This country-specific Q&A provides an overview of construction laws and regulations applicable in Croatia.

For a full list of jurisdictional Q&As visit [here](#)
1. Is your jurisdiction a common law or civil law jurisdiction?

Croatia is a civil law jurisdiction.

2. What are the key statutory/legislative obligations relevant to construction and engineering projects?

In Croatia, construction and engineering projects are governed, inter alia, by the Construction Act, the Construction Product Act, the Act on the Chamber of Architects and Chambers of Engineers in Construction and Physical Planning, the Act on Physical Planning and Building Tasks and Activities, the Physical Planning Act, the Civil Obligations Act and Special Construction Practices which regulate building contracts.

3. Are there any specific requirements that parties should be aware of in relation to: (a) Health and safety; (b) Environmental; (c) Planning; (d) Employment; and (e) Anti-corruption and bribery.

Health and safety

Health and safety at construction sites is regulated by the provisions of the Health and Safety Act, the Labour Act, the Act on Construction, the State Inspectorate Act, the Ordinance on safety at temporary and mobile construction sites, the Ordinance on jobs with special working conditions etc. The abovementioned provisions oblige the investors, designers and contractors to apply safety rules in all stages, from design to completion of works. An employer performing construction works is obliged, prior to the commencement of works, to arrange a work site and ensure that the works are executed and carried out in accordance with the abovementioned regulations and rules on occupational safety.

Environmental issues

Environmental issues are governed by a large number of legislative provisions such as the Environmental Protection Act, the Air Protection Act, the Water Act, the Act on Sustainable Waste Management etc. Environmental impact assessments are prescribed under the Environmental Protection Act as well as under the Regulation on the Environmental Impact Assessment. In the process of assessing the need for an environmental impact assessment, the competent authority, based on individual tests in accordance with standards (e.g. capacity, power, surface area etc.) and/or criteria established in the mentioned Regulation, determine whether the project could have significant environmental impacts and decide on the need for an assessment. By the latest amendments of the Construction Act, inter alia, Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency was transposed into the legal order of the Republic of Croatia and the implementation of Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate...
Action is insured.

It is envisaged that all new buildings have to be nearly zero-energy buildings (enters into force from 31/12/2020), i.e. very low energy performance buildings, in accordance with the criteria defined by the Act and the bylaw. Also, the promotion of electromobility and the deployment of recharging infrastructure for smart charging of electric vehicles in buildings is regulated.

Planning

Before the construction works commence planning and zoning permission and the building permission are required. They are issued by the competent authority prescribed by the construction law. The new Physical Planning Act (which entered into force in October 2019) regulates the issue of physical planning of maritime areas, and has transposed the regulations for the prevention of major accidents, including hazardous materials, into the legal order.

The public authority is authorised to inspect whether the final building permission exists as well as the compliance with other relevant laws and obligations (health and safety, environmental law etc.).

Employment

Labour Act is a main act that regulates employment relationship in Croatia, i.e. employment agreements, minimal age for employment, rest and leave, salaries, night work, shift work, overtime work strikes, etc. Employment issues are also regulated by the international agreements, treaties, collective contracts and employment agreements. EU/EEA citizens are not required to have any work permit to work in Croatia. However, because Croatia is still in a transitory period with the EU, citizens from certain EU/EEA countries still need work permits in Croatia, and need to have a registered and approved temporary stay. As for the non-EU/EEA citizens, residence permits for longer-term stays and work permits are required in order for them to have a job in Croatia. An application for a residence and work permit must be accompanied by a contract of employment or a written confirmation that a contract of employment has been signed.

Anti-corruption and bribery

There isn’t a single law regulating this topic. The primary legal framework regulating corruption and bribery is contained in the Criminal Code and the Corporate Criminal Liability Act, which make natural persons and legal entities criminally liable for corrupt practices including active and passive bribery, money laundering and abuse of functions. Giving or accepting a bribe is a criminal offence in Croatia.
4. **What permits/licences and other documents do parties need before starting work, during work and after completion? Are there any penalties for non-compliance?**

As already mentioned, before the commencement of construction works on the site, the planning and zoning permit has to be obtained, as well as the construction permit. Construction without the required construction permit makes the construction activity illegal and the construction inspector is authorised to issue a decision ordering the employer, i.e. the owner, to remove the building.

Upon completion of the construction, the relevant public authority must perform tests to confirm whether the building has been built in accordance with the construction permit. If the building complies, the use permit has to be issued permitting the use of the building for the intended purpose.

The law provides for misdemeanor, and in certain cases also criminal, liability (criminal offence of illegal construction, criminal offence of hazardous execution of construction works) for actions contrary to the applicable provisions.

5. **Is tort law or a law of extra contractual obligations recognised in your jurisdiction?**

The law stipulates the defects liability of the contractor in respect of patent defects and latent defects. There is also decennial liability of contractor, supervising engineer and designer for essential requirements for the building. The law prescribes the duration of the liability, the reporting obligation and the time limits for the notification of the liable person. The non-compliance with the notification deadlines results in the loss of right.

The basic requirements for the building are: mechanical resistance and stability, safety in case of fire, hygiene, health and environment, safety and accessibility during usage, noise protection, energy management and preservation of heat, sustainable usage of natural resources.

The contractor shall not be relieved of liability if he acted in accordance with the employer’s requirements unless he notifies the employer about the risks and consequences of the employer’s requirements.

Extra-contractual liability is prescribed by the Civil Obligations Act and covers the liability of the employer and the contractor for damages caused to the owner of the adjacent land caused by the construction activity. The liability is joint and several.

6. **Who are the typical parties to a construction and engineering project?**

The common parties involved in a construction and engineering project are the contracting entities, the contractor and the supervising engineer.
7. **What are the most popular methods of procurement?**

Infrastructure projects are projects of large scope in the area of public interest and importance, such as e.g. transport, energy, environmental protection etc. and therefore in the domain of public entities as employers.

The procurement of goods, services and works by public entities is prescribed by the Public Procurement Act which transposed Directives 24/2014 and 25/2014 into the Croatian legislation.

Contracting authorities may freely choose between an open and restricted procedure. In order for the contracting authority to use other public procurement procedures (competitive procedure with negotiation, competitive dialogue, innovation partnership and negotiated procedures without prior publication of a call) certain legally prescribed terms have to be met. In the report for 2018 published by the Croatian Bureau of Statistics on 01 June 2018, they have established that the open procedure is the most common (90.52%), while, in terms of number of contracts, the least used is the competitive negotiated procedure, and the competitive dialogue has not been used at all.

8. **What are the most popular standard forms of contract? Do parties commonly amend these standard forms?**

The most popular forms of contract are the FIDIC forms of contract, Conditions of Contract for Construction and Conditions of Contract for Plant and Design-Build. These forms of contract are used in infrastructure projects financed through development banks and EU funds. In other projects, various forms of construction contracts have been used, based on the provisions of the Croatian Civil Obligations Act, which Act is, in prevailing provisions, in compliance with FIDIC forms of contract.

Contracts based on the FIDIC General Conditions always contain Particular Conditions amending the General Conditions where appropriate due to the specific circumstances of the particular project, for clarification purposes, or because of necessary amendments required by the mandatory provisions of the Croatian contractual law.

9. **Are there any restrictions or legislative regimes affecting procurement?**

Please see No 7.

10. **Do parties typically engage consultants? What forms are used?**

The parties to construction projects engage consultants, engineers and lawyers. For the services of the supervising engineer or the employer’s representative, the FIDIC Client/Consultant Model Service Agreement is often used.
11. **Is subcontracting permitted?**

Subcontracting is permitted by the Civil Obligations Act, the Public Procurement Act and the Special Construction Practices. The Special Construction Practices regulate in detail the legal relationship between the contracting authority and the contractor. The Public Procurement Act prescribes that, if a tenderer in the phase of submitting its bid already knows that it shall subcontract part of the contract, it is obliged to notify the public entity thereof (percentage, share or value of the public procurement contract). The public entity will exclude the proposed subcontractor if it has not paid any due and payable tax liabilities and pension and health insurance obligations. The selected tenderer can, with the approval of the contracting authority and during the performance of the public procurement contract, subcontract a part of the contract, however not more than 30% of the value of the public procurement contract.

12. **How are projects typically financed?**

Infrastructure projects constituting investments in the public sector are financed by development banks or EU funds. The required proportion is financed by public entities.

13. **What kind of security is available for employers, e.g. performance bonds, advance payment bonds, parent company guarantees? How long are these typically held for?**

Employers usually require a security in the form of an unconditional bank guarantee for the period of constriction as well as for the defects liability period. The unconditional bank guarantee is also required to secure the repayment of the advance. Parent company guarantees have not been used in public infrastructure projects. As additional security, promissory notes could be required.

14. **Is there any specific legislation relating to payment in the industry?**

The application of pay-when-paid clauses is not explicitly prohibited but is subject to the provisions of law prescribing the deadline for the payment between certain persons.

The Act on Financial Operations and Pre-Bankruptcy Settlement regulates, inter alia, the terms for the fulfilment of financial liabilities and the consequences of a delay in the fulfillment of financial liabilities. Thus, it also prescribes, in business transactions between undertakings, for the payment to be effected within 60 days, and in case one of the parties to the contract is a public entity, the payment by the public entity must be effected within 30 days.

Exceptionally, the mentioned terms can be prolonged to 360 i.e. 60 days.

15. **Are pay-when-paid clauses (i.e clauses permitting payment to be made by a contractor only when it has been paid by the employer) permitted? Are they**
commonly used?

The application of pay-when-paid clauses is not explicitly prohibited but is subject to the provisions of law prescribing the deadline for the payment between certain persons, as explained in point 14.

16. Do your contracts contain retention provisions and, if so, how do they operate?

The retention clause is applied in accordance with the provisions of the FIDIC Conditions of Contract. The retention is usually capped at 10%, half of the amount is usually released at completion and taking-over and the other half upon expiry of the defects notification period.

17. Do contracts commonly contain delay liquidated damages provisions and are these upheld by the courts?

Contracts commonly contain a provision which does not represent liquidated delay damages but liquidated delay penalty. The penalty is payable in a percentage defined per day up to the defined maximum amount. The maximum amount cannot be unreasonably high and is defined in practice and by the courts to be between 5 and 10% of the aggregate contract price. The penalty is applicable to the delay but can also be applicable to non-performance. In the case of a penalty clause for non-performance, if the employer requires the payment of penalties, he is not authorised to also require the performance of the contractual obligations.

Liquidated penalties differ from liquidated delay damages because penalties are always payable in the event of a delay attributable to the contractor (or non-performance) notwithstanding the damage suffered by the employer. Liquidated damages are payable even if there is no damage suffered, but if the damage is higher than the amount of liquidated damages paid, the employer is entitled to demand the payment up to the full compensation.

The payment of such liquidated penalties is prescribed by the Croatian Civil Obligations Act and upheld by the courts.

18. Are the parties able to exclude or limit liability?

The parties may limit their liability but such limitation would not be permitted in the event of fraud, wilful misconduct and gross negligence.

19. Are there any restrictions on termination? Can parties terminate for convenience? Force majeure?

The termination must be made in accordance with the good faith principle. The termination for force majeure, as well as for convenience, is permitted by the Civil Obligations Act.
The consequences of the termination for convenience is the obligation of the employer to pay to the contractor the agreed price, reduced by the amount of costs the contractor did not have but would have had, had the contract not been terminated, and by the amount of the profit he realised in other projects or intentionally failed to make.

20. **What rights are commonly granted to third parties (e.g. funders, purchasers, renters) and, if so, how is this achieved?**

In the case of project finance, funders are granted various securities on monetary claims, bank guarantees and other securities given by the contractor to the employer, shares of the company of the employer. In public infrastructure projects securities are usually not given on public land and infrastructure to be built.

21. **Do contracts typically contain strict provisions governing notices of claims for additional time and money which act as conditions precedent to bringing claims? Does your jurisdiction recognise such notices as conditions precedent?**

If the FIDIC form of contract is used, the provision of notification of claims for additional time and money is applied by the parties and upheld by the courts and arbitrators in Croatia.

22. **What insurances are the parties required to hold? And how long for?**

The contractor is usually required to hold insurances for the works, equipment, for the contractor’s personnel and third-party liability insurance. In most cases, insurances are held until the taking-over of the works, except for the third-party liability insurance for which it could be required to be held until the expiry of the defects liability period.

23. **How are construction and engineering disputes typically resolved in your jurisdiction (e.g. arbitration, litigation, adjudication)? What alternatives are available?**

Disputes in infrastructure construction projects or concessions for the construction and operation of infrastructure, financed by development banks or the EU are subject to arbitration of local or international arbitration institutions (Permanent Arbitration Court of the Croatian Chamber of Economy, ICC Arbitration), sometimes UNCITRAL arbitration. In other cases, disputes are subject to both, the arbitration institutions and courts.

Construction Contracts based on the FIDIC Conditions of Contract regularly apply provisions relating to Dispute Adjudication Boards. The boards consist of one or three members. In the past, all the members were civil engineers but recently one of the members is often a lawyer.

We have also the Mediation Law, which enables the parties to refer their dispute to mediation. Mediation centres are available in Croatia, but disputes could be referred to
international mediation centres as well.

24. **How supportive are the local courts of arbitration (domestic and international)? How long does it typically take to enforce an award?**

Local courts are obliged by the law to enforce a local arbitral award, as if it were a judgement of a Croatian court. Foreign arbitral awards are subject to the proceedings under the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Therefore, the enforcement of an arbitral award does not differ from the enforcement of the judgement of the court.

25. **Are there any limitation periods for commencing disputes in your jurisdiction?**

For disputes arising under construction contracts the limitation period of 3 years is applicable calculating from the date the final payment certificate is due and payable.

In case of termination of a construction contract, the limitation period is 5 years from the date of termination.

26. **How common are multi-party disputes? How is liability apportioned between multiple defendants? Does your jurisdiction recognise net contribution clauses (which limit the liability of a defaulting party to a “fair and reasonable” proportion of the innocent party’s losses), and are these commonly used?**

Multi-party disputes related to construction contracts appear in cases of a consortium on the contractor’s side. Each member of a consortium is an independent party to a dispute, but they all appear either as claimants or as respondents. In accordance with the Croatian Civil Obligations Act, if their obligation can be shared, each member of the consortium should be liable for its part, if defined, and if the part of the liability of each member is not defined in the contract, their liability should be shared in equal proportions. In the event the nature of the obligation is such that the obligation cannot be divided between the members of the consortium, their liability towards the employer will be joint and several.

27. **What are the biggest challenges and opportunities facing the construction sector in your jurisdiction?**

The main issues that are affecting the Croatian construction sector include problems with financing, late payments, burdensome and lengthy administrative procedures. The biggest opportunities lie in infrastructure projects, namely transport infrastructure since the Croatian government is focusing on the maintenance and modernization of the transport infrastructure (railway and motorway infrastructure), with the aim to maintain quality and competitiveness. In 2018, the Government approved the National Reform Program, under which it announced
the restructuring of the road and rail infrastructure.

28. **What types of project are currently attracting the most investment in your jurisdiction (e.g. infrastructure, power, commercial property, offshore)?**

Except the above-mentioned investment in the transport infrastructure, both in road (e.g. the project Road Connection with Southern Dalmatia, in which the Pelješac Bridge has special importance) and the railway projects conducted by the Croatian Railway, renewable energy attracts a lot of focus which will drive the growth of the energy and utilities construction. Also, construction of wastewater treatment plants and waste management plant draw significant investment as well as LNG import terminal Project on the Island of Krk.

29. **How do you envisage technology affecting the construction and engineering industry in your jurisdiction over the next five years?**

We expect to see progress of digitalization in the construction industry, namely increase in the use of Construction Software & Data Ecosystem, as well as an increased use of robotics and drones.