countries, with the SEE region rather important. Apart from the successful undertaking held by German Siemens (EUR 150 million annual revenue), Koncar, the leading firm in electrical appliances, with an income of some EUR 250 million annually is still state-owned, but its workforce has shrunk to 1/6 of the previous number of 24,000. Main export markets for the company are Slovenia, B&H and Macedonia while the firm recently got a job of regeneration of Serbian railway equipment. The firm has problems in international public tender as a state owned company. A recent private undertaking in production of wires and cables – Eurocable – may be rather interesting because the company strongly captures the markets abandoned by Siemens, becoming the major supplier for the SEE region aiming also for future expansion towards the EU and Russia.

For the future trends of the industry, the main focus shall be on the long-term cooperation agreements that make for the most of trade of the Croatian producers as specialized

suppliers of industrial inputs. The investment goods segment largely depends on the investment projects and procurement procedures in the SEE region.

#### Electrical engineering and telecom equipment – main features

Share in total employment 2002	1.32%
Share in total goods exports	8.50%
Exports index 2002 (1997=100)	93 (el. machinery), 196 (RTV, telecom equip.)
Industrial production 2002 (1997=100)	130 (el. machinery), 62 (RTV, telecom equip.)
Average implicit tariff (2002)	1.2%
Effective rate of protection (2000)	4,2%
Most protected items	domestic appliances (10%)
Importance of transport costs	low
Most important barriers to trade	technical regulations, procurement
Lobbying groups strength	low
Importance of the SEE markets	high
Competition in the Croatian markets	high
Competitiveness of the sector	medium

### 5.3 Machinery

Employment in the sector fell by 61% in the 1990-96 period, while the sector was by far most affected with transition and loss of export markets with a fall in industrial production by as much as 76%. With 30% increase in production up to 2002, sector is reviving, backed with strong productivity growth while employment fell by 27%. Employing 1% of total workforce, creating 0.6% of value added and 4.4% of total exports, the sector is still very important for Croatian economy.

#### Machinery – main features

Share in total employment 2002	1.05%
Share in total goods exports	5.45%
Exports index 2002 (1997=100)	155
Industrial production 2002 (1997=100)	130
Average implicit tariff (2002)	1.07%
Effective rate of protection (2000)	2.66%
Most protected items	machines for ships, turbines (14%)
Importance of transport costs	low
Most important barriers to trade	technical regulations, procurement
Lobbying groups strength	very low
Importance of the SEE markets	low
Competition in the Croatian markets	high
Competitiveness of the sector	low

Import protection is low and the share of sector in total imports is a high 10%, due to investment in production machinery. The pre-war production was specialized in low sophisticated machines mostly for the markets of Eastern Europe and developing countries. Fierce competition in this segment following the globalization processes meant a loss of markets for Croatian exporters. There are still a number of producers adapted to the special needs of domestic markets, while supply can to some extent meet also the SEE demand. However, future trade trends depend predominantly on investment activities in these countries, which create demand for machinery as production inputs. In respect to the impacts of SEE liberalization and NTBs, situation is basically the same as for the electrical engineering.

#### **5.4 Automobile industry**

Apart from the previously identified large gap in the production of road vehicles and parts thereof, Croatia has a solid tradition in production of parts for vehicles as well as electrical engineering and machinery that may restructure towards production for the automobile industry. The industry supplying parts for automobile industry is not registered as a unique economic activity so it is somewhat difficult to comment on its size and relevance. There was rather strong production of ignition cables, exhaust pots, brakes, and glass, which was hit by a loss of markets. One of the few industries left is the one producing parts of plastics, mainly exported to Renault affiliates in Slovenia (Revoz) and Romania (Dacia).

Production of glass in Lipik, previously rather strong with some 800 employees and production specialized for the Serbian Zastava vehicles, was almost destroyed in the war operation and after troublesome privatization became owned by Italian conglomerate Isoclima. Apart from specialization in security glass for banks, aircraft and domestic electrical appliances, the firm recently started production also for the automobile industry i.e. for Bentley, Lamborghini, Ferrari and Peugeot.

In the SEE region, future trade within the sector depends mostly on restructuring and investment in the industry that may create demand for the parts produced in Croatia. What is needed for that is stability and security in the region that shall enable long-term investment decisions of the leading world producers to create a SEE cluster in the industry. The main message for trade modelling is that current trade record is not a good basis for prediction of future trends while a significant increase of trade may or may not occur while the sector is characterized with large-scale long-term cooperation.

## Statistical Annex

Figure 6

**GSP and employment in the Croatian economy 1996 (1990=100)**

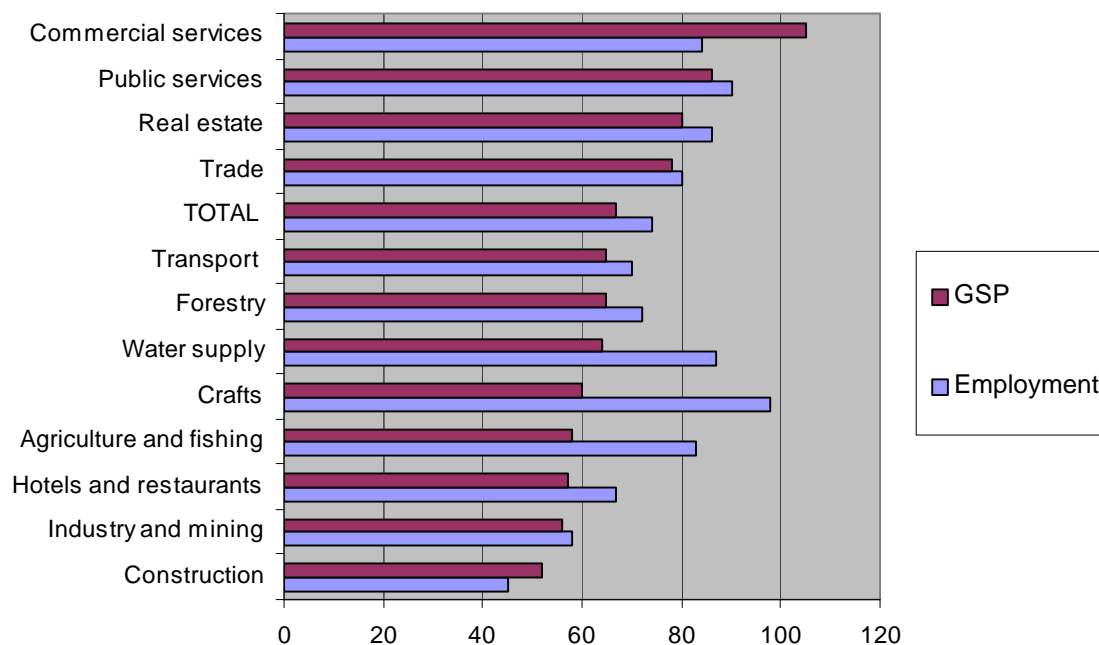
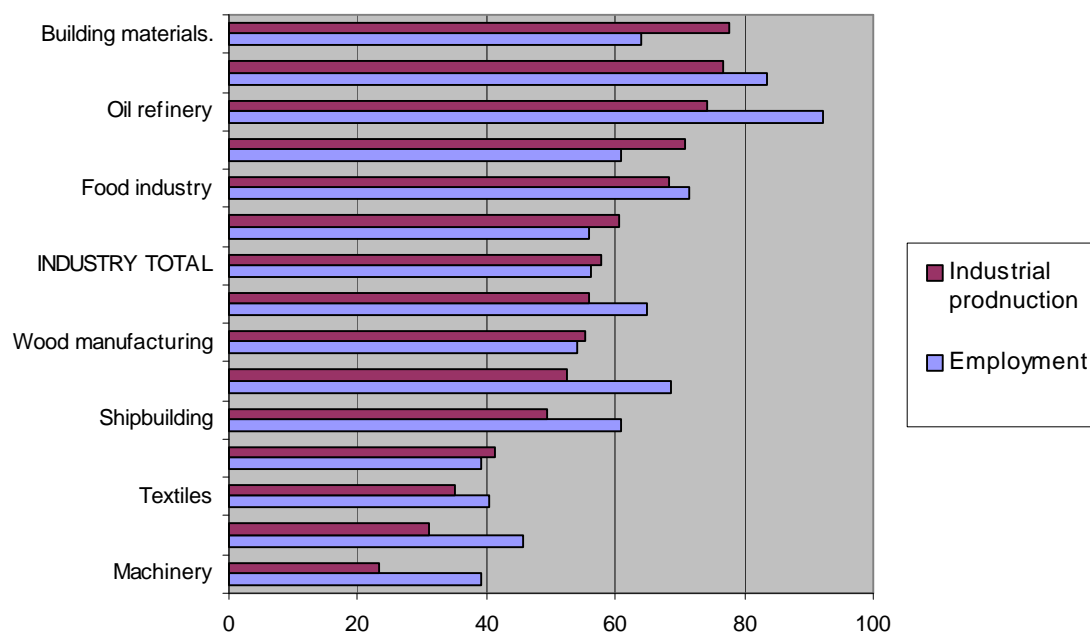


Figure 7

**Industrial production and employment in manufacturing 1996 (1990=100)**



Source: Central Bureau for Statistics

Table 5

**Gross value added and employment 1997 and 2002**

sectors	GVA	GVA	GVA 2002	GVA 2002	Employment	Employment
	1997.	2002.	1997=100	1997=100	1997.	2002
	%	%	fixed prices	current prices	%	%
AGRICULTURE, HUNTING, FISHERY, FORESTRY	9,3%	8,1%	106,9	125,2	16,9%	15,5%
INDUSTRY	25,9%	23,4%	122,9	128,9	29,3%	29,8%
CONSTRUCTION	7,1%	5,3%	97,9	106,1	5,6%	5,3%
TRADE	12,5%	11,9%	114,2	135,9	12,3%	12,1%
<b>HOTELS AND RESTAURANTS</b>	<b>3,1%</b>	<b>3,5%</b>	<b>132,5</b>	<b>161,2</b>	<b>3,6%</b>	<b>2,9%</b>
<b>TRANSPORT AND COMMUNICATIONS</b>	<b>8,7%</b>	<b>11,4%</b>	<b>118,0</b>	<b>186,8</b>	<b>7,4%</b>	<b>5,9%</b>
<b>FINANC. MEDIATION AND BUSINESS SERVICES</b>	<b>14,0%</b>	<b>15,8%</b>	<b>120,0</b>	<b>161,1</b>	<b>5,8%</b>	<b>6,0%</b>
PUBLIC SERVICES	19,5%	20,6%	107,8	151,2	19,0%	22,4%
<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>114,8</b>	<b>142,5</b>	<b>100,0%</b>	<b>100,0%</b>

Source: Central Bureau of Statistics

Table 6

**INDUSTRY: gross value added, employment and industrial production**

NACE sectors	Gross value added			Employment index 2002. 1997=100	Industrial production index 2002. 1997=100
	Share in gross value added 2000.	per employee (u 000 kn) 2000.	Share in employment 2002.		
<b>INDUSTRY (C,D,E)</b>	<b>25,50%</b>	<b>108,06</b>	<b>26,50%</b>	<b>87,9</b>	<b>116,2</b>
<b>C. MINING AND QUARRYING</b>	<b>0,69%</b>	<b>104,04</b>	<b>23,29%</b>	<b>86,8</b>	<b>120,8</b>
<b>D. MANUFACTURING</b>	<b>21,70%</b>	<b>104,71</b>	<b>23,29%</b>	<b>86,8</b>	<b>115,4</b>
15 food products and beverages	3,89%	110,11	4,14%	95,5	109,5
16 tobacco products	0,57%	533,29	0,11%	56,2	119,7
17 textiles	0,42%	45,51	0,88%	62,8	103,1
18 clothing, wearing apparel; fur	1,02%	43,42	2,51%	82,4	77,1
19 leather processing; footwear	0,31%	37,88	0,86%	68	74,0
20 wood and cork, except furniture;	0,64%	60,52	1,11%	87,8	93,6
21 pulp, paper and paper products	0,52%	116,12	0,50%	96,2	162,5
22 publishing, printing and reproduction	1,24%	131,96	1,07%	93,6	152,0
23 coke, refined petroleum prod.	3,16%	876,59	0,40%	84,7	106,8
24 chemicals and chemical products	2,79%	218,09	1,30%	75,5	103,0
25 rubber and plastic products	0,55%	95,44	0,65%	83,7	113,0
26 other non-metallic mineral products	1,27%	110,69	1,32%	86,8	141,6
27 basic metals	0,28%	41,59	0,78%	87,3	99,3
28 fabricated metal products	1,14%	88,2	1,67%	98,3	128,4
29 machinery and equipment n. e. c.	0,57%	56,45	1,05%	72,6	130,1
30 office machinery and computers	0,28%	258,4	0,16%	99	58,4
31 electrical machinery and apparatus n. e. c.	0,78%	85,18	1,02%	84,5	130,5
32 radio, television and communication equip.	0,28%	71,43	0,30%	88,5	61,9
33 medical, precision and optical instruments	0,15%	124,47	0,15%	75,6	99,8
34 motor vehicles, trailers and semi-trailers	0,12%	56,76	0,27%	96,8	135,0
35 other transport equipment (shipbuilding)	0,97%	71,63	1,80%	114,2	167,9
36 furniture; manufacturing n. e. c.	0,63%	63,24	1,13%	84,9	107,7
37 recycling	0,11%	119,9	0,11%	104,6	98,9
<b>E ELECTRICITY, WATER AND GAS SUPPLY</b>	<b>3,12%</b>	<b>140,57</b>	<b>2,56%</b>	<b>101,4</b>	<b>118,0</b>

Source: Central Bureau of Statistics

Table 7

## Croatian foreign trade in 2002, compared to 1997 by NCEA

	exports		imports		exports/imports	
	share	index	share	index		
	2002	02/97	2002	02/97	1997.	2002.
<b>TOTAL</b>	<b>100,00</b>	<b>1,23</b>	<b>100,00</b>	<b>1,22</b>	<b>0,45</b>	<b>0,46</b>
35 other transport equipment (shipbuilding)	12,66	4,36	2,33	0,91	0,52	2,49
24 chemicals and chemical products	9,78	0,90	10,69	1,24	0,58	0,42
18 clothing, wearing apparel; fur	8,07	0,79	2,04	0,93	2,14	1,81
23 coke, refined petroleum prod.	7,72	1,05	2,23	2,14	3,23	1,58
15 food products and beverages	7,50	0,85	6,55	1,12	0,69	0,52
29 machinery and equipment n. e. c.	5,45	1,55	11,36	1,16	0,17	0,22
32 radio, television and communication equip.	4,46	1,96	4,45	1,69	0,39	0,46
26 other non-metallic mineral products	4,15	1,63	2,41	1,23	0,59	0,79
31 electrical machinery and apparatus n. e. c.	4,04	0,93	2,68	1,10	0,82	0,69
17 textiles	4,03	1,52	3,71	1,67	0,55	0,50
20 wood and cork, except furniture;	3,97	1,00	1,42	1,23	1,56	1,28
19 leather processing; footwear	3,85	0,81	2,02	0,77	0,83	0,87
36 furniture; manufacturing n. e. c.	3,58	1,18	2,84	1,51	0,73	0,58
27 basic metals	3,00	0,96	5,14	1,30	0,36	0,27
28 fabricated metal products	2,94	1,53	3,78	1,40	0,32	0,35
21 pulp, paper and paper products	1,96	1,28	2,88	1,21	0,29	0,31
16 tobacco products	1,84	4,34	0,04	0,67	3,09	19,95
25 rubber and plastic products	1,69	1,12	3,48	1,35	0,27	0,22
34 motor vehicles, trailers and semi-trailers	1,60	1,18	10,52	1,18	0,07	0,07
<b>C. MINING AND QUARRYING</b>	1,56	2,52	8,51	1,30	0,04	0,08
<b>A. AGRICULTURE, HUNTING, FORESTRY</b>	1,45	1,54	2,80	0,79	0,12	0,24
33 medical, precision and optical instruments	1,14	1,74	2,22	1,09	0,15	0,23
<b>B. FISHING</b>	1,01	1,79	0,18	7,25	10,12	2,50

Source: Central Bureau of Statistics



Table 8

## Average implicit tariffs, 2002 schedule

HS	product group	tariff rate
01	LIVE ANIMALS	1,71
02	MEAT	30,51
03	FISH AND CRUSTACEANS, MOLLUSCS	3,69
04	DAIRY PRODUCE; EGGS; HONEY	24,79
05	PRODUCTS OF ANIMAL ORIGIN N.E.S.	0,00
06	LIVE TREES AND OTHER PLANTS	8,79
07	EDIBLE VEGETABLES	14,77
08	EDIBLE FRUIT AND NUTS	11,52
09	COFFEE, TEA, MATE AND SPICES	3,15
10	CEREALS	3,62
11	PRODUCTS OF THE MILLING INDUSTRY	11,88
12	OIL SEEDS AND FRUITS; FODDER	1,12
13	LACS, GUMS, RESIN	1,93
14	VEGETABLE PLAITING MAT.; PRODUCTS N.E.S.	3,70
15	ANIMAL OR VEGATABLE FATS OR OILS	11,76
16	PREPARATIONS OF MEAT, FISH	26,70
17	SUGARS AND SUGAR CONFECTIONERY	11,65
18	COCOA AND COCOA PREPARATIONS	19,31
19	PREP. OF CEREALS, FLOUR, STARCH OR MILK	15,36
20	PREP. OF VEGET., FRUIT, NUTS	14,17
21	MISCELLANEOUS EDIBLE PREPARATIONS	9,06
22	BEVERAGES, SPIRITS AND VINEGAR	16,63
23	RESIDUES AND WASTE; ANIMAL FODDER	5,23
	AVERAGE ABOVE	10,46
24	TOBACCO	13,82
25	SALT; SULPHUR; STONE; PLASTERS	1,49
26	ORES, SLAG AND ASH	0,00
27	MINERAL FUELS, OILS AND PRODUCTS	3,20
28	INORGANIC CHEMICALS	0,05
29	ORGANIC CHEMICALS	0,09
30	PHARMACEUTICAL PRODUCTS	2,08
31	FERTILIZERS	1,81
32	TANNIN OR DYEING EXTRACT, PAINTS	1,88
33	PARFUMERY, COSMETIC AND TOILETE PREP.	3,75
34	SOAPS, SURFACE-ACTIVE AGENTS	2,01
35	ALBUMINOUS SUBSTANCES	0,99
36	EXPLOSIVES; PYROTECHNIC PRODUCTS	0,89
37	PHOTOGRAPHIC OR CINEMATOGR. PROD.	0,96
38	MISCELLANEOUS CHEMICAL PRODUCTS	1,08
39	PLASTICS AND PLASTIC PRODUCTS	1,82
40	RUBBER AND ARTICLES THEREOF	1,63
41	HIDES, SKINS AND LEATHER	0,70
42	ARTICLES OF LEATHER	7,92
43	FURSKINS AND ARTIFICIAL FUR	4,44
44	WOOD AND ARTICLES OF WOOD	0,42
45	CORK	0,52
46	WICKERWORK	9,03
47	PULP OF WOOD, PAPER WASTE	0,00
48	PAPER AND PAPERBOARD	0,83
49	PRODUCTS OF THE PRINTING INDUSTRY	0,00

Table 8 contd.

Table 8 (contd.)

50	SILK	0,00
51	WOOL	0,43
52	COTTON	2,84
53	OTHER VEGETABLE TEXTILE FIBRES	0,57
54	MAN-MADE FILAMENTS	1,31
55	MAN-MADE STAPLE FIBRES	1,51
56	WADDING, FELT AND NONWOVENS	2,93
57	CARPETS AND OTHER TEXTILE FLOOR COVER.	5,44
58	SPECIAL WOVEN FABRICS	1,91
59	IMPREGN, COATED OR LAMIN. TEXTILE FAB.	4,28
60	KNITTED OR CROCHETED FABRICS	3,16
61	KNITTED OR CROCHETED ARTICLES	9,46
62	NOT-KNITTED OR CROCHETED ARTICLES	11,52
63	OTHER MADE UP TEXTILE ARTICLES	6,70
64	FOOTWEAR, GAITERS ETC.	8,53
65	HEADGEAR AND PARTS THEREOF	8,12
66	UMBRELLAS, STICKS, WHIPS	9,02
67	PREPARED FEATHERS	4,56
68	ART.OF STONE, PLASTER, CEMENT, CERAMICA	3,39
69	CERAMIC PRODUCTS	2,24
70	GLASS AND GLASSWARE	2,73
71	PEARLS, PRECIOUS STONES AND METALS	1,98
72	IRON AND STEEL	0,39
73	ARTICLES OF IRON OR STEEL	3,20
74	COPPER AND ARTICLES THEREOF	0,07
75	NICKEL AND ARTICLES THEREOF	0,00
76	ALUMINIUM AND ARTICLES THEREOF	4,21
78	LEAD AND ARTICLES THEREOF	0,34
79	ZINC AND ARTICLES THEREOF	0,00
80	TIN AND ARTICLES THEREOF	0,66
81	OTHER BASE METALS	0,00
82	TOOLS, CUTLERY, SPOONS AND FORKS	2,85
83	MISCELLANEOUS ARTICLES OF BASE METAL	2,05
84	BOILERS, MACHINERY AND MECH. APPLIANCES	1,07
85	ELECTRICAL MACHINERY AND EQUIPMENT	1,18
86	RAILWAY OR TRAMWAY LOCOMOTIVES	2,98
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY	2,15
88	AIRCRAFT	0,00
89	SHIPS, BOATS AND FLOATING STRUCTURES	0,74
90	OPTICAL AND PRECISION INSTRUMENTS	0,36
91	CLOCKS AND WATCHES AND PARTS THEREOF	3,65
92	MUSICAL INSTRUMENTS	0,00
93	ARMS AND AMMUNITION	1,54
94	FURNITURE AND LAMPS	4,17
95	TOYS, GAMES AND SPORTS REQUISITES	0,00
96	MISCELLANEOUS MANUFACTURED ARTICLES	7,66
97	WORKS OF ART, ANTIQUES	0,00

## Main references

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