



REPUBLIC OF CROATIA
CROATIAN COMPETITION AGENCY

Annual Report
on State Aid for 2008

November 2009

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REPORT ON STATE AID FOR 2008

1. INTRODUCTION

The Croatian Competition Agency (hereinafter: the Agency) has an obligation to prepare and submit the Annual Report on State Aid to the Croatian Parliament within the meaning of Article 20 of the State Aid Act. The Annual Report on State Aid (hereinafter: the Report) comprises an analytical overview of state aid granted in 2008 and revised data on aid granted in 2006 and 2007, processed pursuant to the State Aid Act (Official Gazette No. 140/2005; hereinafter: the Act) and the methodology provided for by this Act and regulations enacted pursuant to the Act. In addition to data on granted aid, the Report also contains a summarized overview of the legal basis pursuant to which aid providers grant state aid, as well as a list of decisions of the Agency providing for an assessment for 2008 of both aid schemes and applications for individual aid. At the same time, although they do not constitute state aid within the meaning of the Act, the Report also provides an overview of de minimis aid considering the fact that this type of state aid is awarded through a number of aid schemes established by individual ministries and other state bodies and institutions.¹

Given that in the last several years the compliance with the system of notification regarding the aid schemes and individual state aid has been improved, in the case of aid providers at the level of central state administration, but also in the case of aid providers at the level of local and regional self-government units, the coverage and the enforcement record of the Agency on state aid awarded in the Republic of Croatia have been improved. Therefore, this Report is a credible and reliable source of data and information on all of the providers of state aid, on aid schemes on the basis of which state aid is granted, the purpose of aid granted through those programmes, the total level of aid contained in specific aid schemes, and the undertakings which are the largest aid beneficiaries in the Republic of Croatia, except in the agriculture and fisheries sector, which is exempted from the application of the State Aid Act, i.e., which is not under the jurisdiction of this Agency.

¹ De minimis aid constitutes aid up to the amount of EUR 200,000, and may be approved to an individual undertaking in the period of three fiscal years provided that it is not used for export. In the transport sector this amount is EUR 100,000. Granting funds in the amount mentioned above, although they constitute state aid in terms of their basic characteristics, nevertheless, according to the rules transposed from the European Union *acquis*, cannot, due to their insignificant amounts, jeopardise trade among Member States and between the Republic of Croatia and the European Union, respectively. This type of state aid, therefore, is not considered state aid within the meaning of the State Aid Act and is not a subject of control by the Agency. However, in the Croatian market such type of aid may also bring into a more favourable position the undertaking to which it was granted in comparison with another who was not granted such aid, so this is one of the reasons why this type of aid is discussed in this Report.

The obligation of the preparation of the Annual Report also arises from Article 70 of the Stabilisation and Association Agreement between the Republic of Croatia and the European Communities and their Member States („Official Gazette – International Treaties“, No.: 14/01, 14/02, 1/05 and 7/05; hereinafter: SAA)².

What is state aid

Pursuant to the State Aid Act, state aid comprises all actual or potential government expenditures or decreased government revenues awarded by state aid providers that distort or might distort competition by giving an advantage on the market to a beneficiary of state aid, in the extent in which this may affect fulfilment of international obligations assumed by the Republic of Croatia in respect of state aid. In other words, to ascertain if a state intervention constitutes state aid, it is necessary to establish if it has elements of the following:

(i) Transfer of state resources

State aid is considered to be any measure that includes resources granted from the State budget, budgets of counties, cities and municipalities, funds and legal persons in the ownership of the state. In addition to direct budgetary expenditures, smaller or lost revenue of the state on the basis of profit tax reduction or debt write-off is also considered to constitute state aid.

(ii) Economic advantage

Economic advantage is exercised by the fact that an undertaking has received resources that it would not have received in the normal course of business. Besides the obvious types of aid such as grants, tax relieves, state guarantees etc., there are other types of aid which are less obvious, but also ensure economic advantage, namely: acquisition/rental of publicly owned land to an undertaking at less than the market price, sale of land of an undertaking to the state at higher than market price, enabling a company to enjoy privileged access to infrastructure without paying a fee, and capital injection to an undertaking by the state by means of the so-called risk capital under more favourable conditions than a private investor would do.

(iii) Selectivity

² Provisions of Article 70 of SAA stipulate that under this Agreement, any aid granted in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, insofar as it affects trade between the Republic of Croatia and the European Community, is incompatible. Pursuant to this agreement the Republic of Croatia committed to establish an independent authority, more precisely, an Agency, to which it would entrust the authorities necessary for the implementation of the provisions of SAA referred to above, within one year following coming of SAA into force, stipulating that this authority would be competent for the authorisation of state aid schemes and individual state aid, as well as the recovery of state aid granted unlawfully. Also, the Republic of Croatia committed to ensure the transparency in awarding state aid by submitting to the European Community regular annual reports and other documents, consistent with the methodology of overviews of state aid in the European Community. Upon request, the Republic of Croatia was also obliged to provide data about certain individual granted aid cases, and to prepare a list of all aid schemes that had been set up prior to the establishment of the Agency and harmonise such schemes with regulations on state aid not later than within four years after coming of SAA into force.

This criterion is met when it can be established that a certain undertaking, sector or region received certain funds from the State budget, and thus was given a competitive advantage over its competitors. The selectivity criterion is also met if there is a certain discretionary power in granting the aid by the aid provider.

(iv) Effect on competition

The Act, pursuant to SAA, provides for a ban of aid that has adversely affects (or may adversely affect) trade between the Republic of Croatia and the European Union. In the application of the criterion „effect on trade“, the relevant acquis of the European Union is used. Accordingly, the Agency should check if the beneficiary of state aid is included in economic activities which, for example, refer to exports or are directly related to exports.

What does not constitute state aid

Pursuant to the State Aid Act, the following does not constitute state aid:

- i. Assistance to households, disabled persons, public bodies for activities which do not have economic character, education institutions, hospitals, for building of residential buildings in state ownership for socially deprived groups, public centres for professional improvement,*
- ii. aid for general-purpose infrastructure projects,*
- iii. aid meeting the market economy investor principle,*
- iv. reduction of value-added tax for specific groups of products and public procurement,*
- v. direct financing from the European Union funds and aid approved by supranational and multinational organisations,*
- vi. aid earmarked for defence and for public works.*

1.1. Methodologies of reporting state aid

In this, sixth sequential Report, the Agency has applied the methodology of reporting state aid in compliance with the methodology used by the European Commission, which is an obligation of the Agency arising from the SAA.

Data in this Report are presented in real amounts obtained from state aid providers, and in cases where amounts of aid for specific purposes were not submitted to the Agency, the estimated amount was calculated on the basis of the data available to the Agency. This approach was adopted in only a few cases.

This Report, in a manner similar to the one used in all the previous reports, presents the total amount of aid granted in the Republic of Croatia, as well as the award of aid for horizontal and sector-specific objectives. Although regional aid, in compliance with the

methodology used in European Union, as a rule is presented within aid with horizontal objectives, due to its increasing importance of cohesion in the regional development of the Republic of Croatia, this type of aid is presented separately in this Report. Another special category of aid is aid granted by local and regional self-government units, which is also presented separately with a view to enabling an insight into the data on the amount of resources earmarked by local and regional self-government units for facilitating development of the economy in their respective areas.

Aid for agriculture and fisheries is presented separately because those categories of aid are excluded from the application of the State Aid Act, i.e., they are not controlled by this Agency, yet, those types of aid are regulated by special legislation and are in the competence of the Ministry of Agriculture, Fisheries and Rural Development.

Consequently, in terms of methodology, this Report presents an overview of aid in the total amount, in the form of an analysis of its objectives and the categories of aid which may be horizontal and sector-specific, respectively. An overview of aid instruments or forms of aid – grants, tax exemptions and tax relieves, guarantees, etc., is presented followed by aid earmarked for regional development (where aid awards are possible on the basis of the regional aid map, and where aid may be awarded for capital investments and employment linked to the investment), as well as state aid awarded by local and regional self-government units.

Horizontal aid includes aid intended for the promotion of small and medium-sized enterprises, research and development and innovation, environmental protection, risk capital investment, rescue and restructuring of undertakings in difficulty, employment and training.

Sector-specific aid, due to the possibility of a more significant distortion of competition, is approved according to the special rules envisaged for the following sectors:

- shipbuilding, steel, synthetic fibre production, audio-visual production, broadcasting and production of radio and TV programmes, generation of electrical energy and postal services;
- road transport, inland waterway transport, rail transport, maritime transport and air transport;
- agriculture and fisheries, to which special state aid rules apply.

Sector-specific aid, in case of individual undertakings in specific sectors, is also considered as including aid for rescue and restructuring of undertakings in difficulty, because their impact on possible distortion of competition is identical to the impact of sector-specific aid.

De minimis aid does not constitute aid within the meaning of the Act, but, due to the fact that a significant number of aid providers in the Republic of Croatia base their aid schemes (so called programmes) on this type of aid and that significant budgetary funds are used for these purposes, they are presented in greater detail in section 7 of this Report.

When calculating state aid included in specific aid instruments, in particular in the case of state guarantees, methodology consistent with corresponding regulations was applied, for example the Ordinance on the form and content and manner of data collection and keeping the register of state aid (Official Gazette, No. 11/05; hereinafter: Ordinance) and Decision on the publication of rules on state aid in the form of guarantees (Official Gazette, No. 13/08).

Building on the practice used in the previous reports on state aid, the amounts of total state aid presented in the Annual Report on State Aid for 2007 were also revised, based on the data which were either subsequently delivered by aid providers or corrected by the Agency, or the data which the Agency corrected the basis of the available data and information.

2. STATE AID IN 2008

State aid in 2008 in the Republic of Croatia amounted to HRK 8,810.5 million, which was less by 17.6 percent than in 2007. At the same time, total aid in GDP in 2008 accounted for 2.6 percent, a decrease in comparison with 2007, when it accounted for 3.4 percent.

In 2008 state aid per employee totalled HRK 5,666.60, which was a decrease by 19.6 percent in comparison to 2007, when aid per employee amounted to HRK 7,050.60. Per capita state aid decreased from HRK 2,430.70 in 2007 to HRK 2,002.40 in 2008, which was a 17.6-percent reduction.

Table 1.: Total state aid granted in the period 2006 - 2008

	Measure	2006	2007	2008	Indices	
					2007/2006	2008/2007
State aid	in HRK mil.	9,478.1	10,695.1	8,810.5	113	82
State aid	in EUR mil. ³	1,294.3	1,457.9	1,219.8	113	84
GDP ⁴	in HRK mil.	286,341.0	314,223.0	342,159.0	110	109
GDP	in EUR mil.	39,102.4	42,832.9	47,369.6	110	111
Government expenditure	in HRK mil.	95,950.0	108,008.0	115,292.4	113	107
Government expenditure	in EUR mil.	13,102.8	14,723.0	15,961.5	112	108
Employees	number	1,467,876.0	1,516,909.0	1,554,805.0	103	102
Share of state aid in GDP	%	3.31	3.40	2.57	103	76
State aid per employee	HRK	6,457.0	7,050.6	5,666.6	109	80
State aid per employee	EUR	881.8	961.1	784.5	109	82
State aid share in government expenditure	%	9.88	9.90	7.64	100	77
Per capita state aid of Croatia ⁵	HRK	2,154.1	2,430.7	2,002.4	113	82
Per capita state aid of Croatia	EUR	294.2	331.3	277.2	113	84

Sources: Croatian Bureau of Statistics, Ministry of Finance (Statistical survey of budgetary expenditure);

Data processed in the Croatian Competition Agency (CCA).

A reduction in total granted state aid in 2008 in comparison with 2007 in the amount of HRK 1,884.6 million was due mostly to a significant reduction of sector-specific aid – in particular shipbuilding, because in 2006 and 2007, in addition to „regular“ aid in the form of grants and guarantees, shipyards were granted aid in the form of state guarantees as rescue aid in the total amount of HRK 3,756.6 million, i.e. the total aid of HRK 4,971.3 million. In 2008 aid for rescue and restructuring was also reduced in the steel sector.

³ The average annual exchange rate of the Croatian National Bank of HRK to EUR 1 in 2006 was HRK 7.322849, in 2007 it was HRK 7.336019, and in 2008 HRK 7.223178.

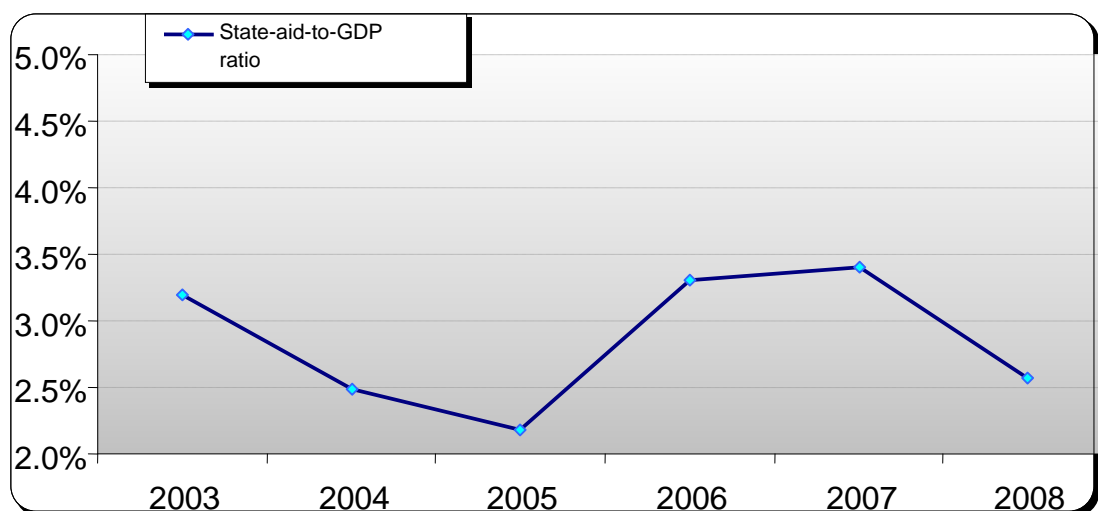
⁴ GDP (in current prices), the source of GDP data: Croatian Bureau of Statistics (CBS) and Ministry of Finance.

⁵ Population according to the results of the 2001 Census was 4.4 million (source: Croatian Bureau of Statistics, CBS)

Also, less aid was awarded in the form of debt write-off to undertakings in the course of privatisation and in the form of state guarantees for this aid category.

Following an increase in the share of state aid in GDP, which marked the period between 2005 and 2007, in 2008 the share of state aid in GDP decreased significantly, more precisely, by 24.4 percent in comparison to 2007.

Figure 1: State-aid-to-GDP ratio in the period 2003 - 2008



Sources: Croatian Bureau of Statistics, Ministry of Finance; data processed in CCA

Starting from the fact that according to the aid monitoring methodology, both in the European Union and in the Republic of Croatia, aid to agriculture and fisheries and aid to the transport sector (mainly set-off for services of general economic interest) has a different treatment than aid to the rest of the economy because in those activities reasons other than economic (general interest, security, welfare, etc.), are taken into consideration, and the State has the obligation to intervene into those sectors; an insight into state aid should take this fact into consideration as well, and granted aid should be observed without aid earmarked for agriculture, fisheries and transport. Table 2, therefore, presents amounts of aid in the period from 2006 to 2008 and their shares in GDP, with the exception of aid for the sectors mentioned above.

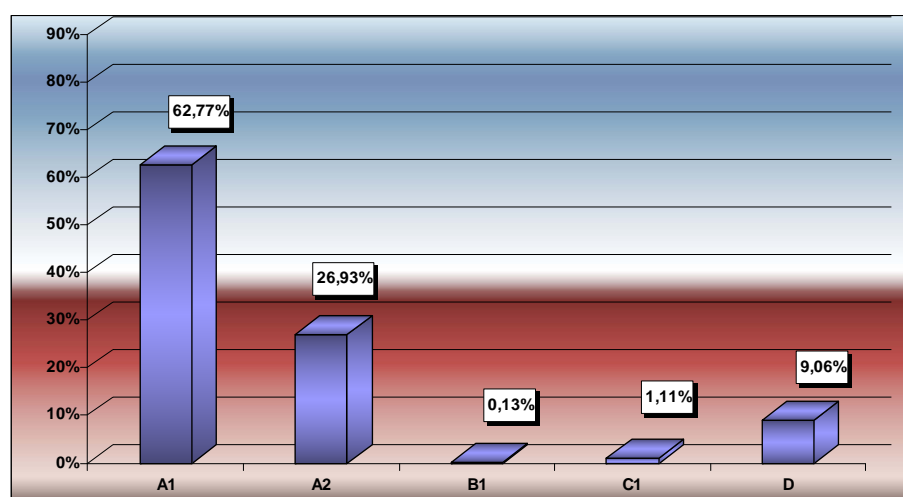
Table 2: Aid in the period 2006 - 2008 (less agriculture, fisheries and transport)

	Measure	2006	2007	2008
Amount of state aid	in HRK mill.	5,540.4	6,077.8	3,820.1
Amount of state aid	in EUR mill.	756.6	828.5	528.9
GDP	in HRK mill.	286,341.0	314,223.0	342,159.0
GDP	in EUR mill.	39,102.4	42,832.9	47,369.6
Share of state aid in GDP	%	1.93	1.93	1.12

Source: Ministry of Finance, other state aid providers; data processed in CCA

Aid granted to the economy, less agriculture, fisheries and transport (land, air and maritime transport) in 2008 amounted to HRK 3,820.1 million, which was by 37.2 percent lower in comparison with aid granted in 2007, and lower by 31.1 percent in comparison with 2006.⁶

Figure 2: State aid by instruments in 2008 (less agriculture, fisheries and transport)⁷



Source: Ministry of Finance, other state aid providers; data processed in CCA

The form of aid to the economy with the highest share (less agriculture, fisheries and transport) are grants with the share of approximately 63 percent, followed by tax relieves and allowances with the share of approximately 27 percent, and state guarantees accounting for approximately 9 percent.

⁶ The State Aid Act does not pertain to the award of aid in agriculture and fisheries, and, since in the European Union aid to the transport sector is excluded from the overall breakdown, on the basis of the compensation for costs for the performance of services of general economic interest, this Report also uses overviews that exclude those sectors from the overall breakdown of state aid.

⁷ A1 (grants), A2 (tax relieves, tax exemptions, tax remission and reduction and exemptions of social security contributions and allowances), B1 (equity participation), C1 (soft loans), D (calculated state aid in guarantees).

Further, due to special tasks that all countries including the Republic of Croatia assign to the railway transport sector, aid granted to this sector is also treated separately, even in comparison with other transport sectors; consequently, in the aid analyses they are excluded from the total amount of aid.

Table 3: Total aid in the period 2006 - 2008 (with agriculture and fisheries, but less rail transport)

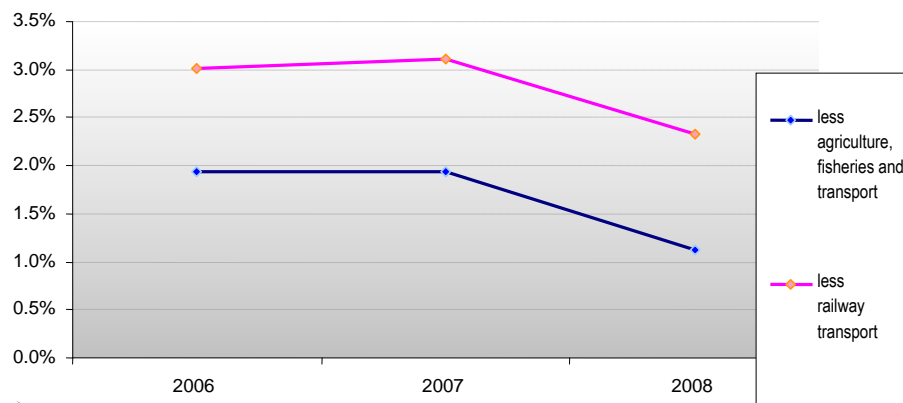
	Measure	2006	2007	2008
Amount of state aid	in HRK mill.	8,605.5	9,789.3	7,953.4
Amount of state aid	in EUR mill.	1,175.2	1,334.4	1,101.1
GDP	in HRK mill.	286,341.0	314,223.0	342,159.0
GDP	in EUR mill.	39,102.4	42,832.9	47,369.6
Share of state aid in GDP	%	3.01	3.12	2.32

Source: Ministry of Finance, other state aid providers; data processed in CCA

In 2008 aid for rail transport amounted to HRK 857.2 million, whereas in 2007 it amounted to HRK 908.8 million, and in 2006, HRK 872.6 million.

The share of aid in GDP less agriculture, fisheries and transport, and the share of aid in GDP less rail transport are presented in Figure 3.

Figure 3: State aid-to-GDP ratio in the period 2006 - 2008



Source: Ministry of Finance, other state aid providers; data processed in CCA

2.1. CATEGORIES OF STATE AID

In 2008, in addition to the reduction of general aid amount, there also occurred obvious changes in the trend as regards the basic categories of aid to the Croatian economy. More precisely, in this year the upward trend of aid for agriculture and fisheries continued. In 2008 it grew in comparison to 2007, by HRK 327 million, or by 10.2 percent. At the same time, state aid to the industry and services sector recorded a significant decline and was reduced by approximately HRK 2.2 billion, or by more than 30 percent.

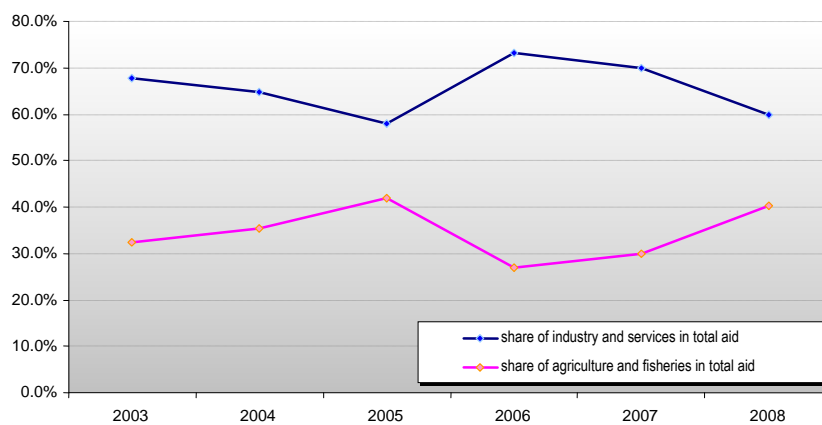
Table 4: State aid amounts specified by aid categories in the period 2006 - 2008

Category	2006			2007			2008		
	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
1. <i>Agriculture and fisheries</i>	2,543.0	347.3	26.83	3,210.1	437.6	30.01	3,537.7	489.8	40.15
2. <i>Industry and services</i>	6,935.1	947.0	73.17	7,485.0	1,020.3	69.99	5,272.8	730.0	59.85
<i>Horizontal objectives</i>	929.7	127.0	9.81	956.0	130.3	8.94	1,191.4	164.9	13.53
Research and development and innovation	138.8	19.0	1.46	160.9	21.9	1.50	209.6	29.0	2.38
Environmental protection and energy saving	23.8	3.3	0.25	20.7	2.8	0.19	37.1	5.1	0.42
Small and medium-sized enterprises	241.2	32.9	2.54	53.4	7.3	0.50	172.3	23.9	1.96
Training	101.2	13.8	1.07	182.7	24.9	1.71	69.3	9.6	0.79
Employment	334.5	45.7	3.53	479.8	65.4	4.49	661.8	91.6	7.51
Culture	90.2	12.3	0.96	58.5	8.0	0.55	41.3	5.7	0.47
<i>Special sectors</i>	5,590.6	763.4	58.98	5,852.0	797.7	54.72	3,498.4	484.4	39.71
Steel industry	1.0	0.1	0.01	196.3	26.7	1.83	0.0	0.0	0.00
Transport	1,394.7	190.5	14.71	1,407.2	191.8	13.16	1,452.7	201.1	16.49
Shipbuilding	2,797.8	382.1	29.52	2,173.5	296.3	20.32	594.7	82.3	6.75
Tourism	261.0	35.6	2.75	178.4	24.3	1.67	162.9	22.6	1.85
Public service broadcasting	958.5	130.9	10.11	1,010.6	137.8	9.45	1,100.0	152.3	12.48
Other sectors	40.6	5.5	0.43	40.4	5.5	0.38	134.7	18.7	1.53
Rescue and restructuring	137.0	18.7	1.45	845.6	115.3	7.91	53.4	7.4	0.61
<i>Regional aid</i>	282.0	38.5	2.98	482.2	65.7	4.51	404.6	56.0	4.59
<i>Aid at local level</i>	132.8	18.1	1.40	194.8	26.6	1.82	178.4	24.7	2.02
TOTAL	9,478.1	1,294.3	100.00	10,695.1	1,457.9	100.00	8,810.5	1,219.8	100.00

Source: Ministry of Finance, other state aid providers; data processed in CCA

In line with the trends of aid by basic sectors indicated above, 2008 also saw a change in the structure of total aid, so that the share of aid for agriculture and fisheries in the total aid grew from approximately 30 percent in 2007 to 40 percent, whereas the share of aid to industry and services declined from almost 70 percent in 2007 to approximately 60 percent in 2008.

Figure 4: Share of aid for agriculture and fisheries and aid for industry and services in total granted aid in the period 2003 - 2008



Source: Ministry of Finance, other state aid providers; data processed in CCA

Although in the industry and services sector sector-specific aid is still prevailing, for which approximately HRK 3.5 billion was granted, a continual drop in the share of those types of aid in favour of the growth of aid earmarked for horizontal objectives and regional development is, nevertheless, encouraging.

State aid granted to specific sectors in 2008 in comparison to 2007 was lower by 40.2 percent.

In 2008, state aid granted for horizontal objectives recorded growth of 24.6 percent in comparison to 2007, i.e., an increase from HRK 956 million to HRK 1,191.4 million. Together with regional aid and aid granted at the local level, which according to the EU methodology constitutes horizontal aid, the total horizontal aid in 2008 amounted to HRK 1,774.4 million, which was higher by approximately 9 percent than in 2007. The share of this horizontal aid included in the total aid amount in 2008 was somewhat higher than 20 percent, whereas the share of this aid category in aid earmarked for industry and services less agriculture and fisheries accounted for approximately 34 percent – a positive trend leading to the conclusion that aid providers in the Republic of Croatia are also increasingly aware of the necessity to abandon a system of selective awards directed only to particular undertakings or particular sectors and to re-direct aid to the purposes and objectives that facilitate effectiveness and competitiveness of all undertakings.

The biggest growth in terms of horizontal objectives in 2008, in comparison with 2007, was recorded in aid for small and medium-sized enterprises, which was higher by 222.7 percent, environmental protection and energy saving, by 79.2 percent, employment, by 37.9 percent and research and development and innovation, by 30.3 percent.

Observed separately, regional aid in the absolute amount in 2008 indicates a 16.1-percent drop in comparison with the previous periods, however, their share in total

granted aid increased from 2.98 percent in 2006 to 4.51 percent and to 4.59 percent in 2007 and in 2008, respectively.

2.2. STATE AID BY INSTRUMENTS

State aid is awarded through various aid instruments, among which the most significant ones are grants (A1), tax relieves, exemptions, debt write-off and relieves and exemptions from payment of social security contributions and tax advantages (A2)⁸, equity participation (B1), soft loans (C1), state aid element in guarantees (D).

The most prevalent aid instrument in 2008 was grants, in the form of which HRK 6,935.8 million was awarded, followed by tax relieves and tax advantages with ensuing government revenue underperformance amounting to HRK 1,028.7 million, equity participation amounting to HRK 409.3 million and state guarantees in which the aid element amounted to HRK 394.4 million. The share of grants in total granted aid accounted for 78.7 percent, which were followed by tax advantages and tax relieves with the share of 11.7 percent, equity participation, which accounted for 4.6 percent, and state guarantees, with the share of 4.5 percent.

Sector-wise, grants are a prevailing aid instrument in agriculture and fisheries, in specific sectors such as transport and shipbuilding, whereas in respect of horizontal aid grants are most frequently awarded for the development of small and medium-sized enterprises and employment, both at the national and local level. Although the radio/TV licence fee is not a grant in the usual sense because it does not represent a direct budgetary expenditure, given that this is an obligation regulated by the special Croatian Radio and Television Act whereby the obligation to pay this fee is imposed on the owners of radio and television devices, for purposes of this Report this fee is also categorised as grant.

Tax advantages and tax relieves prevail in horizontal aid, in particular in aid for employment and research and development and innovation, but also in regional aid because it is among the types of aid regulated by special laws, such as the Investment Promotion Act, the Free Zones Act, the Act on Areas of Special State Concern etc.

⁸ The group of aid instruments designated A2, besides tax exemptions and tax advantages and exemptions from payment of social contributions, also includes debt write-off with respect of debt to various state creditors such as the Croatian Privatisation Fund, Croatian Waters, Hrvatska elektroprivreda (Croatian Power Company HEP) and others.

Table 5: Aid by instruments in 2008 (HRK mill.)

Category		A1	A2	B1	C1	D	Total
1.	<i>Agriculture and fisheries</i>	3,489.5	0.0	0.0	0.0	48.1	3,537.6
2.	<i>Industry and services</i>	3,446.3	1,028.7	409.3	42.3	346.3	5,272.9
	<i>Horizontal objectives</i>	434.0	756.3	0.0	1.1	0.0	1,191.4
	Research and development and innovation	46.9	162.7	0.0	0.0	0.0	209.6
	Environmental protection and energy saving	36.0	0.0	0.0	1.1	0.0	37.1
	Small and medium-sized enterprises	172.3	0.0	0.0	0.0	0.0	172.3
	Training	5.3	64.0	0.0	0.0	0.0	69.3
	Employment	132.2	529.6	0.0	0.0	0.0	661.8
	Culture	41.3	0.0	0.0	0.0	0.0	41.3
	<i>Specific sectors</i>	2,727.8	2.4	404.2	41.2	322.8	3,498.4
	Steel industry	0.0	0.0	0.0	0.0	0.0	0.0
	Transport	1,048.6	0.0	404.2	0.0	0.0	1,452.8
	Shipbuilding	376.1	0.0	0.0	0.0	218.6	594.7
	Tourism	70.1	0.0	0.0	0.0	92.7	162.8
	Public service broadcasting	1,100.0	0.0	0.0	0.0	0.0	1,100.0
	Other sectors	133.0	0.0	0.0	1.7	0.0	134.7
	Rescue and restructuring	0.0	2.4	0.0	39.5	11.5	53.4
	<i>Regional aid</i>	134.7	270.0	0.0	0.0	0.0	404.7
	<i>Aid at local level</i>	149.8	0.0	5.1	0.0	23.5	178.4
TOTAL		6,935.8	1,028.7	409.3	42.3	394.4	8,810.5

Source: Ministry of Finance, other state aid providers; data processed in CCA

In the period since 2006 there has been a rising trend of grants as aid instrument, which from the share of approximately 57 percent in 2006 reached the share of almost 80 percent in total aid in 2008. Such a trend is mostly the consequence of a constant nominal growth of grants, in particular in agriculture and fisheries, and partially of a decline or stagnation recorded in other aid instruments.

Table 6.: Aid by instruments in the period 2006 – 2008 (including agriculture and fisheries)

	2006			2007			2008		
	in mill. HRK	in mill. EUR	share (%)	in mill. HRK	in mill. EUR	share (%)	in mill. HRK	in mill. EUR	share (%)
A1	5,377.6	734.4	56.74	6,208.1	846.2	58.05	6,935.9	960.2	78.72
A2	723.2	98.8	7.63	1,725.5	235.2	16.13	1,028.6	142.4	11.67
B1	403.5	55.1	4.26	437.1	59.6	4.09	409.3	56.7	4.65
C1	213.8	29.2	2.26	242.1	33.0	2.26	42.4	5.9	0.48
D	2,760.0	376.9	29.12	2082.3	283.8	19.47	394.3	54.6	4.48
	9,478.1	1,294.3	100.00	10,695.1	1,457.9	100.00	8,810.5	1,219.8	100.00

Source: Ministry of Finance, other state aid providers; data processed in CCA

2.2.1. State guarantees as aid instrument

State guarantees⁹ are a specific form of state aid because special rules apply to them, both in terms of assessment of aid and in terms of the calculation of the amounts of aid contained in each given state guarantee. Although in the case of state guarantees the basic rules from the State Aid Act apply in the assessment whether in a particular case the support constitutes state aid or not, still in the case of state guarantees facts and circumstances with respect to each individual guarantee should be considered within the meaning of the Decision on the publication of rules on state aid in the form of guarantees. Namely, state guarantee does not constitute aid if all of the following conditions are fulfilled:

- An undertaking (borrower) is not considered an undertaking in financial difficulty and would be able to obtain a loan under market conditions from the financial markets without any intervention by the State,
- the granted guarantee is linked to a specific financial transaction and is granted for a fixed maximum amount,
- the granted guarantee obligation does not cover more than 80 percent of the financial obligation,
- the undertaking pays a market-based fee for the granted guarantee.

Consequently, in the event of a failure to comply with any of the conditions listed above, the state guarantee constitutes aid, which is calculated on the basis of a special methodology¹⁰.

The amount of aid contained in state guarantee may account for up to a hundred-percent amount of the granted guarantee, if the undertaking at issue is an undertaking in difficulty or if the guarantee is invoked, in other words, if it became due for payment by the State as provider of the guarantee.

In the calculation of the grant equivalent contained in the state guarantee, the methodology determined by the Ordinance and the rules on state aid in the form of guarantees applies.

⁹ In 2008 the Decision on the publication of rules on state aid in the form of guarantees was in force (Official Gazette No. 13/08), on the basis of which in the year mentioned aid was awarded in the form of granted and invoked state guarantees. In March 2009 in Official Gazette No. 39/09 the new Decision on the publication of rules on state aid in the form of guarantees was published.

¹⁰ The cash grant equivalent of the granted individual state guarantee is calculated as a difference between the higher interest which would be paid for a loan under market conditions and the lower actually paid interest for the loan attained thanks to the coverage by the state guarantee. In the case of payment for invoked state guarantees, the cash grant equivalent is equal to liabilities arising from the full invoked guarantees.

State guarantees granted for financing of infrastructure, building of hospitals etc. as a rule are not considered aid within the meaning of the Act similarly as the interventions by the State for the purposes mentioned above do not constitute state aid.

Table 7: State guarantees in the period 2006 - 2008 (HRK mill.)

No.	Description	2006	2007	2008
1.	Total guarantees issued	10,835.8	14,989.1	7,866.7
2.	Issued state guarantees which do not constitute aid	6,176.7	10,284.9	5,386.6
3.	Issued state guarantees containing aid elements (rows 1-2)	4,659.0	4,704.2	2,480.1
4.	Amount of aid involved in issued state guarantees containing aid elements (row 3)	2,363.3	1,787.4	218.6
5.	Invoked state guarantees containing aid elements	391.8	279.2	152.3
6.	Other guarantees (local, HAMAG etc.)	5.0	15.7	23.5
7.	Total amount state aid contained in state guarantees (4+5+6)	2,760.1	2,082.3	394.4

Source: Ministry of Finance; data processed in CCA

In 2008 the total amount of issued state guarantees was reduced by almost one-half, with the same trend being recorded with guarantees for purposes that are not considered aid and those that do constitute aid.

Issued state guarantees not containing aid (No. 2. in Table 7) pertain to financing infrastructure, i.e., road building and building of motorways, sea ports and gas pipelines, guarantees granted to Hrvatska elektroprivreda d.d. (HEP power company), Clinical Hospital Centre Zagreb and Croatia Airlines d.d.

In 2008 the total amount of state aid in issued guarantees amounted to HRK 394.4 million, which was five times less than in 2007. The said amount pertained to aid contained in issued and invoked state guarantees to Croatian shipyards (Brodosplit – Brodogradilište d.o.o., 3. Maj Brodogradilište d.d., Brodotrogir d.d. and Brodogradilište Kraljevica d.d.) in the total amount of HRK 218.6 million, in invoked state guarantees in the tourism sector in the amount of HRK 92.7 million, aid contained in invoked state guarantees to agriculture in the amount of HRK 48.1 million, aid in invoked state guarantees for restructuring of the firms in difficulty in the amount of HRK 11.5 million and aid contained in guarantees granted by local and regional self-government units in the amount of HRK 23.5 million.

The risk of default, which is a ratio between the total amount of invoked state guarantees and the amount of given state guarantees which constitute aid, accounted for 6.1 percent in 2008, whereas in 2007 it accounted for 5.9 percent, and in 2006 it was 8.4 percent.

The risk of default is an indicator of probability of the risk for default in repayment of loans covered by state guarantees and it actually represents the price that should be paid for each given guarantee at the moment of its approval¹¹.

Table 8: Default risk for invoking of state guarantees in the period 2006–2008 (HRK mill.)

No.	Description	2006	2007	2008
1.	Issued state guarantees with aid element	4,659.01	4,704.16	2,480.1
2.	Invoked state guarantees	391.75	279.25	152.3
3.	Default risk (row 2/1)	8.4%	5.9%	6.1%

Source: Ministry of Finance; data processed in CCA

¹¹ Pursuant to the provisions of the Act on the Execution of the State Budget and the Decision on the criteria for issuing of state guarantees (Official Gazette, No. 16/03 and 108/03), it was determined that the premium set by the State budget be at 0.5 percent of the nominal amount of guarantees charged to the beneficiary prior to issuing of the state guarantee by the Ministry of Finance. Evidently, the premium set by the Decision mentioned above is significantly lower than the default risk in respect of invoked state guarantees, as calculated in Table 8.

3. AGRICULTURE AND FISHERIES¹²

In 2008 agriculture and fisheries were granted aid in the amount of HRK 3,537.7 million, which represented growth of 10.2 percent and 39.1 percent in comparison with 2007 and 2006, respectively.

Table 9: Total state aid and share of aid to agriculture and fisheries in the period 2006 – 2008

Agriculture and fisheries	2006		2007		2008		Indices	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	2007/2006	2008/2007
Total state aid	9,478.1	1,294.3	10,695.1	1,457.9	8,810.5	1,219.8	112.8	82.4
Aid less agriculture and fisheries	6,935.1	947.0	7,485.0	1,020.3	5,272.8	730.0	107.9	70.4
Aid to agriculture and fisheries	2,543.0	347.3	3,210.1	437.6	3,537.7	489.8	126.2	110.2
Share (%) in total state aid	26.83		30.01		40.15		111.9	133.8
Share (%) of GDP	0.89		1.02		1.03		114.6	101.0

Source: Ministry of Finance, Ministry of Agriculture, Fisheries and Rural Development, Ministry of Regional Development, Forestry and Water Management; data processed in CCA

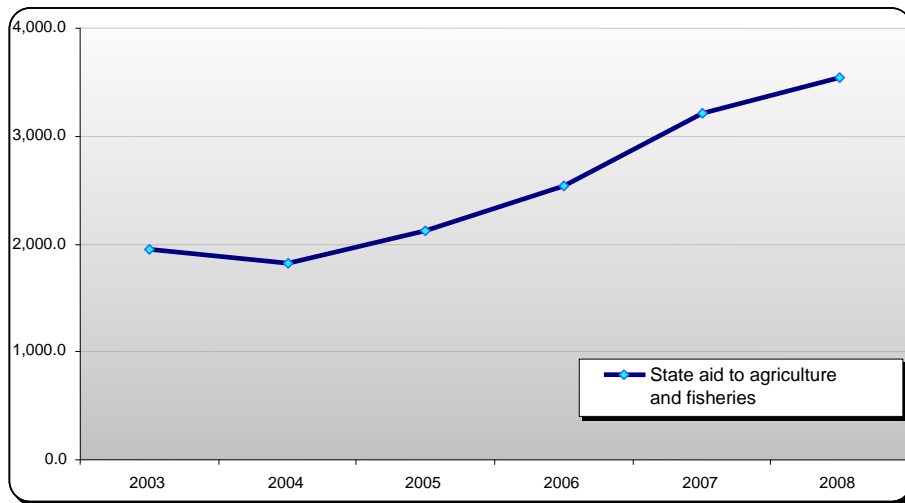
In 2008 the share of state aid granted to agriculture and fisheries in total aid accounted for 40.2 percent, whereas in 2007 this share accounted for 30 percent, and in 2006 to 26.8 percent.

The share of state aid granted to agriculture and fisheries in GDP rose from 0.89 percent in 2006 to 1.02 percent and 1.03 percent in 2007 and 2008, respectively.

According to the data of the Ministry of Agriculture, Fisheries and Rural Development and the Ministry of Regional Development, Forestry and Water Management, state aid granted to agriculture and fisheries is awarded mostly in the form of grants (98.6 percent), whereas the remaining amount (1.4 percent) is granted in the form of state guarantees.

¹² Pursuant to the State Aid Act, state aid in agriculture and fisheries is exempted from the application of the provisions of the Act and other regulations on state aid adopted on the basis of the Act; therefore, the Agency is not competent for their approval. However, state aid in agriculture and fisheries is presented in the Report in terms of the awarded amounts of state aid within the reported period according to the data received from the Ministry of Agriculture, Fisheries and Rural Development, the Ministry of Regional Development, Forestry and Water Management, the Ministry of Finance and the data on the execution of the State budget.

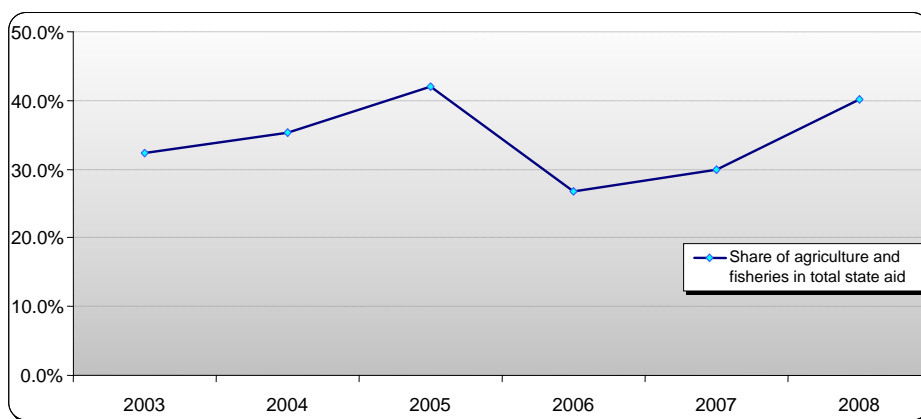
Figure 5: Total state aid to agriculture and fisheries in the period 2003 - 2008 (in HRK thousand)



Source: Ministry of Finance, Ministry of Agriculture, Fisheries and Rural Development, Ministry of Regional Development, Forestry and Water Management; data processed in CCA

With regard to a constant increase in state aid to agriculture and fisheries in the period since 2003 and a downward trend of aid to other sectors, the share of aid to agriculture and fisheries accounted for an increasingly high amount in the total granted aid, particularly in 2008, when it increased by almost 34 percent in comparison to 2007 (from approximately 30 to 40 percent).

Figure 6: Share of state aid to agriculture and fisheries in total aid in the period 2003 - 2008



Source: Ministry of Finance, Ministry of Agriculture, Fisheries and Rural Development, Ministry of Regional Development, Forestry and Water Management; data processed in CCA

Given state aid to agriculture and fisheries falls outside the scope of the Act, and given the Agency is not competent for state aid control in the area of agriculture and fisheries, including the food industry, it does not dispose over the data on the purposes of aid

granted, and nor does it have information about the beneficiaries or effects of state aid granted to this sector.

4. INDUSTRY AND SERVICES

In 2008 state aid granted to industry and services amounted to HRK 5,272.8 million, which was by approximately 30 percent less than in 2007 and 24 percent less than in 2006. The biggest share in this kind of aid in 2008, 66.4 percent, is sector-specific aid, horizontal aid accounted for 22.6 percent, regional aid accounted for 7.7 percent and aid granted at local level accounted for 3.4 percent.

In spite of still prevailing share of sector-specific aid in total aid, in 2008 and in the course of a three-year period, a downward trend in sector-specific aid granted in the industry and services sector was recorded, so the share of this kind of aid in total aid decreased from 80.6 percent in 2006 to 66.4 percent in 2008.

In 2008 the positive trend of growth of horizontal aid continued. For the first time since the award of aid has been monitored, state aid exceeded HRK 1 billion (HRK 1,191.4 million), and accounted for almost 23 percent in the total granted aid in the industry and services sector. Namely, in 2008 horizontal aid rose by approximately 25 percent in comparison to 2007, and by more than 28 percent in comparison to 2006.

At the same time, in the period between 2006 and 2008, a positive trend in regional aid in the industry and services sector was also recorded. Its share increased from 4.1 percent in 2006 to 7.7 percent in 2008. Since regional aid is mostly granted pursuant to the Investment Promotion Act, the Free Zones Act, the Act on the Areas of Special State Concern and the Act on Hilly and Mountainous Areas, the trend mentioned above indicates an increasingly growing significance of regional state aid awarded for objectives regulated by the laws mentioned, namely, increasing investments and employment. Regional aid is earmarked for all undertakings in a specific region that meet the prescribed requirements, and not only for some undertakings or specific sectors. In future, this aid category may be expected to grow, and it can be expected that it will have a positive spill-over effect on economic growth and employment in the whole territory of the Republic of Croatia, and in particular where the regional aid map provides for greater intensity of aid, namely, in the areas of special state concern, hilly and mountainous areas and the Town of Vukovar.

The share of state aid at the level of local and regional self-government units recorded a slow, but constant upward trend, from 1.9 percent in 2006 to 3.4 percent in 2008.

By applying the methodology of monitoring the state aid in the EU according to which regional aid and state aid at the local level, provided that it is earmarked for horizontal objectives, should be included in horizontal aid, the total horizontal aid in 2008

accounted for approximately 34 percent of total granted state aid, whilst this share, for instance, was below 20 percent in 2006.

Table 10: State aid in the period 2006 - 2008 (less agriculture and fisheries)

Category	2006			2007			2008		
	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
Industry and services	6,935.1	947.0	100.00	7,485.0	1,020.3	100.00	5,272.8	730.0	100.00
<i>Horizontal objectives</i>	929.7	127.0	13.41	956.0	130.3	12.77	1,191.4	164.9	22.60
<i>Specific sectors</i>	5,590.6	763.4	80.61	5,852.0	797.7	78.18	3,498.4	484.4	66.35
<i>Regional state aid</i>	282.0	38.5	4.07	482.2	65.7	6.44	404.6	56.0	7.67
<i>State aid at local level</i>	132.8	18.1	1.91	194.8	26.6	2.61	178.4	24.7	3.38

Source: Ministry of Finance, other state aid providers; data processed in CCA

4.1. HORIZONTAL AID

The rising trend of horizontal aid in 2008 which increased by 24.6 percent and by 28.2 percent in comparison to 2007 and 2006, respectively, was a consequence of an increase of aid for employment, research and development and innovation and aid earmarked for small and medium-sized enterprises. Namely, in 2008 state aid for employment increased by HRK 182 million in comparison to 2007, aid for small and medium-sized enterprises grew by HRK 118.9 million, whilst aid for research and development and innovation rose by HRK 48.7 million. Also higher was state aid for environmental protection and energy saving, whereas state aid for training and culture decreased.

In the structure of horizontal aid in 2008, the highest share – 55.5 percent in total aid with horizontal objectives pertains to aid for employment. It is followed by aid for research and development and innovation with the share of 17.6 percent, thereafter aid for small and medium-sized enterprises with the share of 14.5 percent, training aid with the share of 5.8 percent, aid for culture with the share of 3.5 percent, and aid for environmental protection and energy saving with the share of 3.1 percent.

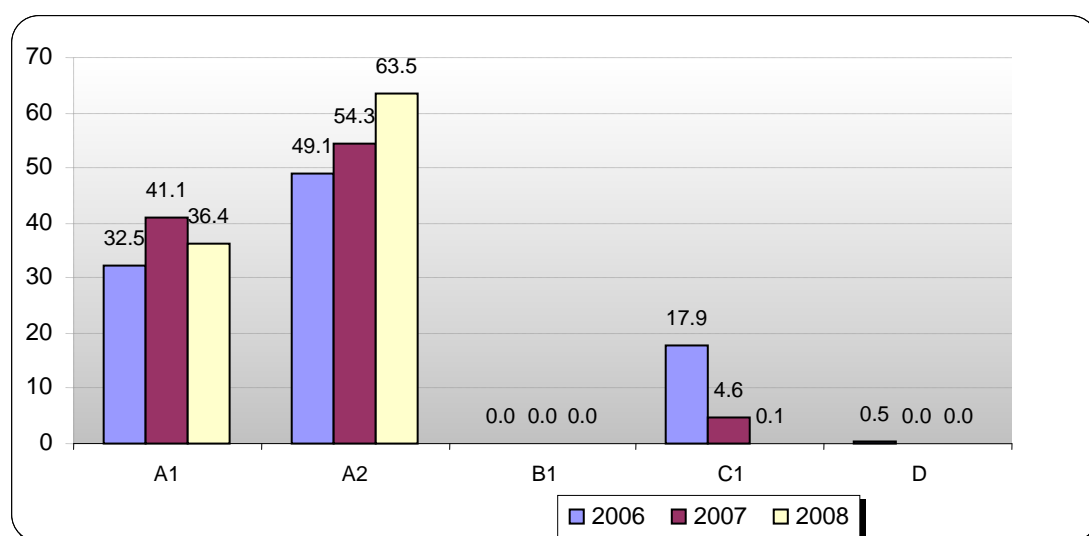
Table 11: Horizontal aid in the Republic of Croatia in the period 2006 - 2008

Horizontal aid	2006			2007			2008		
	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)
Research and development and innovation	138.8	19.0	0.05	160.9	21.9	0.05	209.6	29.0	0.06
Environmental protection and energy saving	23.8	3.3	0.01	20.7	2.8	0.01	37.1	5.1	0.01
Small and medium-sized enterprises	241.2	32.9	0.08	53.4	7.3	0.02	172.3	23.9	0.05
Training	101.2	13.8	0.04	182.7	24.9	0.06	69.3	9.6	0.02
Employment	334.5	45.7	0.12	479.8	65.4	0.15	661.8	91.6	0.19
Culture	90.2	12.3	0.03	58.5	8.0	0.02	41.3	5.7	0.01
TOTAL	929.7	127.0	0.32	956.0	130.3	0.30	1,191.4	164.9	0.35

Source: Ministry of Finance, other state aid providers; data processed in CCA

Horizontal aid in 2008 was mostly granted in the form of tax advantages and grants. In 2008 grants accounted for 63.5 percent of aid, whereas tax advantages and relieves accounted for 36.4 percent. In comparison with the previous year, 2007, there was a significant drop in grants but a recorded rise in tax advantages.

Figure 7: Horizontal aid by instruments¹³ in the period 2006 - 2008 (%)



Source: Ministry of Finance, other state aid providers; data processed in CCA

Figure 7 shows that in the period from 2006 to 2008 horizontal aid was mostly awarded in the form of grants and tax advantages, and only exceptionally in the form of soft loans and state guarantees.

4.1.1. Research and development and innovation

Aid for research and development and innovation (R&D&I) recorded constant growth during the last three-year period, so that in 2008 this aid was by 30.3 percent and by approximately 51 percent higher than in 2007 and in 2006, respectively. The share of this aid category in total aid earmarked for horizontal objectives has an upward trend, so in 2008 it accounted for 17.6 percent. As mentioned above, in 2008 aid for research and development and innovation was mostly granted in the form of tax advantages and grants.

In 2007 the Act on the Amendments to the Scientific Activity and Higher Education Act came into force (Official Gazette No. 123/03, 198/03, 105/04, 174/04 and 46/07) expanding the system of tax advantages for investments earmarked for research and development projects with simultaneous harmonisation with the relevant state aid rules. This creates more favourable conditions and encourages aid beneficiaries to increase investment in R&D&I projects.

¹³ A1 (grants), A2 (tax relieves, tax exemptions, tax remission and reduction of social contributions and allowances), B1 (equity participation), C1 (soft loans), C2 (other instruments), D (aid element in financial guarantees)

Table 12: State aid for research and development and innovation in the period 2006 - 2008

R&D and innovation	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	17.3	2.4	4.9	0.7	46.9	6.5
A2 tax advantages	121.5	16.6	156.0	21.2	162.7	22.5
TOTAL	138.8	19.0	160.9	21.9	209.6	29.0
Share (%) in horizontal objectives	14.93		16.83		17.59	
Share (%) in total state aid (less agriculture and fisheries)	2.00		2.15		3.98	
Share (%) in total state aid	1.46		1.50		2.38	
Share (%) of GDP	0.05		0.05		0.06	

Source: Ministry of Finance, other state aid providers; data processed in CCA

Besides aid for R&D and innovation that is awarded in conformity with the Scientific Activity and Higher Education Act mentioned above, pursuant to the Act on State Aid for Education and Training, HRK 162.7 million of aid for research and development and innovation was granted through tax advantages.

Also, the Ministry of Economy, Labour and Entrepreneurship, on the basis of the Measures for the promotion of development and production of equipment for application of renewable energy sources in manufacturing industry in the period 2008-2010, awarded HRK 1.1 million in grants for the purposes concerned to the undertakings Končar-Institut za elektrotehniku d.d. Zagreb, Centrometal d.o.o. Macinec, Tekol teri d.o.o. Rijeka and CEI Mikroelektronika d.o.o. Zagreb.

Furthermore, the Ministry of Science, Education and Sports awarded grants in the amount of HRK 45.7 million in accordance with the Guidelines for encouraging the Programme of the Croatian innovation technology system (RAZUM, KONCRO, IRCRO, TEST) to the undertakings such as Hrvatski institut za tehnologiju d.o.o. Zagreb, Poslovno - inovacijski centar Hrvatske BICRO d.o.o. Zagreb, Enel d.o.o. Split, Severttech d.o.o. Vidovec, Chirallica d.o.o. Zagreb and others.

At the same time, the Ministry of Economy, Labour and Entrepreneurship, in addition to aid mentioned above, awarded another HRK 521,196.69 in de minimis aid in line with the Programme of incentives for development and application of new technologies in small businesses, whereas the Ministry of Science, Education and Sports awarded HRK 7.3 million in de minimis aid in line with the Guidelines for encouraging the innovation technology system TEST.

If the amount of de minimis aid of HRK 7.9 million mentioned above is added to aid for research and development and innovation presented in Table 12, the total amount of aid granted for research and development and innovation in 2008 amounted to HRK 217.5 million.

Aid for Research and development and innovation¹⁴ may be awarded for fundamental research, experimental development and industrial research.

Aid amount and aid intensity for aid earmarked for fundamental research may account for as much as 100 percent of eligible costs, for industrial research up to 70 percent of eligible costs for small enterprises, 60 percent for medium-sized enterprises and 50 percent for large enterprises. For industrial research in case of a collaboration among a number of undertakings; for transnational projects for large enterprises with included at least one small or medium-sized enterprise or collaboration between one enterprise and a research organisation, or for dissemination of project results free of charge, aid intensity in comparison to eligible costs may account for up to 80 percent for small enterprises, up to 75 percent for medium-sized enterprises and up to 65 percent for large enterprises. For experimental development aid intensity may account up to 45 percent of eligible costs for small enterprises, up to 35 percent for medium-sized enterprises and up to 25 percent for large enterprises. For experimental development in the case of: a collaboration among a number of undertakings; for transnational projects for a large enterprise with included at least one medium-sized or small enterprise or collaboration of one enterprise with a research organisation, aid intensity in comparison with eligible costs accounts for up to 60 percent for small enterprises, up to 50 percent for medium-sized enterprises and up to 40 percent for large enterprises.

Eligible costs may include personnel costs for employees engaging exclusively in research activities, costs of instruments, equipment and property (building and land) used exclusively and continually for research activities, costs for advisory and similar services intended exclusively for research activities, and additional overheads and other operating expenses incurred directly as a result of research and development.

Aid for innovation may be awarded to innovation clusters, young innovative undertakings, research organisations and intermediaries specialising in the innovation area as beneficiaries of state aid within the meaning of Article 87 paragraph 1 of the EC Treaty, for public financing of non-market and market activities, for innovation processes and organisation of business operations in the services sector and for innovation advisory services and for innovation support services.

¹⁴ In Official Gazette No. 84/07 the Decision on the publication of rules on state aid for research and development and innovations was published.

4.1.2. Environmental protection and energy saving

In 2008 an aid amount of HRK 37.1 million was granted for environmental protection and energy saving, which was by approximately 80 percent, and by approximately 56 percent more in comparison to 2007 and 2006, respectively. The aid instrument most frequently used was grants.

An increase in the total amount of aid in 2008 of HRK 16.4 million in comparison to 2007 was a result of higher amounts of grants (HRK 11.4 million) awarded under the Strategy of the Environmental Protection and Energy Efficiency Fund.

According to the data received from aid providers, it was established that the biggest aid provider for environmental protection is the Environmental Protection and Energy Efficiency Fund. Namely, based on the Strategy of the Environmental Protection and Energy Efficiency Fund, in 2008 the amount of aid granted was HRK 33.3 million, and some of the beneficiaries were Koksara d.o.o. Bakar, Vindija d.d. Varaždin, Brković d.o.o. Sveta Nedjelja, Ytres d.o.o. Turčin, Odlagalište sirovina d.o.o. Zadar and Salonit d.d. Vranjic.

Table 13: Aid for environmental protection and energy saving in the period 2006 - 2008

Environmental protection and energy saving	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	19.6	2.7	18.4	2.5	36.0	5.0
C1 soft loans	4.2	0.6	2.3	0.3	1.1	0.1
TOTAL	23.8	3.3	20.7	2.8	37.1	5.1
Share (%) in horizontal objectives	2.56		2.17		3.11	
Share (%) in total state aid (less agriculture and fisheries)	0.34		0.28		0.70	
Share (%) in total state aid	0.25		0.19		0.42	
Share (%) of GDP	0.01		0.01		0.01	

Source: Ministry of Finance, other state aid providers; data processed in CCA

The highest portion of state aid for environmental protection and energy saving make grants in the amount of HRK 36 million. The amount of HRK 1.1 million was granted in the form of soft loans. The Ministry of Economy, Labour and Entrepreneurship awarded a total of HRK 3.8 million in grants for energy saving in 2008 in conformity with the Measures for the promotion of development and production of equipment for application of renewable energy sources in the manufacturing industry in the period 2008-2010 to the undertakings such as Končar – Inženjering za energetiku i transport d.d. Zagreb, Plamen International d.o.o. Požega, Solaris d.o.o. Novigrad, Brodarski institut d.o.o. Zagreb, Đuro Đaković kotlovi d.o.o. Slavonski Brod.

In 2008 the Environmental Protection and Energy Efficiency Fund also awarded de minimis aid for environmental protection in the amount of HRK 13.5 million.

If de minimis aid is added to the amount of total granted aid for environmental protection and energy saving of HRK 37.1 million, the total amount of granted aid for environmental protection and energy saving amounted to HRK 50.6 million.

Aid for environmental protection and energy saving¹⁵ may be awarded to remedy or prevent damage to our physical surroundings or natural resources, to attain environmental protection standards or to encourage the efficient use of these resources.

Aid amount and aid intensity of aid for compliance with the new binding standards for environmental protection for small and medium-sized enterprises accounts to as much as 15 percent of eligible costs, and for attaining a higher level of environmental protection than provided for by binding standards up to 40 percent of eligible costs, and with an increase of up to 10 percentage points in areas entitled to regional aid, for energy efficiency and simultaneous generation of electricity and thermal energy, and for renewable energy sources up to 40 percent of eligible costs, for rescue of polluted areas (on an exceptional basis) up to 100 percent of eligible costs plus 15 percent costs for operation.

Operating aid is aid to promote waste management and aid for energy saving, provided that it is limited to compensation for additional expenses of production in comparison with market-based prices of subject products or services (for a period of 5 years). Such aid must be limited in terms of duration and be phased out, and aid for harmonization with new or existing standards for small and medium-sized enterprises is allowable only for a period of 3 years following the adoption of those standards, whereas aid for relocation of undertakings may be authorised only in case that an undertaking has its establishment in a city area or in a protected area where, in accordance with law, it performs a business activity that causes a big pollution.

Eligible costs of investments into renewable energy are regular additional costs at the expense of the undertaking in comparison with a classical electric power plant of the same capacity, and in adaptation of small and medium-sized enterprises to new standards, eligible costs consist of costs of investments required for attaining a higher level of the protection of environment than the one which the undertaking or undertakings would have in case that the aid for environmental protection would not be awarded, whereas eligible costs of rescue of a polluted area that may be financed by aid are costs of labour decreased by the potential increase in the value of land after the remediation is carried out.

¹⁵ The Decision on the publication of the rules on State aid for environmental protection was published in Official Gazette No. 98/07 and 150/08.

4.1.3. Employment

State aid for employment in 2008 was granted in the amount of HRK 661.8 million, which was higher by 38 percent and 98 percent in comparison to 2007 and 2006, respectively. In the observed three-year period, state aid for employment was awarded mostly in the form of tax advantages and grants. The share of aid for employment in total granted aid with horizontal objectives has been constantly rising and in 2008 it accounted for approximately 55.5 percent.

Table 14: State aid for employment in the period 2006 - 2008

Employment	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	98.6	13.5	172.1	23.5	132.2	18.3
A2 tax advantages	235.9	32.2	307.7	41.9	529.6	73.3
TOTAL	334.5	45.7	479.8	65.4	661.8	91.6
Share (%) in horizontal objectives	35.98		50.19		55.55	
Share (%) in total state aid (less agriculture and fisheries)	4.82		6.41		12.55	
Share (%) in total state aid	3.53		4.49		7.51	
Share (%) of GDP	0.12		0.15		0.19	

Source: Ministry of Finance, other state aid providers; data processed in CCA

In 2008, pursuant to the Investment Promotion Act, HRK 240.7 million more employment aid in the form of tax advantages was granted than in 2007. Aid for employment was awarded by the Ministry of the Economy, Labour and Entrepreneurship, Ministry of Finance and the Fund for Professional Rehabilitation and Employment of Disabled Persons.

The Ministry of the Economy, Labour and Entrepreneurship awarded aid on the basis of the Annual plan for the promotion of employment for 2008, more precisely, HRK 99.1 million in the form of grants, to the undertakings Proizvodno trgovački centar Krka Knin d.o.o. Knin, Hrast-export-Puklavec d.o.o. Hrastovljan, Ceste Sisak d.o.o. Sisak, Zaštita Jurenec d.o.o. Koprivnica and others.

Aid for employment in the amount of HRK 525.3 million was granted pursuant to the Investment Promotion Act in the form of tax advantages.

Pursuant to the Profit Tax Act, in 2008 HRK 4.3 million aid was also granted for employment in the form of tax advantages.

Grants for employment amounting to HRK 33.1 million were awarded by the Fund for Professional Rehabilitation and Employment of Disabled Persons on the basis of the Decision on eligibility criteria for employment incentives for disabled persons to the undertakings URIHO Zagreb, Belišće d.d. Belišće, DES Split, Ericsson Nikola Tesla Zagreb, Biokalnik – IPA d.o.o. Koprivnica, Privredna banka Zagreb d.d. Zagreb, Suvenir Arbor Vitae d.o.o. Sirač, LADA d.o.o. Zagreb and others. This Fund also awarded HRK 18.4 million in de minimis aid for employment of disabled persons.

De minimis aid for employment was also awarded by the Ministry of Family, Veterans' Affairs and Intergenerational Solidarity, which in 2008 granted HRK 8 million on the basis of the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011.

In 2008 HRK 26.4 million de minimis aid for employment was granted. Together with other aid for employment, this amounts to the total of HRK 688.2 million in employment aid.

State aid for employment¹⁶ may be granted for job creation, aid to promote the recruitment of disadvantaged persons or disabled persons, and for covering additional costs of employment of disabled persons. State aid for employment may not be awarded to undertakings in the shipbuilding industry, for job creation in the transport sector, and for exports-related activities.

Aid for job creation may be awarded for employment of persons who have not previously obtained their first regular paid employment or those who will lose a job. In so doing, the aid mentioned above in the areas entitled to regional aid may be awarded to all undertakings in the amount specified by the regional aid map, provided that the aid beneficiary contributes at least 25 percent of own funds. In job creation in the areas that are not entitled to regional aid may be awarded only to small and medium-sized enterprises, and to small enterprises in the amount of up to 15 percent of eligible costs and medium-sized enterprises in the amount of up to 7.5 percent of eligible costs, whereas aid to maintain jobs may be awarded to an undertaking if it is intended for removal of consequences of natural disasters, extraordinary or war circumstances, if it is earmarked for development incentives in underdeveloped areas in accordance with the requirements for award of operating aid, and if the job maintenance is an integral part of the schemes for rescue and restructuring of undertakings in accordance with the rules on aid for rescue and restructuring. For employment of disabled persons, gross aid intensity for additional costs of adaptation of the facilities and equipment may amount up to 100 percent of eligible costs, while in employment of disadvantaged persons (persons belonging to a category which has difficulty entering the labour market) or disabled persons gross aid intensity may not exceed 50 percent and 60 percent of eligible costs for disadvantaged persons and disabled persons, respectively.

¹⁶ The Decision on the publication of the rules on State aid for employment was published in Official Gazette No. 68/08.

Eligible costs for job creation are gross wages for a two-year period, whilst new jobs must be maintained for at least two or three years. New jobs represent the net increase in the number of employees (i.e., additional jobs) in relation to the average workforce over the previous 12 months in the company concerned, whilst operational costs for employment of disabled persons are all additional costs of adaptation of space, procurement of equipment and employment of persons assisting disabled persons to adapt to working environment.

4.1.4. Small and medium-sized enterprises

In 2008 small and medium-sized enterprises (SMEs) were granted aid in the amount of HRK 172.3 million, which was by 222.0 percent more than in 2007, but by 29 percent less than in 2006.¹⁷

Table 15: State aid to small and medium-sized enterprises in the period 2006 - 2008

Small and medium-sized enterprises	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	74.2	10.1	11.7	1.6	172.3	23.9
C1 soft loans	162.0	22.1	41.7	5.7	0.0	0.0
D1 guarantees	5.0	0.7	0.0	0.0	0.0	0.0
TOTAL	241.2	32.9	53.4	7.3	172.3	23.9
Share (%) in horizontal objectives	25.94		5.59		14.46	
Share (%) in total state aid (less agriculture and fisheries)	3.48		0.71		3.27	
Share (%) in total state aid	2.54		0.50		1.96	
Share (%) of GDP	0.08		0.02		0.05	

Source: Ministry of Finance, other state aid providers; data processed in CCA

In 2008 state aid to small and medium-sized enterprises was awarded by the Croatian Bank for Reconstruction and Development and the Ministry of Regional Development, Forestry and Water Management. Specifically, in conformity with the Ordinance on the basic financing criteria for specific target groups, the Croatian Bank for Reconstruction and Development granted for small and medium-sized enterprises HRK 94.4 million in grants to the undertakings Ostrea d.o.o. Benkovac, Kemoplast d.o.o. Poličnik, Development d.d. Ilok, TTS Sport d.o.o. Varaždin, Žitni terminal d.o.o. Vranjic, Chrono d.o.o. Split and others. At the same time, the Ministry of Regional Development, Forestry and Water Management awarded state aid for small and medium-sized enterprises on the basis of two aid schemes: the Operational programme for

¹⁷ The difference of HRK 118.9 million of the higher amount of total aid granted in 2008 in comparison with 2007 is a result of the higher amount of grants of HRK 83.3 million awarded in 2008 by the Croatian Bank for Reconstruction and Development pursuant to the Ordinance on the basic financing criteria for specific target groups, and HRK 52.7 million worth grants provided in accordance with the Operational programme of development of industrial wood processing of the Republic of Croatia (for 2007 the Agency did not receive data on state aid granted in accordance with this programme).

development of industrial wood processing of the Republic of Croatia from 2006 to 2010 in the total amount of HRK 52.7 million to the undertakings Valis – fagus d.o.o. Požega, Spačva d.d. Vinkovci, Pan parket d.o.o. Čačinci, PPS Galeković Mraclin, TVIN d.o.o. Virovitica and others, whereas HRK 25.2 million were awarded in compliance with the Social and economic recovery project aimed at recovery of the areas of special state concern in the Republic of Croatia, to the undertakings Interijer Ćurko d.o.o. Vrlika, Megram d.o.o. Hrvace, Aldiko d.o.o. Zagvozd, Naturalis d.o.o. Civljane and others.

In addition to the state aid in the amount of HRK 172.3 million, in 2008 small and medium-sized enterprises also received de minimis aid amounting to HRK 162.6 million under the aid schemes of the Development and Employment Fund, the Croatian Agency for Small Entrepreneurship, the Croatian Institute for Pension Insurance and the Ministry of the Economy, Labour and Entrepreneurship. This category of state aid also accounts for the highest share in aid granted by the local and regional self-government units. In view of the above, in 2008 small and medium-sized enterprises were awarded in excess of HRK 335 million in various forms of state aid, under various aid schemes established by various aid providers – ministries, HBOR, fund and agencies, local and territorial (regional) self-government units.

Aid for small and medium-sized enterprises may be awarded¹⁸ for promotion of initial investments, for services provided by outside consultants and participation in fairs and exhibitions, and are intended to increase the interest of citizens to enter entrepreneurship and facilitate their investments in entrepreneurial undertakings, however, the possibility of award of this aid category to undertakings for shipbuilding industry and maritime transport is explicitly excluded.

Eligible costs are related to initial investments in the form of tangible and intangible investments, job creation, gross wage for new jobs related to investment for a two-year period and consultancy services, as well as for the first participation of an enterprise in a fair or exhibition.

The amount of aid to small and medium-sized enterprises is calculated on the basis of eligible costs of investments or eligible costs of job creation for investment-related jobs. The following requirements should be taken into consideration in the calculation of the amount of aid on the basis of eligible costs of job creation: the job has to be related to the implementation of the initial investments project and has to be filled during three years after the completed investment; the investment project has to ensure an increase in the number of workers in the company in comparison with the average over the last 12 months and new jobs have to be maintained for at least five years; in an area entitled to regional aid, aid to small and medium-sized enterprises can be provided up to the ceiling specified in the regional aid map, provided

¹⁸ The Decision on the publication of the rules on State aid for SMEs was published in Official Gazette No. 39/08.

that the investment is maintained in the respective area for at least three years upon the completion of the investments, and provided that the aid beneficiary participated in such investments with at least 25 percent of own funds. It is deemed that capital investments and job creation can also contribute to economic development in regions that are not entitled to regional aid, and it is also considered that small and medium-sized enterprises in those areas should be assisted in overcoming the difficulties arising from their size. The allowed ceiling of aid intensity is as follows: up to 7.5 percent of eligible costs of investments for medium-sized enterprises, up to 15 percent of eligible costs of investments for small enterprises and 50 percent of eligible costs for services provided by outside consultants and for the first participation of an enterprise in a fair or exhibition. For investments pertaining to the areas that meet the requirements for award of regional aid, aid intensity must not exceed foreseen regional aid ceilings.

4.1.5. Training

State aid for training in 2008 was granted in the amount of HRK 69.3 million, which is 62 percent less than in 2007, or 31.5 percent less than in 2006. Aid instruments in 2008 were typically tax advantages (92.4 percent), whereas in 2007 the majority of aid granted for this purpose was grants (69.7 percent).

Table 16: Training aid in the period 2006 - 2008

Training	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	1.9	0.3	127.4	17,4	5,3	0,7
A2 tax advantages	99.3	13.5	55.3	7,5	64,0	8,9
TOTAL	101.2	13.8	182.7	24,9	69,3	9,6
Share (%) in horizontal objectives	10.89		19.11		5.82	
Share (%) in total state aid (less agriculture and fisheries)	1.46		2.44		1.31	
Share (%) in total state aid	1.07		1.71		0.79	
Share (%) of GDP	0.04		0.06		0.02	

Source: Ministry of Finance, other state aid providers; data processed in CCA

The Ministry of the Economy, Labour and Entrepreneurship, on the basis of the Annual plan for the promotion of employment in 2008, awarded for training purposes HRK 5.3 million in grants to the undertakings TVIN drvna industrija d.o.o. Virovitica, Prvi maj d.d. Laslovo, MIV metalska industrija Varaždin d.d. Varaždin, A-G Dinas d.o.o. Đurđenovac, T.K.T. Zlatna igla d.o.o. Zagreb, Triko d.o.o. Ilok and others, whereas in 2007, according to the data submitted, as reflected in a similar aid scheme, HRK 127.4 million was awarded in grants.

In 2007 the Croatian Parliament adopted the Act on State Aid for Education and Training (Official Gazette, No. 109/07, 134/07 and 152/08), which stipulates in detail the award and types of training aid. In compliance with the Act on State Aid for Education and Training, HRK 64 million was granted in tax advantages.

Rules on training aid¹⁹ enable providing of aid for specific training intended for acquisition of theoretical and practical knowledge directly and principally applicable to the employee's present or future position in the assisted firm, and for general training which provides qualifications which are largely transferable to other firms or other fields of work.

Aid amount and intensity in terms of state aid for specific training accounts for up to 25 percent of eligible costs for large enterprises, up to 35 percent of eligible costs for small and medium-sized enterprises plus 10 percent of eligible costs for areas entitled to regional aid; for general training aid accounts for up to 50 percent of eligible costs for large enterprises, up to 70 percent of eligible costs for small and medium-sized enterprises plus 10 percent of eligible costs for areas entitled to regional aid plus 10 percent of eligible costs for the category of employees having difficulty entering the labour market without assistance. When a project covers specific and general training, which can not be observed separately for purposes of calculation of aid intensity, and in cases when the difference between a specific and general training can not be determined, intensities related to specific training will be applied.

Eligible costs pertain to the trainers' personnel costs, trainers' and trainees' travel costs, other current expenses, depreciation of tools and equipment to the extent that they are used for training purposes, costs of guidance and counselling services related to the training project and costs of training participants up to the amount of all eligible costs referred to above.

4.1.6. Culture

The year 2008 saw granting of aid to promote cultural objectives and heritage preservation amounting to HRK 41.3 million, a figure lower by 29.4 percent in comparison with aid granted in 2007. As reflected in the submitted data, aid to promote culture and heritage preservation was granted exclusively in the form of grants.

¹⁹ The Decision on the publication of rules on training aid was published in Official Gazette No. 68/08.

Table 17. State aid to promote culture in the period 2006 - 2008

Culture	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	90.2	12.3	58.5	8.0	41.3	5.7
TOTAL	90.2	12.3	58.5	8.0	41.3	5.7
Share (%) in horizontal objectives	9.70		6.12		3.47	
Share (%) in total state aid (less agriculture and fisheries)	1.30		0.78		0.78	
Share (%) in total state aid	0.96		0.55		0.47	
Share (%) of GDP	0.03		0.02		0.01	

Source: Ministry of Finance, other state aid providers; data processed in CCA

The aid provider in the area of culture is the Ministry of Culture. The Ministry awarded aid in compliance with the Act on Financing of Public Needs in Culture and the Programme for the financing of publishers in 2008 for publishing of books and magazines, financing literary events etc. in the amount of HRK 6.6 million to the undertakings Druga strana d.o.o. Zagreb, Alfa d.d. Zagreb, V.B.Z. d.o.o. Zagreb, Fraktura d.o.o. Ivanec Bistranski, Profil International d.o.o. Zagreb, Demetra d.o.o. Zagreb and others. In 2008 the Croatian Audiovisual Centre awarded HRK 32 million in grants under the aid scheme Film and Cinematography (to Interfilm, Kinorama, Propeler film, Telefilm and others).

Aid to culture may be provided to promote culture and heritage preservation, as well as the promotion of audiovisual and cinematography industry²⁰, in other words, to promote culture and protection of heritage up to 100 percent of eligible costs. It should be noted that the project at issue has to be significant for the development of the Croatian culture, whereas in the case of the promotion of audiovisual industry the aid intensity is limited to 50 percent of eligible costs, whilst the producer must be free to spend up to 20 percent of the film budget outside of the Republic of Croatia, and this aid intensity may also be higher for non-commercial and low-budget films.

²⁰ The Decision on the publication of the rules on State aid for cinematography and other audio-visual activities was published in Official Gazette No. 46/08.

4.2. SECTOR-SPECIFIC AID

Sector-specific aid granted according to specific rules applicable to industry and services include the steel sector, shipbuilding, transport and public service broadcasting.

In addition to the sectors referred to above, in the last three years a significant amount of state aid was also awarded to the tourism sector, for which there are no special state aid rules, but, on account of the importance of this sector for the Republic of Croatia and its economy, state aid granted to tourism has been separately presented in this section as well.

Rescue and restructuring aid was not awarded as part of the horizontal aid schemes, but was provided as individual state aid to undertakings. Consequently, this kind of aid was also presented in this part of the Report, since its impact on the distortion of competition is similar to the impact of sector-specific aid.

In 2008 aid granted to the sectors indicated above (steel industry, transport, shipbuilding, tourism, public service broadcasting and to other sectors for rescue and restructuring) amounted to a total of HRK 3,498.4 million.

In this amount, state aid to transport amounted to HRK 1,452.7 million and was awarded mostly for the compensation of costs in the railway, air and maritime transport pertaining to the discharge of the services of general economic interest (Article 4 paragraph 3 (e) of the Act).

Taking into consideration that it was established that the radio/TV licence fee also constitutes state aid²¹, this aid was included into this Report for the first time. The amount at issue is the size of approximately HRK 1 billion per annum, and is awarded to Hrvatska radiotelevizija (the Croatian Radio and Television company), pursuant to the Croatian Radio-Television Act.

The third ranking on the list of sector-specific aid beneficiaries are the Croatian shipyards, which in 2008 were granted state aid worth approximately HRK 600 million in

²¹ Payment of the radio/TV licence fee has inherent aid elements, despite the fact that in the case in question it does not constitute a direct budgetary expenditure. Yet, pursuant to the Croatian Radio-Television Act it is an established obligation of radio and TV broadcast subscribers to pay for the prescribed fees. This conclusion arises from the fact that this particular fee paid to the Croatian public service broadcaster as a state aid beneficiary gives it a financial advantage in comparison with private television companies that are financed in accordance with market conditions and on the basis of their own revenues.

the form of grants and state guarantees.

The tourism sector was awarded HRK 162.9 million in aid, whilst state aid to other non-specified sectors totalled HRK 134.7 million.

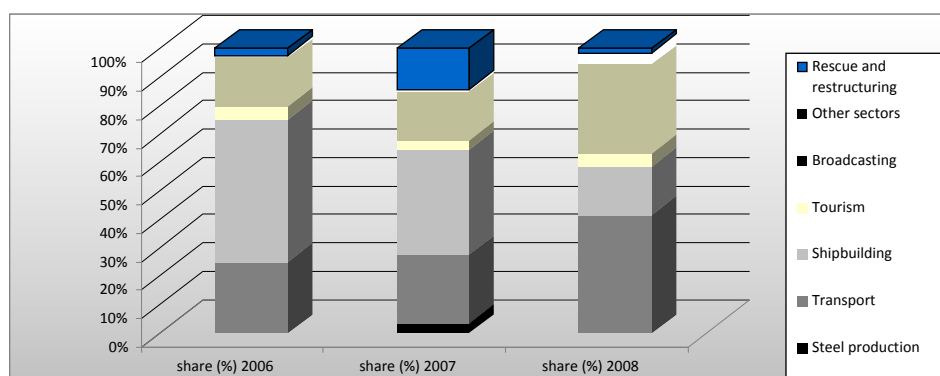
Table 18: Sector-specific aid in the period 2006 – 2008

Specific sectors	2006			2007			2008		
	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)
Steel industry	1.0	0.1	0.00	196.3	26.7	0.06	0.0	0.0	0.00
Transport	1,394.7	190.5	0.49	1,407.2	191.8	0.45	1,452.7	201.1	0.42
Shipbuilding	2,797.8	382.1	0.98	2,173.5	296.3	0.69	594.7	82.3	0.17
Tourism	261.0	35.6	0.09	178.4	24.3	0.06	162.9	22.6	0.05
Public service broadcasting (radio and television)	958.5	130.9	0.33	1,010.6	137.8	0.32	1,100.0	152.3	0.32
Other sectors	40.6	5.5	0.01	40.4	5.5	0.01	134.7	18.7	0.04
Rescue and restructuring	137.0	18.7	0.05	845.6	115.3	0.27	53.4	7.4	0.02
Total	5,590.6	763.4	1.95	5,852.0	797.7	1.86	3,498.4	484.4	1.02

Source: Ministry of Finance, other state aid providers; data processed in CCA

In the last three-year period state aid granted to the transport sector, aid to public service broadcasting and shipbuilding accounted for the highest share in sector-specific aid; the amount of state aid earmarked for transport has not changed significantly, and the same goes for the public service broadcasting, whereas the amount of state aid granted to shipbuilding has been changing depending on the character of state guarantees that are given in this sector. Specifically, in 2006 and 2007 the state guarantees were intended for rescuing of the shipyards. In the relevant years aid to shipbuilding had the highest share in sector-specific aid, followed by state aid for transport and public service broadcasting. In 2008 state guarantees continued to be given in the shipbuilding sector, however, these guarantees did not involve rescue aid. Only in the process of the assessment of restructuring plans will it be possible to assess how much state aid is contained in the overall amount of state guarantees given in 2008 and which of the issued guarantees were for advance payments and as such do not contain state aid. In comparison to other sector-specific aid, such as tourism and other non-specified sectors, amounts of state aid differ from one year to another depending on the problems that emerge in those sectors, or, although to a much lesser extent, depending on the aid schemes encouraging development in a particular sector. Also, one of the characteristics of the sector-specific aid in 2008 is the absence of aid to the steel sector. It was envisaged that 2007 would see the implementation of the national restructuring programme in this sector and of the individual business plans of the new owners of two Croatian steelworks. This is discussed in greater detail in the following section of this Report.

Figure 8: Structure of granted sector-specific aid in the period 2006 - 2008 (%)



Source: Ministry of Finance, other state aid providers; data processed in CCA

4.2.1. Steel industry

In compliance with the provisions of Protocol 2 of SAA ²², in the period of five years, i.e., until 1 March 2007, the Republic of Croatia was able to grant state aid for rescue and restructuring of the steel sector, although this type of aid is prohibited for this sector pursuant to the EU state aid rules.

The prerequisite for the award of state aid in this sector is the implementation of the restructuring process in the iron and steel sector. Therefore, the Government of the Republic of Croatia decided to carry out the necessary restructuring through privatisation. The privatisation process of Split and Sisak steelworks was launched at the end of 2006 and completed in mid-2007. A share purchase agreement on the transfer of interest in Valjaonica cijevi Sisak d.o.o. to the undertaking Commercial Metals International AG, with its headquarters in Baar, Switzerland was concluded in July 2007 (this was followed by the change of the company's name from Valjaonica cijevi Sisak d.o.o. to CMC Sisak d.o.o.). In August 2007 an agreement on transfer of shares of the undertaking Željezara Split d.d., Kaštel Sućurac was signed between the Croatian Privatisation Fund and the undertaking Zlomrex S.A., Poraj, Poland. The objectives and conditions under which the restructuring was carried out are contained in the Restructuring Programme for the Croatian Steel Industry for 2007–2013 which was adopted by the government in February 2007 and revised in June 2008 in accordance with the adopted individual business plans of the elected investors.

²² Pursuant to Article 5 paragraph 3 of Protocol 2 of the SAA, within five years from coming of SAA into force the Republic of Croatia was exceptionally able to approve state aid for restructuring provided that this, at the end of the restructuring period rendered the undertaking viable under regular market conditions, that the amount and intensity of such aid are strictly limited to what is indispensable for restoring viability, that this aid is gradually reduced and that the restructuring programme is linked with global rationalization and capacities reduction in the Republic of Croatia.

Table 19: State aid to the steel sector in the period 2006 - 2008

Steel industry	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A2 debt write-off	0.0	0.0	196.3	26.7	0.0	0.0
C1 soft loans	1.0	0.1	0.0	0.0	0.0	0.0
TOTAL	1.0	0.1	196.3	26.7	0.0	0.0
Share (%) in specific sectors	0.02		3.35		0.00	
Share (%) in total state aid (less agriculture and fisheries)	0.01		2.62		0.00	
Share (%) in total state aid	0.01		1.84		0.00	
Share (%) of GDP	0.00		0.06		0.00	

Source: Ministry of Finance, other state aid providers; data processed in CCA

As reflected in the data in Table 19, state aid for steel industry was not granted in 2008.

4.2.2. Shipbuilding

In 2008 the shipbuilding sector was granted HRK 594.7 million in aid, in 2007 HRK 2,173.5 million, and in 2006 HRK 2,797.8 million. Consequently, in 2008 granted state aid was lower by 72.6 percent in comparison to 2007, primarily because in 2008 considerably fewer state guarantees were issued than in 2006 and 2007.²³ State guarantees given for rescue of the shipyards in 2006 and 2007 significantly affected the total amount of aid granted to the shipbuilding sector because, in conformity with the methodology described in point 2.2.1. of this Report, the whole amount of rescue aid covered by state guarantees constitutes state aid.

Of HRK 594.7 million of state aid granted in 2008, HRK 376.1 million were grants, whereas HRK 218.6 million was state aid contained in issued state guarantees.

²³ In line with point I.4. of the disposition of the Agency's decision on the approval of rescue aid for the shipyards, Class: UP/I 430-01/2006-02/46, Reg. No.: 580-06-03-17-19, dated 21 September 2006, in 2008 a state guarantee was issued in the amount of HRK 79.4 million as a construction-financing guarantee for a newbuilding 708 and to cover for the operating costs of the undertaking 3. Maj Brodogradilište d.d. In 2007 the amount of state guarantees issued totalled HRK 1,567.8 million as rescue aid for the shipyards authorised on the basis of the said decision, whereas in 2006 as much as HRK 2,188.8 million. Given that the state guarantees at issue were for loans and advance payments for rescue of the shipyards in difficulty, for which the probability of repayment is very low, the guarantees concerned are considered state aid in their full amount.

Table 20: Amount of authorised and used state guarantees for rescue per individual shipyard in the period 2006-2008 (HRK mill.)

	Undertaking	Issued and used guarantees				Authorised guarantees	Share (%) (5/6)*100
		2006	2007	2008	Total (2+3+4)		
	1	2	3	4	5	6	7
a	Brodosplit-Brodogradilište d.o.o.	808.6	853.9	-	1,662.5	1,687.6	98.5
b	Brodotrogir d.d.	456.0	160.6	-	616.6	624.9	98.7
c	Brodogradilište Kraljevica d.d.	165.6	52.2	-	217.8	220.8	98.7
d	3. Maj Brodogradilište d.d.	758.6	494.9	79.4	1,332.8	1,670.7	79.8
e	Brodosplit- Brodogradilište specijalnih objekata d.o.o.	-	6.3	-	6.3	139.7	4.5
f	Total (a+b+c+d+e)	2,188.8	1,567.8	79.4	3,836.0	4,343.6	88.3

Source: Ministry of Finance, undertakings-shipyards, other state aid providers, data processed in CCA

Within the observed three years, of the total authorised HRK 4,343.6 million in state guarantees for rescue of shipyards, a total of HRK 3,836 million, or approximately 88.3 percent of the total authorised amount was granted (Table 20). It should be noted here that the figures indicated above represent approximate use of aid of 88.3 percent, given the significant differences between the exchange rates of EUR and USD to HRK on the day of authorisation of rescue aid and the day on which the state guarantee was actually issued.²⁴ Rescue aid was granted in the full amounts in line with the corresponding decisions on their authorisation for the following shipyards: Brodosplit – Brodogradilište d.o.o., Brodotrogir d.d. and Brodogradilište Kraljevica d.d., whereas in the case of the undertaking 3. Maj Brodogradilište d.d. and Brodosplit – Brodogradilište specijalnih objekata d.o.o., not all authorised state guarantees have been used²⁵. The breakdown of the ratio between the authorised state guarantees and actually used state guarantees for Croatian shipyards is presented in Table 20.

²⁴ The amounts of authorised state guarantees in HRK under the decisions of the Agency were calculated according to the exchange rate of the Croatian National Bank as of 21 September 2006 (and on 18 January 2007). The mentioned differences in the amounts of actually granted and used guarantees arise from the fact that the amounts of issued state guarantees in HRK had been taken from the Overview of issued guarantees per year from Official Gazette and from the documentation which had been delivered by the Ministry of Finance, and then calculated using the exchange rate of EUR and USD on the day of issuance of the state guarantee.

²⁵ For example, in the case of the undertaking 3. Maj Brodogradilište d.d. the amount of HRK 71.9 million of state guarantees issued in 2008 to cover the loan for financing of the newbuilding 709, which was authorised by the Decision of the Agency on rescue aid from September 2006, was not used because the bank cancelled the loan agreement. Similarly, in 2007 for the purposes of the construction of the newbuildings 510, 511 and 512 state guarantees were issued to cover the financing of the undertaking Brodosplit – Brodogradilište specijalnih objekata d.o.o. in the amount of HRK 133.2 million, which, however, have never been used.

Table 21: State aid to shipbuilding sector by instruments in the period 2006-2008²⁶

Shipbuilding	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	484.7	66.2	386.1	52.6	376.1	52.1
D guarantees	2,313.1	315.9	1,787.4	243.7	218.6	30.2
TOTAL	2,797.8	382.1	2,173.5	296.3	594.7	82.3
Share (%) in specific sectors	50.04		37.14		17.00	
Share (%) in total state aid (less agriculture and fisheries)	40.34		29.04		11.28	
Share (%) in total state aid	29.52		20.32		6.75	
Share (%) of GDP	0.98		0.69		0.17	

Source: Ministry of Finance, other state aid providers; data processed in CCA

In 2008 a greater part of state aid for the shipbuilding sector was issued in the form of grants²⁷ than in the form of state guarantees (approximately HRK 376 million in grants and HRK 218 million in guarantees). In 2007 and 2006, the amount of state aid to the shipbuilding sector was granted in a much higher amount in the form of guarantees than in the form of grants.

In 2008, of HRK 376 million in grants awarded under the Ordinance on o grants to shipbuilding, the biggest amounts were awarded to the shipyards Uljanik Brodogradilište d.d., Brodosplit – Brodogradilište d.o.o., 3. Maj Brodogradilište d.d., Brodotrogir d.d., Brodogradilište Kraljevica d.d., Brodogradilište Viktor Lenac d.d. in bankruptcy, Brodosplit – Brodogradilište specijalnih objekata d.o.o. and Radež d.d. Blato, whereas HRK 218 million in guarantees was granted to 3. Maj Brodogradilište d.d., Brodosplit - Brodogradilište d.o.o., Brodogradilište Kraljevica d.d., Brodotrogir d.d. and Brodogradilište Kraljevica d.d.

The largest portion of the total amount of state aid granted to this sector in 2008 pertains to six large Croatian shipyards (Uljanik Brodogradilište d.d., Brodosplit – Brodogradilište d.o.o., 3. Maj Brodogradilište d.d., Brodotrogir d.d., Brodogradilište Kraljevica d.d. and Brodosplit – Brodogradilište specijalnih objekata d.o.o.), whereas the remaining amount of HRK 17.4 million in aid granted to shipbuilding were grants to Brodogradilište Viktor Lenac d.d. in bankruptcy and Radež d.d., Blato.²⁸

²⁶ A part of the data for the purposes of the preparation of this Report pertaining to state guarantees in the shipbuilding sector was collected from aid providers and aid beneficiaries, and a portion of data, in particular relating to guarantees issued for rescuing of the shipyards, were calculated by the Agency on the basis of the data published in Official Gazette.

²⁷ Grants in the shipbuilding industry are awarded in a specific percentage depending on the contract price of the newbuilding.

²⁸ Of the total amount of state aid granted to the shipbuilding industry in 2008, for the undertaking Uljanik Brodogradilište d.d. the amount granted was HRK 116.5 M in grants, for Brodosplit – Brodogradilište d.o.o. the amount was HRK 99.2 M in grants and HRK 63.8 M in state aid contained in issued state guarantees, for 3. Maj Brodogradilište d.d. the amount of HRK 89.2 M in grants and HRK 106.1 M contained in issued state

In comparison with the granted state guarantees for rescue in the period from 2006 to 2008, one-quarter of state guarantees for rescue pertained to guarantees for advance payments, whereas the remaining amount pertained to state guarantees to cover the loans for financing of the newbuildings. Given the shipyards could not operate without the granted state guarantees, and it is likely that due to the situation in this sector the total amount of guarantees will be paid by the state – unless prospective investors do it – in the calculation of state aid in the issued state guarantees for rescue the Agency considered that the full amount of state guarantees constitutes rescue aid. This approach was justified in late 2008, when the Ministry of Finance effected payment upon the invoked state guarantee issued to cover the loan for rescue of the undertaking 3. Maj Brodogradilište d.d., which amounted to HRK 289.7 million together with principal and corresponding interest (as reflected in Official Gazette on the day of issuing the state guarantee covered the amount in the countervalue of HRK 318.6 million).²⁹

Table 22 illustrates a breakdown of total amounts of aid contained in state guarantees for the shipbuilding sector in the period from 2006 to 2008.

guarantees, for Brodotrogir d.d. HRK 30.4 M in grants and HRK 29.1 M contained in issued state guarantees, for Brodogradilište Kraljevica d.d. HRK 16.7 M in grants and HRK 19.7 M in granted state guarantees, for Brodosplit – Brodogradilište specijalnih objekata d.o.o. HRK 6.7 M in grants, for Brodogradilište Viktor Lenac d.d. in bankruptcy HRK 13.5 M in grants and for Radež d.d., Blato HRK 3.9 M in grants.

²⁹ The Ministry of Finance has submitted data according to which in 2008 payments were effected against invoked state guarantee covering the loan of Depfa Bank secured by state guarantee granted to undertaking 3. Maj Brodogradilište d.d., in the amount of USD 54.5 M of principal and USD 0.6 M of interest, in the countervalue of HRK 289.7 M. Prior to that, in accordance with the data published in Official Gazette, in 2006 a state guarantee had been issued for the said undertaking in conformity with the Restructuring and operation rationalisation plan, for the loan of the same bank and with the same principal in USD, which in Kuna countervalue on the day of issuance of the state guarantee amounted to HRK 318.6 M. In order to avoid double reporting, and given that this is a case of one state guarantee, issued in 2006, and invoked in the full principal amount in 2008, the Agency indicated it only once, namely, in the total amount of state aid under issued state guarantee in 2006 in the amount of HRK 318.6 M. As this is a state guarantee authorised by the Agency's Decision on authorised rescue aid for the undertaking 3. Maj Brodogradilište d.d. dated 21 September 2006, the overall amount of the issued guarantee is calculated as state aid.

Table 22: State guarantees to shipbuilding in the period 2006-2008 (in million HRK)

No.	Description	2006	2007	2008
1.	Total issued state guarantees for shipbuilding	4,408.2	4,704.2	2,480.1
2.	Issued state guarantees for rescue of shipyards	2,188.8	1,567.8	79.4
3.	Issued state guarantees for shipbuilding less guarantees for rescue of shipyards (rows 1-2)	2,219.3	3,136.4	2,400.7
4.	Aid contained in issued state guarantee less rescue guarantees (row 3) ³⁰	124.3	219.5	139.2
5.	Total amount state aid contained in state guarantees in the shipbuilding sector (rows 2+4)	2,313.1	1,787.4	218.6

Source: Ministry of Finance, undertakings-shipyards, other state aid providers; data processed in CCA

Given that in the three observed years no state guarantees issued in favour of shipyards were invoked, excluding the state guarantees to cover rescue aid (in 2008 a guarantee covering rescue aid in the amount of HRK 289.7 million was invoked), in this Report these state guarantees were not considered state aid in their full amount, however the amount of aid included in those guarantees was calculated on the basis of a separate calculation methodology.

More precisely, using the above calculation methodology, state guarantees issued and used for shipbuilding contained aid which in 2006 accounted for approximately 5.6 percent, in 2007 it accounted for 7 percent, and in 2008 its share was 5.8 percent. The calculation method described above was applied to the overall liabilities involving loans and advance payments of the shipyards covered by state guarantees, except for state guarantees that covered rescue aid (Table 22). When the percentages mentioned above apply to the amount of issued guarantees (in 2006 a total of HRK 4,408.2 million was issued in state guarantees for the shipbuilding sector, in 2007 a total of HRK 4,704.2 million in state guarantees, and in 2008 HRK 2,480.1 million in state guarantees), these guarantees contain aid in the amount of HRK 2,313.1 million in 2006, HRK 1,787.4 million in 2007 and HRK 218.6 million in 2008. It should be also noted that the aid element contained in state guarantees for 2008 is not final and it will be possible to determine it more precisely in the course of the implementation of the restructuring process of each individual shipyard.

³⁰ The grant equivalent included in the amount of state guarantees which were not issued for rescue, is the balance between the reference rate, i.e., market interest and the contractual interest rate actually paid for the loan covered by state guarantee. The market interest rate is calculated by using the reference interest rate, valid in the year of the award of the loan, which is, given the shipyards are firms in difficulty, and in accordance with the rules on reference rate, increased by the amount of 4 percentage points. The market interest rate so calculated was 9.44 percent in 2006, in 2007 it was 9.52 percent, and 9.90 percent in 2008.

Rules on state aid to shipbuilding³¹ pertain to ship builders performing the activities of shipbuilding, ship repair and ship conversion, or undertakings that are directly or indirectly related to them. Only the following vessels are considered ships for the purposes indicated: only self-propelled seagoing commercial vessels, i.e., vessels of not less than 100 gt used for the transportation of passengers and/or goods, vessels of not less than 100 gt for the performance of a specialised service, tugs of not less than 365 kW, fishing vessels of not less than 100 gt and unfinished shells of the vessels that are afloat and mobile. The state aid indicated above may not be added to other forms of aid if the total sum exceeds the allowed ceiling of aid intensity for a specific type of aid. In case that aid is granted according to various bases, on the basis of the same eligible costs, the more favourable ceiling of aid intensity applies.

State aid may be provided for the following purposes: for environmental protection and research and development and innovation on the basis of rules for horizontal aid; for rescue and restructuring, with the requirements for this type of aid that there exists a sustainable restructuring programme, that aid is reduced to the minimum of required resources, that there are reduced capacities, that for coverage of costs of restructuring own contribution of undertaking is required and that such type of aid is awarded once in ten years; as regional aid, only for investments into upgrading or modernisation of existing capacities aimed at improvement of usability of the existing equipment and devices with aid intensity of up to 22.5 percent of eligible costs in an area entitled to regional aid; for closure of existing capacities, if the aid will render the final and irrevocable reduction of capacities, in the amount of book value of devices or discounted value of depreciation of devices for the following three-year period, with the proviso that the capacities must remain closed for at least 10 years, aid is awarded for eligible costs related to the following: payments to workers made redundant or retired before legal retirement age, the costs of counselling services to workers made or to be made redundant or retired before legal retirement age, payments to workers for vocational retraining, expenditure incurred for the redevelopment of the yards; for investment into innovation for shipbuilding, ship repair and ship conversion, up to 20 percent eligible costs may be provide, taking into consideration the levels of risk related to the project. Eligible costs are costs of investments and engineering activities that are directly and exclusively related to innovation part of the project; and for providing export credits by the state that is awarded to domestic and foreign ship owners or third parties for vessel building or conversion.

State aid in the shipbuilding industry may not be provided to small and medium-sized enterprises, for employment and training, for regional aid for investments-related job creation, as well as aid for operating costs – operating aid.

³¹ The Decision on the publication of rules on state aid in the shipbuilding sector was published in Official Gazette No. 154/08.

4.2.3. Land, maritime and air transport

In 2008 the transport sector received state aid in the amount of HRK 1,452.7 million, which was by 3.2 percent and 4.2 percent more in comparison with 2007 and 2006, respectively. The highest share of this aid, in terms of the three-year period, pertained to the rail transport activities.

Table 23: State aid to the transport sector in the period 2006 - 2008

Transport	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
Rail transport	822.4	112.3	905.8	123.5	857.1	118.7
Land transport	0.0	0.0	0.0	0.0	0.0	0.0
Maritime transport	418.4	57.1	431.4	58.8	495.7	68.6
Air transport	56.0	7.7	70.0	9.5	99.9	13.8
TOTAL	1,296.8	177.1	1,407.2	191.8	1,452.7	201.1
Guarantees	97.9	13.4	0.0	0.0	0.0	0.0
TOTAL	1,394.7	190.5	1,407.2	191.8	1,452.7	201.1
Share (%) in specific sectors	24.95		24.05		41.52	
Share (%) in total state aid (less agriculture and fisheries)	20.11		18.80		27.55	
Share (%) in total state aid	14.71		13.16		16.49	
Share (%) of GDP	0.49		0.45		0.42	

Source: Ministry of Finance, Ministry of the Sea, Transport and Infrastructure; data processed in CCA

In the report period from 2006 to 2008, the majority of aid granted to the undertaking HŽ – Hrvatske željeznice (Croatian Railways)³², except for investments into infrastructure, are considered state aid.

In 2008 state aid in the amount of HRK 857.1 million was awarded to rail transport, like in the previous year, in accordance with the Programme for the promotion of the railway, passenger and combined transport and modernisation of rail transport in the

³² On the basis of its Opinion of 19 October 2006, Class: 430-01/2004-04/106 and 430-01/2004-04/107, Reg. No.: 580-03-06-61-06, the Agency assessed that the funds which had been awarded to the undertaking HŽ – Hrvatske željeznice before 2006, i.e., prior to the liberalization of the market, would not constitute state aid, whereas the funds awarded to this undertaking after the relevant year constituted state aid granted to the railway transport sector. Namely, the adoption of the 2004 Railway Act (Official Gazette, No. 123/03, 194/03, 30/04, 79/07 and 75/09) revoked the legal prerequisites according to which the undertaking Hrvatske željeznice would be the only undertaking in the Republic of Croatia in the market providing the railway transportation services. The Act on the Amendments to the Railway Act from 2004 (Official Gazette, No. 30/04) came into force on the eighth day after its publication in Official Gazette, and has been applied since 1 January 2006.

form of grants and capital investments³³. In 2008 HRK 48.7 million less was granted for promoting railway, passenger and combined transport and modernisation of rail transport than in 2007.

In 2006 a state guarantee in the amount of HRK 251 million was granted to the undertaking Hrvatske željeznice, for the financing of the project involving construction of 300 freight wagons. The estimated share of aid contained in the issued state guarantee, in line with the applied methodology determined by the Ordinance, has been calculated in the amount of 20 percent of the total value of the issued guarantee, which is grand equivalent of HRK 50.2 million.

The data submitted by the competent Ministry of the Sea, Transport and Infrastructure indicate that in the period from 2006 to 2008 state aid was not awarded for road and inland waterway transport. However, on the basis of the data submitted by the counties, towns and municipalities, it was established that aid for road transport was awarded mostly at the local level, and it was estimated that in 2008 aid granted for road transport amounted to approximately HRK 48.5 million, whilst de minimis aid was awarded in the amount of approximately HRK 11.5 million.³⁴

For the promotion of the inland waterway transport in 2008, similar to 2007, the Ministry of the Sea, Transport and Infrastructure awarded de minimis aid to ship operators in inland navigation under the Programme of incentives for inland waterway transport in the amount of HRK 880,565, however, since de minimis aid in principle does not constitute aid within the meaning of the Act, this aid category is presented in a separate section of this Report.

In 2008 the Agency took a decision authorising state aid for maritime transport in the form of grants under the Programme for intercoastal navigation 2008 – 2010, which complied with the Act³⁵, and a decision authorising aid for environmental protection in

³³ The beneficiaries of the aid indicated are undertakings HŽ Cargo d.o.o., HŽ Holding d.o.o., HŽ Infrastruktura d.o.o. (Croatian Railways Infrastructure Ltd.), HŽ Putnički prijevoz d.o.o. (Croatian Railways Passenger Transport Ltd.) and HŽ Vuča vlakova d.o.o. (Croatian Railways Traction Ltd.). According to the programme referred to above, in 2008 aid was awarded in the form of HRK 453 million in grants and HRK 404 million in capital investment.

³⁴ As in most cases it was not possible to classify conclusively the received data on state aid awarded at the local level into relevant state aid categories, they were classified into a separate category named „state aid at the local level“, and the Agency estimated its amounts for each specific category, as reflected in the data included in sector-specific and horizontal aid categories.

³⁵ The Decision of the Agency of 12 March 2008, Class: UP/I 430-01/2007-04/41, Reg. No.: 580-03-08-54-15, published in Official Gazette, No. 90/08.

the form of grants contained in the Programme for shipbuilding for the Croatian ship operators in the period from 2007 to 2011 ³⁶.

In 2008 state aid for the promotion of the development of maritime transport was awarded in the form of grants to the beneficiary Lošinjska plovidba - Brodarstvo d.o.o. Mali Lošinj, in accordance with the Programme for intercoastal navigation in the period from 2008 to 2011 in the amount of HRK 11 million, to the beneficiary Lošinjska plovidba – Brodogradilište d.o.o. Mali Lošinj, for the promotion of container shipping lines and RO-RO lines and cabotage in the amount of HRK 4 million, to Jadrolinija Rijeka under the Programme for the promotion of Croatian ship operators in the amount of HRK 14.1 million, to the Croatian ship operators for the transport links between the islands and the mainland and between the islands in the amount of HRK 436.6 million, and to the undertaking Jadrolinija Rijeka in conformity with the Regulation on the conditions and procedure for granting concessions for the provision of public transportation services in coastal shipping in the total amount of HRK 30 million. The total amount of grants awarded under the aid schemes indicated above for the promotion of the development of the maritime transport in the Republic of Croatia in 2008 amounted to HRK 495.7 million.

In comparison to 2007, when grants and capital investments in the amount of HRK 431.4 million were awarded for the transport links between the islands and the mainland and between the islands, the promotion of container shipping lines and RO-RO lines, , cabotage and renovation of the passenger fleet of Jadrolinija, data for 2008 indicate a 14.9-percent increase in the amounts of aid for maritime transport.

In addition to the state aid specified above, in 2008 the Ministry of the Sea, Transport and Infrastructure also awarded de minimis aid for maritime transport, on the basis of the Programme for subsidising the difference in the fuel price for ship operators operation on national lines, but this category of state aid, for the reasons described above, is not included in this section of the Report, but in section 7, which deals with de minimis aid.

In 2008 the undertaking Croatia Airlines d.d. was awarded grants for the development of air transport in the amount of HRK 99.9 million.

In comparison with 2007, when this undertaking was given a HRK 70-million grant, 2008 represented a 42.7-percent increase, and a 78.4-percent increase in comparison with

³⁶ Decision of the Agency of 29 July 2008, Class: UP/ 430-01/2008-04/10, Reg. No.: 580-03-08-54-6, published in Official Gazette, No. 137/08.

2006, when a HRK 56-million grant was awarded³⁷.

Table 24: State aid to transport sector by instruments in the period 2006 - 2008 (in million HRK)

	2006	2007	2008
A1 grants	893.3	993.7	1,048.5
B1 equity participation	403.5	413.5	404.2
D guarantees	97.9	0.0	0.0
Total	1,394.7	1,407.2	1,452.7

Source: Ministry of Finance, Ministry of the Sea, Tourism, Transport and Development; data processed in CCA

In accordance with the data specified in Table 24, in 2008 the biggest share of state aid for the promotion of the transport sector was awarded in the form of grants, which accounted for 72.2 percent in total awarded state aid for the transport sector; it was followed by capital investments in a smaller proportion and issued and invoked guarantees in 2006.

The total aid awarded in the observed three-year period for the promotion of transport activity mostly related to aid granted to undertakings for the performance of services of general economic interest (SGEI). More specifically, as provided for by Article 4 paragraph 3 point e) of the Act, funds awarded to aid beneficiaries which are, pursuant to special regulations, entrusted with the operation of services of general economic interest or granted exclusive rights to perform tasks assigned to them in the public interest, where in the case of absence of such aid these undertakings would be obstructed in the performance of the particular tasks assigned to them, are considered compatible with the Act. The condition for award of such aid is that the aid in question exclusively covers the compensation for undisturbed performance and implementation of the entrusted SGEI, i.e., the statutory obligation.

Rules regulating the award of aid for the performance of a service of general economic interest are provided for by the Decision on the publication of the rules on state aid in the form of compensation for services of general economic interest (Official Gazette, No. 39/08). Aid in question is considered compatible if the undertaking is entrusted with the performance of services of general economic interest, pursuant to one or more official acts, which must contain the following: (a) the precise nature and the duration of the public service obligations; (b) the undertakings and territory concerned; (c) the nature of any exclusive or special rights assigned to the undertaking; (d) the parameters

³⁷ In 2006, besides the grants referred to above, the Croatia Airlines d.d. undertaking was also awarded state aid amounting to HRK 47.7 million in the form of invoked state guarantees.

for calculating, controlling and reviewing the compensation; (e) the arrangements for avoiding and repaying any over-compensation.

State aid in the transport sector³⁸ may be awarded under certain conditions.

Land transport activity - Rules on state aid to land transport are applied to undertakings performing services in rail and road transport, as well as inland waterway transport, and include the rules under Protocol 6 of SAA. This type of aid may be awarded in accordance with the rules on horizontal aid (for research and development and innovation, environmental protection and energy saving, rescue and restructuring, employment and training), regional aid and aid for the performance of services of general economic interest. Types of aid specified above may be awarded to undertakings for the compensation of costs of performance of public service obligation up to the amount equal to the difference between (higher) costs and income earned; for compensation of infrastructure costs to undertakings with the obligation to cover costs of infrastructure that is also used by other undertakings which do not have that obligation; for research and development of efficiency of traffic systems and technologies; for elimination of excessive capacities causing serious structural problems; and for the compensation for the additional financial burden of undertakings in rail transport.

Maritime transport activity - Rules on aid to maritime transport apply to undertakings – ship owners and undertakings performing transport by sea, and pertain to compensation of higher costs in relation to income earned on the so-called uneconomic lines that connect the coast with the islands (services of general economic interest). State aid may be awarded for environmental protection, research and development and innovation, training, rescue and restructuring and for regional objectives, and may not be provided to small and medium-sized enterprises and for employment. Undertakings whose ships are registered in the Croatian Ship Register may be awarded those types of aid for the following purposes: pension, disability and health insurance of seafarers, except for aid for net wage of sea farers; costs of repatriation of seafarers up to 50 percent of total costs; investment into new vessels in accordance with the rules for ship building and safety at sea policy which includes awarding of aid for upgrading of equipment on vessels, or for the promotion of use of safe and clean vessels with a view to promoting upgrading of vessels in order to attain standards which exceed the standards on the protection and environment prescribed by international conventions.

Air transport activity - Rules on aid to air transport are applied to air carriers and to activities that may be useful to air carriers and are related to air transport, such as flying schools, duty-free shops, air carriers' capacities, franchising and airline fees. The said rules are not applied to the activity of aircraft production, and may be awarded for the following: environmental protection, research and development, small and medium-sized enterprises, employment and training in air transport in accordance with the horizontal aid rules, restructuring of undertakings in air transport in accordance with rescue and restructuring rules, regional objectives for

³⁸ The Decision on the publication of the rules on state aid to the transport sector was published in Official Gazette No. 141/08.

undertakings in air transport may be awarded in accordance with regional aid rules with the exception of operating aid, except for direct subsidising of air lines by aid for current operating costs, for public service obligation for services of general economic interest, as well as for certain categories of passengers.

4.2.4. Tourism

State aid to tourism in 2008 amounted to HRK 1629 million, which was by 8.7 percent less than in 2007.

A larger part of state aid to tourism in 2008 were invoked state guarantees. Namely, loans for which state guarantees were issued in the amount of HRK 92.8 million became due in 2008, and this, in accordance with the methodology of calculation of aid contained in invoked guarantees, is considered state aid in a one-hundred percent amount.³⁹ In the case in question the following undertakings were involved: ZRC Lipik d.d. Lipik, Hoteli Živogošće, Hoteli Plat, Hoteli Medena, Hoteli Podgora, Jadran Crikvenica, Apartmani Medena, Vis d.d., Hoteli Omišalj, Modra Špilja, Hum, Hoteli Novi, Hoteli Šolta, PZ Nova Zora, President Zadar, Industrogradnja, Hoteli Helios, Lječilište Topusko and Slunjčica.

In 2008 the Ministry of Tourism awarded aid in the amount of HRK 70.1 million, in the form of direct subsidised interest rates, based on the Loan Programme for small and medium-sized businesses in tourism – Incentive for success, in the amount of HRK 68.1 million to the undertakings Adria terase d.o.o. Rab, Andro international d.o.o. Omiš, Neverin d.o.o. Zagreb, Luna d.o.o. Lun, Hotel More d.o.o. Dubrovnik, Zadar gradnja d.o.o. Zadar, Minerva d.o.o. Medulin and others, and on the basis of the Programme for the development of small businesses in tourism the amount of HRK 2 million to the undertakings Punta international d.o.o. Umag, Rovinjturist d.d. Rovinj, Mistral d.o.o. Crikvenica, Hotel Colentum d.o.o. Murter and others.

At the same time, in 2008 the Ministry of Tourism, in cooperation with the Ministry of the Economy, Labour and Entrepreneurship, awarded a total of HRK 10.6 million for the tourism sector, under de minimis aid schemes as follows: Programme for the development of small and medium-sized businesses in tourism, Programme for the promotion of the production of traditional souvenirs, Programme for the revival, valorisation and revitalisation of cultural, traditional and natural heritage as a new tourist product, Incentives Programme for enhanced competitiveness of the tourist market – co-financing of projects by the funds, Programme for the promotion and development of tourist thematic trails, Program for the promotion of rural tourism – selective forms of inland tourism "The Green groove (Zelena brazda)", Tourism

³⁹ In accordance with Annex IV of the Ordinance, the aid element in terms of payments for invoked guarantees equals the liabilities arising from state guarantees in full.

loans programme - Development of rural tourism, Programme for the promotion and creation of multisectoral clusters, Project for co-financing of hotel and catering industry and Programme for the development of selective forms of tourism at sea „The Blue groove (Plava brazda)“. More detailed data on exact amounts of granted de minimis aid per specific programmes in the tourism sector are provided in section 7, De minimis aid.

If de minimis aid is added to the specified amount of state aid presented in Table 25, the total amount of aid granted for the promotion and development of the tourism sector in 2008 amounted to HRK 173.5 million.⁴⁰

In the period from 2006 to 2008, the most significant aid instruments to the undertakings operating in the tourism sector were invoked state guarantees and subsidised interest rates, whereas in 2006, to a lower extent, also soft loans were represented.

Table 25: State aid to tourism by instruments in the period 2006 – 2008

Tourism	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	102.1	13.9	56.3	7.7	70.1	9.7
C1 soft loans	29.9	4.1	0.0	0.0	0.0	0.0
D guarantees	129.0	17.6	122.1	16.6	92.8	12.9
TOTAL	261.0	35.6	178.4	24.3	162.9	22.6
Share (%) in specific sectors	4.67		3.05		4.66	
Share (%) in total state aid (less agriculture and fisheries)	3.76		2.38		3.09	
Share (%) in total state aid	2.75		1.67		1.85	
Share (%) of GDP	0.09		0.06		0.05	

Source: Ministry of Finance, other state aid providers; data processed in CCA

4.2.5. Other industries

State aid for other sectors in 2008, except for those dealt with in sections 4.2.1. to 4.2.4., was awarded to the textiles and clothing production and leather processing industry.

⁴⁰ If the estimated amount of de minimis aid awarded in 2008 for tourism by the local and regional self-government units amounting to HRK 5.8 million were added to the amount in question, this amount would equal HRK 179.3 million. In the year concerned, counties, municipalities and cities granted de minimis aid for the promotion of the development of nautical tourism, tourist projects in the counties, acquisition, reconstruction and restoration of traditional houses as a drive for development of tourism, new tourist offer, and to tourist boards under the development programmes for tourism.

In accordance with the submitted data, the Ministry of the Economy, Labour and Entrepreneurship, in conformity with the Operational programmes containing state aid to the textiles and clothing industry and to leather processing and leather products industry in Croatia for 2008, awarded HRK 129 million in grants to this sector, and the most significant beneficiaries under these aid schemes for 2008 were the undertakings Varteks d.d. Varaždin, Kamensko d.d. Zagreb, Borovo – kožna obuća d.o.o. Vukovar, VIS d.o.o., Jadran tvornica čarapa d.d. Zagreb and others.

In addition to the textile, leather and footwear sector, grants amounting to HRK 4 million were awarded by the Ministry of Science, Education and Sports to HOC Bjelolasica d.o.o. the undertaking for the provision of sports and utility services of general economic interest⁴¹, whilst a soft loan in the amount of HRK 1.7 million was awarded by the Ministry of the Economy, Labour and Entrepreneurship for closure and dismantling of the undertaking TEF - Tvornica elektroda i ferolegura d.d. Šibenik.

Table 26: State aid to other specific sectors by instruments in the period 2006-2008

Other industries	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	37.5	5.1	40.4	5.5	133.0	18.4
C1 soft loans	3.1	0.4	0.0	0.0	1.7	0.3
TOTAL	40.6	5.5	40.4	5.5	134.7	18.7
Share (%) in specific sectors	0.73		0.69		3.85	
Share (%) in total state aid (less agriculture and fisheries)	0.59		0.54		2.55	
Share (%) in total state aid	0.43		0.38		1.53	
Share (%) of GDP	0.01		0.01		0.04	

Source: Ministry of Finance, other state aid providers; data processed in CCA

⁴¹ Pursuant to the Decision of 17 December 2008, Class: UP/I 430-01/2008-05/16, Reg. No.: 580-03-08-61-9, the Agency authorised state aid in the form of a grant contained in the Decision on the content, scope and duration of the obligation to provide sports and communal services of general economic interest and the manner of determining the scope, appointment and implementation of monitoring for the use of the compensation for their performance to the undertaking Hrvatski olimpijski centar Bjelolasica d.o.o. (Croatian Olympic Centre Bjelolasica Ltd.). In line with this Decision, Hrvatski olimpijski centar Bjelolasica d.o.o., with its seat in Jasenko, Vrelo, is obliged, in the period from 2008 to 2010, to keep separate books for the revenue and expenditures relating to the discharge of the services of general economic interest, and in so doing adhere to the criteria based on generally accepted cost accounting principles.

4.2.6. Rescue and restructuring

In 2008 the total amount aid for rescue and restructuring amounted to HRK 53.4 million.⁴² In the observed year the state aid mentioned was granted by the Croatian Privatisation Fund in the form of soft loans in the amount of HRK 39.5 million and a debt write-off loan in the amount of HRK 2.4 million, as well as by the Ministry of Finance by way of payments for invoked guarantees in the amount of HRK 11.5 million.

Soft loans were awarded to the undertakings Borovo d.d. Vukovar, Dalmacijavino d.d. Split, Jadran d.d. Crikvenica, Đuro Đaković d.d. Slavonski brod, Sloga tvornica obuće d.d. Koprivnica, Bizovačke toplice, Vinka d.d. Vinkovci, Adriachem iz Kaštel Sućurca and others.

In 2008 the level of rescue and restructuring aid granted was lower by 93.7 percent in comparison to 2007. This difference arises from the fact that in 2007, a debt write-off in the amount of HRK 706.3 million was granted for restructuring of the undertaking in difficulty TLM d.d., Šibenik, whereas in 2008 only a debt write-off for restructuring of the undertaking in difficulty in the amount of HRK 2.4 million to the undertaking Đuro Đaković d.d. Slavonski Brod was effected.

Another positive trend was the reduction of the number and the amounts of invoked state guarantees in 2008 in comparison with 2007. More specifically, in 2007 state guarantees invoked were those granted for restructuring of the firms in difficulty TLM d.d., Kordun d.d., Elcon d.d., Drnišplast d.d., Development d.d. Ilok, Croatia Pumpe d.d. and Elmech razvoj d.o.o. u in bankruptcy in the total amount of HRK 111.8 million, whereas in 2008 only HRK 11.5 million of state guarantees for restructuring was invoked – those that had been issued for three undertakings: Elcon d.d. Zlatar Bistrica, Development d.d. Ilok and Croatia Pumpe d.d. Karlovac.

⁴² This section does not include rescue and restructuring aid granted to undertakings in specific sectors, as this was dealt with in the previous section of this Report.

Table 27: State aid for rescue and restructuring in the period 2006 - 2008

Rescue and restructuring	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	0.0	0.0	3.5	0.5	0.0	0.0
A2 debt write-off	6.0	0.8	706.2	96.3	2.4	0.3
B equity participation	0.0	0.0	4.2	0.6	0.0	0.0
C1 soft loans	10.7	1.5	19.9	2.7	39.5	5.5
D guarantees	120.3	16.4	111.8	15.2	11.5	1.6
TOTAL	137.0	18.7	845.6	115.3	53.4	7.4
Share (%) in specific sectors	2.45		14.45		1.53	
Share (%) in total state aid (less agriculture and fisheries)	1.98		11.30		1.01	
Share (%) in total state aid	1.45		7.91		0.61	
Share (%) of GDP	0.05		0.27		0.02	

Source: Ministry of Finance, other state aid providers; data processed in CCA

State aid for rescue and restructuring⁴³ is applied to undertakings in difficulty, except for undertakings active in the coal, steel, agriculture, fisheries and aquaculture sector. A firm is regarded as being in difficulty where it is unable, whether through its own resources or with the funds it is able to obtain from its owner/shareholders or creditors, to stem losses which, without outside intervention by the public authorities, will almost certainly condemn it to going out of business in the short or medium term.

The primary objective of rescue aid is to make it possible to keep an ailing firm afloat for the time needed to work out a restructuring or liquidation plan. The general principle is that rescue aid makes it possible temporarily to support a company confronted with an important deterioration of its financial situation reflected by an acute liquidity crisis or technical insolvency. Moreover, the repayable rescue aid must be limited to the minimum necessary, offering a short respite, not exceeding six months, to a firm in difficulty. The aid must observe the one time, last time principle.

Restructuring aid is awarded under the condition that the aid provider or the aid beneficiary prepares a feasible restructuring plan, which includes reorganisation and rationalisation of business operations, diversification in the direction of new and viable activities, the withdrawal from loss-making activities, financial restructuring etc. It is granted to the undertaking in difficulty, whilst the restructuring plan must demonstrate the restoration of the long-term viability on the market after the completion of the restructuring period, introduction of compensatory measures to avoid excessive distortion of competition, aid must be limited to the minimum, which implies own contribution of the undertaking to the restructuring (25 percent for small, 40 percent for medium-sized, 50 percent for large enterprises), and may be granted only once.

⁴³ The Decision on the publication of the rules on state aid for rescue and restructuring was published in Official Gazette No. 20/07.

4.2.7. Public service broadcasting

Award of state aid for public service broadcasters is regulated by the rules contained in the Decision on the publication of the rules on state aid for public service broadcasting (Official Gazette No. 68/08), whereas the performance of this public activity is regulated by the Croatian Radio-Television Act. Namely, pursuant to Article 53 of the Croatian Radio-Television Act, owners of radio and TV receivers in the territory of the Republic of Croatia are obliged to pay a mandatory licence fee to the Croatian Radio-Television, in the amount 1.5 percent of the average net monthly salary of the employees in the Republic of Croatia, calculated on the basis of the statistical data for the previous year. For 2008 this monthly licence fee was HRK 78.

The aid at issue is considered compatible state aid⁴⁴ whose legal basis is found in the Croatian Radio-Television Act that regulates the public service remit of the Croatian Radio-Television, the public service obligation to broadcast the programs in the interest of the viewers at the national and local level, among other things, to inform the viewers on the political, economic, social, health, cultural, educational, scientific, religious, ecological, sports and other events and developments in the country and world-wide, and to ensure an open and free debate about the issues of public interest.⁴⁵

Therefore the possibility of award of this specific aid category arises from the rules under the Decision referred to above which regulates the manner of award of state aid for the performance of public service broadcasting in the area of culture, in line with the provisions of Article 4 paragraph 3 subparagraph b) of the State Aid Act, and for the performance of a service of general economic interest, as provided by the provisions of Article 4 paragraph 3 subparagraph e) of the same Act.

Thus, in 2008 the Croatian Radio-Television as the only public service broadcaster was granted aid in the form of a licence fee in the amount estimated at HRK 1.1 billion, in 2007 in the amount of HRK 1.01 billion, and in 2006 in the amount of HRK 958.5 million.

⁴⁴ Radio/TV licence fee constitutes state aid within the meaning of the Act for the following reasons: although the funds at issue are not budgetary funds, it is an obligation imposed on every viewer in the form of a mandatory licence fee under the Croatian Radio-television Act, a mandatory levy similar to a tax; the selectivity criteria in the form of an advantage to one undertaking is fulfilled, which favours the Croatian Radio-Television in comparison with other commercial televisions and radio stations; under the SAA this renders distortion, or potential distortion of competition to the extent in which it may affect the fulfilment of the obligations assumed by the Republic of Croatia on the basis of international agreements. Given the licence fee is used to finance the costs of the Croatian Radio-Television, it is evident in this particular case that economic advantage is provided to this undertaking in comparison with other commercial televisions, which must finance their business operations exclusively from their own resources under market conditions.

⁴⁵ Article 5 paragraphs 1 and 2 of the Croatian Radio-Television Act, which pertains to the subsidiaries of the Croatian Radio-Television –Croatian Radio and Croatian Television.

Table 28: State aid for public service broadcasting in the period 2006 - 2008

Public service broadcasting	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	958.5	130.9	1,010.6	137.8	1,100.0	152.3
TOTAL	958.5	130.9	1,010.6	137.8	1,100.0	152.3
Share (%) in specific sectors	17.14		17.27		31.44	
Share (%) in total state aid (less agriculture and fisheries)	13.82		13.50		20.86	
Share (%) in total state aid	10.11		9.45		12.49	
Share (%) of GDP	0.33		0.32		0.32	

Source: Ministry of Finance and Ministry of Culture; data processed in CCA

5. REGIONAL AID

In 2008 regional aid amounted to HRK 404.6 million, and was awarded in the form of grants and tax advantages and tax relieves.

Regional aid is awarded in the form of tax advantages pursuant to the Free Zones Act, the Act on Hilly and Mountainous Areas, the Act on the Areas of Special State Concern, the Act on Reconstruction and Development of the Town of Vukovar, and the Investment Promotion Act. In 2008 HRK 48.1 million regional aid was granted pursuant to the Free Zones Act, HRK 13.8 million pursuant to the Act on Hilly and Mountainous Areas, HRK 176.6 million pursuant to the Act on the Areas of Special State Concern and HRK 31.4 million pursuant to the Act on Reconstruction and Development of the Town of Vukovar.⁴⁶

At the same time, in 2008 the Croatian Bank for Reconstruction and Development granted regional aid in the form of grants in the amount of HRK 126.9 million in compliance with the Ordinance on basic requirements for the financing of specific target groups (Hoteli Croatia d.d. Cavtat, Nin Elektrocommerce d.o.o. Poličnik, Dilj industrija građevnog materijala d.o.o. Vinkovci, Đuro Đaković – TEP d.o.o. Slavonski brod, Park Hotel d.o.o. Makarska, Dubrovnik – Babin kuk d.d. Dubrovnik and others), and the Croatian Agency for Postal Services and Electronic Communications in the form of grants in the amount of HRK 7.8 million on the basis of the Decision on the conditions and criteria for the award of incentives for the development of broadband infrastructure in the areas where there is insufficient interest in the development of and investment in broadband internet access (King ICT d.o.o. Zagreb, Odašiljači i veze d.o.o. Zagreb, VipNET Zagreb and Iskon d.d. Zagreb).

Regional aid in 2008 was lower by 16.1 percent in comparison to 2007. However, the share of regional aid in total granted state aid increased from 4.5 percent in 2007 to 4.6 percent in 2008.

⁴⁶ On 17 June 2008 the Agency took the preliminary binding opinions Class: 430-01/2008-02/16, 430-01/2008-81/17, 430-01/2008-81/18 and 430-01/2008-81/19 whereby it assessed the Free Zones Act, the Act on Hilly and Mountainous Areas, the Act on Reconstruction and Development of the Town of Vukovar and the Act on the Areas of Special State Concern as compliant with the State Aid Act. It should be noted that the Agency, as regards the acts mentioned, does not approve individual aid to beneficiaries, but this kind of aid is exercised by application of these acts, i.e., in accordance with the approval of the aid provider.

Table 29: Regional aid in the period 2006 - 2008

Regional aid	2006		2007		2008	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
Regional aid	282.0	38.5	482.2	65.7	404.6	56.0
Share (%) in total state aid (less agriculture and fisheries)	4.07		6.44		7.67	
Share (%) in total state aid	2.98		4.51		4.59	
Share (%) of GDP	0.10		0.15		0.12	

Source: Ministry of Finance – Tax Administration, other state aid providers; data processed in CCA

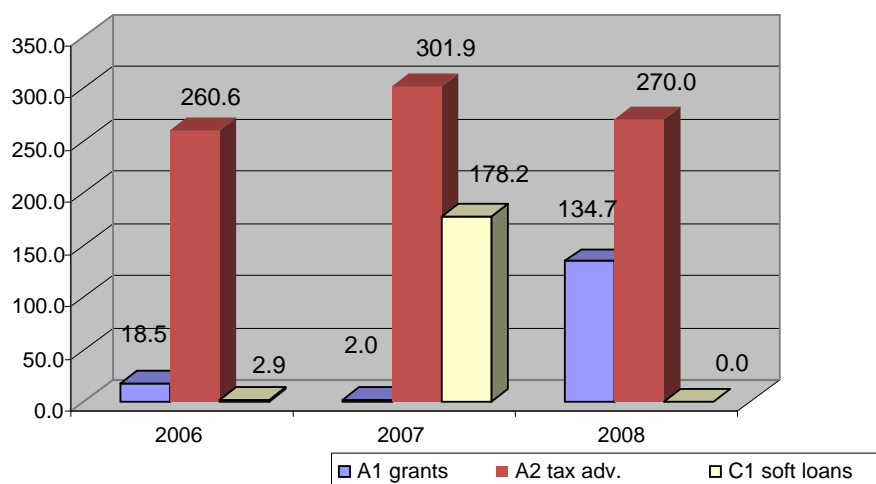
Regional aid in 2006, 2007 and 2008 was mostly awarded in the form of tax advantages pursuant to the laws mentioned above, whereas in 2008 the amount of grants under this aid category increased as well (Table 30).

Table 30: Regional aid by instruments 2006 - 2008 (in mill HRK)

Instrument	2006	2007	2008
A1 grants	18.5	2.0	134.6
A2 tax advantages	260.6	302.0	270.0
C1 soft loans	2.9	178.2	0.0
TOTAL	282.0	482.2	404.6

Source: Ministry of Finance – Tax Administration, other state aid providers; data processed in CCA

Figure 9: Regional aid by instruments 2006 - 2008 (in mill HRK)



Source: Ministry of Finance – Tax Administration, other state aid providers; data processed in CCA

Regional aid⁴⁷ is intended for promoting development of underdeveloped areas of the Republic of Croatia, i.e., areas where the standard of living is abnormally low or where there is serious unemployment.

Regional aid may be awarded for capital investments and for the creation of jobs linked to the investment, and in exceptional cases also for the compensation of the part of operational aid.

Regional aid may be awarded for initial investment projects, the extension of an existing establishment, or the starting-up of an activity involving a fundamental change in the product or production process of an existing establishment, or coverage of eligible costs that constitute tangible and non-tangible investments and costs of wages for new jobs. Aid intensity is the permissible percentage of aid in eligible costs. Aid intensities differ depending on the size of the undertaking and level of development of a particular region. Aid intensities are higher for regions which are underdeveloped in comparison to the average GDP in the European Union.

Rules on regional aid are also applied to „large investment projects“ whose eligible costs exceed EUR 50 million, and the Agency has to be individually notified of those projects.

Regional aid may be awarded in accordance with the regional aid map (Official Gazette No. 52/08).

Regional aid may not be awarded to undertakings for coal and steel production activity, for synthetic fibres production, the shipbuilding and transport sector, since there are specific rules applicable in these sectors.

⁴⁷ The Decision on the publication of the rules on regional aid was published in Official Gazette No. 58/08.

6. STATE AID AT LOCAL AND REGIONAL LEVEL

Data on granted state aid for 2008 was submitted by 18 counties, including the City of Zagreb⁴⁸, 103 towns (of the total of 126), as well as 359 municipalities (of the total of 429).

From one year to another improvement in the collaboration between the Agency and the local and regional self-government units in the preparation of the Annual report on State aid (the data on state aid for 2008 was submitted by 9 cities and 50 municipalities more than in 2007). The data on the state aid at the level of local and territorial (regional) self-government units increasingly facilitate better insight in the actual status of state aid and other forms of aid that the local self-government units channel to various development programmes.

The highest share of budgetary funds is targeting the objectives and projects that do not constitute aid within the meaning of the Act (non-governmental organisations, sports, hunting and fishing societies, firefighting associations and cultural and artistic societies, the Red Cross charity organisation, political parties, education, health-care and religious institutions, citizens and natural and legal persons that are not undertakings etc.). Mostly, the amounts at issue are granted to various beneficiaries that are not considered aid beneficiaries within the meaning of Article 2 paragraph 2 of the Act.⁴⁹

The amount of HRK 178.4 million in state aid granted in 2008 by the counties, cities and municipalities mostly pertained to grants in the amount of HRK 90 million that the City of Zagreb awarded to the undertaking HŽ – Hrvatske željeznice for the promotion of rail transport. Following were outlays for road transport in the amount of HRK 48.5 million, while HRK 36.3 million was awarded for the promotion of the development of entrepreneurship, restructuring of firms in difficulty and public utility services. The amount of HRK 3.6 million were outlays for agriculture.

The amount of HRK 117.2 million granted by the counties, municipalities and cities was allocated for de minimis aid (for the promotion of SMEs, road transport, public utility services, public broadcasting services, tourism, airports and culture and heritage

⁴⁸ The Bjelovar-Bilogora, Koprivnica-Križevci and Krapina-Zagorje counties failed to submit data, as well as the following towns: Biograd na Moru, Bjelovar, Čazma, Daruvar, Drniš, Đakovo, Garešnica, Grubišno Polje, Ivanić Grad, Knin, Metković, Mursko Središće, Novi Vinodolski, Obrovac, Opuzen, Osijek, Pag, Pakrac, Ploče, Poreč, Pregrada, Prelog, Rovinj and Virovitica.

⁴⁹ Namely, within the meaning of the State Aid Act referred to above, aid beneficiaries are considered to be legal and natural persons that, in the course of performing an economic activity, participate in trade of goods and services while using some kind of state aid.

protection), which, together with the state aid presented in Table 31, totals HRK 295.6 million.

Table 31: State aid granted at local level by instruments in the period 2006 - 2008

Aid at local level	2006		2007		2008	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
A1 grants	132.8	18.1	170.1	23.2	149.8	20.7
A2 tax advantages	0.0	0.0	1.9	0.3	0.0	0.0
B1 equity participation	0.0	0.0	7.1	1.0	5.1	0.7
D guarantees	0.0	0.0	15.7	2.1	23.5	3.3
TOTAL	132.8	18.1	194.8	26.6	178.4	24.7
Share (%) in total state aid (less agriculture and fisheries)	1.91		2.60		3.38	
Share (%) in total state aid	1.40		1.82		2.02	
Share (%) of GDP	0.05		0.06		0.05	

Source: Local and territorial (regional) self-government units, data processed in CCA

7. DE MINIMIS AID

De minimis aid does not constitute state aid as regulated by the State Aid Act (in accordance with the Community *acquis* due to low amounts this aid category does not distort the competition between the Member States and between the EU Member States and the Republic of Croatia, respectively), and therefore it is not included in the data on state aid contained in this Report. Nevertheless, since in the Republic of Croatia this type of support to the economy is provided through a number of programmes intended for specific activities and beneficiaries and it represents a significant expenditure of the state resources, in order to provide an insight into the way that budgetary funds instigate certain economic activities, industries and undertakings, the Agency, although it is not its legal obligation, in this part of the Report provides a short overview of the programmes (aid schemes) and the purposes for which de minimis aid was granted in 2008.

In 2008 HRK 369.2 million was granted in de minimis aid, of which the highest share (74.5 percent) was awarded through grants.

At the national level HRK 252 million was granted through various aid schemes, or 68.3 percent of the total awarded de minimis aid, whereas 31.7 percent was granted at the local level.

Table 32: De minimis aid in the period 2006 - 2008

De minimis aid	2006	2007	2008
	in HRK mill.	in HRK mill.	in HRK mill.
A1 Direct interest rate subsidies	7.4	9.0	36.6
A1 Grants	64.7	117.3	274.9
A2 Debt write-off	6.2	2.2	3.2
A2 Reductions in social security contributions, relieves and exemptions thereof	0.4	0.0	0.2
B1 Capital investments	0.0	0.0	8.0
C1 Soft loans	2.1	16.8	26.4
C1 Loans to firms in difficulty	0.6	0.0	2.1
D Guarantees	0.0	6.2	16.7
D Payments for invoked guarantees	0.0	1.2	1.1
Local ⁵⁰	143.7	103.2	0.0
TOTAL	225.1	255.9	369.2

Source: Ministry of Finance, other state aid providers; data processed in CCA

⁵⁰ The last row of Table 32 contains comprehensive data on de minimis that the local and regional self-government units awarded in 2006 and 2007, whereas for the purpose of a greater exactness of the received data for 2008 the data are categorised by aid instruments, although the amount at issue is an estimate.

De minimis aid⁵¹ is aid granted to a specific beneficiary not exceeding the ceiling of HRK 1,500,000 over any three fiscal years period, regardless of the form or purpose of aid, whereas aid granted to an individual beneficiary in the road transport sector may not exceed HRK 750,000 over any three fiscal years period, and may not be granted for acquisition of road transport vehicles. Awarding of de minimis aid does not require an approval of the Agency if all the requirements for their award are met. De minimis aid does not significantly distort trade between the Republic of Croatia and Member States of the European Union.

De minimis aid may not be granted for the promotion of exports, to undertakings active in the coal sector, for the acquisition of road freight transport vehicles granted to undertakings performing road freight transport and to undertakings in difficulty.

Providers of de minimis aid are obliged, when awarding this type of aid, to notify the beneficiaries that the aid at issue is de minimis aid, and to inform the Agency within 15 days after the award of aid about every granted de minimis aid. Aid provider is obliged to keep the register of granted de minimis aid to individual beneficiaries and the data on aid so granted for ten years from the day on which aid was awarded.

On the basis of the received documents and data the Agency has established that in 2008 de minimis aid was granted by:

- The Croatian Agency for Small Businesses under the following aid schemes: Strengthening of the competitiveness of small businesses, Entrepreneurship support institutions, Women entrepreneurship and target groups, Ordinance on HAMAG guarantees (de minimis aid), Training program and development of consultancy network for small businesses, Development of trades and crafts, Cooperative entrepreneurs. The amount of HRK 111.8 million in de minimis aid was granted mostly in the form of grants (HRK 96.9 million) and, to a lower extent, in the form of guarantees and payments for invoked guarantees;
- The Ministry of the Economy, Labour and Entrepreneurship: HRK 33.9 million under the Operational plan for the promotion of SMEs for 2008, Programme for the promotion of development and application of new technologies in small businesses, Programme for development of SMEs in tourism. Funds were awarded in the form of grants (93.5 percent) and subsidised interest rates;
- The Ministry of the Sea, Transport and Infrastructure: HRK 24.2 million of de minimis aid, of which HRK 19.2 million in the form of grants and HRK 4.9 million in the form of capital investments. De minimis aid was granted in compliance with the

⁵¹ The Decision on the publication of the rules on de minimis aid was published in Official Gazette No. 45/07.

Programme for the construction and re-construction of the passenger and excursion fleet for the needs of the Croatian ship owners – small enterprises in the period from 2008 to 2009, Programme for the promotion of inland waterway transport, Programme for fuel subsidies for ship operators on national lines, the Regulation on the conditions, criteria, charges and manner of exercising the rights relating the maintenance and creation of new jobs for employers located on islands;

- The Development and Employment Fund awarded HRK 18,8 million under the Entrepreneurial programme based on de minimis aid, mostly in the form of soft loans and, to a smaller extent, in the form of loans to undertakings in difficulty;

- The Fund for Professional Rehabilitation and Employment of Disabled Persons awarded HRK 18.4 million in de minimis aid exclusively in the form of grants, in accordance with allowances and incentives granted for employment of disabled persons;

- The Environmental Protection and Energy Efficiency Fund, under the Programme involving de minimis aid for environmental protection, awarded HRK 13.5 million, mostly on the basis of soft loans, subsidised interest rates and grants;

- The Ministry of Tourism awarded only in the form of grants HRK 8.9 million in accordance with the following aid schemes: Programme for the promotion of production of traditional souvenirs, Programme for the revival, valorisation and revitalisation of cultural, traditional and natural heritage as a new tourist product, Incentives Programme for enhanced competitiveness of the tourist market – co-financing of projects by the funds, Programme for the promotion and development of tourist thematic trails, Program for the promotion of rural tourism – selective forms of inland tourism "The Green groove" (Zelena brazda), Tourism loans programme - Development of rural tourism, Programme for the promotion and creation of multisectoral clusters, Project for co-financing of hotel and catering industry and Programme for the development of selective forms of tourism at sea "The Blue groove" (Plava brazda).

- The Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity awarded HRK 8 million grants under the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011;

- The Ministry of Science, Education and Sports awarded HRK 7.3 million in the form of grants in accordance with the Guidelines for the promotion of innovation and technology system TEST;

- The Fund for Reconstruction and Development of the Town of Vukovar awarded HRK 6.5 million in the form of grants under the Programme for the co-financing of economic projects in the Town of Vukovar;

- The Croatian Bank for Reconstruction and Development awarded the amount of HRK 513,539.10 in grants. The funds were awarded in accordance with the Ordinance on basic conditions for financing of specific target groups;

- The Croatian Pension Insurance Fund awarded the amount of HRK 209,592;

- Counties, municipalities and towns awarded the amount of HRK 117.2 million.

8. STATE AID IN THE REPUBLIC OF CROATIA IN COMPARISON WITH THE EU

In early 2008 the European Union bodies and Member States focused on the implementation of the State Aid Action Plan.⁵² However, the crisis that first affected the financial, and thereafter the real sector of the economy in late 2008 shifted the focus of the Member States and of the European Commission in terms of state aid to an equally important issue – identifying the way to help the European financial and economic sectors to tackle and survive the crisis. Therefore, with a view to resolve the crisis-induced problems, the Commission, as early as at the end of 2008, commenced the activities targeted to rescuing of its banking sector, and at the beginning of 2009 it adopted the Communication – Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis⁵³, aimed at facilitating access to capital, both in the financial sector and in the real sector of the economy.

The financial crisis that spread as early as in 2008 from the USA to the rest of the world hit the Member States of the European Union, i.e., the financial sector of the largest number of the Member States. In the course of 2008 an increasing number of Member States officially entered recession (two consecutive quarters they recorded negative growth), and Europe faced a decline in consumer confidence, consumption, investments and orders in the business sector. The recovery plan adopted in November 2008 aimed to set off demand, restore the confidence of citizens and create the basis for a long-term growth of competitiveness. Measures targeted at strengthening of demand on the one hand and those targeted at supply are the backbone of the anti-recession measures of the European Union. An important instrument whereby this plan is implemented in practice of the majority of Member States is, among others, state aid, ensuring access to capital to the real sector of the economy, because of which many countries gave financial injections also to the banks in order to ensure the supply of loans for this sector.

⁵² Aimed at relieving the burden of the scope of competencies of the European Commission, in 2008 came into force the Regulation of the Commission (EC), No. 800/2008, of 6 August 2008. Pursuant to this Regulation certain categories of aid are declared compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation) (OJ L 214, 9 August 2008, pp. 3-47). Pursuant to this Regulation a number of measures of state aid is automatically approved, and thereby the Member States are enabled to award aid without the obligation of preliminary notification to the Commission and its approval, provided that all the conditions specified in the Regulation are met (it contains the rules on aid for small and medium-sized enterprises, research and development and innovation, regional development, training, employment, risk capital, environmental protection, entrepreneurship and others).

⁵³ OJ C 83, 7 April 2009, pp. 1-15.

However, given that the provisions of the Treaty Establishing the European Community, which bans state aid that distort or might distort trade among the Member States and thereby lead to uncontrolled promotion of selected sectors or undertakings, placing the common market of the Community at risk, the crisis in the financial sector, which started to „spill over“ to the real sector of the economy, put several tasks before the institutions of the Community. The priority that arose was the need to ensure assistance to the Member States in tackling the crisis and taking measures aimed at restoration of the stability of the financial sector. Then it was necessary to provide assistance to the real sector of the economy, in particular in terms of the necessary capital for its functioning, but also in terms of concrete programmes of state aid to the sectors particularly affected by the crisis (such as the automobile industry). On the other hand, the institutions of the Community, particularly the European Commission, did not for a second question carrying out its fundamental function – controlling and scrutinizing the award of the state aid in the Member States.

A swift and determined tackling of the difficulties caused by the crisis in the financial sector, especially in the banking sector, was necessary given the significance of this sector for the citizens, but at the same time for the economy. Therefore, in the absence of a comprehensive pan-European, regulatory and legal framework relating to the operation of the financial sector, the EU institutions, based on its state aid policies, enabled the Member States to implement measures aimed at alleviating or eliminating the impacts of the crisis in this sector. Those were programmes for rescuing and restructuring of banks and other financial institutions, which, according to the data of the European Commission, at the end of the first quarter of 2009 reached EUR 3,000 billion, accounting for 24 percent share of the GDP of the Community, whereas it will be possible to calculate the aid element in those programmes only at a later stage.

On the other hand, aid schemes are to a significantly greater extent than before channelled to small and medium entrepreneurship, in the form of state guarantees, subsidising of interest rates, capital investment, whereas a great portion of aid is increasingly directed to the economic sectors that develop new products and technologies, the so-called „green products“, ensuring the highest standards of environmental protection, better energy efficiency etc., thus providing the prerequisites for competitiveness. According to the data published by the European Commission, between October 2008 and the end of June 2009, the Member States notified some 60 aid schemes or applications for individual in the financial sector and 50 aid schemes to assist the undertakings in the economic sector.

Given the intensified activities in the area of state aid which in the Member States started as early as in the third quarter of 2008, there are no available data as yet

regarding the total granted state aid in the EU for 2008. Therefore, this part of the Report presents the data on state aid that the Member States awarded in 2007 (Table 33). The Table contains a comparative overview of state aid granted in the European Union and state aid granted in the Republic of Croatia, excluding agriculture, fisheries and transport. Given that, by applying the methodology used in the European Union, it is necessary to indicate state aid for transport, agriculture and fisheries separately from other sectors, such an approach has been used in this Report as well.

Table 33: State aid in comparison with the EU Member States in 2007

	2007				
	Total aid less aid to rail transport		Total aid less aid to agriculture, fisheries and transport		
	EUR bill.	Share of GDP (%)	EUR bill.	Share of GDP (%)	Share of horizontal and regional aid ⁵⁴ (%)
Croatia 2006	1.2	3.01	0.75	1.93	22
Croatia 2007	1.3	3.12	0.83	1.93	24
<i>EU - 27</i>	64.8	0.53	49.2	0.40	80
<i>EU - 15</i>	57.7	0.51	45.4	0.40	80
<i>EU - 12</i>	7.1	0.81	3.8	0.43	77
Belgium	1.1	0.33	0.9	0.27	100
Bulgaria	0.4	1.35	0.0	0.09	92
The Czech Republic	0.9	0.73	0.8	0.60	100
Denmark	1.4	0.62	1.2	0.51	92
Germany	16.2	0.67	14.1	0.58	79
Estonia	0.0	0.24	0.0	0.07	100
Ireland	1.1	0.59	0.6	0.32	77
Greece	0.7	0.32	0.6	0.24	98
Spain	5.4	0.51	4.3	0.41	74
France	9.8	0.52	6.9	0.37	95
Italy	5.1	0.33	3.9	0.25	89
Cyprus	0.1	0.40	0.1	0.24	95
Latvia	0.2	1.02	0.0	0.21	100
Lithuania	0.2	0.63	0.1	0.18	96
Luxemburg	0.1	0.20	0.0	0.13	100
Hungary	1.4	1.42	0.9	0.87	53
Malta	0.1	0.79	0.1	0.59	4
The Netherlands	2.3	0.41	1.4	0.24	96
Austria	1.0	0.37	0.8	0.30	98
Poland	1.8	0.60	1.3	0.41	89
Portugal	2.1	1.31	2.1	1.30	10
Romania	1.4	1.17	0.3	0.24	36
Slovenia	0.2	0.56	0.1	0.34	84

⁵⁴ In the calculation of the share of regional and horizontal aid in total aid (excluding de minimis aid and state aid for agriculture, fisheries and transport) in the observed three years, the amount of regional and horizontal aid specified also includes state aid that was granted by the counties, towns and municipalities in the Republic of Croatia.

Slovakia	0.3	0.50	0.2	0.41	76
Finland	2.1	1.16	0.6	0.35	96
Sweden	3.1	0.93	2.9	0.88	99
Great Britain	6.2	0.31	5.1	0.25	62

Source: DG Competition

Of 27 Member States, the one granting most aid in 2007 was Germany (EUR 16.2 billion), accounting for 25 percent of the total granted state aid, not including aid to rail transport in the European Union, and this was a reduction in comparison to the previous year. After Germany, the most aid was awarded by France (EUR 9.8 billion), Great Britain (EUR 6.2 billion), followed by Spain and Italy.

A large number of Member States has managed to shift state aid from sector-specific towards horizontal objectives. In 2007 in all of the 27 Member States (EU-27) the average share of aid for horizontal objectives in total aid (less aid to agriculture, fisheries and transport) had a rising trend. More specifically, that share of 67 percent in the period from 2002 to 2004 increased to 81 percent in the period from 2005 to 2007. Such an increase in horizontal aid may be attributed to the increase in tax relieves aimed at environmental protection and energy saving. The remaining 20 percent was directed to specific sectors such as financial services (9 percent), coal (7 percent), manufacturing and other services (3 percent) and other non-production sectors (1 percent).

In comparison with the largest number of EU Member States, the Republic of Croatia, measured in absolute terms, does not grant large amounts of state aid to the economy, but with regard to the share of awarded state aid in GDP, in 2007 there was still above-the-average significance of aid for the Croatian economy, marked by its still unfavourable structure in favour of the specific sectors and industries. However, only the data for 2008 and 2009, with regard to large state interventions in rescue and restructuring of the financial and real sector of the economy in the Member States will clearly show to what extent the Republic of Croatia in the respective years varies from the European trends and average values.

9. CONCLUSION

In the course of 2008 several positive trends related to state aid in the Republic of Croatia were recorded, starting from the methodology and approaches applied by this Agency.

The above primarily relates to the total amount of granted aid and trends in the share of aid in the GDP. Namely, the total amount of aid in 2008 was reduced by 17.6 percent in comparison to aid granted in 2007. The positive trend is even more evident relating to aid less agriculture and fisheries and transport, because in that case aid in 2008 was by 37.2 percent lower than aid in 2007. At the same time, the share of aid in GDP in 2008 accounted for 2.6 percent, whereas in 2007 it accounted for 3.4 percent. Without aid for transport, agriculture and fisheries, the share of aid in GDP last year accounted for 1.12 percent. This brings the Republic of Croatia in line with the share of aid in GDP of some EU Member States. The reason for reduced amounts of aid is lower sector-specific aid, such as aid earmarked for shipbuilding, iron and steel industry, aluminium industry etc.

At the same time, a 25-percent growth of aid with horizontal objectives was registered in comparison with 2007, with an increased share of horizontal and regional aid as well as aid at the local level in total granted aid to approximately 20 percent, or 34 percent if monitored in terms of the share in total granted aid for industry and services. The biggest upward trend in horizontal aid in 2008 in comparison with 2007 was recorded in respect of aid for small and medium-sized enterprises (222.7 percent), aid for environmental protection and energy saving (79.2 percent), employment aid (37.9 percent) and aid for research, development and innovation (30.3 percent).

The Report for 2008 also indicates that the providers of state aid awarded a larger part of aid on the basis of aid schemes that had been prepared in advance and authorised by this Agency, while less aid is being awarded as *ad hoc* aid to individual beneficiaries. This also relates to de minimis aid, which may be granted individually or under a specific aid scheme. The approach of granting state aid under the aid schemes mentioned above contributed significantly to transparency and predictability of aid awards and lessened the discretionary powers of aid providers. State aid that is still granted to individual beneficiaries mostly involves state aid for rescue and restructuring, which, according to the relevant rules, may be granted only to small and medium-sized enterprises, while in the case of large undertakings they may be granted only on a case-by-case basis, subject to the approval of the restructuring plan by the Agency.

The year 2008 saw the harmonisation of the laws which, among others, regulate the state aid regime, such as the Free Zones Act, the Act on Hilly and Mountainous Areas, the Act on the Areas of Special State Concern, and also the regional aid map. Consequently, the major part of the state aid regime is already found to be in compliance with the one in force in the European Union, and this means that the foundation has been created for further growth of aid earmarked for horizontal objectives, particularly for state aid for investments that promotes job creation and employment growth.

So to attain a better effect of state aid in terms of the above objectives, in the forthcoming period it will be necessary to implement the state aid policy which will take into account, to the extent higher than it has been the case so far, the need for a greater concentration of state aid funds, or a smaller number of aid providers and aid schemes, since a large number of providers and an even a larger number of programmes and aid schemes offered to the beneficiaries make it more difficult for beneficiaries to choose the right one among them, increases the administration costs and unnecessarily fragments the funds earmarked for specific objectives, thus bringing into question the very effect and purpose of state aid.

In conclusion, positive trends in the area of state aid indicate that the new system of awarding and monitoring of state aid in the Republic of Croatia has come to life. The implementation of the State Aid Act has been yielding results. The award of state aid is carried out and regulated by law and subsequently approved by-laws. Aid providers focus on the preparation of aid schemes, and only in the exceptional cases individual aid is granted. Along the same lines, it is evident that after the adjustment and full approximation of the Croatian state aid rules with the relevant EU rules, the Croatian state aid regime will very soon catch up with the indicators in the EU Member States in terms of the share of aid in GDP and the state aid structure in which state aid with horizontal objectives and regional development prevails.