Race to the bottom: **CETA** & **TTIP** on European periphery – Case of Croatia

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1.

The impact of CETA and TTIP on the legal environment of the European periphery

INTRODUCTION

TRADE LIBERALISATION is not simply a win-win constellation. The so called 'mega-regional' trade agreements (such as TTIP, CETA or JEFTA) will impact differently different groups, regions, and member states, in the EU and elsewhere. These trade agreements favour, for instance, the modes of economic development that build on the economies of scale, in which smaller EU peripheral economies hardly excel.[1] At the same time, they will legally constrain the modes of development centred around *local* diversification of production and service provision—which, in contrast, may hold a promise for the economic development of such smaller peripheral economies.

This section discusses the legal threats that multi-regional trade agreements pose for peripheral economies in the EU, and Croatia in particular. It argues that these agreements legally constrain the alternative pathways of socio-economic development in peripheral economies by A) limiting the legal space to develop an industrial policy or an innovative developmental agenda, which are not in line with the scale economy as a form of economic development; B) failing to put in place institutions that would allow these states to pursue on equal footing more specific developmental agendas suited to their needs and C) leaving the EU peripheral states especially vulnerable to challenge in front of the arbitration tribunals, because of their lower administrative capacities on the one hand, and a particularly broad scope of these agreements on the other.

TRADE SLAW CONSTRAINTS ON THE LEGAL SYSTEMS OF EUROPEAN PERIPHERY

The multi-regional agreements, which Europe is concluding, are the projects of European export economies. The projections and hopes expressed in these agreements align to the capacities and strengths often found in the countries of the European North, with large or at least well-capitalised companies, and significant export capacities.

From the perspective of the peripheral economies, these agreements fare considerably worse.[2] Not only are the export capacities of peripheral countries far lower, the increased competition may prove detrimental to the crucial segments in these

1 For the discussion of the economic impacts of CETA & TTIP on the peripheral economies, and Croatia in particular, see the following sections of this study.

2 For a more specific economic analysis of the impacts on the Croatian economy see the following section.

economies.[3] What is more, these agreements, and the negotiation on which they are based, feature little concern with their differential impacts: an effect that will weigh more heavily on weaker economies. Even at places where these agreements adopt the language of 'sustainable development', they are concerned with labour or environment in a narrow sense, with little to no consideration regarding the special needs of less developed regions, or states, in the EU.[4]

In what follows, I outline how the structure of these agreement creates, first, a legal straightjacket of substantive *rules,* which does not reflect the needs of the peripheral economies. Secondly, I present how the proposed *institutional* straightjacket may limit and hamper the voice of EU periphery in asserting its interests *pro futuro* and finally, I outline how the *enforcement* straightjacket—mainly the ISDS (or Investment Court)—expanding the set of rules on which investors may rely on against peripheral states will negatively affect the developmental possibilities in these states.

A) LEGAL STRAIGHT-JACKET: MARKET ACCESS AND 'RULES'

CETA and TTIP are bilateral free trade agreements, remarkable in their scope, and containing three core elements: i) market access provisions, ii) 'rules' (specific chapters) and finally iii) regulatory cooperation rules.

The 'Market Access' rules set conditions for the access of foreign companies to domestic markets. These rules pace market liberalisation and opening of the participating economies. In the agreements at hand, the market access rules are generally uniform, with no major exceptions within the participating blocks: they constrain internally all their members/parts in the same way.

Yet such uniform market access rules may not be a straighforward vehicle of economic development. Past experience shows that economies that have achieved more significant economic development in recent decades were those that have not opened their markets uncontrollably—such as China, India, Brasil, Japan.[5] Such stance allowed them to use some sort of governmental intervention in order to support the emergence of national industry that can compete globally.[6] In contrast, many African countries have opened their economies in line with the dictate of the countries of the European North, and the economic development had difficulties to occur.[7]

The less-developed, peripheral economies in the EU should be particularly careful about the appropriateness of such uniform market access rules for their national legal and economic contexts, insofar these rules may have a significant impact on their capacity to address their specific developmental needs. The participation in the EU has already somewhat limited the capacity of EU periphery to pursue individual industrial policies: an issue, which has been an object of political and economic discussion in the EU for a considerable period.[8] However, putting in place additional 'legal straight-jackets' by market access rules through the mega-regional trade agreements, with far less democratic institutions than those of the EU, will make any renegotiation of the position of peripheral economies in the EU excessively difficult.

Another particularly problematic aspect of these agreements—and CETA being the first mega-regional agreement of this kind—is that they open markets on the basis of so called 'negative lists'. This means that all goods and services not explicitly mentioned in the lists as in some way protected (limited market access) will automatically be considered liberalised services. Again, this legal provision prevents participating states from taking a separate decision regarding the marketization of so far unknown services—potentially limiting the space for less developed countries to find some specific new niche on the market where the could become more competitive.

The second group of legal provision that the agreement introduces are the so called 'rules'. These rules do not relate to particular goods or services, but instead regulate issues of public policy that will be relevant for more sectors (Investment, Competition, Intellectual Property, State to State Dispute Resolution etc.). In order to illustrate how the 'legal straightjacket' will operate in practice we will look at two examples. First we discuss how *public procurement* rules may limit the capacities of the (peripheral) countries to use public spending for economic development. Second, we turn to *sustainable development* rules in order to ascertain if there is some space created for accommodating the needs of peripheral economies.

3 For the analysis of the impact of mega-regional trade agreements on Croatia agriculture, health and social services see sections 3 and 4 of this study.

4 This holds for the Sustainable Development Chapters in both CETA and the TTIP. See the section EXAMPLE 1.

5 For a more recent economic study see Margaret McMillan, Dani Rodrik, Claudia Sepúlveda (Eds.), *Structural Change, Fundamentals and Growth: A Framework and Case Studies,* International Food Policy Research Institute, Washington, DC, 2016. Accessible at: http://drodrik.scholar.harvard.edu/files/dani-rodrik/files/structural_change_fundamentals_and_growth.pdf.

6 David M. Trubek, Developmental States and the Legal Order:Towards a New Political Economy of Development and Law, LANDS WP 1/2010. Accessible at https://law.wisc.edu/gls/documents/developmental_states_legal_order_2010_trubek.pdf.

7 Mark Langan, *The Moral Economy of EU association with Africa* (Taylor & Amp; Francis Ltd., 2015).

8 Clemens Kaupa, *The Pluralist Character of the European Economic Constitution,* Hart Publishing 2016.

EXAMPLE 1 MARKET ACCESS AND PUBLIC PROCUREMENT

Public procurement comprises a set of rules that specify how public authorities may procure goods and services. The EU public procurement framework demands a large degree of openness at all levels—vis-à-vis other EU member states, as well as the third countries.[9] Internationally, the EU has been one of the champions of public procurement liberalisation, having unilaterally opened its domestic procurement market to the providers from the third countries.[10]

The EU regime is, however, not solely about liberalisation of public procurement markets. A recent public procurement directive,[11] thanks also to a high degree of political contestation, also enables some degree of environmentally and socially minded public procurement. However, the limitations of the promulgated legal framework remain considerable. While the purchasing authorities may consider social and environmental properties of a particular purchased product (for instance the energy label on purchased computers), they are not permitted to take into account the manner or the process in which the product was produced (e.g. environmental or labour standards in the production process).[12] The same prohibition applies to considering the locality of the production, excluding for instance the purchases of locally grown organic food for public schools.[13]

Now, if there is such a high degree of opening of public procurement markets in the EU already, what is actually the risk that European periphery runs with CETA and the TTIP? In fact, it seems that if someone is running the risk, it is the counterparty: and indeed the liberalisation of public procurement by Canadian regional and local authorities should be seen as a victory of the EU negotiation team.[14]

Yet, this conclusion is not all that forthright. First, the multi-level legal entrenchment of public procurement rules at the level of International law threatens to lock in many potentially contestable political compromises, with disproportionate impact on the peripheral economies. Second, this disadvantage is not compensated by many economic benefits for peripheral economies—Croatian companies will be exposed to increased competition, while not being able to profit from the opening of the Canadian or the US market.

Namely, public procurement has potentially a crucial role to play in the economic and environmental policies of development foremost in countries with lower levels of competitiveness.[15] In Croatia, for instance, public procurement amounts to more than 13% of GDP.[16] Such large public spending presents a considerable developmental potential if directed in a ways that could further socially desirable purposes.

Even if the EU rules already limit the use of public procurement as industrial policy in peripheral economies, as we have witness with the recent revision of public procurement directive, some renegotiation is possible. This possibility is vital for the future, given the role that public spending may play in addressing the social and environmental threats that accompany climate change. Yet, the inclusion of public procurement rules in mega-regional trade agreements will limit the space for political contestation of such rules in the EU, serving thus as means to prevent internal political change with regard to those rules in the future. These kinds of rules, will make it increasingly difficult for the EU to embark upon different forms of socio-ecological transformation on the one hand, and make it excessively difficult to pursue different forms of economic development by peripheral economies on the other.[17]

What is more, while the EU periphery is likely to accrue the negatives of the harmonisation of public procurement rules, it is not likely to amass many positives of the opening of, for instance, Canadian public procurement markets. While the Croatian companies may suffer from increased competition in public procurement,[18] unlike the countries of the European economic 'core', the uncompetitive Croatian industry will hardly be able to take advantage of open public procurement markets in Canada or the US.[19]

9 See European Parliament (INTA Study), Public Procurement in International Trade. Accessible at: http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/457123/EXPO-INTA_ET(2012)457123_EN.pdf.

10 Ibid.

11 *Directive* 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on *public procurement*.

12 Laurens Ankersmit, *Free Trade, Fair Trade, and Green Trade in and with the EU: Process-based Measures within the EU Legal Order,* Cambridge University Press 2017.

13 Ibid.

14 See for instance a publication by AITEC, *Public procurement in TTIP and CETA: a poisoned gift to local authorities and SMEs,* 2016. Accessible at: https://www.ttip-free-zones.eu/sites/default/files/materials/TTIPCETApublicprocurements_0.pdf.

15 See the following section of this study on Economic Impacts.

16 The Statistics of the Ministry of Economy, Enterprise and Trade for 2016, available at http://www.javnanabava.hr/userdocsimages/Statisticko_izvjesce_JN-2016-5.pdf, p. 11

17 See the Euromemorandum Report 2018, available at http://www.euromemo.eu/euromemorandum/index.html.

18 See the Chapter on Economic Impacts.

19 Ibid.

EXAMPLE 2 'RULES' AND SUSTAINABLE DEVELOPMENT CHAPTER(S)

Various forms of political and public pressure to make trade agreements more environmentally and socially friendly led to the introduction of sustainable development chapters into trade agreements. Both CETA and TTIP contain such chapters: CETA has 3 smaller chapters (general provisions, and then chapter on labour and chapter on environment),[20] EU TTIP position paper on sustainable development is one integrated chapter.[21]

These chapters, however, remain weak in comparison with other 'hard core' rules in trade agreements. Foremost, neither of these chapters has effective enforcement mechanism. They do contain mechanisms for mediating disputes, and in principle a possibility to issue 'binding expert opinions', but the mechanisms to enforce those are limited mainly to consultations and monitoring.[22] Interestingly, the reasons why we do not see much stronger enforcement of those mechanisms is that the EU Commission has consistently refused to introduce those: despite the demands from the European Parliament.[23]

Furthermore, sustainable development chapters do not apply horizontally in the sense that whatever these chapters contain, they can not be enforced across other market access rules. There is no legal obligation to use sustainable development chapter(s) as means to interpret or arbitrate the meaning of other trade rules (such as, for instance, previously mentioned public procurement rules)—and if they can be enforced, that is through a modest enforcement dialogue. In this way its 'radiation' effect of the chapters is going to stay at best limited—and may be altogether ignored by the arbitration panels.[24]

With regard to the interests of more peripheral regions, sustainable chapters do not address in any way their differential needs, including possible trade diversion effects or social and labour dislocations on regional basis. This presents a major obstacle to using this chapter as means to advocate some of the concerns of peripheral regions. This omission also suggests that the negotiators from less developed regions, and peripheral states in the EU, have failed to understand the eventual implications of trade opening on their economies, and advocate for taking account of their special national interests—despite decades of debate in the GATT/WTO context along these lines.[25]

Finally, to the extent that this chapter will be institutionalised though regulatory cooperation (see below), there are no special provisions on how to bring in the expertise needed to consider the concerns of sustainable development and the peripheral regions in regulatory cooperation. Instead, regulatory cooperation will be dominated by trade and 'regulatory affairs' experts, with no guarantees that other normative concerns, or the interests of peripheral economies, will be sufficiently taken into account. All of these factors together make it close to impossible to use sustainable development chapter as means to address some of the harms or further the needs of peripheral economies in the EU.

B) INSTITUTIONAL STRAIGHTJACKET

We turn now to the previously mentioned 'regulatory cooperation'.[26] Regulatory cooperation is a set of institutional structures and regulatory practices that aim to bring about convergence of regulations between involved trade partners in the future, by creating various channels for the exchange of information, methodologies and knowledge between regulators. It is the regulatory cooperation that is hoped to deliver many economic benefits thanks to lowering the costs associated with 'non-tariff' (behind the border) barriers to trade.

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20 See the Chapters 21–24 in CETA, available at http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/.

21 The last EU position paper on Sustainable Development in the TTIP, available at http://trade.ec.europa.eu/doclib/docs/2015/november/tradoc_153923.pdf.

22 European Parliament Research Service Briefing, *Trade and sustainable development chapters in CETA*, January 2017. Available at: http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595894/EPRS_BRI(2017)595894_EN.pdf

23 *Ibid.* See also Non-paper of the Commission services, *Trade and Sustainable Development* (*TSD*) *chapters in eu Free Trade Agreements* (*FTAS*), available at: http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155686.pdf.

24 For a brief discussion of the environmental threats posed by the mega-regional trade agreements see Investment Treaty News, *TTIP and Climate Change: Low economic benefits, real climate risks,* Dec 1st, 2015. Available at https://www.iisd.org/itn/2015/12/01/ttip-and-climate-change-low-economic-benefits-real-climate-risks/.

25 For a critical account, see for instance Robert Hunter Wade, *What strategies are viable for developing countries today? The World Trade Organization and the shrinking of 'development space'*, Review of International Political Economy, 2003.

26 CETA Chapter 25–27, available at http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/. The last EU postition paper on Regulatory Cooperation, available at at http://trade.ec.europa.eu/doclib/docs/2016/march/tradoc_154377.pdf.

Qua institutions, the regulatory cooperation in both TTIP and CETA entertains these fora:

- Bilateral exchange between regulators;
- General regulatory cooperation body (tasked with agenda setting; and the discussion of trends and broader issues);
- Sectoral committees and working groups;
- Joint committee (the main CETA/TTIP body).

Qua regulatory practices, regulatory cooperation also imposes:

- Transparency obligations;
- Consultation procedures;
- Impact Assessments (as well as retrospective reviews of legislation);
- Stakeholder participation;
- Evidence-led and science-led regulation.

While the institutions set channels for the communication and cooperation between the trading partners (and their regulators), regulatory practices are directed toward shaping the domestic regulatory process. This will include, for instance, who and how/when has the right to participate in regulatory processes at various stages, the questions as to how the quality of domestic regulations should be 'legitimately' evaluated (through costs-benefits analysis, or science based regulation), and the most important traits of such process (including transparency and information requirements).

One of the most important specific[27] obstacles that peripheral economies may face in the context of regulatory cooperation relate, or aggravate, the problem of having voice. The concern is here not only the 'distance' to Brussels, but foremost the lack of expertise and institutional capacity in the countries of the European periphery to assert their interests in regulatory cooperation effectively. If this deficiency also makes it often more difficult for these countries to make themselves heard in the policy making in Brussels, a problem that will be only amplified in the TTIP/CETA settings where the representation is mainly functional.

A less straightforward problem relates, paradoxically, to the stakeholder participation and the weak lobbying capacities of peripheral countries in regulatory cooperation. Both CETA and even more so TTIP make the stakeholder participation a crucial element in the cooperation. Yet, given that peripheral states have significantly fewer businesses with resources that would effectively enable them to participate (or lobby) for certain regulatory outcomes,[28] their concerns and priorities will be represented less in whatever comes out as a result, aggravated negative distributive dynamics of these agreements.

Neither CETA nor TTIP does take steps to remedy any of these asymmetries in voice and representation. Both trading partners have, instead, been particularly eager to suppress the capacity of regions for regulatory autonomy or alternative versions of development—not least, for instance, by liberalising public procurement market, on the regional and state levels.

C) ENFORCEMENT STRAITHJACKET

The agreements will have two main forms of enforcement. *The State to State Dispute Settlement* (SSDS), which has a general competence to rule over disputes among state parties,[29] has not raised a major concern. However, a more controversial has been the Investor to *State Dispute Settlement mechanism* (ISDS), which gives broad rights to private investors to challenge states' action through arbitration, with a claim regarding the breach of their (treaty) commitments and a claim to financial compensation. The ISDS has been the main point of contention regarding the TTIP. In response to these challenges the European Commission has proposed a change to the system of arbitration and the establishment of an 'investment court' to ensure the coherence and fairness of arbitral awards (implemented in CETA).[30]

A noteworthy element of the ISDS debate, and the proposal for the Investment Court, is that the interests of the peripheral EU member states again do not align with the interests of the core EU member state. Investment chapter in the CETA or TTIP would newly introduce an ISDS mechanism between the American counterparts and some of the European 'core' economies—all of which have been clearly perceived as a threat by civil society.

27 Peripheral economies are certainly going to suffer from the democratic deficit of these institutions.

28 See below, the section on Economic Impacts and the Agricultural Impacts.

29 As mentioned in the earlier section, substainable development chapter has its own form of (non)enforcement.

30 CETA, CHAPTER 8. Accessible at http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/.

However, the EU periphery has already bilateral investment treaties with both Canada and the US, but also many other EU member states.[31] Given this constellation, and to the extent that the new 'investment court' would offer somewhat less biased environment for dispute resolution between investors and the states, peripheral states' short term interest may certainly be served by such an institutional improvement.

Yet in the long run, the response to the question of interest is not all that straightforward. The reason is the breadth of the new mega-regional trade agreements. Namely, from the 1990s onwards, the arbitrators have started using Free Trade Agreements concluded between various countries as the 'law' on which bilateral investment treaties build, and from which the expectations of foreign investors are determined. By expanding the applicable law in this way, arbitrators have gained considerable leaveway in interpreting the obligations states arguably undertook vis-à-vis investors, slowly escalating both the number of disputes and the amounts of compensation attributed to investors.[32]

Becoming part to such broad agreements such as CETA or the TTIP vastly expands the scope of commitments all EU member states undertake vis-à-vis investors. These new agreements put in place a vast body of law that covers practically all matters of market regulation, presenting an innumerable set of potential claims of investors vis-à-vis states—to be adjudicated through investment arbitration. This will certainly go against the interests of the peripheral member to a far greater degree than that of the 'core' EU member states. Given that peripheral EU member states have generally lower institutional capacity, they are particularly vulnerable to charges of failing some procedural or substantive obligations set out in these overwhelmingly expansive agreements. The peripheral economies thus open up to potentially numerous arbitral challenges and claims on their very modest budget.

CONCLUSION

The new trade agreements present significant encroachments on national economic autonomy. This is particularly problematic for the peripheral economies, which stand in front of an important task to ensure economic development in their regions—something that trade agreements still pay too little attention to. The legal straightjacket may prevent these economies from engaging in institutional experimentation, and public investment, that is crucial in achieving this goal. The institutions for developing new rules within the framework of mega-regional trade agreements (regulatory cooperation) will further disadvantage peripheral economies. The lack of voice, be it qua the lack of representation or strong industry, may distribute the gains of integration away from these economies. Finally the threat of regulatory chill due to the vast space for arbitral claims will further weaken the space of these economies to bring about socio-economic development, or transformation. What is quite ironic however is that, if we are to trust the economic pundits, there is very little economic benefit offered in exchange for these losses.[33] While the current trade law system is far from optimal for the world and the peripheral economies in particular, the contestation of trade treaties, and the failure of the TTIP, open us some new pathways for rethinking international economic order. Yet this has to take much more ambitious form than intended by the European Commission's 'responsible' new trade agenda.[34]

As Gunnar Myrdal argued a couple of decades ago, development and under-development do not happen on two unrelated paths.[35] While various trade agreements have successfully liberalised markets across the board, the rhetoric of common interest has served to camouflage regressive distributive effects, labour and social dislocations, and obscure negative environmental externalities of these pacts. Any serious re-thinking of trade, and its impacts on various regions and communities, requires reconsideration of the linkages between trade, investment, climate and migration. Some minor steps in this regard have already been taken (e.g. Germany's Marshall plan for Africa[36]), yet these integrative efforts need to taken much further—in the interest of both peripheral and core economies, and peoples, across the world.

31 An ongoing struggle in the EU relates to the so called intra-EU bilateral treaties. The 'new' EU member states have bilateral investment treaties with the 'old' EU member state. This is seen by the European Commission as a situation largely in conflict with European law. Moreover, the numerous challenges against the new MS, and their tiny budgets, come in fact from the old EU MS. While the final verdict of the European Court of Justice is still to be come, the last (surprising) word has been chipped in by the Advocate General Wathelet, see for instance http://www.hfw.com/Intra-EU-BITs-compatible-with-EU-law-October-2017.

See for instance UNCTAD, Investor-State Dispute Settlement Report for 2016, available at: http://unctad.org/en/PublicationsLibrary/diaepcb2017d1_en.pdf, p 2.

32 Even the most optimistic (and largely discredited) study on the economic benefits of the TTIP predicts largely marginal GDP increases. See Centre for Economic Policy Research, 'Reducing Transatlantic Barriers
33 to Trade and Investment: An Economic Assessment', London 2013. Available at http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf.

European Commission, Trade for All: Towards a More Responsible Trade and Investment Policy. Available at http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf.

34 Gunnar Myrdal, *Economic Theory and Underdeveloped Regions,* Gerald Duckworth, 1957.

German Federal Ministry for Economic Cooperation and Development, *Africa and Europe—A new*
35 *partnership for development, peace and a better future.* Available at https://www.bmz.de/en/publications/
36 type_of_publication/information_flyer/information_brochures/Materialie270_africa_marshallplan.pdf.

2.

The impact of the CETA and the TTIP on Croatia

Vladimir Cvijanović

INTRODUCTION

IF THE TTIP AND THE CETA (henceforth: agreements) get ratified, the GDP in the EU would not change by much, either in a positive or in a negative direction. Allvin (2016) reviews several studies on thes TTIP and finds that most of the studies predict a relatively minor effect on EU'S GDP as result of a the TTIP. However, an alternative study (by Tufts University) he reviews predicts a fall in GNP, net exports and jobs in the EU. Both of these agreements rely on dismantling non-tariff measures, but he asserts that it would be extremely difficult to assume that non-tariff masures would be reduced to any great extent, and that this would inolve costs typically left out of the studies (p. 111–112). As to the CETA, Kohler and Storm (2016) predict an improvement of external balances in both Canada and the EU as a whole, but also predict its other effects will be negative, as the GDP is about to go down, and unemployment and inequality up. Both Kohler and Storm's (2017) and Tufts University critique stems from the results of the application of the United Nations Global Policy Model, which is more realistic than the neoclassical Computable General Equilibrium (CGE) Model normally used to corroborate the trade agreements' assesments.

The effects on Croatia's GDP of both the TTIP and the CETA are likewise marginal, which can be seen both in the studies commissioned by the European Commission (EC) and other studies that estimate their effects on Croatia. The newest study commissioned by the EC (EC, 2016b) asserts that the EU'S GDP should grow by an additional 0,5 percent annually after the TTIP has been ratified. However, the impact on Croatia should be lower than the EU average, although this conclusion does not account for the lowering of non tariff measures in the processed foods industry, which should be important for Croatia (p. 17). Furthermore, a study that estimated the effects of the TTIP on Croatia (CID and PWC, 2016), also finds only marginally positive effects on the Croatian GDP. A CETA impact assessment commissioned by the EC predicted small increase of GDP for the EU, and other positive economic effects (Development Solutions, 2011). However, a recent report using another CGE model found that in a 10 year period after the implementation of the CETA, the Croatian GDP would rise by a total of 0.039% or 0,038% in the first or the second scenario, respectively. However, Croatian exports would slightly decrease in total (Damijan and Kostevc, 2015: 42–43).

However, as none of the aforementioned studies fully accounts for the impact of these trade agreements on non-tariff measures or "barriers" (NTMS) that are supposed to be eliminated, one needs to consider which impact their elimination might have on the socialisation of costs following the potential ratification of the CETA and the TTIP. Here we consider the effect of the TTIP and the CETA on competitiveness of the domestic economy, its external trade, as well as small and medium-sized enterprises (SMEs).

THE IMPACT OF THE CETA AND THE TTIP ON THE COMPETITIVENESS OF THE DOMESTIC ECONOMY

The likely impact of the agreements on competitiveness of the domestic enterprises will be negative, as highly competitive US and Canadian enterprises increase their market shares in both products and services markets in Croatia. Namely, Croatia is ranked 26th among the EU countries for its competitiveness, and 74th overall, among the 138 countries encompassed by the Global Competitiveness Index 2016–2017. At the same time, the United States are ranked 3rd, and Canada 15th (Schwab, 2016: xiii). This necessarily leads to companies from Croatia experiencing higher competition and losing market shares in domestic markets.

The macroeconomic room for manoeuvre is already very tight, which means that Croatian companies are not likely to enjoy conditions of rising aggregate demand driven by public investments in the near future. If the agreements are ratified anytime soon, the Croatian economy will probably still be burdened by conditions of deflation. While the consumer price index percentage change in October 2015 was –0,6% year-on-year, a corresponding change of the producer price index was –2,0% (CNB, 2016). Furthermore, as the government is pushed towards fiscal consolidation in the EU's excessive deficit procedure, while enterprises and households are net savers, one cannot expect any large increase in GDP (cf. Cvijanović, 2016). Meagre growth rates after the end of the recession are likely to continue for some time. Hence, no improvements in competitiveness of domestic enterprises can be expected.

THE IMPACT OF THE CETA AND THE TTIP ON IMPORTS AND EXPORTS

AS A SMALL AND OPEN ECONOMY, Croatia very much depends on the external sector. However, its exports are not the driving force behind the aggregate demand, as Croatia remains dependent on domestic consumption. In 2015, the country was even more open to international trade than Germany, with the sum of imports and exports in percentage of GDP reaching 98 (UNCTAD, 2017). However, during the recesssionary period 2009–2014, its merchandise exports have stagnated and even fell by 7,23% year-on-year in 2015, ending 9,06% lower than in 2008 (UNCTAD, 2017a, own calculation). Its merchandise trade balance improved during the recessionary period, but this was mostly due to the fact that the imports fell more sharply than the exports. A similar pattern is visible in international trade between Croatia and, respectively, Canada and the US.

United States and Canada are not among the most important international trade partners to Croatia. In regards to exports, Croatia exported 2,34% of its products to the United States in 2015, and only 0,24% to Canada. That made the US its 9th biggest exports partner, and Canada only its 44th biggest (WITS, 2017). Only 136 Croatian companies export to Canada (EC, 2016a). The merchandise trade balance with each of these countries is shown in FIGURES 1 and 2.

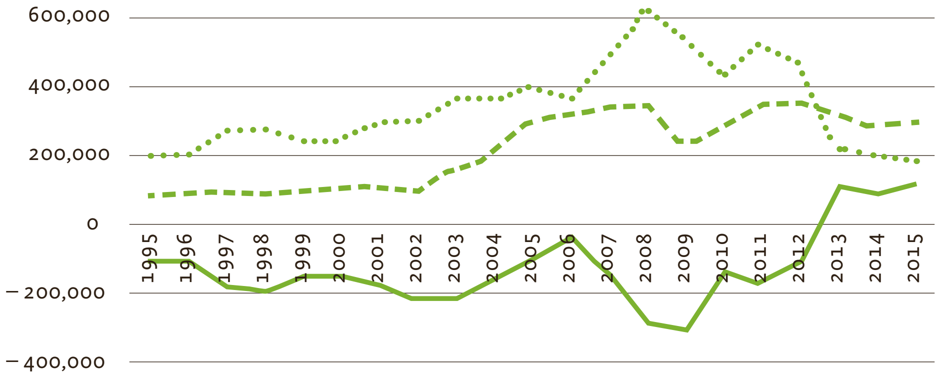

FIGURE 1 Merchandise trade balance of Croatia with the US, in 000 dollars; Source: UNCTAD, 2017a.

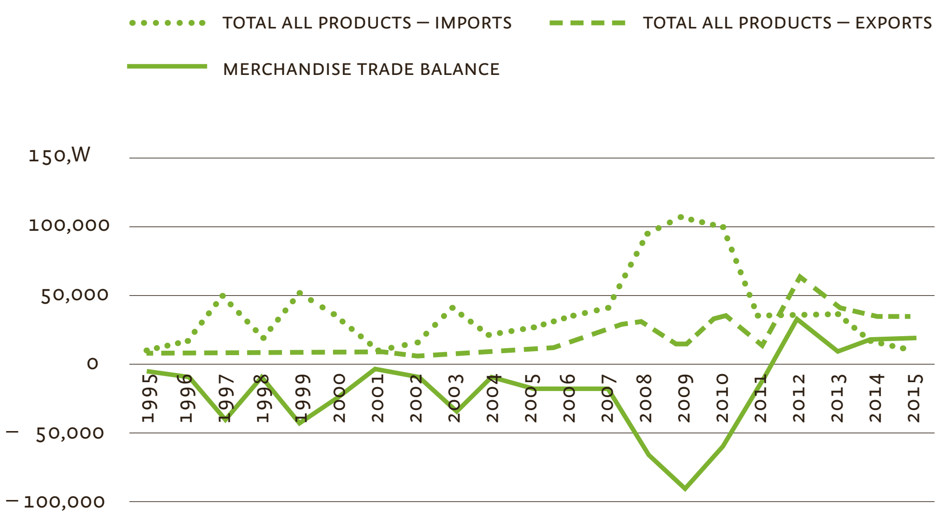

FIGURE 2 Merchandise trade balance of Croatia with Canada, in 000 dollars; Source: UNCTAD, 2017a.

Exports from Croatia and the EU depend not only on the lowering of the tariffs, but also on other NTMs, notably geographical indications (GIs). While the latter will be legally protected by the CETA (EC, 2016: 14–16), GIs are still being negotiated for the TTIP. However, among the most important Croatian agricultural-food export products to the US (that are but a fraction of the total export to the US), as listed in DZS (as in CID and PWC, 2016: 45) very few (may) already have a GI. When it comes to the most important products imported to Croatia from the US (DZS as in CID and PWC, 2016: 46–47), Croatia is unlikely to experience any bigger competition with its own products that have a GI, if judging by the most important products.

In regards to the value of the trade in services, the US is yet again a more important partner to Croatia than Canada is. Croatia gets a very small share of income from exporting services to Canada (the official CNB's (2017) statistics do not register Canada among Croatia's biggest partners in foreign trade in services). The services balance between Croatia and the US is shown in FIGURE 3. Although there is no earlier data, one can easily see that there is a surplus in trade in the whole 2011–2015 period.

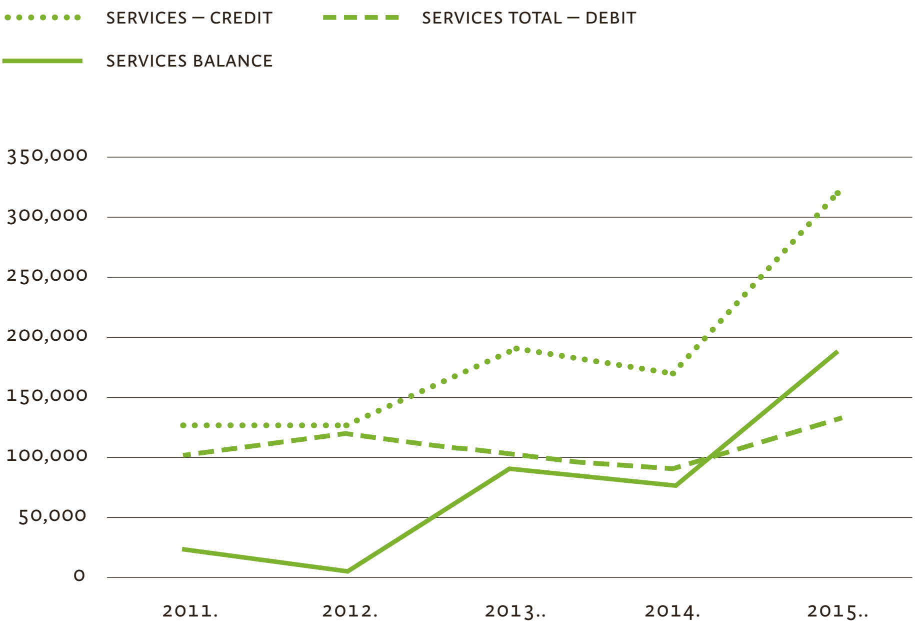

FIGURE 3 Services balance of Croatia with the US, in 000 euros; Source: CNB, 2017.

There are some comparative disadvantages for Croatia with regard to the US if the TTIP gets ratified. The CID and the PWC (2016: 128–129) identifies them with regards to the following products, expecting a rise of imports from the US to Croatia: fruit and nuts (not including oil nuts), fresh or dried; coal, pulverized or not, but not agglomerated; medicinal and pharmaceutical products, other than medicines of group 542, non-electrical machinery, tools and mechanical apparatus, and parts thereof, n.e.s.; automatic data-processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, n.e.s.; telecommunications equipment, n.e.s., and parts, n.e.s., and accessories of apparatus falling within division 76; motor cars and other motor vehicles principally designed for the transport of persons (other than motor vehicles for the transport of ten or more persons, including the driver), including station-wagons and racing cars; railway vehicles (including hovertrains) and associated equipment; instruments and appliances, n.e.s., for medical, surgical, dental or veterinary purposes; measuring, checking, analysis and control instruments and apparatus, n.e.s. and fees for usage of intellectual property rights. Producers producing the aforementioned products can hence expect bigger competition.

A further weak point in the flows of international trade and investment can be found in foreign direct investment, as Croatian companies have not shown any viable and sustainable activity abroad. Namely, the FDI net outflows in percentage of GDP have fluctuated wildly since 1995, although they have generally been subdued in the latest recessionary period (cf. WB, 2017 for data). This is an indication of weak external competitiveness of the domestic economy, i.e. its weak ability to compete by investing into other countries. On the other hand, both Canada and the US could readily use its outward FDI to compete in the Croatian markets.

THE IMPACT ON SMES

Entrepreneurship has faced serious problems in Croatia for a number of years, hence it is not well adapted to face new competition challenges that may open up with the TTIP and/or the CETA. As Singer et al. (no year) assert, the perception of opportunities to start a business venture in the 2012 to 2015 period was one of the lowest among EU member states (Singer et al., no year: 22). This is also reflected in a lack of enterprises presenting a potential for growth. A further problem is a lack of innovativeness of enterprises (Singer et al., no year: 11), due to a poorly developed national system for innovation (Cvijanović, 2011).

In terms of size, Croatian companies in general and SMEs in particular are smaller than the EU average. We will consider two sectors with an export potential:

manufacturing and electricity, gas, steam, and air conditioning supply. Namely, in 2014 Croatia had the fifth lowest gross value added per employee for all firm sizes (the size being measured in terms of employees) in the EU in both manufacturing and electricity, gas, steam, and air conditioning supply (Eurostat, 2017, own calculation)[1]. Manufacturing enterprises (of all sizes) in are in the bottom half of EU manufacturing enterprises when it comes to the number of persons employed per enterprise, and in the upper half of the same indicator in the industry of electricity, gas, steam and air conditioning supply (Eurostat, 2017, own calculation[2]). In terms of turnover per person employed in manufacturing for all firm sizes, Croatia had the fourth smallest value in the EU in 2014. For firms employing between 0 and 9 employees, it had the 5th smallest value; for firms employing between 10 and 19 persons the 4th smallest one, for firms employing between 20 and 48 persons the 5th smallest one. For firms that have between 50 and 249 employees it was the 3rd lowest. In what regards the turnover per person employed in the electricity, gas, steam, and air conditioning supply sector, Croatia had the 5th smallest value in the EU in 2014 in all firm sizes (measured by the number of employees). In the smallest firms (that have 0-9 employees), it had the 9th smallest value of this indicator. In firms of 10-19 employees, the 10th smallest value; in firms employing between 20 and 49 persons it had the 3rd lowest value, and in firms that have between 50 and 249 employees it had the 10th lowest value (Eurostat, 2017, own calculation[3]).

The fact that Croatian SMEs are less productive and smaller in size than an average SME elsewhere in the EU will have an impact on the lack of economies of scale that are particularly relevant in international trade. Hence, they will face stronger competition at home and abroad, with likely negative consequences for both exporting SMEs and those oriented towards local and regional markets.

In addition, SMEs will be in the inferior position to multinational enterprises when it comes to public procurement, as they will be less likely to compete for contracts on the other side of the Atlantic (cf. Attac, 2015).

A further problem for SMEs are litigation costs in arbitration procedures, as they would normally be too high for SMEs, hence giving an advantage to big enterprises (Attac, 2015 and Pinzler, 2015).

CONCLUSION

The TTIP and the CETA would not influnce the Croatian GDP much, either in a positive or negative direction. In addition, their eventual ratification does not come at a good moment for Croatia, as the macroeconomic conditions that the economy faces are rather unfavourable. This means that these conditions are not going to exert a positive influence on an already quite mediocre competitiveness of the domestic economy.

Competitive pressure that can open up through both the CETA and the TTIP is not good for the domestic industry, since Croatia is among the bottom half of EU member states when it comes to competitiveness. This lack of competitiveness is also reflected in a lack of outward FDI. Both the US and Canada are among the most competitive nations in the world, and they are likely to take some of the domestic companies' market shares. As Croatian exports have not been the main factor behind GDP growth, and the net exports have reacted positively to recession, one can expect no boost in exports due to possible ratification of these agreements. Especially not because neither Canada nor the US are major trading partners for Croatia.

As they are smaller and less productive than the EU average, the Croatian SMEs would be hit particularly hard by the ratification of these agreements. They will not be able to achieve economies of scale in the same way Canadian and US SMEs are likely to do. When it comes to public procurement and legal cases launched before arbitration courts, bigger enterprises are likely to have an advantage over Croatian SMEs.

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1 In NACE Rev. 2, manufacturing is classified as 'C' and electricity, gas, steam, and air conditioning supply as 'D' — see Eurostat for details. Data for some countries are missing.

2 Data for some countries are missing.

3 Data for some countries are missing.

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3.
Impacts of CETA and other similar trade agreements on Croatian food & agriculture sector

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1 SUMMARY

CROATIA IS A NET IMPORTER of food and agricultural commodities because most of these are already much cheaper abroad, including in other EU Member States. The CETA and TTIP agreements will just worsen this situation. They will boost imports even more. Croatian small-scale farms, operated by poorly-educated, mainly elderly farmers, as well as its small food manufacturing industry, cannot compete with cheap industrial food from Canada and the USA. CETA and TTIP will cause many Croatian farmers and food manufacturers to go out of business. Particularly vulnerable are the Croatian dairy and beef sectors.

CETA and TTIP are of hardly any significance for export opportunities of the Croatian agri-food sector because Croatia exports only 17% of the value of its agricultural production and because Croatian agri-food exports to Canada and the USA are trivial. In 2016 they amounted to a tiny 23 million EUR, accounting for just 1.45% of the total Croatian export of food, drinks and agricultural commodities. A significant increase in export of agri-food goods from Croatia to Canada and the USA thanks to CETA and TTIP is unlikely because Croatia would have to compete with other EU countries and Croatia's economy of scale does not favour this battle.

Unlike Croatian ones, Canadian and the USA farmers are allowed to use substances and practices that are not permitted in Croatia: hormones, environmentally-unfriendly pesticides and GMOs. These make their production cheaper but deteriorate the environment and jeopardise food safety. If Croatian farmers had to compete with their USA and Canadian colleagues, they would be forced not only to adopt some (or all) of these environmentally unfriendly practices, but also to upscale, industrialise and resort to high-input farming. This would lead to further depletion of soil fertility, water pollution, increase of emissions of air pollutants and greenhouse gases—and would also decrease the biodiversity on arable fields.

Food safety standards in Canada and the USA are lower than in Croatia. Canadian and US farmers and food manufacturers are allowed to use chemicals and practices that are not allowed in Croatia, including carcass washing with chemicals, and widespread use of hormones and antibiotics.

Croatian Minister of Agriculture Tolušić is very determined to improve food safety as he thinks that due to poor quality imports, Croatian agro-food products cannot find their way onto the domestic market and that this trend should be reversed. He is keen to enforce Croatian food quality and food safety standards also on imported food, as well as limit their presence to no more than 30% of the range of food on the shelves.

Besides the above-mentioned issues, CETA and TTIP are likely to have a range of political, ethical, administrative and legal (juridical) implications for the Croatian food and farming sector. Among others, they would lower animal welfare standards, and abolish the precautionary principle which does not permit harmful products to be used in farming and food processing. Through the investor-state dispute settlement (ISDS) mechanism they would undermine the sovereignty of the Croatian state, lower labour standards and wages; and would have a detrimental impact on the Croatian rural fabric.

The only genuine winners of CETA and TTIP would be multinational companies exporting food and agricultural commodities from Canada and the USA, whose profit would flourish even more. At the other hand, there would be many losers, including Croatian farmers, food processors, food consumers, Croatian Government/state, animals and environment.

2 INTRODUCTION

Croatia has for years been a net importer of food and agricultural commodities. Its small-scale, fragmented farms, operated by poorly-educated, mainly elderly farmers, as well as its small food manufacturing industry largely relying on raw material from abroad, cannot compete, price-wise, with imported produce. In 2015, Croatia imported agricultural goods and food worth 2.3 billion EUR, while it exported 1.3 billion EUR, resulting in a negative trade balance of 1 billion EUR (TABLE 1). In other words, it managed to cover only 56% of its imports with exports. Thus, it is not surprising that many Croatian politicians and businessmen are keen to take any opportunity to improve this situation. Free Trade Agreements (FTAs), such as CETA and TTIP are seen as a window of opportunity.

ITEM	IMPORT (MEUR)	EXPORT (MEUR)	TRADE BALANCE (export minus import)	
			MEUR	%
Agricultural goods	519	352	−167	68
Manufactured food products	1.772	928	−844	52
TOTAL	2.291	1.280	−1,011	56

TABLE 1 Croatian trade balance of agricultural goods and manufactured food products in 2015 (after CBS[1])

Most manufactured food and agricultural commodities in Canada and the USA are much cheaper not only than Croatian ones but also those from other EU Member States, from whose low prices the Croatian food and agriculture sector is already suffering. Currently, the cost of American meat and eggs is 40% lower than in the Netherlands[2]—one of the biggest exporters of meat and eggs to Croatia. In the period 2005–2015, Canadian pork was 28% and beef 16% cheaper than that in the EU[3]. CETA will thus open the Croatian market to cheap Canadian meat as it increases the duty-free import quotas for pork into the EU by a factor of 11, and for beef by a factor of 15[3].

Economy of scale and lower labour and environmental standards, as well as technologies (notably GMOs, growth hormones and certain pesticides) that are forbidden in Croatia (and elsewhere in the EU) are the key reasons why agricultural produce in Canada and the USA is cheaper than in Croatia. With an average size of 7.4 ha[4], split into about ten plots, the average Croatian farm is 47 times smaller than the average Canadian one, and 23 times smaller than an average farm in the USA. In addition, both of these countries have a huge agricultural area, featuring some of the world's most fertile soils. Croatia's utilised agricultural area is as big as only 0.4% of the USA's agricultural area and 2.2% of Canada's. In other words, the Croatian agricultural sector is tiny compared with the Canadian and US ones.

3 EXPECTED IMPACTS

CETA and TTIP are likely to have a range of negative impacts on the Croatian economy, state of environment, food safety, rural fabric and several other aspects.

3.1. IMPACT ON TRADE AND ECONOMY

There has been hardly any analysis on the impact of FTAs on Croatian food and agriculture sector. In fact, this question has been addressed only in a study commissioned by the Ministry of Foreign and European Affairs[5]. The study concluded that although

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as little as 1.8% of all Croatian agri-food export value goes to the USA, TTIP would be a significant opportunity for Croatia. It would enable an increase in exports of a range of produce, such as meat, cheese and curd, fruits, sugar confectionery, coffee, chocolate and feedstuffs. The study also envisages other benefits for the Croatian agri-food sector, notably abolition of technical and administrative trade barriers. In terms of benefits for the USA, the study sees greater export of milk and dairy produce, as well as sugar and processed meat. Although the study spells out a range of opportunities TTIP would bring to the Croatian agri-food sector it hardly deals with any weaknesses and threats. And it certainly does not quantify them in economic terms. In other words, it remains completely unknown how much and which USA agri-food produce would penetrate the Croatian market and what implications would this have for Croatian farmers, food manufacturers and society in general.

Although both CETA and TTIP are primarily seen as agreements facilitating easier trade and business between the two sides of the Atlantic, they are of hardly any significance for export opportunities of the Croatian agri-food sector because:

1. CROATIA EXPORTS ONLY 17% OF THE VALUE OF ITS AGRICULTURAL PRODUCTION.

2. CROATIAN EXPORT OF FOOD AND AGRICULTURAL GOODS WITH CANADA AND THE USA IS TRIVIAL. In 2016 exports to Canada and the USA accounted for just 1.45% of the total Croatian export of agricultural goods, food and drinks (TABLE 2). It is equal to the value for which the Dinamo football club from Zagreb sold its ex-player Marko Pjaca to the Italian football club Juventus in 2016[6]. The export of agricultural goods only in 2016, was a mere 1.4 million EUR — approximately the same as the sales value of concert tickets and promotional material of the Lisinski Concert Hall in Zagreb[7].

3. EVEN A 100% INCREASE OF EXPORT OF AGRICULTURAL GOODS, FOOD & DRINKS TO CANADA AND THE USA WOULD GENERATE A TURNOVER OF JUST 23 MILLION EUR, representing a tiny 1.5% boost in the overall agri-food export. However, an increase of exports by 100% is quite unlikely. One should bear in mind that CETA and TTIP would not only offer a chance to Croatia, but also to all the other 27 EU Member States with whom Croatia will have to compete for the North American market. The economy of scale, which is often crucial for successful business with North America, does not favour Croatia. EU food and drink exports are worth 16 billion EUR[8], which is 691 times more than Croatian exports of the same in 2016. Agri-food exports to the USA and Canada from the Netherlands alone are 121 times higher than those of Croatia[9].

EU COMBINED NOMENCLATURE CODE	CANADA Import	CANADA Export	USA Import	USA Export	CANADA & USA Import	CANADA & USA Export
AGRICULTURAL GOODS						
Section I: Live animals; animal products	106.142	23.610	191.433	239.851	297.575	263.461
Section II: Vegetable products	2.060.940	114.875	6.717.013	1.035.285	8.777.953	1.150.160
Total	2.167.082	138.485	6.908.446	1.275.136	9.075.528	1.413.621
FOOD & DRINKS						
Section III: Animal or vegetable fats and oils, etc.	1.768	636	78.936	218.958	80.704	219.594
Section IV: Prepared foodstuffs, beverages, etc.	279.212	4.954.414	9.316.957	16.558.814	9.596.169	21.513.228
Total	280.980	4.955.050	9.395.893	16.777.772	9.676.873	21.732.822
TOTAL Sec. I – IV	2.448.062	5.093.535	16.304.339	18.052.908	18.752.401	23.146.443
% of total Cro. agri-food imp. & exp.	0.10	0.32	0.65	1.13	0.75	1.45

TABLE 2 Croatian trade balance of agricultural goods, food & drinks with Canada USA in 2016 in EUR (own calculation after CBS[10])[11]

6 Football Italia, 2016. Official: Juventus sign Pjaca. Available at: http://www.football-italia.net/87721/official-juventus-sign-pjaca Last assessed on April 18, 2017.

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11 A more detailed calculation is presented in the Appendix. In this calculation, agricultural goods, food and drinks comprising all EU Combined Nomenclature headings from Section I to Section IV are included, except heading '03: Fish and crustaceans, molluscs and other aquatic invertebrates' of Section I.

4. POSSIBILITIES FOR EXPORTS OF SPECIALITY PRODUCTS AND PRODUCE OF CONTROLLED GEOGRAPHICAL ORIGIN IS VERY LIMITED. Their quantity is very small and they are too expensive for an average Canadian or American consumer who barely knows where Croatia is.

While CETA and TTIP won't bring much in terms of increased export opportunities, they are likely to expel many current products from the Croatian market because Canadian and US agri-food produce is much cheaper than Croatian products and those from other EU Member States. Particularly vulnerable are the Croatian dairy and beef meat sectors. CETA will grant to Canada unlimited duty-free access for dairy exports to the EU, and access to nearly 50.000 MT beef carcass weight equivalent.

3.2. IMPACT ON ENVIRONMENT

Commerce/trade geared towards creating higher profits for big companies is in the 'blood and DNA structure' of both ceta and TTIP. Very often, fast and high economic gains are possible to achieve only at the cost of environmental destruction. Thus, the CETA and TTIP agreements would have a negative effect on the Croatian environment. They would force farmers and food manufacturers to become more competitive. One of the easiest mechanisms to attain this is by lowering or neglecting altogether current environmental standards. Unlike in Canada and the USA, Croatian farmers are entitled to farm subsidies (which are vital for their economic survival) only if they comply with a set of relatively strict rules for the protection of soil, water, air, climate and biodiversity—also known as EU environmental cross-compliance in agriculture. Croatia has been successfully enforcing environmental cross-compliance in agriculture. The Croatian Paying Agency for agriculture monitors this strictly and (hundreds of) farmers who have been found to be breaching it are deprived of subsidies. However, this is not the case in Canada and the USA. Farmers there are obliged to comply with basic environmental standards, most of which are much lower than in Croatia. In addition, they are allowed to use chemicals and practices which are forbidden in Croatia:

1. ENVIRONMENTALLY-UNFRIENDLY PESTICIDES: the USA currently permits the use of 82 pesticides which are banned in Croatia, including the herbicide atrazine —a potent soil and water polluter.

2. USE OF GMOS: Canada and the USA are the major champions of GMOs worldwide. Nearly their entire maize and soya production is from GMO seeds. CETA and TTIP would bring more genetic engineering to the EU and Croatia. Croatia currently does allow the import of GMO raw materials for animal feed, agro-fuels and industrial goals. However, Article 25.2, paragraph 2 of CETA

explicitly defines the 'reduction of disadvantageous commercial impacts from regulatory practices in the area of biologically engineered products' as an aim of the agreement. This can mean only that the EU will eventually have to open its market for genetically modified products2. If this happens, cheap GMO maize and soya will flood the Croatian market.

In order to counteract the pressure from Canada and the USA, Croatian farmers will also have to start growing (even illegally) GMO crops. The surface area under soya and maize (which already account for nearly 50% of the area of all Croatian arable crops) will increase (at the expense of diversity with other crops) while the use of mineral fertilisers and pesticides in their production will increase. This practice will be further deplete (the already very low content of) soil organic matter in Croatian agricultural soils, deplete (irigation) and pollute surface and ground water with nitrates and pesticides; increase emissions of air pollutants (notably ammonia from nitrogen fertilisers) and emissions of greenhouse gases—and also decrease the biodiversity on arable fields.

3.3. IMPACT ON FOOD SAFETY

In accordance with WTO regulations, both CETA and TTIP recognize food safety as the only legal criterion to refuse imports of Canadian and US products which don't comply with EU standards. From this point of view it is completely irrelevant how food has been produced. What matters is whether it is considered to be safe for human (or livestock) consumption. However, like all EU Member States, Croatia also has stricter food safety regulations than Canada and the USA. CETA and TTIP are expected to lower the current food safety standards, notably in meat and dairy production. Canadian and US farmers and food manufacturers are allowed to use chemicals and practices that are not allowed in Croatia, among which the most problematic are:

I. CARCASS WASHING WITH CHEMICALS: in both the USA and Canada chicken meat can be washed with chlorine (however poultry meat is excluded from the CETA agreement). Canada also allows beef to be washed and processed with chlorinated water. In Canada, carcasses are sometimes also washed with citric acid and peroxyacetic acid. Since 2013 the European Commission has been allowing beef to be imported that has been treated with lactic acid as a show of good will to the US with an eye on TTIP[12].

12 Council of Canadians et al., 2016. Food Safety, Agriculture and Regulatory Cooperation in the Canada-EU Comprehensive Economic and Trade Agreement (CETA). Available at: http://canadians.org/sites/default/files/publications/report-ceta-food-safety-english.pdf Last assessed on April 17, 2017.

2. WIDESPREAD USE OF HORMONES AND ANTIBIOTICS: unlike their Croatian colleagues, Canadian and US farmers are permitted to use hormones in milk and meat production, including ractopamine. According to the EFSA (European Food Safety Authority), consumption of residues of ractopamine constitute a public health hazard, increasing the risk of, for example, cardiovascular diseases. Canadian and the USA farmers also widely use large doses of antibiotics. In spite of this, contamination with microorganisms is quite common. For instance, beef from the biggest Canadian slaughterhouse which exports 40% of all Canadian beef was found to contain E-coli bacteria in 2012 and 2014. Canadian regulation on compulsory registration and the use of hormones and antibiotics, including their sound monitoring, is deficient or entirely absent. Therefore there are no sufficient guarantees that Canadian milk from cows raised with hormones can still be barred from entering the Croatian market. Actually, CETA is likely to enable Canada to export beef containing hormones and GM (feedstuff) crops to Croatia. CETA also does not address the risks linked with veterinary drug-resistant infections and does not specify measures needed to protect the consumer and patients from them.

3. CROATIA HAS MORE STRINGENT STANDARDS ON FOOD SAFETY. In Croatia milk is allowed to contain up to 400.000 somatic cells per ml, while the USA allows up to 750.000 per ml. Maximum pesticide residue levels in food are much lower in Croatia than in Canada and the USA. Labelling of food containing GMOs is also stricter in Croatia than in Canada and the USA.

At present, food safety is a big issue in Croatia as Croatian agricultural Minister Tomislav Tolušić has built his reputation around this topic. He is very determined to improve food safety and introduce order in the food industry and most of his policy efforts are focused around this[13]. He is of the opinion that due to poor quality imports Croatian agro-food products cannot find their way onto the domestic market and that this trend should be reversed. He repeatedly highlights that imported food must meet all Croatian food safety and food quality standards—many of which are stricter than in Canada and the USA. In November 2016 he promptly dismissed his deputy minister responsible for food safety because of chicken and duck meat found to be infected with Salmonella bacteria. In February 2017, he hosted a visit of the EU Commissioner for Health and Food Safety Vytenis Andriukaitis and organised a Citizens' Dialogue with him in Zagreb. In addition, he has has also initiated the adoption of law on the prohibition of unfair trading practices in the food supply chain, preventing wholesalers and retailers from using their dominant position on the market at farmers' expense. The law envisages food-import quotas, prohibiting imported food from accounting for more than 30% of the range of food on the shelves. This notion is also supported by the Croatian Chamber of Commerce[14]. If Minister's Tolušić quest for stricter food safety and sale quotas on imported food succeeds, it will hinder the flooding of Canadian and US food onto the Croatian market.

3.4. WIDER ISSUES

Besides the trade, environmental and food safety issues described above, CETA and TTIP are likely to have a range of political, ethical, administrative and legal (juridical) implications for the Croatian food and farming sector. The most important ones include the following:

1. CETA LATEX-LIKE RULES: CETA has been crafted as a sort of permanent living agreement with a moving target, aimed at tackling the EU's regulations on food and agriculture, including those on GMO approvals and zero tolerance. Its chapters on regulatory cooperation (21), dialogue process on biotechnology (25), the Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) create provisions for adjustments of what has originally been agreed. Moreover, they create a legal basis enabling actions agreed in CETA's Joint Committee to circumvent the European and Member State Parliaments.

2. LOWERING ANIMAL WELFARE STANDARDS: The CETA agreement contains no binding regulations on animal welfare, which is compulsory in EU Members States. It will trigger the lowering of existing animal welfare standards in Croatia and other EU Member States, including the ban on battery cages for egg-laying and strict requirements regarding barn occupancy.

3. ABOLISHING THE PRECAUTIONARY PRINCIPLE: CETA and TTIP will challenge at the WTO the EU's precautionary principle in relation to both beef containing hormones and GMOs as a key barrier to trade. Canadian companies and the Canadian government have already successfully challenged European bans for hormone-treated beef and GMOs[15]. In general, agri-food norms (environmental,

14 EMS, 2017. Croatia Introduces 'Unfair Commercial Practice' Laws. European Supermarket magazine. Available at: https://www.esmmagazine.com/croatia-introduces-unfair-commercial-practice-laws/37744 Last assessed on April 17, 2017.

15 Greenpeace, 2016. CETA spin unspun. Greenpeace European Unit, Brusssels.

food safety and animal welfare) practised in Croatia are higher than in Canada and the USA because Croatian and EU legislation is based on the precautionary principle. If there is a risk that a product is harmful, it is not permitted. Canada and the USA however, favour a 'scientific approach', which bans the use of chemicals and/or production practices only when there is sufficient 'scientific' evidence that they are dangerous to environment and/or public health.

4. PRIVILEGED LEGAL POSITION FOR CANADIAN AGRICULTURE: Unlike the EU, Canada has successfully negotiated an agricultural special safeguard, which is particularly important for the agri-food sector. Article 2.7.3 of the CETA Agreement spells that '...only Canada may apply a special safeguard pursuant to Article 5 of the WTO Agreement on Agriculture [related to human, animal, plant health risks]'.

5. SOVEREIGN CROATIAN STATE UNDER THREAT: CETA (and TTIP) are likely to make it very hard for the democratically-elected Croatian Government and sovereign state of Croatia to make decisions that represent the will of its people, notably in the agricultural sector. If Croatia and Canada cannot agree about the harmonization of the CETA and TTIP provisions, the Croatian Government may be targeted by investor-state dispute settlement (ISDS) —a legally binding system through which the USA and Canadian companies can sue the Croatian Government for alleged discriminatory practices. Investor—state arbitration rulings have the power to undermine or reverse decisions made by the sovereign Croatian state. The USA ranks first and Canada ranks fifth in the world for number of companies suing foreign states through trade and investment deals. US companies have used these privileged courts 148 times and Canadian companies 42 times, and Croatia has already been the respondent state in 8 such cases[16].

6. PRESSURE TO INDUSTRIALISE, UPSCALE AND GO HIGH-INPUT: in order to be competitive, Croatian farmers, especially small-scale ones and those practising organic and low-input agriculture will be under huge pressure to upscale and shift to high-input industrial farming. CETA and TTIP will accelerate agribusiness concentration and further depress farm prices. It will favour only highly-specialised, big industrial operations, enabling only the biggest and the toughest companies to survive. This will accelerate monopolisation and lead to decreased competition and choices, which will in return hurt not only Croatian farmers and food processors, but also consumers.

7. LOWERING LABOUR STANDARDS AND WAGES: the average monthly net salary in the Croatian agricultural sector in 2013 was 568 EUR, which was 23% lower than the average for Croatia[17]. CETA and TTIP will increase pressure on workers in the Croatian agri-food sector (at least those who remain in the business). In order to be competitive, they will be forced to to work harder, longer, under worse conditions and for less money. Unlike in the USA, which has signed only two of the eight fundamental conventions with regard to labour as drawn up by the International Labour Organization (ILO), Croatia is signatory of all eight of them and its workers are granted higher labour standards.

8. DETRIMENTAL IMPACT ON THE CROATIAN RURAL FABRIC: In 2015, 190.000 people were employed in Croatian agriculture, accounting for 14% of the total Croatian workforce1. The social and human capital of those working in the Croatian agricultural sector is quite poor. The agricultural population in Croatia is relatively poorly-educated and quite old. As many as 30% of farmers whose farms are included in the Farm Register have completed only elementary school or just several grades of elementary school, while only 2.9% of them have university education. Among farmers, only 11% are younger than 40, while 62% are older than 55. And as many as 35% of farmers are older than 654. Croatian farms are still are mainly small and family run. With this size and elderly, poorly-educated farmers, they cannot financially compete with large, professional Canadian and US agri-businesses. However, farming is the core of Croatian rural areas and the prosperity of many SMEs in rural areas is linked to farming. Proponents of CETA and TTIP have been vocal about the supposed benefits of these agreements for small farmers and SMEs. However, only a handful of Croatian farmers and SMEs export their agri-food goods to the USA and Canada. CETA and TTIP cannot significantly raise their exports. Actually, such agreements would have a severe negative impact on them, as big transnational corporations will be the only ones profiting from them. CETA and TTIP will lead to cheaper agri-food, more farm closures and more factory farms, resulting in large job losses among farmers and food manufacturers and increasing government expenses for subsidies for those who remain in the business and social support for keeping alive those that go out of business.

16 Investment Dispute Settlement Navigator. Available at: http://investmentpolicyhub.unctad.org/ISDS/FilterByCountry Last assessed on April 23, 2017.

17 Ministry of Agriculture., 2015. Rural Development Programme of the Republic of Croatia 2014.–2020, Zagreb

4 WINNERS AND LOSERS

CETA and TTIP have been crafted with the aim to cement the supremacy of trade and enable over other societal values, notably environmental protection, food safety, labour rights, equality, citizens' movements, etc. Actually, in Croatian agri-food sector there are no winners created by CETA and TTIP agreements. The only genuine winners would be multinational companies exporting food and agricultural commodities from Canada and the USA, whose profit would flourish even more. At the other hand, the list of losers is much longer and includes the following:

- FARMERS: many (if not most) Croatian farmers would go out of business, while those that would keep running would become contractors and producers of cheap agricultural commodities and raw materials for industry. But they would have to work very had and for even lower salaries/profit. However, a slightly positive spin-off would be that they would be forced to upgrade their skills, enhance innovation and entrepreneurial spirit, becoming more competitive.

- FOOD PROCESSORS: very similar as above-described for farmers.

- CONSUMERS: they would consume large-scale industrial agri-food products grown and processed using chemicals (hormones, pesticides, preservatives, etc.) and practices (GMO, animal cruelty, etc.) that are currently forbidden in Croatia and other EU Member States. They would consume food screened against much lower food safety standards. Looking it from a more positive side, it should be stressed that food and agricultural commodities could potentially become cheaper—however, assuming that wholesalers and retailers would be selling for a reasonable price without keep most of the profit for themselves.

- CROATIAN GOVERNMENT/STATE: it would need to increase social support for keeping alive farers and food manufacturers that go out of business, as well as subsidies for those who remain in the business. In addition, it would have to cope with higher migration from rural to urban areas. Last—but not the least—it would have to cope with expensive and exhausting investor-state dispute settlement (ISDS) cases, undermining its sovereignty.

- ANIMALS: animal welfare would be deteriorated.

- ENVIRONMENT: state of environment would worsen because of higher environmental pressure on soil, water, air, climate and biodiversity.

5 APPENDIX

Detailed Croatian trade balance of agricultural goods, food & drinks with Canada and the USA in 2016 (own calculation after CBS10)

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EU COMBINED NOMENCLATURE CODE		CANADA Import	Export	Balance
Section I: Live animals; animal products				
01	Live animals	0	0	0
02	Meat and edible meat offal	0	0	0
03	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsevere specified or included	106,142	20,878	−85,264
04	Products of animal origin, not elsevere specified or included	0	2,732	2,732
Subtotal Section I		106,142	23,610	−82,532
Section II: Vegetable products				
05	Live trees and other plants; bulbs; roots and the like; cut flowers and ornamental foliage	0	0	0
06	Edible vegetables and certain roots and tubers	1,888,786	49,616	−1,839,170
07	Edible fruit and nuts; peel of citrus fruit or melons	21,724	1,261	−20,463
08	Coffee, tea, maté and spices	257	57,244	56,987
09	Cereals	0	0	0
10	Products of the milling industry; malt; starches; inulin; wheat gluten;	103	1,896	1,793
11	Oil seeds and oleagineous fruits; miscellaneus grains; seeds and fruit; industrial or medicinal plants; straw and fooder	150,070	4,858	−145,212
12	Lac; gums; resisns and other vegetable saps and extracts	0	0	0
13	Vegetable plaiting materials; vegetable products not elsewhere specified or included	0	0	0
Subtotal Section II		2,060,940	114,875	−1,946,065
Section III: Animal or vegetable fats and oil and their cleavage products; prepared edible fats; animal or vegetable waxes;				
14	Oil seeds and oleagineous fruits; miscellaneus grains; seeds and fruit; industrial or medicinal plants; straw and fooderded	1,768	636	−1,132
Subtotal Section III		1,768	636	−1,132

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USA Import	USA Export	USA Balance	CANADA & USA Import	CANADA & USA Export	CANADA & USA Balance
28,582	110	−28,472	28,582	110	−28,472
1,776	0	−1,776	1,776	0	−1,776
740	165,190	164,450	106,882	186,068	79,186
160,335	74,551	−85,784	160,335	77,283	−83,052
191,433	239,851	48,418	297,575	263,461	−34,114
0	16,063	16,063	0	16,063	16,063
404,292	3,600	−400,692	2,293,078	53,216	−2,239,862
5,460,806	47,281	−5,413,525	5,482,530	48,542	−5,433,988
819	197,853	197,853	1,076	255,097	254,021
4,817	0	−4,817	4,817	0	−4,817
105	57,041	56,936	208	58,000	58,729
845,336	713,447	−131,889	995,406	718,305	−277,101
838	0	−838	838	0	−838
0	0	0	0	0	0
6,717,013	1,035,285	−5,681,728	8,777,953	1,150,160	−7,627,793
78,936	218,958	140,002	80,704	219,594	138,890
78,936	218,958	140,002	80,704	219,594	138,890

EU COMBINED NOMENCLATURE CODE		Import	CANADA Export	Balance
Section IV: Prepared foodstuffs, beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes				
15	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	0	541,124	541,124
16	Sugars and sugar confectionary	35	177,139	177,104
17	Cocoa and cocoa preparations	14,489	536,765	522,276
18	Preparations of cereals, flour, starch or milk; pastry cooks' products	176	987,792	987,616
19	Preparations of vegetables, fruit, nuts or other parts of plants	6,521	852,322	845,801
20	Miscellaneuos edible preparations	73,205	1,158,290	1,085,085
21	Beverages, spirits and vinegar	5,478	526,776	521,298
22	Residues and waste from the food industries; prepared animal fodder	179,308	174,206	−5,102
23	Tobacco & manufactured tobacco substitutes	0	0	0
Subtotal Section IV		279,212	4,954,414	4,675,202
TOTAL SECTIONS I, II, III, IV		2,448,062	5,093,535	2,645,473

% OF CROATIAN TOTAL TRADE OF AGRICULTURAL GOODS, FOOD & DRINKS IN 2016

	USA			CANADA & USA	
Import	Export	Balance	Import	Export	Balance
0	919,016	919,016	0	1,460,140	1,460,140
902,176	229,545	−672,631	902,211	406,684	−495,527
9,276	1,563,220	1,553,944	23,765	2,099,985	2,076,220
1,568	2,508,354	2,506,786	1,744	3,496,146	3,494,402
552,262	5,796,272	5,244,010	558,783	6,648,594	6,089,811
4,010,304	4,203,942	193,638	4,083,509	5,362,232	1,278,723
3,434,785	1,338,352	−2,096,433	3,440,263	1,865,128	−1,575,135
404,722	0	−404,722	584,030	174,206	−409,824
1,864	113	−1,751	1,864	113	−1,751
9,316,957	16,558,814	7,241,857	9,596,169	21,513,228	11,917,059
16,304,339	18,052,908	1,748,569	18,752,401	23,146,443	4,394,042

4.
The social and employment impacts of CETA and other similar trade agreements on Croatia

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SUMMARY

EMPLOYMENT

- CETA is likely to impact negatively on employment levels in the agricultural sector in Croatia.
- CETA may also have a negative impact on employment levels on those SMEs in Croatia which are not primarily export-driven.

HEALTH CARE SERVICES

- CETA will contribute to the further marketization of many aspects of healthcare, putting commercIal and business interests above those of public health concerns, in particular, as part of investment protection and ICS.
- CETA would strengthen existing EU obligations and make it harder to lower prices for a range of pharmaceutical products within the Croatian health service.
- Over time, CETA and other free trade arrangements could erode insurance-based healthcare systems through the expansion of private healthcare schemes and, consequently, increase inequalities in access to health care and in health outcomes.

SOCIAL CARE SERVICES

- By not insisting on reservations limiting the cross-border supply of social care services, in the long-run Croatia risks a marketization of social care and long-term care services with multinational providers gaining advantages of economies of scale and, potentially, lowering standards.

INEQUALITY AND AUSTERITY

- CETA is likely to result in the share of national income accruing to workers in Croatia decreasing, with a corresponding increase in that accruing to owners of capital, resulting in rising inequalities in income and wealth.
- As a country with a large public sector and highly vulnerable to international competition, CETA could result, in the medium- to long-term, in Croatia facing declining public revenues and pressure to cut public expenditure.

1 INTRODUCTION

Whilst the social and employment impacts of trade agreements are rarely decisive in decisions about whether or not to proceed with them, there is evidence of ever more such agreements exhibiting what has been termed "trade creep"[1], extending into areas of national policy far beyond tariffs on imported goods, including social welfare and health policy, on the one hand, and employment and labour market policy on the other. This is pasrticularly the case with agreements which include services, intellectual property righsts, and "innovation". It is far from self-evident that trade liberalisation translates automatically into welfare gains and labour market improvements. A broad consensus is that the precise effects will vary depending on the nature of the agreement and, crucially, on the nature of the welfare system and labour market of the countries concerned. Issues regarding the degree of openness to new service providers, the potential erosion of social protection standards, as well as impacts on levels of employment and unemployment, wages, informal employment and on the strength and influence of trades unions[2], all suggest the need for very detailed, context-specific, research. This is itself made more difficult by the secrecy of negotiations, the low level of information provided to national Governments and civil society, and the lack of informed public debate.

In this short chapter, we address the possible implications of proposed trade agreements, notably CETA and, to an extent, TTIP/TISA for social welfare and employment in Croatia, a small open economy, and EU member state since 1 July 2013. Before attempting such an analysis, it is important to note some key features of the Croatian social welfare and health systems and labour market[3] which may be relevant in this context.
These include:

- Croatia has consistently low employment and activity rates, particularly amongst women, and high levels of unemployment particularly amongst younger and older cohorts;

- Croatia has a declining population, a product of demographic ageing compounded, in recent years, by emigration of significant parts of the labour force including the young and highly skilled;

- Croatia's labour market is market by a high share of undeclared work and non-standard employment contracts, including in the highly significant tourist sector;

- As the ratio of workers to pensioners declines, Croatia's reformed three pillar pension system faces increasing problems both in terms of fiscal sustainability and delivering pension adequacy;

- Croatia has an insurance-based health system, with a mix of public and private providers, offering, in theory at least, near universal health protection, albeit dominated by tertiary care in hospitals;

- The right to free health care services in Croatia has gradually eroded over the last decade, and internal reference pricing for drugs has been introduced, resulting in *de facto* inequalities in access to health services on the ground;

- Croatia has high levels of poverty and social exclusion, with significant regional inequalities, spending too little on social assistance programmes of last resort;

- Croatia's social protection system is largely "captured" by powerful interests, including war veterans;

- Community-based care services are underdeveloped in Croatia, with marked regional disparities, with a lack of clarity regarding the role of non-state providers, including a small emerging private, for-profit, sector.

1 Meri Koivusalo (2013) "Free Trade, 'Trade Creep' and the Risks to Our Public Health", Open Democracy 16 May, web: https://www.opendemocracy.net/ournhs/meri-koivusalo/free-trade-trade-creep-and-risks-to-our-public-health (accessed 9 December 2016).

2 ILO (2015) Social Dimensions of Free Trade Agreements. Geneva: ILO.

3 See, inter alia:

European Parliament (2013) "The Employment and Social Situation in Croatia", September, web: http://www.europarl.europa.eu/RegData/etudes/note/join/2013/507478/IPOL-EMPL_NT(2013)507478_EN.pdf (accessed 9 December 2016).

Džakula, A. Et al (2014) Croatia: health system review, Health Systems in Transition 16(3), European Observatory on Health Systems and Policies, web: http://www.euro.who.int/__data/assets/pdf_file/0020/252533/HiT-Croatia.pdf?ua=1 (accessed 9 December 2016).

Stubbs, P. and S. Zrinščak (2015) "Citizenship and Social Welfare in Croatia: clientelism and the limits of 'Europeanisation'", *European Politics and Society* 16(3): 395–410.

2 IMPACTS ON THE LABOUR MARKET

In its draft opinion on CETA, the Committee on Employment and Social Affairs of the European Parliament[4], urging rejection of the agreement suggests that employment gains overall will be minimal, with losses in some countries, a widening of income inequality between skilled and unskilled workers, and a lack of protection for Europe's Small and Medium Enterprises (SMEs) which, in a liberalized environment, risk being explosed to competition from large transnational corporations. In Croatia in 2014, SMEs accounted for 99.7% of all business entities, 68.4% of employment and 48.5% of exports in Croatia[5]. By 2014, Small enterprises, with 50 employees or less, accounted for 50.9% of employment, compared to 17.5% on Medium-sized enterprises, with up to 250 employees, and 31.6% of Large enterprises. Although those SMEs who export could be helped by trade deals which might lower export costs, it is those who do not export who are likely to be the hardest hit. As Croatia as a whole is in a fairly weak position in the Global Innovation Index (ranked 40th in 2015[6]), Croatian companies as a whole are at greater risk from such free trade agreements than likely to benefit from them.

Croatia is also vulnerable given the size and nature of its agriculture sector, accounting for around 9% of GDP and 11% of exports[7]. Data from the 2010 agricultural census[8] suggest that Croatian farms tends to be small, on average 5.6 ha. per holding compared to 14.4 ha. in the EU–27. In addition, Croatian agriculture is largely livestock-based, predominanly pigs, cattle and poultry and mixed crop-based. Around 15% of the total workforce is employed in agriculture, three times the EU average and second only to Romania. Since Croatia's agriculture is not geared up to export, and certainly not to Canada, and consists of lower value-added sectors, the net result, including in terms of employment, is likely to be marginal but negative, with those in the beef and pork producing sectors being particularly vulnerable to exports in a more liberalized environment[9]. The broad concern that CETA is a “severe setback” for sustainable agriculture[10] would also hit Croatia whose farmers would face increased risks from competitive pressure and whose consumers would face increased risks from imported beef.

Croatia's rapidly expanding tourist industry, which accounted for 5.1% of GDP in 2013, 6.6% of employment and 35.1% of exports in 2015[11], is an important part of the service sector which tend to be liberalized in trade agreements such as CETA and TTIP/TISA. In terms of intensity of tourism within the EU–28, Croatia is third in importance after Malta and Cyprus. Free trade deals seem likely to lead to a greater internationalization of tourism and the possibility of competition favouring larger multi-national tourist providers at the expense of local SMEs . More generally, the impoact of liberalisation of other services in Croatia is hard to establish and may well be minimal, not least because the impacts of liberalisation of services upon joining the EU are likely, in the medium- and longer-term, to have greater impact. However, as we note below, the possible impact of health and social care service providers from Canada and, particularly, under TTIP and TISA, from the United States should not be underestimated, in the context of the rise of multi-national health and social care providers increasingly oriented to emerging markets.

3 IMPACTS ON HEALTH AND SOCIAL CARE SERVICES

There are a significant number of potential impacts of free trade agreements such as CETA on health and social care services, ranging from the regulation of cross-border service providers, through the recognition of qualifications, to the pricing of pharmaceuticals and related prducts. In many repsects, CETA and other proposed agreements do little more than continue a rather long-standing pattern of privatisation and liberalisation of many aspects of health care, putting commercial and business interests above those of public health concerns and the interests of patients[13]. Although in relation to CETA both the European Commission and individual

4 European Parliament Ctteee on Employment and Social Affairs (2016) Draft Opinion 2016/0205(NLE), 17 November, web: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-593.983+02+DOC+PDF+V0//EN&language=EN (accessed 15 December 2016).

5 CEPOR (2016) Small and Medium Enterprise Report—Croatia 2015, April, web: http://www.cepor.hr/wp-content/uploads/2015/04/SME-report-2015-ENG-web.pdf (accessed 15 December 2016).

6 Ibid. Pp. 20–21.

7 Franić, R. et al (2014) "Food Production and Rural Development: Croatian Perspective within the European Context", *Agroeconomia Croatica* 4(1): 16–24.

8 Eurostat (2016) Structure of Agriculture in Croatia, web: http://ec.europa.eu/eurostat/statistics-explained/index.php/Structure_of_agriculture_in_Croatia (accessed 15 December 2016).

9 European Commission (Development Solutions as contractor) (2011) A Trade Social Impact Assessment Relating to CETA, Trade 10/B3/B06, June, p. 81, web: http://trade.ec.europa.eu/doclib/docs/2011/september/tradoc_148201.pdf (accessed 15 November 2016).

10 Power Shift/CCPA et al (2016) Making Sense of CETA—2nd edition, Berlin/Ottawa, web: https://corporateeurope.org/sites/default/files/attachments/making-sense-of-ceta_22092016.pdf (accessed 15 December 2016).

11 EIZG/Rašić Bakarić, I. (2016) *Sektorska analiza: turizam* (*Sectoral analysis: tourism*), Zagreb: EIZG, November, web: http://www.eizg.hr/hr-HR/Sektorske-analize-993.aspx (accessed 15 December 2016).

12 Cf. Čavlek, N. (2000) "Business in Tourism: SMEs Versus MNCs", *Zagreb Int. Review of Economics & Business*, 5(2): 39–48.

13 Fritz, T. (2016) "CETA and TTIP: potential impacts on health and social care services", EPSU Working Paper, Summary available at web: http://www.epsu.org/sites/default/files/article/files/Health-social-Services%20in%20CETA-TTIP%20Executive%20summary_2016.04_EN.pdf (accessed 24 March 2017).

member States of the EU have expressed a number of reservations in the field of public services, including health and social care services, these do not relate, at all, to investment protection standards and the controversial Investment Court System (ICS). The danger of foreign investors being able to claim compensation for public health measures which frustrate their investment expectations, with the ICS provision able to be used by companies acting against the public interest who may, at least for a time, be able to delay or even block health safeguards regarding alcohol or tobacco consumption, for example[14]. Article 8.9 of the treaty, which allows for regulation to achieve public health objectives, remains a declaration rather than a legally enforceable measure and "investment protection measures could potentially be used to challenge government decisions concerning reversal of liberalisation of services for the public interest relevant for health (social healthcare, education and water)"[15].

Croatia's burden of disease is increasingly similar to that of the "core" EU Member States, although Croatia has higher levels of obesity as a result of poor diet and lack of physical activity. Croatia also has higher mortality rates than the "old" Member States, in particular relating to diseases of the circulatory system and neoplasms. Croatia is among the EU Member States with the highest mortality rates from cerebrovascular diseases, trachea, bronchus and lung cancer in males, and diabetes in females. Croatia also has a large proportion of smokers, with the World Health Organisation suggesting that smoking is the leading cause of disease burden in Croatia. Croatia also has higher than average mortality rates, compared to the "old" Member States, for chronic liver disease and cirrhosis in males, linked to relatively high levels of alcohol consumption[16]. In this sense, Croatia fits well into the argument that CETA and similar trade agreements are incompatible with key public health goals and will not help the fight against chronic non-communicable diseases, obesity and "lifestyle" related diseases.

Another important and controversial issue relates to the impact of CETA and other trade agreements on access to free or, at least affordable, medicines which are crucial if insurance-based funded health systems are to be effective and equitable and continue to hold the public's confidence. Croatia has a complicated sysem of drug pricing. Since 2013, Croatia has two lists of medicines: basic list and complementary list with the former fully reimbursed and the latter partially reimbursed. According to the EFPIA, in 2014 pharmaceutical production in Croatia was EURO 412m., with some 43% of market sales accounted for by generic drugs, amongst the highest rates un the European Union; however, imports exceeded imports by a ration of about 3:2[17]. In 2012, Croatia spent around 6.8% of GDP on health, 82% of which was public sector expenditure, with prescripption drugs making up 14.6% of all expenditure of the Croatian Health Insurance Institute[18]. Croatia plays a role as the pharmaceuticals hub of the region with a number of significant domestic players including Beluo, JGL and, most importantly, Pliva which is now part of the Israeli Teva Group. The impact of CETA on Teva-Pliva is unclear, although it may make access to generic markets more diffcult if those medicines had data exclusivities[19].

Croatia has tried to limit spiralling costs of pharmaceuticals through the introduction of reference pricing as a form of price control. This is something which has, traditionally, been opposed by the pharmaceutical industry in the United States but appears to be less of an issue in terms of trade between the EU and Canada. Nonetheless, there is still a possibility that reference pricing could be judged as violating free trade rules. In addition, the fact that Croatia is currently open to national private health care insurance providers means, under the terms of CETA, that it would need to be open to Canadian competitors. In general terms, CETA strengthens existing EU free market arrangements and is likely to make it harder to lower prices for most pharmaceutical products within the Croatian health service. Another danger is that, over time, CETA and other free trade deals could erode insurance-based healthcare systems, including those like Croatia's which has very limited formal private healthcare thus far. Any expansion of private healthcare schemes within Croatia is likely, of course, to exacerbate exisating inequalities in access to health care, access to affordable medicines and, ultimately, to increased inequalities in health outcomes.

Although Croatia currently has only a very limited private sector in social care services, this is likely to increase in the future. Croatia is an ageing society, with a median age of around 42. Estimates are that the Croatian population will fall below

14 European Public Health Care Alliance (2016) "How CETA Could Undermine Public Health", EPHA, October, web: https://epha.org/wp-content/uploads/2016/10/How-CETA-could-undermine-public-health-final.pdf (accessed 24 March 2017).

15 Ibid., p. 3.

16 Government of the Republic of Croatia / Ministry of Health (2012) National Health Care Strategy 2012-2020, English version at web: https://zdravlje.gov.hr/UserDocsImages/dokumenti/Programi,%20projekti%20i%20strategije/National%20Health%20Care%20Strategy%202012-2020.pdf (accessed 24 March 2017).

17 EFPIA (2016) "The Pharmaceutical Industry in Figures: key data", EFPIA, web: http://www.efpia.eu/uploads/Modules/Documents/the-pharmaceutical-industry-in-figures-2016.pdf (accessed 24 March 2017).

18 Džakula A, Sagan A, Pavić N, Lončarek K and Sekelj-Kauzlarić K. Croatia: Health system review. *Health Systems in Transition,* 2014; 16(3): 1–162. Web: http://www.euro.who.int/__data/assets/pdf_file/0020/252533/HiT-Croatia.pdf?ua=1 (accessed 24 March 2017).

19 Meri Koivusalo, email communication 27 February 2017.

4 million as early as 2030, with a round 1 million people over 65, and 250,000 over 80. Although life expectancy is increasing, healthy life years are not, and estimates suggest that half of all men and two third of women will experience significant periods of ill-health in their later years, requiring some form of long-term care[20]. In this sense, it is important to note that Croatia is not amongst 11 Member States in relation to CETA who have expressed reservations regarding protecting measures regarding "privately funded social services other than services relating to Convalescent and Rest Houses and Old People's Homes"[21]. Of course, as the wording implies, even if it did so, this would not be a barrier to liberalisation of long-term care for older people. In the future, as has occurred in Western Europe, there is no reason to believe that multinational care providers will not take advantage of economies of scale and enter the market in social care and long-term care services in Croatia. It seems highly unlikely that such providers would be faced with any significant barriers to entry and may potentially provide services which are standardised rather than targeted to individual needs and, indeed, even lead to a lowering of standards in the sector as a whole.

4 IMPACTS ON INEQUALITY AND AUSTERITY

Although using traditional measures, Croatia is not highly unequal, this may not provide the full picture. In 2015, Croatia's Gini coefficient, measuring inequality by the share of income of each decile of the population, was 30.6 and the quintile share ratio, the amount of income of the top 20% compared to the bottom 20% was 5.2[22]. Croatia's Gini has oscillated between 2010 and 2015 between 31.6 and 30.2, and now stands just below the EU–28 average of 31.0[23]. Laour share of income has been estimated at 72%[24], although there are suggestions that this has not changed much since socialist time, it is clear that recent governments have put more effort into raising the share of national income belonging to capital[25].

Although diverse models show diverse effects, a recent using the UN Global Policy Model suggests that, across the EU, the share of labour income could fall by 0.66% by 2023[26]. This study has been cited by a coalition of civil society groups suggesting that, although limited, the effect of CETA is likely to be an increase in inequality across the EU[27]. Although the impacts on inequality in Croatia have not been calculated, it is reasonable to assume that inequality will rise, not least because Croatia has a relatively high labour share of income and de facto Government policy, combined with CETA, is likely to lead to an increase in capital's share. Beyond inequalities of income, of course, it is inequalities in wealth which are crucial and, again, CETA is likely to lead to small but siginificant increases in inequalities in wealth. Croatia's overall position within the EU may also decline, although not significantly.

Even more importantly, Croatia is a country with a relatively large public sector and is highly vulnerable to international competition. Again, the current Government and neo-liberal policy advisors are already pursuing policies which seek to reduce the public sector. The economic crisis from 2008–2014 also resulted in deliberate austerity measures and contributed to declining public revenues and cuts to public expenditure. CETA will contribute, albeit in a small way, to an extension of these policies, with a real danger that Croatia will fall, again, unto the EU's excessive deficit procedure which results in heavy conditionalities from the European Commission regarding further cuts in public expenditure. Evidence from earlier austerity measures in Croatia is that they impact more immediately and more intensively on poor and vlnerable sections of the community, with powerful interest groups, including war veterans, relatively immune from cuts. Kohler and Storm's model predicts net losess in government revenue and reductions in expenditure across the EU and, hence, the disctinct possibility of a new wave of austerity.

5 IMPACTS ON POLICY SPACE

Perhaps the least tangible but, in many ways, in the long-term, the most significant impact of CETA is likely to be on the national Member State policy space itself. Of course, membership of the European Union already implies a kind of 'shared sovereignty' and complex distribution of competences and responsibilities across different levels, including the supranational. At the same time, although CETA contains some guarantees that appear to allow for EU Member State discretion over some policy issues, the reality is that any future government which wished to defend

20 Akrap, A. et al (2013) *The Economics of Ageing in Croatia,* Zagreb: EFZG and GfK, web: *http://web.efzg.hr/dok/MGR/ssmolic/estarenja/brosura_eng_preview_03-12-2014.pdf* (accessed 26 March 2017).

21 EPSU, op. cit, page 5

22 Poverty statistics, Croatian Bureau of Statistics, web: http://www.dzs.hr/Hrv_Eng/publication/2016/14-01-01_01_2016.htm (accessed 27 March 2017).

23 Eurostat data, web: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=1 (accessed 27 March 2017).

24 Gueirriero, M. (2012) “The Labour Share of Income Around the World: evidence from a panel dataset”, web: http://piketty.pse.ens.fr/files/Guerriero2012.pdf (accessed 27 Matrch 2017).

25 Drezgic, S. (2015) “Fiscal Policy and Competitiveness in Croatia”, in M. Thomas and V. Bojicic-Delilovic (eds.) *Public Policy Making in the Western Balkans,* Dordrecht: Springer: 45–68.

26 Kohler, P. and S. Storm (2016) “CETA Without Blinders”, *Global Development and Environment Institute Working Paper* 16-03, web: http://www.ase.tufts.edu/gdae/Pubs/wp/16-03CETA.pdf (accessed 27 March 2017).

27 Web: https://edri.org/european-canadian-civil-society-groups-call-rejection-ceta/ (accessed 27 March 2017).

or even expnd the role of the public sector in essential services including health, social care and education, would have considerable problems. In many ways, CETA contributes to a situation where liberalization and privatisation become installed as the goal standards and new normal of public policy so that, with some difficulty, reservations can slow down some aspects of these but they become almost impossible for any Government to reverse.

Here, it is not just the explicit priorities of Croatian Governments which matter but regulatory and policy making capaicity which is generally assessed to be rather weak. Hence, even if a Croatian Government were elected on a programme of halting privatisation and liberalization, the dangers are that it would accede its regulatory powers to international organsiations, notably the IMF, the World Bank and DG ECFIN of the European Commission. CETA, in and of itself, will have only marginal impact on this but it certainly will not help. In short, weak regulatory capacity combined with the erosion of public policy space, encouraged by free trade agreements such as CETA, is likely to result in a gradual, ad hoc, reduction in the quantity and quality of public services in Croatia and a reduction in the already limited capaity to plan public services in response to changing needs and circumstances. In a sense, services are even more likely to be concentrated in the richer parts of Croatia and amongst those who can afford to pay, than is the case currently.

The role of the Investment Protection Chapter is important not just for its formal provisions but also for the informal impact it is likely to have on what might be termed “regulatory culture”, or shared basic assumptions by regulators, about regulation, which become taken for granted, routine and beyond question. Although nothing in CETA undermines, in any formal sense, the right of Governments to regulate, the fact that claims for compensation when regulatory measures do not meet investors' “legitimate” expectations are unlimited in amount, is likely to have an important impact on regulatory culture, especially in smaller countries such as Croatia which simply do not have the revenues to afford costly litigation and pay massive fines. Hence, at least until a body of “case law” examples adjust exectations to the reality, it is likely that regulators will urge even more on the side of caution in interpreting what investors' “legitimate” expectations may be. In the case of health and social care services in Croatia, we would surmise, this is likely to be that investors can legitimately expect to make immediate and substantial profits. Taken together with a broad political climate in favour of liberalisation, this suggests another impediment in the way of “brave” regulation seeking to reverse liberalisation and privatisation processes.

As has been noted extensively, CETA also reduces the possibilities of addressing social and environmental concerns regarding a wider range of public policies beyond those on labur markets, health and social care, including fiscal policies, for example. In particular, the nature of social and environmental impact assessments as a key element of public porcurement policies may be limited as a result of CETA commitments. In Croatia, these imact assessments have tended to be rather formalistic and, in some case, undertaken by those in a clear conflict of interest. CETA is but one further, small but singificant, blockage, in the way of such social and environmental assessments having a much more impoirtant role in public policy in the future.

Finally, and as a logical extension of the above, CETA, as other free trade agreements, seems likely to impact negatively on any proposals which seek to improve or tighten social, labour and environmental stadards, especially if these are judged to restrict market access or to direcrtly affect Canadian investors. In the literature on "global social policy" the tension between global treaties on environmental, social and labour rights on the one hand, and free trade agreements on the other, has long been recognised[28]. Organisations such as the WTO have clear advantages over, for example, the ILO, UNDP and UNICEF, since it has dispute mechanisms which go far beyond the "soft conditionalitie" of the UN agencies. In many ways, the lack of a level playing field at global level is mirrored at the EU level with parts of the European Commission responsible for trade and finance having much more leverage over governments than those concerned with social, labour and environmental issues. Unless hese global and EU imbalances are corrected in the near future, CETA will merely add to inequality, reduced access by the poor to health and social care and a move toeards the logic of investment, profit and efficiency becoming the key drivers of reform at the expense of equity in these sectors.

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28 Deacon, B. et al (2003) *Global Social Governance Reform,* Helsinki: STAKES, web: http://praha.vupsv.cz/fulltext/ul_404.pdf (accessed 27 March 2017).

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