

Business Opportunities in Croatia

Food & Beverage:

Croatia imports food in a value of approx. 1bn USD. If Australia would get 0.5% of the market, we would increase Australian trade by 5m USD. The challenge in the food market is the commitment of Australian companies to visit the market and spend some capital on marketing, jointly with a partner in the market.

Croatia with the population of 4.4 million people (in summer 15 million including tourists) imports food and food products in a value of approx. 1.0bn USD with the food processing industry having a share of 22% of the GDP.

The GDP per capita is 6,000 USD whereby the GDP per capita in Zagreb is 15,000 USD (22% of Croatia's population lives in Zagreb).

Ten of the leading supermarket chains held over a half (exactly 51 percent) of the retail market in Croatia in 2004. One fifth of that share was held by the largest retail chain, Konzum, as shown by the GfK's most recent market research. Croatian citizens prefer to shop at supermarkets and hypermarkets; they are relatively loyal to their brands, showed by results of the market research conducted by ACNielsen called 'Trends in retail and shopping habits'. Research shows that the preferred style of shopping in Croatia is the so called Mediterranean style, meaning that people still prefer to shop for fresh fruit and vegetables at open markets and grocery stores, to get their meat from butcher's and fish from the fish stores.

The Croatian cuisine is a mix of continental (meat / bread) and Mediterranean food (fish / pasta) and also a mix of influence from the East (Turkey, Greece) and Austro-Hungarian style.

The average Croat is aware of the food quality that she/he is consuming and researchers show that the consumer is domestic brand orientated if the price & quality is at the same level as the imported product.

So far, there is not much existing export of Australian food products beside frozen meat for further processing, and wine and cheese.

As the number of young urban consumers are growing, so are the number of opportunities for niche products with higher quality and price as the disposable income of that group is also higher than the average.

Croatia is not a member of EU so that the quotas for meat, cheeses etc are not applying but the government agencies mostly require standards that are the same as EU standards.

The niche opportunity for food would be:

- Wine (supermarket and boutique type)
- Meat (beef prime cuts during March, April, May for the tourism season)
- Meat (frozen beef for meat processing companies)
- Meat (for retail supermarkets outlet – vacuum packed)
- Dairy products (cheese – gouda & emmentaler)
- Some, not all exotic and tropical products and ingredients
- Gourmet food
- Pet food

The Croatian population is ageing and their standard of living is slowly rising. As a result, pets are becoming more popular and pet care is improving, which is evidenced by a steady rise of pet food imports. Croatia does not have a domestic pet food industry so that the consumption equals almost 100% of imports minus some small amount as it is re-exported. Since 1998 to 2003, pet food imports grew by almost 100% from 10.7m USD to 21.3m USD.

Good prospect for Australian pet food exporters is the niche market for upper premium pet foods and for domestic (Croatian) private label pet food.

Environment (waste management, water treatment, sewerage):

EU demands that the Croatian industry upgrades the level of environmental protection especially in production facilities and of course in infrastructure. An estimate was done that Croatia would need to invest 10bn USD to get on today's EU level of environmental protection. Competition is mainly from US, UK, France and Germany.

Croatia has in total 149 waste disposal sites and only 33 have done a study on the impact on environment and in addition are in a need of quality management.

Water / sewerage:

The lack of adequate wastewater treatment facilities at the municipal level in Croatia has a deleterious impact on both the competitiveness of the tourism sector and on Croatia's EU accession aspirations. As the tourism sector represents a key source of potential economic growth and foreign exchange for the country, improving the quality of Croatia's coastal bathing waters will be critical to growth in the sector.

In addition to the importance of addressing pollution problems in the Adriatic, there is ample room for improving the efficiency of municipal water and sewerage utilities in terms of better management, improving financial performance as well as reducing water consumption and leakages.

Croatian Waters, the state-owned utility, is charged with the implementation of the project, which entails the improvement of wastewater treatment, discharge infrastructure and sanitary conditions to a total of 177 coastal towns and municipalities over the next 10 to 15 years.

Waste Management:

Croatia has in total 149 waste disposal sites and only 33 have done a study on the impact on environment and in addition there is a need for quality management.

It is thought that as much as a quarter of 1.4 million tonnes of communal waste in the country ends up on illegal disposal sites. The Ministry has no data on the number of illegal waste disposal sites but wants them improved and refurbished and brought up to acceptable standards wherever possible. It is waiting for the local government institutions to supply the information. Only a few waste disposal sites in the entire country are sufficiently well organized.

The main problem that the Croatian industry faces at the moment is the lack of a facility where chemical and other dangerous waste can be disposed. After the Puto incinerator plant in Zagreb burned down, companies were forced to export their waste – at a huge cost that they would like to avoid. Some 300,000 tons of dangerous waste needs to be disposed of each year. Waste management is a serious problem for all industries; 1.4 million tons of waste needs to be disposed of each year yet to date.

Areas of business opportunities:

- consulting in waste management
- new technologies in recycling and waste disposal
- advanced water treatment solutions

In 2004, the national oil company INA invested AUD 35.5 million in projects related to the protection of the environment. A large part of this investment, some AUD 4.4 million, has been in the Molve gas field, where natural gas was extracted from depths in excess of 3500 metres. Because the extracted gas was accompanied by numerous environmentally unfriendly elements, the drilling sites require the most modern technology possible, for which the EBRD has granted INA a loan of EUR 6 million. Efforts are also being made to introduce an efficient procedure for waste disposal, which will save INA money once completed. Overall, the investment will mean lower gas emissions, which is a condition the Government hopes to establish in order to adhere to the regulations under the Kyoto agreement.

Consumer Goods:

Media & Art; although Australia is widely known in Croatia (due to the Croatian community in Australia), the Australian cultural heritage and modern

art is not that widely known and there is a niche for the art products. The same goes for the literature and TV / movie production. In 2004, the German RTL opened the Croatian RTL TV station (country wide), and there is also another private TV station that started in 2002/03 (NOVA – country wide). The state has two programs (HTV 1 + 2). There are also numerous (approx. 10) Croatian regional (county wide) TV stations which means that there are possibilities for Australian TV production to be sold on the market as the presence until now is small and limited.

Croatian lifestyle and consumer behaviour is heavily influenced by Italian model and MTV generation trendsetters (especially in cities that account for approx. 50% of Croatian population) and the sense of healthy and sport lifestyle is becoming more and more noticed in the streets among people in the age level between 20 and 55.

As these groups have the greater disposable income, they are living the modern developed countries lifestyle which includes going regularly to ski resorts, summer resorts, spa resorts, sport events, & restaurants. This type of consumer is aware of quality and even more of brands that are looked at as status symbols (mobile phones, clothes, cars).

For the Croatian market taking in the abovementioned, the following niche sectors could be viable:

- Cosmetics - 100% natural based without conservans and additives and with health improvement characteristics
- Men's cosmetics with same features as described above
- Clothing
- Maternity clothes (preferable from natural materials)
- Ugg boots (warm sheep skin boots and moccasins)
- Ladies and men's fashions
- Prenatal and Neonatal products + baby / children (educational) toys
- All kinds of products for babies that have the above described features
- Giftware & Art
- Aboriginal jewellery and pottery
- Aboriginal paintings with proven origins
- Opal jewellery
- Aboriginal souvenirs (boomerangs)
- Designer (brand name designer) pottery and other household equipment (glasses, cups, plates)
- Books (cooking, self help)
- Computer games
- DVD movies & cartoons
- Miscellaneous
- Innovative tools for craftsmen or handymen
- Energy saving (heat, electricity) devices
- Wedding accessories
- Lingerie

Building & Construction:

Physical volume of construction work in Croatia, based on the workers' working hours on the construction sites, recorded a mere 2 percent growth in 2004. Slowdown in the growth of the construction industry in the last year is a consequence of negative growth rates of construction work in the second half of the year 2004. This slowdown is evident compared to dynamic growth of the building industry in the previous years, which was boosted by road and apartment building constructions. In 2003, for instance, physical volume of construction work grew at a rate of 22.8 percent.

In 2004, construction companies with 20 and more employees performed AUD 4.55 billion worth of construction works in Croatia, which is 5 percent more than the year before. At the same time, net value of construction work orders of these companies in 2004 was AUD 3.66 billion and was 12.3 percent greater than in 2003, as reported by the Central Bureau of Statistics. In the overall value, structure of completed construction works according to the types of buildings at 52.3 percent share is traffic infrastructure, while the share of non-residential and residential buildings is 19.1 and 12.4 percent respectively.

Construction companies with 20 and more workers built 4994 apartments, which is a 1.9 percent increase compared to 2003. At the end of December, those companies were in the process of construction of 5038 apartments, which is 10.2 percent less than at the same time last year.

Demand for new apartments is constantly growing while the construction of new apartments lags. It is estimated that in Zagreb alone, there is a lack of some 30,000 apartments at the moment. Nationwide, the apartments currently being constructed will cover only 50% of the total demand.

Zagreb is currently the site of extensive construction of a total of two hundred thousand square metres of office space (October 2004), foremost of that within skyscrapers outside the main city core. Real-estate experts, as well as investors and constructors themselves, agree that Zagreb is still lacking sufficient quantities of adequate office space, which means there should be no problems with finding potential customers interested in lease or purchase. In strict city centre, leases are high, even for ill-appropriate office space, ranging from €20 and more per square metre. Experts expect that lease will have to be lower, closer to €15 per m², in the building which will become open in upcoming years, as supply of quality office space increases. However, even this will be enough to cover expenses and produce profit, as every investor, owner of an office building, would be able to pay off its 15-year credit instalments with even €12 per m² lease.

Note: The interest rates in banking sector for apartment / house purchase are coming down and at the moment they are in the range of 4.1% - 6.8%.

From news articles:

(22APR05) The Chamber of Commerce (HGK – www.hgk.hr) is generally happy with the situation and with trends in housing construction. However, in its opinion, since the demand is still heavy, favourable housing loans should be boosted.

(27JAN05) By the end of November 2004 housing loans increased by 22%

(10JAN05) The banking sector's total housing loans portfolio amounts to 9.8% percent of GDP (GDP = 23BN US\$), which puts Croatia on top of the list of all the transition countries of Eastern Europe, including those that recently joined the EU.

Areas of business opportunities - Innovative technologies and products such as:

- Building & Construction
- Heat and energy saving materials and technologies
- Sound proofing materials
- UV protective materials
- Anti-corrosion protection
- High Tech / IT security systems
- Infrastructure
- Electronic tolling systems
- Innovative materials and know-how for highways and road structures
- Technologies and products for swimming pools and spas

Croatia is spending much more on roads and railroads (about 3.5 percent of GDP), than is advised by EU's suggestions for investment in transport (close to 1.5 percent of GDP by 2015). According to the Minister, Croatia will have to build, in order to achieve the high European level of transport infrastructure, another 440 kilometres of highways, close to 300 kilometres of state roads, and plans are in effect to complete this by 2008.

The Zagreb Airport company is preparing a major overhaul of the Pleso airport. The project would cost an estimated EUR 122 million and could give Zagreb the status of a regional hub.

A Swiss Mabco Constructions Group (MCG) will sign a AUD 7.7 -million concession agreement on the building of a spa and a sports and recreation centre. On 17 hectares of the existing sports centre, the concession holder should build a swimming and water sports complex with indoor and outdoor swimming pools, two hotels, a diagnostic and therapeutic centre and a number of other facilities. The investor will also build the complete necessary

infrastructure. Construction should start in August 2006, and will take two years.

Returnees from Australia to build a prestigious residential site in Zadar – an Australian–Croatian businessmen, a group of Croatian investors from Australia and a Slovenian partner, are planning to build a residential-business centre in Zadar. Investment of some EUR 18 million in this project (the amount includes the price for the land) is planned (May 05).

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