



**REPUBLIC OF CROATIA  
CROATIAN COMPETITION AGENCY**

**Annual Report  
on State Aid for 2009**

**November 2010**

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# REPORT ON STATE AID FOR 2009

## 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 (Official Gazette No. 140/2005; hereinafter: the Act). 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). Also, pursuant to this Article the Agency is obliged to submit to the European Commission (hereinafter: EC) regular annual reports and other documentation, in line with the methodology of the overview of state aid in the EU, determining to which extent it may affect the trade between the Republic of Croatia and the EU, and also determining that any aid granted in any form whatsoever distorting or threatening to distort competition by favouring certain undertakings or products, is incompatible. Pursuant to SAA the Republic of Croatia committed to establish an independent authority, more precisely, an Agency, entrusted with the authorities to authorise state aid schemes and individual state aid, as well as the recovery of state aid granted unlawfully.

The Annual Report on State Aid (hereinafter: the Report) comprises an analytical overview of the state aid granted in 2009 and the data on aid granted in 2007 and 2008 processed pursuant to the Act and the methodology provided for by this Act and regulations enacted pursuant to the Act. In addition to the 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 2009. The Report also provides an overview of de minimis aid, although it does not constitute state aid within the meaning of the Act, because, due to its insignificant amounts, it cannot jeopardise trade among the Member States and between the Republic of Croatia and the European Union, respectively<sup>1</sup>. It is also not a subject of control by the Agency, but at the same time it is a significant indicator of the activity of the state in terms of providing support to specific economic sectors.

The Report also gives an overview of data on state aid granted at the level of local and regional self-government.

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<sup>1</sup> De minimis aid constitutes aid up to the amount of EUR 200,000 (in kuna countervalue), and may be approved to an individual undertaking in the period of three fiscal years, except for undertakings in the road transport sector, where this amount is EUR 100,000.

### **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, to 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 a cumulative effect of the 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, towns 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 – An 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 an economic advantage, namely: acquisition/rental of a 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 - 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 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 EU acquis 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. aid earmarked for defence and public works.*

The Report for 2009, in comparison with last year's report, provides revised data on aid granted in 2007 and 2008. The most significant differences pertain to state aid for

shipbuilding, employment and regional aid. In the case of state aid for shipbuilding, this Report has applied a different methodology of calculation of state aid contained in the state guarantees, whereas in this Report state aid granted pursuant to the Free Zones Act, the Act on Hilly and Mountainous Areas, the Act on Areas of Special State Concern and the Act on Reconstruction and Development of the Town of Vukovar is no longer included in regional aid, but constitutes de minimis aid, as specifically provided for pursuant to the provisions of the said Acts. The data on employment was also revised on the basis of the data on tax advantages submitted by the Ministry of Finance.

Although the Agency begins the activities on collecting the data on state aid already at the end of February and in March of the current year for the previous year, in order to fulfil its legal obligation and prepare the report as soon as possible, a large number of aid providers are not able to submit the data on the state aid actually granted before the middle or the second half of the year, so that, for instance, in 2010 the majority of those data was not submitted to the Agency before October, while some local and territorial (regional) self-government units failed to submit the data at all. Given that there are no sanctions for the aid providers who fail to submit the requested data in a timely manner, or do not submit them at all, when preparing the Report on State Aid, the Agency, besides the reminders and requests for submission of the data, has no other option but wait for the most significant and biggest aid providers to submit the data in order to prepare the Report by using a sample representative enough, thus fulfilling its obligation of the preparation of the annual report in a quality manner.

## **1.1. Methodologies of reporting state aid**

The Annual Report for 2009 gives an overview of all state aid (hereinafter: state aid) for which the aid providers have submitted data. State aid is reported in compliance with the methodology used in the Report on State Aid by the European Commission. If aid providers have failed to submit all data on state aid to the Agency, and we do have information that the state aid has been granted, the amount of that state aid is estimated on the basis of the available data and it is also presented in the Report, however, in the form of an estimate.

The Report provides a separate overview of state aid to specific sectors, namely, for agriculture and fisheries, as well as state aid for industry and services. Aid for agriculture and fisheries is not analysed in detail 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 a special legislation and are in the competence of the Ministry of Agriculture, Fisheries and Rural Development.

Aid for industry and services is reported as state aid for horizontal objectives, sector-specific state aid, state aid for regional development and state aid awarded at the local level by local and regional self-government units. In addition, a more detailed division of state aid within the group of horizontal and sector-specific objectives is presented. Although regional aid, in compliance with the methodology used in the European Union, as a rule is presented within aid with horizontal objectives, to enable an insight into aid

intended for providing a coherent 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.

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

Given that sector-specific aid may significantly distort competition, it 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, for transport (road transport, inland waterway transport, rail transport, maritime transport and air transport) and for 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. State aid for rescue and restructuring of undertakings in difficulty constitutes sector-specific state aid as well, in cases of awarding aid to individual undertakings; in case when this type of state aid is awarded through state aid schemes for small and medium-sized enterprises, this aid constitutes horizontal aid.

This Report presents separately de minimis aid, which does not constitute aid within the meaning of the Act, due to the fact that a significant number of aid providers in the Republic of Croatia base their aid schemes (the so-called programmes) particularly on this type of aid and that significant budgetary funds are used for these purposes.

State aid is awarded through various aid instruments, among which the most significant ones are grants, tax relieves, exemptions, debt write-off and relieves and exemptions from payment of social security contributions and tax advantages, equity participation, soft loans, state aid element in guarantees. Annex 1 provides a list of all aid instruments, as well as the methodology of calculating state aid included in specific aid instruments, in particular in the case of state guarantees, where a 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. 2/10; hereinafter: Ordinance) and Decision on the publication of rules on state aid in the form of guarantees (Official Gazette, No. 39/09).

## 2. STATE AID IN 2009

State aid in 2009 in the Republic of Croatia amounted to HRK 8,691.8 million, which was less by 9.1 percent than in 2008. At the same time, total aid in GDP in 2009 accounted for 2.61 percent, a decrease in comparison with 2008, whereas in 2008 it accounted for 2.79 percent, a decrease of 6.45 percent.

In 2009 state aid per employee totalled HRK 5,799.2, which was a decrease by 5.7 percent in comparison to 2008, when aid per employee amounted to HRK 6,149.8. Per capita state aid decreased from HRK 2,173.1 in 2008 to HRK 1,975.4 in 2009, which was a 9.1-percent reduction.

**Table 1:** Total state aid granted in the period 2007 - 2009

	Measure	2007	2008	2009	Indices	
					2008/ 2007	2009/ 2008
State aid	in HRK mil.	<b>11,295.2</b>	<b>9,561.8</b>	<b>8,691.8</b>	85	91
State aid	in EUR mil.	<b>1,539.7</b>	<b>1,323.8</b>	<b>1,184.2</b>	86	89
GDP	in HRK mil.	314,223.0	342,159.0	333,063.0	109	97
GDP	in EUR mil.	42,832.9	47,369.6	45,379.2	111	96
Government expenditure	in HRK mil.	108,008.0	115,292.4	117,924.0	107	102
Government expenditure	in EUR mil.	14,723.0	15,961.5	16,066.9	108	101
Employees	Number	1,516,909	1,554,805	1,498,784	102	96
Share of state aid in GDP	%	<b>3.59%</b>	<b>2.79%</b>	<b>2.61%</b>	78	93
State aid per employee	HRK	7,446.2	6,149.8	5,799.2	83	94
State aid per employee	EUR	1,015.0	851.4	790.1	84	93
State aid share in government expenditure	%	10.46%	8.29%	7.37%	79	89
Per capita state aid of Croatia	HRK	2,567.1	2,173.1	1,975.4	85	91
Per capita state aid of Croatia	EUR	349.9	300.9	269.1	86	89

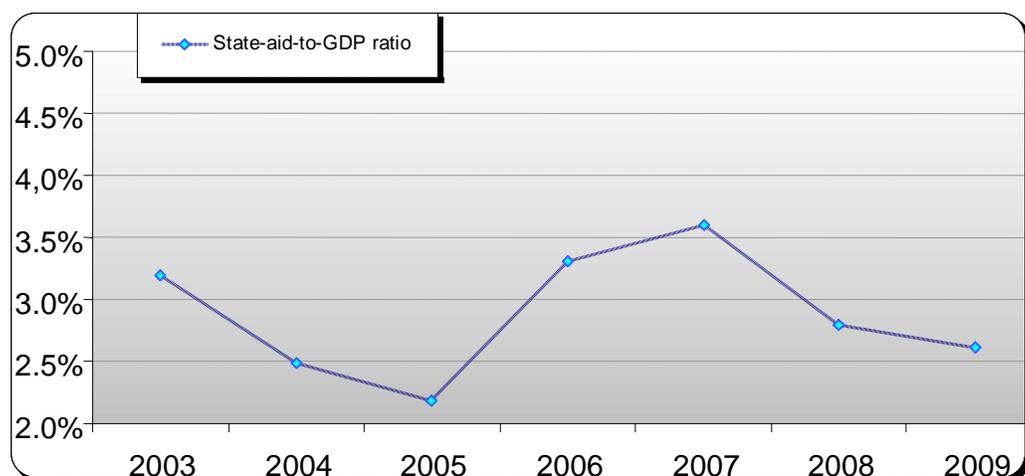
Sources: Croatian Bureau of Statistics, Ministry of Finance (statistical survey of budgetary expenditure);

Data processed in the Croatian Competition Agency (CCA).

The year 2009 saw a decrease in the amount of the total granted state aid in comparison with 2008 of HRK 870 million, due mostly to a significant reduction of sector-specific aid – in particular shipbuilding, by HRK 739.4 million. Aid for rescue and restructuring was also reduced, by HRK 72 million, whereas state aid in the transport sector decreased by HRK 143.6 million.

The downward trend in state aid is also evident in terms of the share of state aid in GDP in the period from 2007 to 2009. More precisely, in 2007 the share of state aid in GDP accounted for 3.59 percent, 2.79 percent in 2008, whereas in 2009 it was 2.61 percent. The share of state aid in GDP in 2009 was lower by 27.3 percent in comparison to 2007.

**Figure 1: State-aid-to-GDP ratio in the period 2003 - 2009**



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

State aid to agriculture and fisheries and aid to the transport sector are monitored in the EU not only from the aspect of the market and impact on competition as the largest part of aid to the rest of the economy. The methodology of monitoring state aid to the sectors indicated has been adapted accordingly as well. For instance, aid to the transport sector is mainly set-off for services of general economic interest, and it is not just intended to support the undertakings providing those services. Therefore, this type of state aid is usually reported separately from state aid earmarked for other economic sectors. The same goes for aid to agriculture, fisheries and transport. Table 2, therefore, presents the amounts of aid in the period from 2007 to 2009 and their shares in GDP, with the exception of aid for the sectors mentioned above.

**Table 2.: Aid in the period 2007 - 2009 (less agriculture, fisheries and transport)**

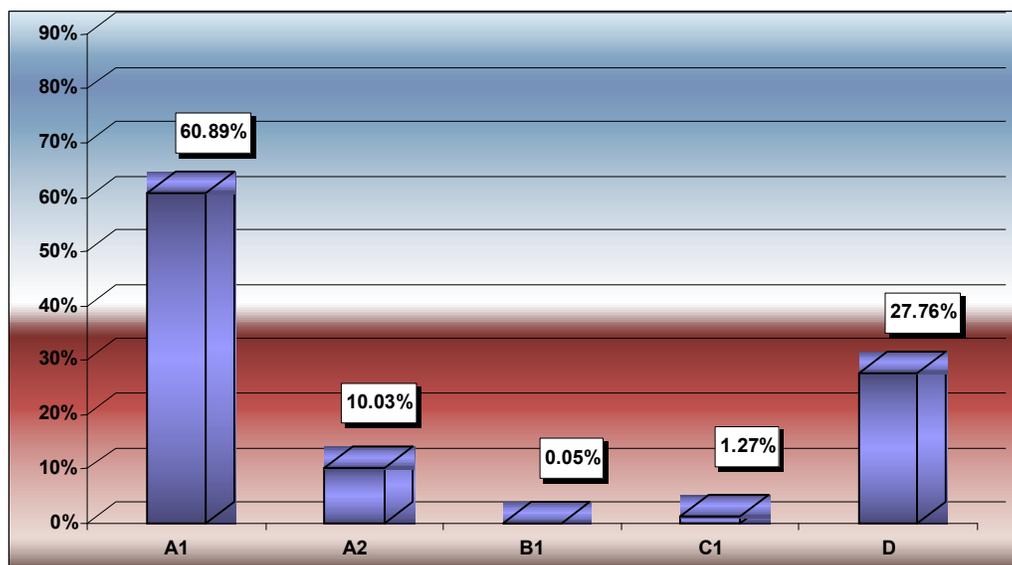
Measure		2007	2008	2009
Amount of state aid	in HRK mill.	6,613.2	4,493.9	3,711.6
Amount of state aid	in EUR mill.	901.5	622.1	505.7
GDP	in HRK mill.	314,223,0	342,159.0	333,063.0
GDP	in EUR mill.	42,832,9	47,369.6	45,379.2
Share of state aid in GDP	%	2.10	1.31	1.11

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 2009 amounted to HRK 3,711.6 million, which was by 17.41 and 43.88 percent lower in comparison to aid granted in 2008 and 2007, respectively<sup>2</sup>.

<sup>2</sup> The State Aid Act does not pertain to the award of aid in agriculture and fisheries, and, since aid to the transport sector in the European Union 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.

**Figure 2: State aid by instruments in 2009 (less agriculture, fisheries and transport)<sup>3</sup>**



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

In 2009 the form of aid to the economy with the highest share (less agriculture, fisheries and transport) are grants with the share of 60.89 percent, followed by tax relieves and allowances with the shares of 27.76 and approximately 10.03 percent, respectively. Soft loans to undertakings accounted for 1.27 percent, while equity participation accounted for approximately 0.05 percent.

Aid granted to the railway transport sector, due to its special role, is particularly significant in comparison with other transport sectors; consequently, the overview of state aid table below excludes only state aid granted to rail transport, whilst air, maritime and other types of land transport are included in the state aid amount.

**Table 3: Total aid in the period 2007 - 2009 (with agriculture and fisheries, but less rail transport)**

	Measure	2007	2008	2009
Amount of state aid	in HRK mill.	10,389.4	8,704.6	7,982.3
Amount of state aid	in EUR mill.	1,416.2	1,205.1	1,087.6
GDP	in HRK mill.	314,223.0	342,159.0	333,063.0
GDP	in EUR mill.	42,832.9	47,369.6	45,379.2
Share of state aid in GDP	%	3.31	2.54	2.40

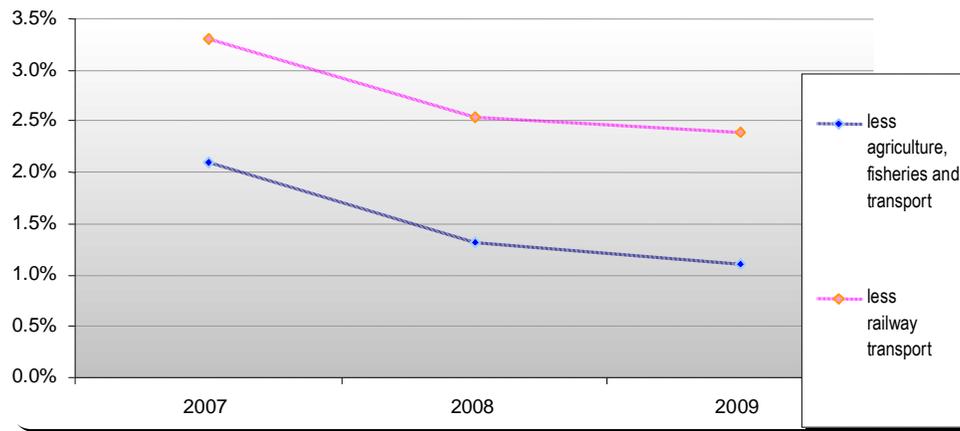
Source: Ministry of Finance, other state aid providers; data processed in CCA

<sup>3</sup> 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.

In 2009 aid for rail transport amounted to HRK 709.5 million, in 2008 it amounted to HRK 857.2 million, in 2007 to HRK 905.8 HRK million. In addition, the railway sector is also awarded funds for maintenance of infrastructure, which are not considered aid within the meaning of the Act because, even only theoretically for the time being, this infrastructure may also be used by other rail transport service providers.

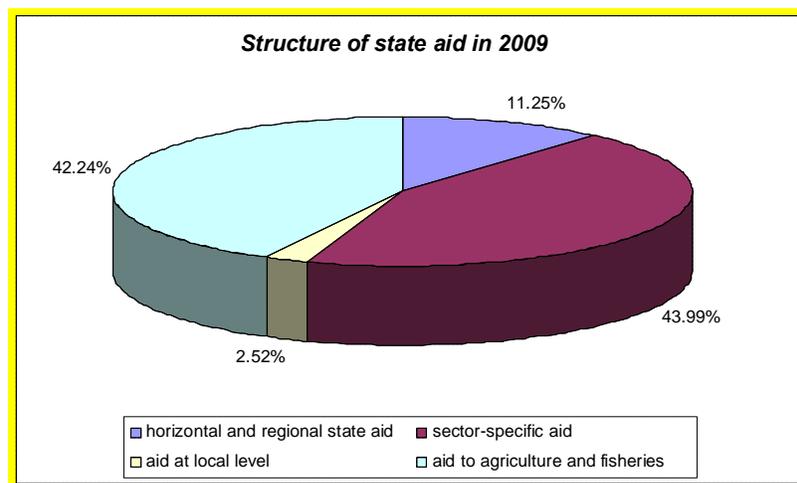
The share of aid in GDP less agriculture, fisheries and transport, and the share of aid in GDP less rail transport and the structure of state aid are presented in Figures 3 and 4, respectively.

**Figure 3:** State aid-to-GDP ratio in the period 2007 - 2009



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

**Figure 4:** Structure of total granted state aid in 2009



## 2.1. CATEGORIES OF STATE AID

As in 2008., in 2009 the downward trend of state aid continued, with the exception of state aid to agriculture and fisheries, which was higher by 1.54 percent, or HRK 55.9 million in comparison with 2008. State aid to the industry and services sector recorded a significant decline and was reduced by HRK 925.9 million or 15.57 percent.

**Table 4:** State aid amounts specified by aid categories in the period 2007 - 2009

Category		2007			2008			2009		
		in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
1.	<b>Agriculture and fisheries</b>	3,274.8	446.4	28.99	3,615.1	500.5	37.81	3,671.0	500.2	42.24
2.	<b>Industry and services</b>	8,020.4	1,093.3	71.01	5,946.7	823.3	62.19	5,020.8	684.1	57.76
	<b>Horizontal objectives</b>	668.3	91.1	5.91	662.9	91.8	6.93	658.5	89.7	7.58
	Research and development and innovation	160.9	21.9	1.42	209.5	29.0	2.19	139.1	19.0	1.60
	Environmental protection and energy saving	20.7	2.8	0.18	37.2	5.2	0.39	64.6	8.8	0.74
	Small and medium-sized enterprises	53.4	7.3	0.47	172.3	23.9	1.80	228.3	31.1	2.63
	Training	182.6	24.9	1.62	68.9	9.5	0.72	53.9	7.3	0.62
	Employment	195.3	26.6	1.73	136.4	18.9	1.43	42.6	5.8	0.49
	Culture	55.4	7.6	0.49	38.6	5.3	0.40	36.4	5.0	0.42
	Support for access to finance during financial and economic crisis	0.0	0.0	0.00	0.0	0.0	0.00	93.6	12.8	1.08
	<b>Special sectors</b>	<b>6,816.4</b>	<b>929.2</b>	<b>60.35</b>	<b>4,794.5</b>	<b>663.8</b>	<b>50.14</b>	<b>3,824.0</b>	<b>521.0</b>	<b>43.99</b>
	Steel industry	196.3	26.8	1.74	0.0	0.0	0.00	2.2	0.3	0.03
	Transport	1,407.2	191.8	12.46	1,452.8	201.1	15.19	1,309.2	178.4	15.06
	Shipbuilding	3,125.3	426.0	27.67	1,892.1	261.9	19.79	1,152.7	157.1	13.26
	Tourism	180.8	24.6	1.60	171.5	23.7	1.79	164.5	22.4	1.89
	Public service broadcasting	1,013.7	138.2	8.98	1,068.5	147.9	11.18	1,133.1	154.4	13.04
	Other sectors	51.2	7.0	0.45	134.7	18.6	1.41	59.4	8.1	0.68
	Rescue and restructuring	841.9	114.8	7.45	74.9	10.4	0.78	2.9	0.4	0.03
	<b>Regional aid</b>	<b>340.9</b>	<b>46.5</b>	<b>3.02</b>	<b>310.9</b>	<b>43.0</b>	<b>3.25</b>	<b>319.4</b>	<b>43.5</b>	<b>3.67</b>
	<b>Aid at local level</b>	<b>194.8</b>	<b>26.6</b>	<b>1.73</b>	<b>178.4</b>	<b>24.7</b>	<b>1.87</b>	<b>218.9</b>	<b>29.8</b>	<b>2.52</b>
<b>TOTAL</b>		<b>11,295.2</b>	<b>1,539.7</b>	<b>100.00</b>	<b>9,561.8</b>	<b>1,323.8</b>	<b>100.00</b>	<b>8,691.8</b>	<b>1,184.2</b>	<b>100.00</b>

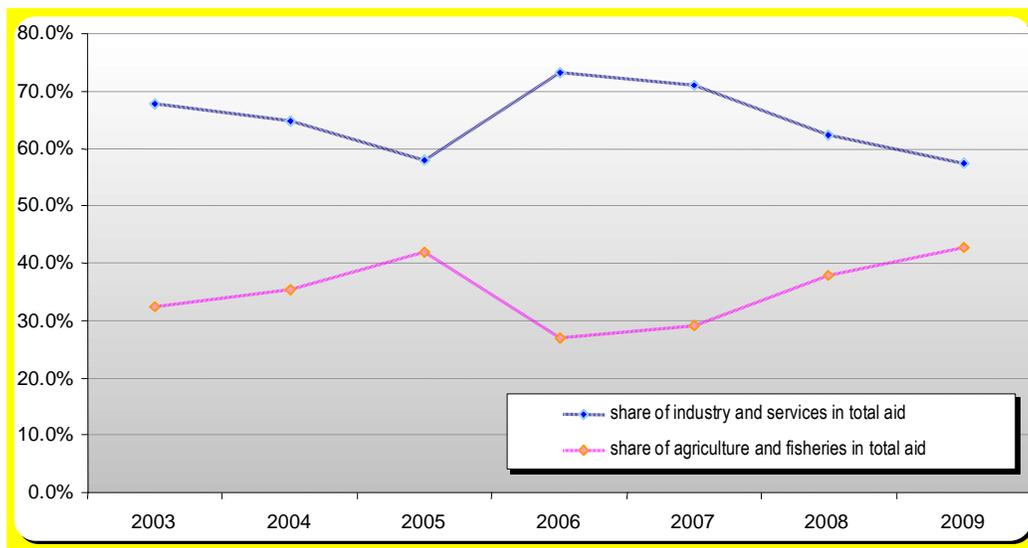
Source: Ministry of Finance, other state aid providers; data processed in CCA

In terms of aid categories, in 2009 aid earmarked for horizontal objectives and regional state aid accounted for 11.25 percent of total aid, whereas the share of the aid granted to

special sectors of industry and services accounted for 43.99 percent of all state aid (mainly granted in the transport, shipbuilding and public service broadcasting sectors). A further 42.24 percent of total awarded state aid pertains to agriculture and fisheries, whilst the share of state aid at the local level was 2.52 percent. In 2009 the total state aid, less agriculture and fisheries, amounted to HRK 5,020.8 million, accounting for a 1.51-percent share in GDP, whereas state aid less agriculture and fisheries and transport was HRK 3,711.6 million or 1.12 percent as the share of GDP.

The year 2009 saw a change in the structure of total aid, due to an increase in the share of state aid to agriculture and fisheries by 1.54 percent, i.e., their share in state aid grew from 37.81 percent in 2008 to 42.24 percent in 2009. The share of state aid for industry and services in the total state aid declined from 62.19 percent in 2008 to 57.76 percent in total state aid in 2009.

**Figure 5:** Share of aid for agriculture and fisheries and aid for industry and services in total granted aid in the period 2003 - 2009



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

In 2009 in the industry and services sector sector-specific aid is still prevailing. Namely, sector-specific state aid amounted to HRK 3.824 million, which accounted for 44 percent as the share of total granted state aid. Nevertheless, a significant decline in this type of in comparison with 2008 is observed – by HRK 970.5 million or 20.24 percent. At the same time, state aid earmarked for horizontal objectives recorded a drop by HRK 4.4 million and amounted to HRK 658.5 million, whilst in 2008 it amounted to HRK 662.9 million.

Since according to the EU methodology horizontal objectives encompass regional aid and aid awarded at the local level, by applying this methodology horizontal aid recorded growth by 3.87 percent, in other words, it increased from HRK 1,152.2 million in 2008 to HRK 1,196.8 million in 2009.

Some categories of state aid earmarked for horizontal objectives recorded growth in 2009 as well. The increase in 2009 in comparison to 2008 in the total amount of HRK 251.4 million was recorded by aid for environmental protection and energy saving and for small and medium-sized enterprises. Last year aid was also awarded for supporting of access to finance by the real sector at the time of the global economic crisis, in the amount of HRK 93.6 million. In the category of horizontal state aid there was a reduction in the aid for research and development and innovation, for training and employment, as well as state aid in culture.

Regional state aid, granted in 2009 in the amount of HRK 319,4 million, were higher by 2.73 percent than in 2008, when they amounted to HRK 310.9 million. Also, a steady increase in their share in the total granted state aid was observed, from 3.02 percent in 2007 to 3.25 percent and 3.67 percent in 2008 and 2009, respectively. Regional state aid was granted mostly pursuant to the Investment Promotion Act, and also for financing specific target groups, textiles and clothing production and leather processing industry, and also for the development of the broadband Internet access infrastructure.

In 2009 state aid at the local level amounted to HRK 218.9 million, i.e., their share in the total granted state aid was 2.52 percent, which was higher by HRK 40.5 million or 22.7 percent in comparison with 2008, or by HRK 24.1 million or 12.37 percent higher than in 2007.

## 2.2. STATE AID BY INSTRUMENTS

State aid is awarded through various aid instruments<sup>4</sup> or forms of aid, 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<sup>5</sup>), equity participation (B1), soft loans (C1), state aid element in guarantees (D).

The most prevalent aid instrument in 2009 was grants, in the form of which HRK 7,009.8 million state aid was awarded, which accounted for 80.65-percent share in the total granted state aid. They were followed by state guarantees in the amount of HRK 1.154,3 million or 13.28-percent share, followed by tax relieves and tax advantages in the amount of HRK 372.4 million or 4.28 percent share, and equity participation amounting to HRK 106 million or 1.22 percent and state aid in the form of soft loans in the amount of HRK 49.3 million or 0.57 percent.

Further to the above, grants are a prevailing aid instrument in some sectors as well. For instance, grants are the most frequent aid instrument granted to agriculture and fisheries and account to 96.29 percent of the total state aid granted to this sector. They account for 92.83 percent of state aid in the transport sector. 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. Grants under horizontal state aid are awarded the most to small and medium-sized undertakings, and also at the level of local and regional self-government units.

In 2009 state aid in the form of guarantees, like in previous years, was granted in shipbuilding, transport and tourism, whereas state aid granted in the form of tax relieves and tax advantages prevail with horizontal aid, particularly in case of state aid for research and development and innovation and in case of the regional state aid, which are regulated by special laws.

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<sup>4</sup> Annex 1 provides a list of aid instruments and the methodology for calculating the aid element in specific instruments.

<sup>5</sup> 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 2009 (HRK mill.)**

Category		A1	A2	B1	C1	D	Total
1.	<b>Agriculture and fisheries</b>	3,534.7	0.0	104.0	2.1	30.2	3,671.0
2.	<b>Industry and services</b>	3,475.1	372.4	2.0	47.2	1,124.1	5,020.8
	<b>Horizontal objectives</b>	475.1	160.0	0.0	23.4	0.0	658.5
	Research and development and innovation	31.6	107.5	0.0	0.0	0.0	139.1
	Environmental protection and energy saving	62.2	0.0	0.0	2.4	0.0	64.6
	Small and medium-sized enterprises	208.8	0.0	0.0	19.5	0.0	228.3
	Training	3.5	50.4	0.0	0.0	0.0	53.9
	Employment	40.5	2.1	0.0	0.0	0.0	42.6
	Culture	36.4	0.0	0.0	0.0	0.0	36.4
	Support for access to finance during financial and economic crisis	92.1	0.0	0.0	1.5	0.0	93.6
	<b>Specific sectors</b>	2,697.1	3.6	0.0	15.3	1,108.0	3,824.0
	Steel industry	0.0	0.0	0.0	2.2	0.0	2.2
	Transport	1,215.3	0.0	0.0	0.0	93.9	1,309.2
	Shipbuilding	283.1	0.0	0.0	0.0	869.6	1,152.7
	Tourism	58.9	3.6	0.0	9.0	93.0	164.5
	Public service broadcasting	1,133.1	0.0	0.0	0.0	0.0	1,133.1
	Other sectors	6.7	0.0	0.0	1.2	51.5	59.4
	Rescue and restructuring	0.0	0.0	0.0	2.9	0.0	2.9
	<b>Regional aid</b>	102.1	208.8	0.0	8.5	0.0	319.4
	<b>Aid at local level</b>	200.8	0.0	2.0	0.0	16.1	218.9
<b>TOTAL</b>		<b>7,009.8</b>	<b>372.4</b>	<b>106.0</b>	<b>49.3</b>	<b>1,154.3</b>	<b>8,691.8</b>

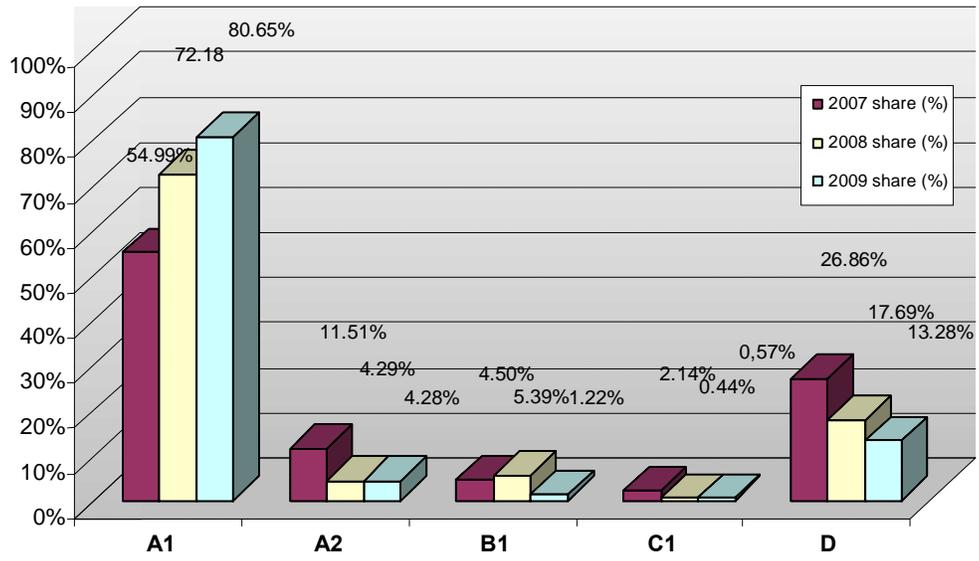
Source: Ministry of Finance, other state aid providers; data processed in CCA

**Table 6: Aid by instruments in the period 2007 – 2009 (including agriculture and fisheries)**

	2007			2008			2009		
	in HRK	in EUR	share (%)	in HRK	in EUR	share (%)	in HRK	in EUR	share (%)
	mill.	mill.		mill.	mill.		mill.	mill.	
A1	6,210.8	846.6	54.99	6,901.8	955.5	72.18	7,009.7	955.1	80.65
A2	1,299.7	177.2	11.51	410.6	56.8	4.29	372.4	50.7	4.28
B1	508.4	69.3	4.50	515.2	71.3	5.39	106.0	14.4	1.22
C1	242.1	33.0	2.14	42.4	5.9	0.44	49.3	6.7	0.57
C2	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.0	0.00
D	3,034.2	413.6	26.86	1,691.8	234.2	17.69	1,154.4	157.3	13.28
	<b>11,295.2</b>	<b>1,539.7</b>	<b>100.00</b>	<b>9,561.8</b>	<b>1,323.8</b>	<b>100.00</b>	<b>8,691.8</b>	<b>1,184.2</b>	<b>100.00</b>

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

**Figure 6.:** Total aid by instruments for the period 2007 – 2009



### **2.2.1. State guarantees as aid instrument**

State guarantees are one of the most significant aid instruments, so specific rules apply to them<sup>6</sup>. On the one hand, the said rules regulate the manner and conditions under which state guarantees may be granted as state aid, and the conditions under which state guarantees do not constitute state aid, and on the other hand they regulate the methodology of calculating the element of state aid contained in a state guarantee.

Just as in case of other state aid instruments, the basic criteria for establishing if a state guarantee contains an aid element or not are regulated by the provisions of Article 3 paragraph 1 of the Act<sup>7</sup>.

However, the Decision on the publication of rules on state aid in the form of guarantees<sup>8</sup> also provides for specific conditions which have to be fulfilled so that a state guarantee would not constitute state aid. The criteria at issue are based on the „market economy investor principle“. As a rule, a state guarantee is considered as not containing an element of state aid if:

- an undertaking (borrower) is not considered an undertaking in financial difficulty,
- the granted guarantee is linked to a specific financial transaction and is granted for a fixed maximum amount and is time bound,
- the granted guarantee obligation does not cover more than 80 percent of the loan, i.e., financial obligation,
- the undertaking pays a market-based fee for the granted guarantee<sup>9</sup>.

As regards the methodology of calculation of state aid contained in a guarantee, when the above conditions according to which a guarantee is not considered state aid are not fulfilled, the element of state aid for individual state guarantees is calculated as the difference between the market price of the guarantee and the price actually paid for the guarantee at issue. In the cases when the market price for a guarantee cannot be

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<sup>6</sup> The Decision on the publication of rules on state aid in the form of guarantees (Official Gazette No. 39/09).

<sup>7</sup> All state aid, including the aid contained in state guarantees, are actual or potential government expenditures or decreased government revenues, which are awarded by the aid provider and which distort or might distort competition by giving an advantage on the market to a beneficiary of state aid, to the extent in which this may affect fulfilment of international obligations assumed by the Republic of Croatia in respect of state aid arising from the SAA.

<sup>8</sup> At the end of March 2009, on the day of the publication in Official Gazette No. 39/09, came into force the Decision on the publication of rules on state aid in the form of guarantees, and the former Decision on the publication of rules on state aid in the form of guarantees (Official Gazette No. 13/08) ceased to be valid.

<sup>9</sup> The conditions stipulated pertain to individual state guarantees, whereas the conditions that exclude the existence of aid in a state guarantee scheme also comprise other criteria that pertain to the self-financing nature and transparency of the scheme. Also, the rules on state guarantees issued for small and medium-sized enterprises provide for a simpler assessment as to whether a guarantee contains aid or not, expressed in the so-called „safe harbour premium“. The conditions indicated above are stipulated in points 3.2. through 3.5. of the Decision on the publication of rules on state aid in the form of guarantees.

determined, the element of state aid is calculated as the amount of state aid in the form of a loan under more favourable conditions, i.e., as a difference between the (higher) interest under market conditions that the undertaking would pay without a guarantee and the interest set thanks to the coverage by the state guarantee, after the deduction of all paid-in premiums<sup>10</sup>.

As an exception, if there is a probability that the undertaking – beneficiary of the loan covered by a state guarantee will not be able to repay the loan, in that case the amount of aid contained in state guarantee may account for up to a hundred-percent amount of the granted guarantee. This particularly refers to the situations when 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 the provider of the guarantee, and the debt is written off.

In the observed three years the highest number of state guarantees indicated in Table 7 was issued for purposes which do not constitute state aid within the meaning of the Act (for example, for construction of roads and motorways, railway and port infrastructure, for hospitals etc.).

Other state guarantees have been provided for purposes constituting state aid within the meaning of the Act, in 2007 and 2008 for the shipbuilding industry, and in 2009 for the shipbuilding industry, maritime transport and for the energy sector (guarantees to shipyards, Jadrolinija Rijeka and the undertaking Plinacro d.o.o. Zagreb).

**Table 7: State guarantees in the period 2007 – 2009 (HRK mill.)**

No.	Description	2007	2008	2009
1.	Total guarantees issued	14,989.1	7,866.7	9,392.1
2.	Issued state guarantees which do not constitute aid	10,284.9	5,386.6	6,780.9
3.	Issued state guarantees containing aid elements (rows 1-2)	4,704.2	2,480.1	2,611.2
4.	<b>Amount of aid involved in issued state guarantees containing aid elements (row 3)</b>	<b>2,739.2</b>	<b>1,516.0</b>	<b>928.5</b>
5.	<b>Invoked state guarantees containing aid elements (less shipbuilding)</b>	<b>279.2</b>	<b>152.3</b>	<b>209.8</b>
6.	<b>Other guarantees (local and regional)</b>	<b>15.7</b>	<b>23.5</b>	<b>16.1</b>
7.	<b>Total amount state aid contained in state guarantees (line 4+5+6)</b>	<b>3,034.2</b>	<b>1,691.8</b>	<b>1,154.4</b>

Source: Ministry of Finance; data processed in CCA

The total amount of state aid contained in issued and invoked state guarantees comprises the amount of aid contained in issued state guarantees containing aid element, the amount of invoked state guarantees containing aid element, excluding the invoked guarantees for shipbuilding, and the amount of state guarantees issued by the local and regional self-government units. Invoked state guarantees in the three years

<sup>10</sup> Other rules pertain to the state guarantee schemes, and also to state guarantees to small and medium-sized enterprises, as described in points 4.3. through 4.5. of the Decision on the publication of rules on state aid in the form of guarantees.

indicated above pertain to tourism, air transport, agriculture and maritime transport, and to restructuring of the firms in difficulty.

In 2008 and 2009 in comparison with 2007 there is an evident reduction in issued state guarantees, as well as issued state guarantees with aid element.

The same trend is present in the guarantees containing state aid, and also in the total amount of state aid contained in guarantees. A drop in the value of the total amount of state aid contained in guarantees is primarily a result of a lower total amount of state guarantees issued for the shipbuilding industry.

In 2009 state aid contained in issued state guarantees for the shipbuilding sector amounted to HRK 869.6 million (including the guarantees issued to undertakings Uljanik Brodogradilište d.d., 3. Maj Brodogradilište d.d., Brodogradilište Kraljevica d.d., Brodosplit – Brodogradilište d.o.o., Brodosplit – BSO d.o.o. and Brodotrogir d.d.), whereas for the energy sector, for the undertaking Plinacro d.o.o. Zagreb, state aid amounted to HRK 51.5 million, and for maritime transport for the undertaking Jadrolinija Rijeka it amounted to HRK 7.4 million. In the same year state guarantees in tourism were invoked in the amount of HRK 93 million, in air transport HRK 84.3 million, in agriculture HRK 30.2 million, and in maritime transport HRK 2.3 million. The amount of HRK 16.1 million should be added to the above, being the amount allocated in 2009 by municipalities, towns and counties in the form of state guarantees, rendering the total of HRK 1,154.4 million of state aid contained in guarantees.

The risk of default for invoking of state guarantees is presented in Table 8. It represents the estimated amount of the market-based price of guarantees<sup>11</sup>.

To avoid double representation of the same data in the Report, state guarantees for shipbuilding are presented as state aid at the moment of issuance of each individual guarantee (the fourth row of Table 7), and not at the moment of its invoking.

However, to present as realistically as possible the increase in the risk of default for invoking of state guarantees in the last two years, the analysis in Table 8, when calculating the rate of the risk of default for invoking of state guarantees also took into consideration the invoked guarantees pertaining to the guarantees issued for loans to large Croatian shipyards. It is, therefore, evident that this rate reached 80.76 percent in 2009.

**Table 8:** Default risk for invoking of state guarantees in the period 2007–2009 (HRK mill.)

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<sup>11</sup> Pursuant to the provisions of 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 of the Republic of Croatia 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.

No.	Description	2007	2008	2009
1.	<b>Issued state guarantees with aid element</b>	<b>4,704.2</b>	<b>2,480.1</b>	<b>2,611.2</b>
2.	Invoked state guarantees for shipbuilding	0.0	289.7	1,898.9
3.	Other invoked state guarantees with aid element	279.2	152.3	209.8
4.	<b>Total invoked guarantees (rows 2+3)</b>	<b>279.2</b>	<b>442.0</b>	<b>2,108.7</b>
5.	Default risk less shipbuilding (row 3/1)	5.94%	6.14%	8.04%
6.	<b>Default risk including shipbuilding (row 4/1)</b>	<b>5.94%</b>	<b>17.82%</b>	<b>80.76%</b>

Source: Ministry of Finance; data processed in CCA

### 3. AGRICULTURE AND FISHERIES

In 2009 agriculture and fisheries<sup>12</sup> were granted aid in the amount of HRK 3.671 million, or by HRK 55.9 million more in comparison with 2008, when they amounted to HRK 3,615.1 million. In 2009 state aid to this sector was higher by 1.54 percent in comparison with the previous year, 2008, whilst their share in total state aid increased by 12.1 percent, and in GDP by 3.8 percent.

A continual growth of state aid to agriculture and fisheries and, in contrast, the declining trend of the total state aid to the economy is evident from data presented in Table 9.

**Table 9:** Total state aid and state aid to agriculture and fisheries for the period 2007 – 2009

Agriculture and fisheries	2007		2008		2009		Indices	
	in HRK	in EUR	in HRK	in EUR	in HRK	In EUR	2008/ 2007	2009/ 2008
	mill.	mill.	mill.	mill.	mill.	mill.		
Total state aid	11,295.2	1,539.7	9,561.8	1,323.8	8,691.8	1,184.2	84.7	90.9
Aid less agriculture and fisheries	8,020.4	1,093.3	5,946.7	823.3	5,020.8	684.1	74.1	84.4
Aid to agriculture and fisheries	3,274.8	446.4	3,615.1	500.5	3,671.0	500.2	110.4	101.5
Share (%) in total state aid	28.99		37.81		42.24		130.4	111.7
Share (%) of GDP	1.04		1.06		1.10		101.4	104.3

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

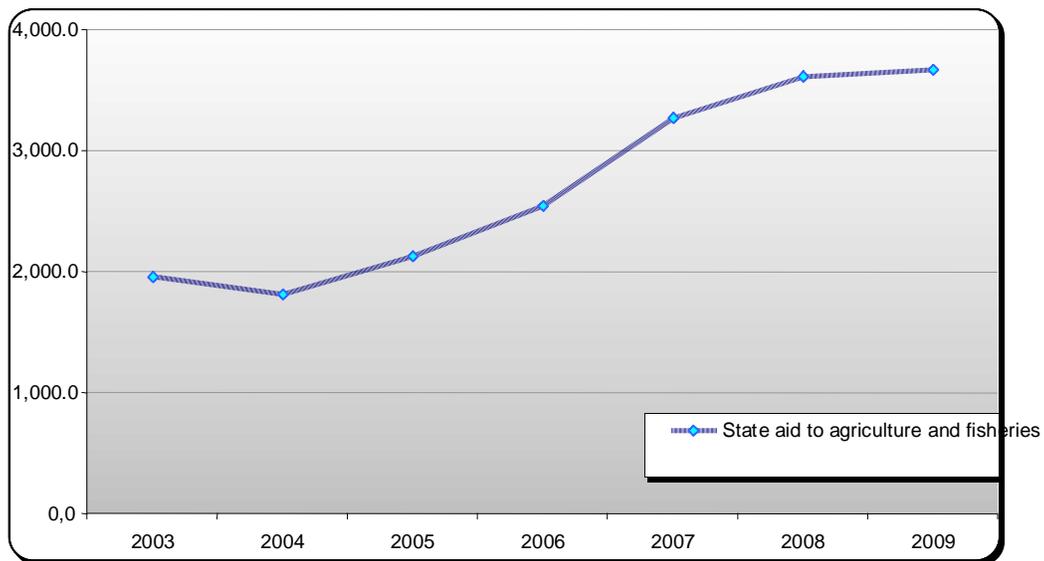
The share of state aid to agriculture and fisheries in 2009 in total state aid amounted to 42.24 percent, in 2008 to 37.81 percent, whereas in 2007 it amounted to 28.99 percent. The share of state aid to agriculture and fisheries in GDP grew from 1.04 percent in 2007 to 1 and to 1.1 percent in 2008 in 2009, respectively.

State aid to agriculture and fisheries was awarded mostly through grants (HRK 3,534.7 million, accounting for a 96.29-percent share in the total granted state aid to agriculture and fisheries), capital injection in the amount of HRK 104 million in the form of state guarantees in the amount of HRK 30.2 million, and soft loans in the amount of HRK 2.1 million.

<sup>12</sup> 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 Finance, the Croatian Privatisation Fund and the data on the execution of the State budget.

The state aid indicated above was awarded by the Ministry of Agriculture, Fisheries and Rural Development, more precisely, for fisheries in the amount of HRK 31.2 million, for agriculture, hunting and forestry HRK 2,935.7 million, and for rural development HRK 567.8 million. Other forms of state aid to this sector to be mentioned is aid in the amount of HRK 30.2 million for payment of invoked guarantees to the undertakings Sušionica d.o.o. Vrpolje and IPK Osijek, debt-equity swap in the amount of HRK 104 million to the undertaking Vinka d.d. Vinkovci, and loans to the undertakings in difficulty in the amount of HRK 2.1 million (Sušionica d.o.o. Vrpolje, Vinka d.d. Vinkovci, Dalmacijavino d.d. Split and Vupik Vukovar).

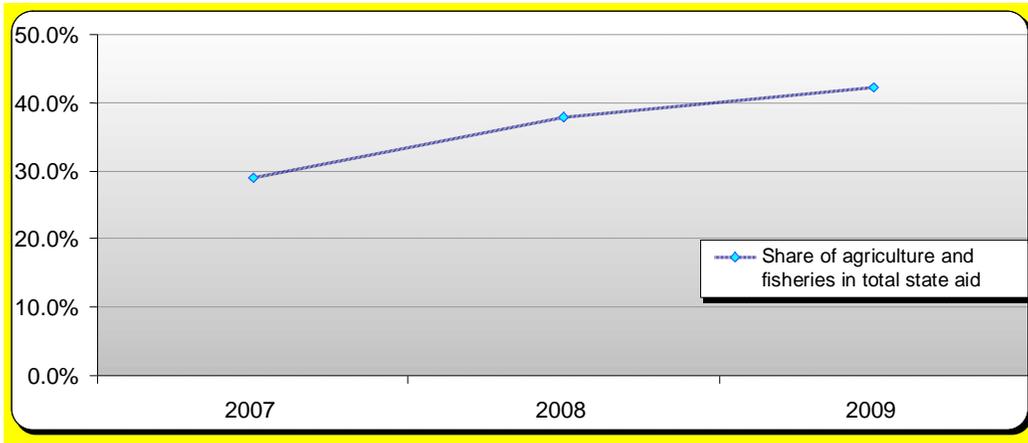
**Figure 7.:** Total state aid to agriculture and fisheries in the period 2003 - 2009  
(in HRK thousand)



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

Award of state aid to agriculture and fisheries has recorded a steady growth since 2004, although in 2008 and 2009 the trend was mitigated in comparison with the growth realised in the period from 2005 to 2008.

**Figure 8:** Share of state aid to agriculture and fisheries in total aid in the period 2007 - 2009



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

## 4. INDUSTRY AND SERVICES

In 2009 state aid to industry and services amounted to HRK 5,020.8 million, which was by 15.57 percent less than in 2008, when the same state aid amounted to HRK 5,946.7 million, and by 37.4 percent less than in 2007, when it amounted to HRK 8,020.4 million. The biggest share of state aid to industry and services in 2009 pertains to sector-specific aid – 76.16 percent, followed by 13.12 percent to horizontal aid, regional state aid accounted for 6.36 percent, while aid granted at local level accounted for 4.36 percent.

State aid for horizontal objectives had a share of 7.58 percent in the total granted state aid, recording a drop of HRK 4.4 million in 2009 in comparison with 2008, and a drop by HRK 9.8 million in comparison with 2007. Although state aid for horizontal objectives was lower in 2009 in comparison with the previous period, yet in this year state aid for environmental protection and energy saving continued to grow, as well as state aid to small and medium-sized enterprises and state aid for support to access to finance in the economic and financial crisis. As already mentioned above, state aid for research and development and innovation, for training and employment and to promote culture was reduced in comparison with the previous year.

A positive growth trend was recorded in state aid for regional objectives earmarked for a more even regional development and growth, small and medium-sized enterprises in particular. In 2009 this kind of aid amounted to HRK 319.4 million, which was higher by 2.73 percent than in 2008. The share of regional state aid in the total granted state aid in 2009 also increased, reaching 3.67 percent.

State aid at the level of local and regional self-government units in 2009 were higher by 22.7 and 12.37 percent in comparison with 2008 and 2007, respectively<sup>13</sup>.

If regional state aid and state aid at the local level are included in the group of horizontal state aid, horizontal aid amounts to HRK 1,196.8 million, and their share in state aid to industry and services accounts for 23.84 percent.

**Table 10:** State aid in the period 2007 - 2009 (less agriculture and fisheries)

Category	2007			2008			2009		
	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
<b>Industry and services</b>	<b>8,020.4</b>	<b>1,093.3</b>	<b>100.00</b>	<b>5,946.7</b>	<b>823.3</b>	<b>100.00</b>	<b>5,020.8</b>	<b>684.1</b>	<b>100.00</b>

<sup>13</sup> The invitation of the Agency for the submission of the data on granting aid for 2009 was responded by 19 counties, including the City of Zagreb, 106 cities (of the total of 126) and 355 municipalities (of the total of 429).

<i>Horizontal objectives</i>	668.3	91.1	8.33	662.9	91.8	11.15	658.5	89.7	13.12
<i>Specific sectors</i>	6,816.4	929.2	84.99	4,794.5	663.8	80.62	3,824.0	521.0	76.16
<i>Regional state aid</i>	340.9	46.5	4.25	310.9	43.0	5.23	319.4	43.5	6.36
<i>State aid at local level</i>	194.8	26.6	2.43	178.4	24.7	3.00	218.9	29.8	4.36

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

## 4.1. HORIZONTAL AID

In 2009 state aid earmarked for horizontal objectives slightly declined in comparison with the previous two years. Namely, in 2009 horizontal aid amounted to HRK 658.5 million, and the drop in comparison with 2008 was primarily caused by the decreased state aid for research and development and innovation, state aid for employment and state aid for training. At the same time, state aid earmarked for small and medium-sized enterprises and state aid for environmental protection and energy saving recorded growth. State aid for small and medium-sized enterprises increased by HRK 56 million, whilst aid for environmental protection and energy saving increased by HRK 27.4 million.

It should also be noted that in 2009 state aid was granted for overcoming the impacts of the financial and economic crisis. Namely, in accordance with the Decision on publication of rules of the temporary framework for state aid measures supporting access to financing in the current financial and economic crisis, published in Official Gazette No. 56/09 (hereinafter: Temporary framework), HRK 936 million in state aid was granted through a number of aid schemes established by HBOR and the Ministry of Economy, Labour and Entrepreneurship. However, introducing of this kind of state aid in the long run did not foster growth of horizontal state aid.

**Table 11:** Horizontal aid in the Republic of Croatia in the period 2007 – 2009

Horizontal aid	2007			2008			2009		
	in HRK mill.	in EUR mill.	share u GDP(%)	in HRK mill.	in EUR mill.	share u GDP(%)	in HRK mill.	in EUR mill.	share of GDP(%)
Research and development and innovation	160.9	21.9	0.05	209.5	29.0	0.06	139.1	19.0	0.04
Environmental protection and energy saving	20.7	2.8	0.01	37.2	5.2	0.01	64.6	8.8	0.02
Small and medium-sized enterprises	53.4	7.3	0.02	172.3	23.9	0.05	228.3	31.1	0.07
Training	182.6	24.9	0.06	68.9	9.5	0.02	53.9	7.3	0.02
Employment	195.3	26.6	0.06	136.4	18.9	0.04	42.6	5.8	0.01
Culture	55.4	7.6	0.02	38.6	5.3	0.01	36.4	5.0	0.01
Support for access to finance during financial and economic crisis	0.0	0.0	0.00	0.0	0.0	0.00	93.6	12.8	0.03
<b>TOTAL</b>	<b>668.3</b>	<b>91.1</b>	<b>0.21</b>	<b>662.9</b>	<b>91.8</b>	<b>0.19</b>	<b>658.5</b>	<b>89.7</b>	<b>0.20</b>

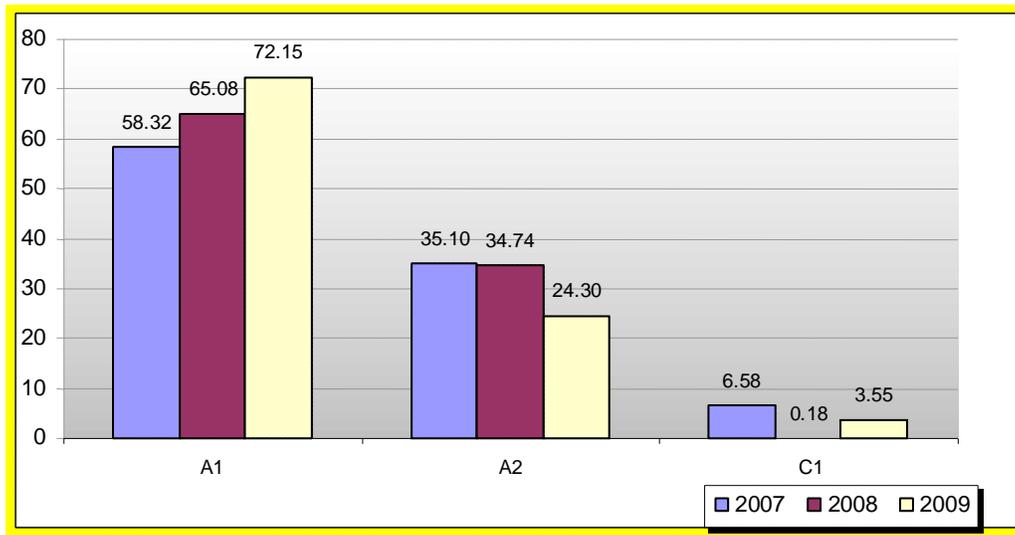
Source: Ministry of Finance, other state aid providers; data processed in CCA

In the structure of horizontal aid in 2009, the highest share in total aid with horizontal objectives – 34.67 percent – pertains to state aid for small and medium-sized enterprises. It is followed by aid for research and development and innovation with the share of 21.12 percent, whereas state aid supporting access to financing in the current financial and economic crisis accounts for 14.21 percent of total horizontal state aid. In

2009 state aid earmarked for environmental protection and energy saving accounted for 9.81 percent, whilst the smallest shares of horizontal state aid pertain to state aid for training with 8.19 percent, state aid for employment with 6.47 percent and state aid to promote culture with 5.53 percent.

Aid providers award horizontal aid mostly in the form of grants and tax advantages and relieves. More precisely, in 2009, 72.15 percent of total state aid earmarked for horizontal objectives was awarded in the form of grants. In 2009 tax advantages and relieves accounted for 24.3 percent, while the remaining part of horizontal state aid, 3.55 percent, was granted in the form of soft loans. An observation of the three-year period indicates the prevailing share of state aid in total horizontal state aid in the form of grants. However, whereas the share of grants in the total horizontal state aid in the observed period grew, tax advantages and relieves recorded a decline from 34.74 percent in 2008 to 24.3 percent in 2009, as already mentioned above.

**Figure 9:** Horizontal aid by instruments<sup>14</sup> in the period 2007 – 2009 (%)



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

#### 4.1.1. Research and development and innovation

Upon coming into force of the Act on the Amendments to the Scientific Activity and Higher Education Act (Official Gazette No. 123/03, 198/03, 105/04, 174/04 and 46/07)

<sup>14</sup> 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.

the system of tax advantages for investments earmarked for research and development projects was expanded, with simultaneous harmonisation with the relevant state aid rules. State aid in the form of tax exemptions and relieves creates more favourable conditions and encourages aid beneficiaries to increase investment in R&D&I projects.

In 2009, however, state aid for research and development and innovation amounted to HRK 139.1 million, and this was lower by HRK 70.4 million, or 33.6 percent than in 2008. The share of this aid category in total aid earmarked for horizontal objectives in 2009 accounted for only 21.12 percent in comparison with 31.6 percent of the previous year.

In the long term, although it is understandable given the time of crisis that the businesses had to cope with in 2009, a drop in state aid for research and development and innovation is still an indicator that does not guarantee a fast recovery and growth of the competitiveness of Croatian undertakings.

**Table 12:** State aid for research and development and innovation in the period 2007 – 2009

R&D and innovation	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	4.9	0.7	46.9	6,5	31.6	4.3
A2 tax advantages	156.0	21.3	162.6	22,5	107.5	14.6
<b>TOTAL</b>	<b>160.9</b>	<b>21.9</b>	<b>209.5</b>	<b>29.0</b>	<b>139.1</b>	<b>19.0</b>
Share (%) in horizontal objectives	24.08		31.60		21.12	
Share (%) in total state aid (less agriculture and fisheries)	2.01		3.52		2.77	
Share (%) in total state aid	1.42		2.19		1.60	
Share (%) of GDP	0.05		0.06		0.04	

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

In 2009 the Ministry of Science, Education and Sports awarded the following state aid for research and development and innovation: pursuant to the Scientific Activity and Higher Education Act, as well as the Act on State Aid for Education and Training, it awarded the amount of HRK 107.5 million in the form of tax advantages and grants in the amount of HRK 31.6 million in accordance with the Guidelines for encouraging the Programme of the Croatian innovation technology system (RAZUM, KONCRO, IRCRO, TEST) to various undertakings, of which the biggest beneficiaries were Banko d.o.o. Split, Ekovent d.o.o. Novo Čiče, TGL Stimulacijski servisi d.o.o. Zagreb and Iturus sum d.o.o. Zagreb.

At the same time, the Ministry of Economy, Labour and Entrepreneurship, in addition to aid mentioned above, awarded another HRK 277,604.71 in de minimis aid in line with

the Programme of incentives for development and application of new technologies in small businesses.

If the amount of de minimis aid granted as indicated 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 2009 amounted to HRK 139.4 million.

*Aid for research and development and innovation projects<sup>15</sup> may be awarded for categories of fundamental research, industrial and development research, technical feasibility studies and innovation. 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 enterprise, whereas for development research 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.*

*In cases of a collaboration between two or more independent undertakings, for transnational projects for a large enterprise with included at least one small or medium-sized enterprise or collaboration of one enterprise with a research organisation, or for dissemination of project results free of charge, aid intensity for industrial and development research may be increased by additional 15 percentage points. Thus, aid intensity for industrial research may account for up to 80 percent of eligible costs for small enterprises (maximum intensity), 75 percent for medium-sized enterprises and 65 percent for large enterprises, whereas for development research in terms of eligible costs it may account for up to 60 percent for small enterprises, 50 percent for medium-sized enterprises and 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 of contractual research, technical know-how and patents, 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.*

*State aid for technical feasibility studies may be awarded for costs of studies which are a preparation for industrial research of small and medium-sized enterprises up to 75 percent of eligible costs, or 65 percent to large enterprises, and for studies which are a preparation for a development research of small and medium-sized enterprises up to 50 percent of eligible costs, and 40 percent to large enterprises.*

*Aid for innovation may be awarded to innovation clusters, young innovative undertakings, research organisations and intermediaries specialising in the innovation area as beneficiaries*

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<sup>15</sup> The Decision on the publication of rules on state aid for research and development and innovations was published in Official Gazette No. 84/07.

*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 also for innovation advisory services and innovation support services.*

#### **4.1.2. Environmental protection and energy saving**

Aid for environmental protection and energy saving recorded the most significant growth in comparison with other kinds of horizontal aid. In 2009 HRK 64.6 million of state aid was awarded, or by 73.66 percent more in comparison to the previous year - 2008, when a total of HRK 37.2 million of state aid was awarded for those purposes. The aid instrument most frequently used was grants, HRK 62.2 million, whereas the remaining portion consisted in soft loans in the amount of HRK 2.4 million.

**Table 13:** Aid for environmental protection and energy saving in the period 2007 - 2009

Environmental protection and energy saving	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	18.4	2.5	36.0	5.0	62.2	8.5
C1 soft loans	2.3	0.3	1.2	0.2	2.4	0.3
<b>TOTAL</b>	<b>20.7</b>	<b>2.8</b>	<b>37.2</b>	<b>5.2</b>	<b>64.6</b>	<b>8.8</b>
Share (%) in horizontal objectives	3.10		5.61		9.81	
Share (%) in total state aid (less agriculture and fisheries)	0.26		0.63		1.29	
Share (%) in total state aid	0.18		0.39		0.74	
Share (%) of GDP	0.01		0.01		0.02	

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

The biggest aid provider for environmental protection in 2009 is the Environmental Protection and Energy Efficiency Fund, which, based on the Strategy of the Environmental Protection and Energy Efficiency Fund, awarded HRK 37.7 million of state aid, with grants in the amount of HRK 35.3 million prevailing among aid instruments. Some of the biggest beneficiaries of aid were Koksar d.o.o. Bakar, TEF Šibenik and Salonit d.d. Vranjic.

Of the total amount of awarded grants in 2009, the amount of HRK 26.9 million was awarded by the Ministry of the Sea, Transport and Infrastructure on the basis of the Programme for intercoastal navigation in the period from 2008 to 2011 and the Programme for the promotion of Croatian ship operators in the period from 2007 to 2011. The said funds were awarded in the form of grants to undertakings such as Lošinjska plovidba - Brodarstvo d.d. Mali Lošinj, Tankerska plovidba d.d. Zadar, Uljanik plovidba d.d. Pula and Jadranski pomorski servisi d.d. Rijeka.

In 2009 the Environmental Protection and Energy Efficiency Fund, as the biggest aid provider as regards state aid for environmental protection and energy saving, also

awarded de minimis aid for the same purposes, in the amount of HRK 18.6 million. If de minimis aid mentioned above is added to the amount of total granted aid for environmental protection and energy saving of HRK 64.6 million, the total amount of granted aid for environmental protection and energy saving amounted to HRK 83.2 million.

*Aid for environmental protection and energy saving<sup>16</sup> may be awarded for investments or acquisition of new transport vehicles which exceed the environmental standards or enhance environmental protection in the absence of those standards, early harmonisation of small and medium-sized enterprises to the future Community standards, research into environmental protection, energy saving and promoting renewable energy, investment into efficient cogeneration, energy efficiency-based district heating, waste management, remediation of polluted sites, relocation of undertakings.*

*State aid to undertakings that exceeds environmental standards or enhances environmental protection in the absence of those standards, state aid for research into environmental protection, state aid for waste management, state aid for energy efficiency-based district heating and state aid for relocation of undertakings may be awarded for investments up to 50 percent of eligible costs for large enterprises, 60 percent for medium-sized and 70 percent for small enterprises.*

*Aid intensity for energy saving, renewable energy sources, state aid for cogeneration and state aid for environmental innovations that exceed environmental standards or enhance environmental protection in the absence of those standards accounts for up to 60 percent of eligible investment costs. If this state aid is awarded to small and medium-sized enterprises, aid intensity increases by 10 percentage points for medium-sized enterprises and 20 percentage points for small enterprises.*

*However, aid for energy saving, renewable energy sources and cogeneration may also be awarded as operating aid, provided that it is limited to compensation for additional expenses of production in comparison with market-based prices of subject products or services. Such aid must be limited in terms of duration and be phased out.*

*In case of a tender or invitation to bid, aid intensity for state aid exceeding environmental protection or enhancing environmental protection in the absence of those standards, state aid for renewable energy sources and aid for cogeneration may account for up to 100 percent of eligible investment costs.*

*Aid intensity for aid for early harmonisation of small and medium-sized enterprises to the future environmental standards, if harmonisation is carried out between one and three years prior to coming of standards into effect, accounts for 10 percent for large enterprises, 15 percent for medium-sized enterprises and 20 percent of eligible costs for small enterprises. If harmonisation is carried out more than three years prior to coming of standards into effects, the aid intensities are increased by additional 5 percentage points.*

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<sup>16</sup> The Decision on the publication of the rules on State aid for environmental protection was published in Official Gazette 154/08.

*Eligible costs of state aid for investments or acquisition of new transport vehicles whereby environmental standards are exceeded or environmental protection is enhanced in the absence of those standards, early harmonisation of small and medium-sized enterprises to the future Community standards, energy saving and promoting renewable energy sources, investment into efficient cogeneration, energy efficiency-based district heating and waste management pertain to additional costs of investments necessary for attaining of the purpose for which a specific aid is granted. Eligible costs of state aid for environmental protection research pertain to costs of research, eligible costs of state aid for remediation of polluted sites pertain to the costs of remediation decreased by the growth of the price of land, and of aid for relocation of an undertaking eligible costs pertain to the difference of revenue and expenditures connected with abandoning of the plant or acquisition or construction of a new one.*

### 4.1.3. Employment

In the observed three-year period there has been an evident continual decline in state aid for employment. In 2009 a total of HRK 42.6 million was granted in state aid for those purposes, which was lower by 68.77 percent in comparison with 2008, when state aid amounted to HRK 136.4 million. The share of state aid for employment in the total granted aid with horizontal objectives was significantly lower in comparison with previous years and accounted for 6.47 percent.

**Table 14:** State aid for employment in the period 2007 - 2009

Employment	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	172.0	23.4	132.2	18.3	40.5	5.5
A2 tax advantages	23.3	3.2	4.2	0.6	2.1	0.3
<b>TOTAL</b>	<b>195.3</b>	<b>26.6</b>	<b>136.4</b>	<b>18.9</b>	<b>42.6</b>	<b>5.8</b>
Share (%) in horizontal objectives	29.22		20.58		6.47	
Share (%) in total state aid (less agriculture and fisheries)	2.44		2.29		0.85	
Share (%) in total state aid	1.73		1.43		0.49	
Share (%) of GDP	0.06		0.04		0.01	

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

Aid for employment, mostly in the form of grants and tax advantages, 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 biggest provider of grants for employment in 2009 was the Fund for Professional Rehabilitation and Employment of Disabled Persons, which provided HRK 21.2 million for that purpose on the basis of the Decision on eligibility criteria for employment incentives for disabled persons to the undertakings 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.

The Ministry of the Economy, Labour and Entrepreneurship awarded aid on the basis of the Annual plan for the promotion of employment for 2009 - 2010, more precisely, HRK 18.4 million in the form of grants, to undertakings Vodoskok d.o.o. Zagreb, Toplice Sveti Martin d.d., Adriatic.hr d.o.o. and others. The remaining grants were awarded by the Ministry of the Economy, Labour and Entrepreneurship in compliance with the Investment Promotion Act in the amount of HRK 0.9 million to the undertakings GALKO d.o.o. Mali Bukovec, Ferokotao d.o.o. Donji Kraljevec, TRIKO d.o.o. and ALCA Zagreb d.o.o..

Furthermore, pursuant to the Profit Tax Act, HRK 2.1 million aid was granted in 2009 for employment in the form of tax advantages.

In addition to aid for employment, in 2009 the Fund for Professional Rehabilitation and Employment of Disabled Persons also granted de minimis aid on the basis of Advantages and Incentives for Employment of Disabled Persons. This aid amounted to HRK 19.5 million.

De minimis aid for employment was also awarded by the Ministry of Family, Veterans' Affairs and Intergenerational Solidarity, which in 2009 granted HRK 5.2 million on the basis of the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011.

Overall, in 2009 a total of HRK 67.3 million was granted in state aid for employment, including HRK 24.7 million of de minimis aid.

*State aid for employment<sup>17</sup> 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 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. State aid for job creation in the areas that are not entitled to regional aid may be awarded only to small and medium-sized enterprises, namely, to small enterprises in the amount of up to 20 percent of eligible costs and to medium-sized enterprises in the amount of up to 10 percent of eligible costs. Eligible costs are costs of investments into tangible and intangible assets and payroll costs for jobs directly opened by an investment project in the period of two years.*

*In employment of disadvantaged workers, aid intensity does not exceed 50 percent of payroll costs in the period of no more than 12 months following employment. If a worker is particularly disadvantaged, eligible costs may be costs of salaries in the period of no more than 24 months following employment. An employer who employs a disabled worker may be granted aid that*

<sup>17</sup> The Decision of the publication of rules on block exemptions in the area of state aid was published in Official Gazette No. 37/09.

does not exceed 75 percent of payroll costs in the period of employment of the disabled worker. It is also possible to grant aid for eligible costs of adaptation of business premises, purchase of the equipment used by disabled workers, employment of staff to support disabled workers, undertaking start-up and expansion costs, administrative costs and transportation costs directly connected with employment of disabled persons. In that case, aid intensity accounts for 100 percent eligible costs.

#### 4.1.4. Small and medium-sized enterprises

Small and medium-sized enterprises are an exceptionally significant segment of the Croatian economy, which, particularly in the period of the global economic crisis, have difficult access to financing. For this reason, an important segment of the state aid system is aid to small and medium-sized enterprises, which in 2009 amounted to HRK 228.3 million. An observation of a three-year period indicates that state aid to small and medium-sized enterprises has been growing continually, making up an increasing share in state aid earmarked for horizontal objectives.

**Table 15:** State aid to small and medium-sized enterprises in the period 2007 - 2009

Small and medium-sized enterprises	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	11.7	1.6	172.3	23.9	208.8	28.4
C1 soft loans	41.7	5.7	0.0	0.0	19.5	2.7
<b>TOTAL</b>	<b>53.4</b>	<b>7.3</b>	<b>172.3</b>	<b>23.9</b>	<b>228.3</b>	<b>31.1</b>
Share (%) in horizontal objectives	7.99		25.99		34.67	
Share (%) in total state aid (less agriculture and fisheries)	0.67		2.90		4.55	
Share (%) in total state aid	0.47		1.80		2.63	
Share (%) of GDP	0.02		0.05		0.07	

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

State aid to small and medium-sized enterprises in 2009 was mostly awarded in the form of grants, in the amount of HRK 208.8 million, whereas the remaining part of the amount of state aid, HRK 19.5 million, was granted in the form of soft loans. Grants were mostly provided by the Croatian Bank for Reconstruction and Development and the Ministry of Regional Development, Forestry and Water Management.

The Croatian Bank for Reconstruction and Development awarded HRK 80.2 million in grants in conformity with the Ordinance on the basic financing criteria for specific target groups to undertakings such as Munja d.d. Zagreb, Zlatni otok d.d. Krk, Pršut Voštane d.o.o. Trilj and others. It also awarded state aid in the form of soft loans amounting to HRK 19.5 million, to undertakings Eko Velebit d.o.o. Gračac, AG Berešić & sinovi d.o.o. Drage, Congama d.d. Trakošćan, Bratelj turistička agencija d.o.o. Gornji Uljanik and others.

At the same time, the Ministry of Regional Development, Forestry and Water Management awarded grants to small and medium-sized enterprises under two aid schemes: the Operational programme for development of industrial wood processing of the Republic of Croatia from 2006 to 2010 in the total amount of HRK 62.9 million to the undertakings Drvna industry Čazma d.o.o., Spačva d.d. Vinkovci, Lokve d.d., Finvest Corp d.d., TVIN d.o.o. Virovitica etc; also, HRK 65.7 million was 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 Minigradnja d.o.o. Vodice, Eko Velebit d.o.o. Gračac, TOKA-PAN transport d.o.o. Ilok, Arator d.o.o. and others.

In addition to the state aid indicated above in the amount of HRK 228.3 million, in 2009 small and medium-sized enterprises had the opportunity to use de minimis aid in the amount of HRK 157.7 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.

Overall, in 2009 small and medium-sized enterprises received HRK 386 million in state aid in various forms and under various aid schemes established by various aid providers (ministries, funds and agencies).

*State aid to small and medium-sized enterprises in an area entitled to regional aid may be provided up to the ceiling specified in the regional aid map, provided 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. However, 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.*

*Therefore, state aid for small and medium-sized enterprises may be awarded<sup>18</sup> for promotion of investments and employment, consultancy services and participation in fairs and exhibitions.*

*Eligible costs constitute costs of investments into tangible and intangible assets, gross wage for new jobs related to investment for a two-year period, costs of consultancy services, as well as costs of lease, for the first participation of an enterprise in a fair or exhibition. Jobs directly opened by the investment project may be considered eligible costs provided they fulfil the following conditions: the job has to be related to the implementation of the start-up investment project and has to be filled during three years following completed investment; the investment project has to ensure an increase in the number of workers in the enterprise in comparison with the average over the previous 12 months, and new jobs have to be maintained for at least three years.*

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<sup>18</sup> The Decision of the publication of rules on block exemptions in the area of state aid was published in Official Gazette No. 37/09.

*The allowed ceiling of aid intensity is as follows: up to 10 percent of eligible costs of investments for medium-sized enterprises, up to 20 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.*

#### 4.1.5. Training

In 2009 state aid for training was somewhat lower than in the previous year. The total amount of state aid was HRK 53.9 million, which was by 21.77 percent less than in 2008, or 70.48 percent less than in 2007. Like in 2008, aid instruments for training in 2009 were typically tax advantages (93.51 percent).

**Table 16:** State aid for training for the period 2007 - 2009

Training	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	127.3	17.4	5.4	0.7	3.5	0.5
A2 tax advantages	55.3	7.5	63.5	8.8	50.4	6.9
<b>TOTAL</b>	<b>182.6</b>	<b>24.9</b>	<b>68.9</b>	<b>9.5</b>	<b>53.9</b>	<b>7.3</b>
Share (%) in horizontal objectives	27.32		10.39		8.19	
Share (%) in total state aid (less agriculture and fisheries)	2.28		1.16		1.07	
Share (%) in total state aid	1.62		0.72		0.62	
Share (%) in GDP	0.06		0.02		0.02	

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

Criteria for award of state aid for training in the form of tax advantages are regulated by the Act on State Aid for Education and Training (Official Gazette, No.: 109/07, 134/07 and 152/08), and on the basis of this Act HRK 50.4 million was awarded in 2009.

Besides tax advantages, a smaller part of state aid for training in the amount of HRK 3.5 million pertains to grants awarded by the Ministry of the Economy, Labour and Entrepreneurship, on the basis of the Annual plan for the promotion of employment for 2009 - 2010. Under this scheme the Ministry awarded grants to undertakings Koestlin d.d. Bjelovar, GALEB d.d. Omiš, Ferokotao d.o.o. Donji Kraljevec, Dalekovod TIM d.d. Topusko and others.

*Two training categories are promoted by state aid for training: specific training, which includes instruction directly and principally applicable to the employee's present or future position in the assisted firm, in other words, provides non-transferable qualifications or qualifications transferable on a limited scale to other undertakings or fields of work, and general training, which includes instruction not exclusively or principally applicable to the employee's present or future position in the assisted firm, but also provides qualifications transferable to other firms or other fields of work.*

*The allowed ceiling of aid intensity for aid for specific training accounts for up to 25 percent of eligible costs and 60 percent of eligible costs for general training. However, aid intensity may be*

increased up to the maximum intensity of 80 percent of eligible costs: by 10 percent if the training is conducted for disabled workers or disadvantaged workers, by 10 percentage points if state aid is granted to a medium-sized enterprise, and by 20 percent if aid is granted to a small enterprise.

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, including accommodation, 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 and general indirect training costs up to the amount of all eligible costs referred to above.

#### 4.1.6. Culture

In 2009 total state aid to promote culture amounted to HRK 36.4 million, declining slightly by 5.7 percent in comparison with 2008, when HRK 38.6 million in state aid was awarded, which was by 34.3 percent less than in 2007.

**Table 17.** State aid to promote culture in the period 2007 - 2009

Culture	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	55.4	7.6	38.6	5.3	36.4	5.0
<b>TOTAL</b>	<b>55.4</b>	<b>7.6</b>	<b>38.6</b>	<b>5.3</b>	<b>36.4</b>	<b>5.0</b>
Share (%) in horizontal objectives	8.29		5.82		5.53	
Share (%) in total state aid (less agriculture and fisheries)	0.69		0.65		0.72	
Share (%) in total state aid	0.49		0.40		0.42	
Share (%) in GDP	0.02		0.01		0.01	

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

The aid providers in the area of culture include the Croatian Audiovisual Centre and the Ministry of Culture, which awarded HRK 7.2 million in 2009 in compliance with the Act on Financing of Public Needs in Culture and the Programme for the financing of publishers in 2009 for publishing of books and magazines, financing literary events etc. State aid beneficiaries under this aid scheme were undertakings Naklada Ljevak d.o.o. Zagreb, V.B.Z. d.o.o. Zagreb, Algoritam d.o.o. Zagreb, Profil International d.o.o. Zagreb, HKZ-Hrvatsko slovo d.o.o. izdavačka djelatnost Zagreb and others.

In 2009 the Croatian Audiovisual Centre awarded HRK 29.2 million in grants under the aid scheme Film and Cinematography to undertakings Kinorama d.o.o. Zagreb, Maxima film d.o.o., Propeler film d.o.o., Korugva film d.o.o. Zagreb and others.

*In accordance with the rules regulating state aid to culture, aid may be provided to promote*

*culture and heritage preservation<sup>19</sup>, as well as the promotion of audiovisual and cinematography industry<sup>20</sup>. State aid to promote culture and protection of heritage may account for 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. This aid intensity may also be higher for non-commercial and low-budget films.*

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<sup>19</sup> In compliance with the Regulation of State aid published in Official Gazette No. 121/03.

<sup>20</sup> 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.

#### **4.1.7. Support to access to finance in the current financial and economic crisis**

The global financial, and thereafter economic crisis have changed the attitude of the institutions of the EU and its Member States towards the award of state aid and imposed the need for a more flexible approach in this area, primarily in terms of granting state aid earmarked for small and medium-sized enterprises, development of the so-called „green“ industries etc. To facilitate access to finance and resolve the problem of financing gap, already at the end of 2008 the EC issued a Communication – Temporary Community framework for state aid measures to support access to finance in the current financial and economic crisis.

The Temporary framework mentioned above, to be in force until the end of 2010, temporarily liberalised state aid rules, enabling the targeting of the state aid schemes to small and medium-sized enterprises to a much higher extent than before.

In compliance with the Act on state aid and possibilities provided for by the SAA, in 2009 Croatia harmonised its legislative framework with the regulation indicated above by adopting the Decision on the publication of the rules on the Temporary framework for state aid measures to support access to finance in the current financial and economic crisis (Official Gazette No. 56/09).

This Act partially changed the existing rules on state aid, specifically to facilitate coping with economic crisis and mitigate its impact on undertakings and the economy as a whole.

Further to the above, in the course of 2009 the focus of the Agency's system of approval and control of state aid was on the implementation of state aid regulations mitigating the adverse effects of the financial and economic crisis.

Overall, in 2009 a total of HRK 93.6 million was awarded to support access to finance in the current financial and economic crisis, of which HRK 92.1 million in the form of grants, whereas the remaining amount of HRK 1.5 million was awarded in the form of soft loans.

**Table 18.** State aid supporting access to finance in the current financial and economic crisis for the period 2007 - 2009

Support to access to finance during crisis	2007		2008		2009	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	0.0	0.0	0.0	0.0	92.1	12.5
C1 soft loans	0.0	0.0	0.0	0.0	1.5	0.2
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>93.6</b>	<b>12.8</b>
Share (%) in horizontal objectives	0.00		0.00		14.21	
Share (%) in total state aid (less agriculture and fisheries)	0.00		0.00		1.86	
Share (%) in total state aid	0.00		0.00		1.08	
Share (%) in GDP	0.00		0.00		0.03	

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

According to the submitted data, the biggest aid provider in terms of the Measures from the Temporary framework is the Environmental Protection and Energy Efficiency Fund. On the basis of the Programme of mitigating the adverse environmental impact of transport – reduction of harmful gas emissions from road vehicles N2, N3 and M3, awarded a total of HRK 44.2 million in grants in 2009.

In the course of 2009 the Ministry of the Economy, Labour and Entrepreneurship, on the basis of the Amendments to the Operating state aid scheme for sustaining the competitiveness of textile industry, leather industry and leather products for 2009, in accordance with the Temporary framework, awarded a total of HRK 36.9 million in grants. The beneficiaries of the said funds were, among others, Amadeus M.A.J. d.o.o. Zagreb, MTC Tvornica čarapa d.d. Čakovec, JADRAN Tvornica čarapa d.d. Zagreb, Varteks d.d. Varaždin and others.

In 2009, state aid in compliance with the Temporary framework was also awarded by the Croatian Bank for Reconstruction and Development, a total of HRK 12.5 million in state aid, of which HRK 11 million in the form of grants, while HRK 1.5 million was granted in the form of soft loans. The funds were granted on the basis of the following aid schemes:

- Aid scheme for providing loans for permanent working capital for enhancement of business operations worth HRK 9.9 million, with beneficiaries of state aid from this aid scheme including Zvečevo d.d. Požega, Sardina d.d., Tehnix d.o.o. and others;
- Aid scheme for providing loans for financial restructuring worth HRK 1.5 million, with beneficiaries of state aid from this aid scheme including Tofrado d.o.o. Pleternica, G.I.I. TUBE d.o.o. Potpićan and Kurtelinovi dvori d.o.o. Marina;
- Aid scheme for providing loans for production worth HRK 928,408 to beneficiaries Kamgrad d.o.o. Zagreb, Alukal d.o.o. Zagreb, Bilokalnik d.o.o. Koprivnica and others, as well as
- Aid scheme for providing loans for improving liquidity worth HRK 101,183 to beneficiaries Sila d.o.o. Zagreb and Gramip TPS d.o.o. Zagreb.

*Temporary framework mitigates and simplifies rules for awarding of specific existing state aid categories, with the measures including:*

- *award of a limited amount of state aid up to EUR 500,000 in the period from 1 July 2008 to 31 December 2010;*
- *state aid in the form of guarantees aimed at fostering easier access to the financial market by undertakings and reducing the current risk aversion of banks when approving loans;*
- *state aid in the form of a subsidised interest rate by introducing a temporary reference interest rate that is significantly lower than the existing reference interest rate;*
- *state aid for the production of green products that enhance environmental protection, and is awarded in the form of the subsidised interest rate;*
- *state aid for investment into risk capital up to the amount of EUR 1.5 million to facilitate access to capital for small and medium-sized enterprises due to lack of access to the financial market;*
- *short-term insurance of export loans by public insurance companies to mitigate the lack of*

*risk coverage by private insurance companies.*

*State aid in the amount of up to EUR 500,000 may be awarded under the following conditions:*

- *state aid does not exceed the amount of EUR 500.000 per undertaking, whether in the form of non-repayable funds (grants) or in the form different from non-repayable funds (loan under conditions more favourable than market conditions);*
- *state aid is awarded exclusively under an aid scheme which cannot be limited to an individual region, and the aid cannot be awarded as ad hoc aid;*
- *state aid is awarded to undertakings which were not in difficulty on 1 July 2008, but it can also be awarded to undertakings which experienced difficulties as an effect of the global financial and economic crisis (e.g., lack of possibility to obtain a loan from a commercial bank due to its shrinking credit volume);*
- *state aid is not applied to undertakings from the fisheries sector;*
- *state aid cannot be provided for directly exported quantities or to the establishment of an export-oriented distribution network, in other words, state aid cannot be used as a requirement to purchase domestic products as opposed to imported products;*
- *state aid must be awarded by 31 December 2010 at the latest;*
- *prior to the award of state aid, the aid provider is obliged to obtain from the undertaking a statement about all obtained de minimis aid and state aid up to EUR 500,000, the reason being that the sum of those types of state aid in the period from 1 January 2008 to 31 December 2010 must not exceed the total amount of EUR 500,000. For primary agricultural production the allowed amount is EUR 15,000;*

*State aid is also granted to undertakings engaging in processing of agricultural products and placing of those products on the market.*

## 4.2. SECTOR-SPECIFIC AID

This part of the Report provides an analysis of the data on the award of state aid to specific economic sectors. It should be noted that the award of aid for specific sectors, such as the steel sector, shipbuilding, transport and public service broadcasting, is regulated by special rules of the EU acquis transposed to the Croatian legislation as well<sup>21</sup>. State aid for rescue and restructuring, given that in the Republic of Croatia it is not awarded under aid schemes, but as individual state aid to undertakings, is also presented as a part of sector-specific aid. In addition, this part of the Report presents state aid for tourism, to which general aid rules apply.

In 2009 aid granted to the sectors indicated above (steel industry, transport, shipbuilding, tourism, public service broadcasting, rescue and restructuring and to other sectors) amounted to a total of HRK 3,824 million, which was by 20.24 percent less than in 2008, when it amounted to HRK 4,794.5 million, or by 43.9 percent less than in 2007, when it amounted to HRK 6,816.4 million.

With respect to the amount of state aid, the largest amount of state aid, HRK 1,309.2 million, was granted to the transport sector. The railway transport accounted for the biggest share of this amount (HRK 709.5 million), followed by air transport (HRK 183.1 million) and maritime transport (HRK 416.6 million).

State aid to shipbuilding was granted in the amount of HRK 1,152.7 million, more specifically, grants amounted to HRK 283.1 million, whereas the amount of state aid in the form of issued guarantees was HRK 869.6 million.

Further, aid for public service broadcasting was granted in the amount of HRK 1,133.1 million, while HRK 1.1 million in state aid was collected only through the radio/TV licence fee for Hrvatska radiotelevizija (the Croatian Radio and Television company), pursuant to the Croatian Radio-Television Act.

At the same time, the tourism sector was awarded HRK 164.5 million in state aid, other sectors HRK 59.4 million, restructuring of undertakings in difficulty HRK 2.9 million and the steel sector was awarded HRK 2.2 million in state aid.

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<sup>21</sup> The Decision on the publication of rules on state aid to the steel industry (Official Gazette No. 134/08), The Decision on the publication of rules on state aid to the shipbuilding industry (Official Gazette No. 154/08), The Decision on the publication of rules on state aid to transport sector (Official Gazette No. 141/08 i 31/10), The Decision on the publication of rules on state aid for public radio diffusion services (Official Gazette No. 31/10).

**Table 19:** Sector-specific aid in the period 2007 – 2009

Specific sectors	2007			2008			2009		
	in HRK mill.	in EUR mill.	share u GDP (%)	in HRK mill.	in EUR mill.	share u GDP (%)	in HRK mill.	in EUR mill.	share u GDP (%)
Steel industry	196.3	26.8	0.06	0.0	0.0	0.00	2.2	0.3	0.00
Transport	1,407.2	191.8	0.45	1,452.8	201.1	0.42	1,309.2	178.4	0.39
Shipbuilding	3,125.3	426.0	0.99	1,892.1	261.9	0.55	1,152.7	157.1	0.35
Tourism	180.8	24.6	0.06	171.5	23.7	0.05	164.5	22.4	0.05
Public service broadcasting (radio and television)	1,013.7	138.2	0.32	1,068.5	147.9	0.31	1,133.1	154.4	0.34
Other sectors	51.2	7.0	0.02	134.7	18.6	0.04	59.4	8.1	0.02
Rescue and restructuring	841.9	114.8	0.27	74.9	10.4	0.02	2.9	0.4	0.00
<b>Total</b>	<b>6,816.4</b>	<b>929.2</b>	<b>2.17</b>	<b>4,794.5</b>	<b>663.8</b>	<b>1.40</b>	<b>3,824.0</b>	<b>521.0</b>	<b>1.15</b>

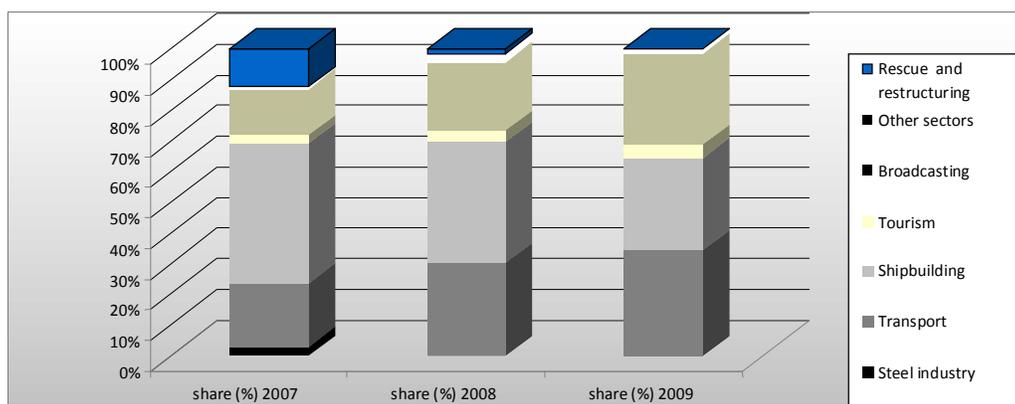
Source: Ministry of Finance, other state aid providers; data processed in CCA

The data on state aid to specific sectors indicate a declining trend in the previous period. Since the aid at issue constitutes selective promotion of specific sectors by the state, which can have an adverse impact on market conditions and competition, a reduction of this state aid is considered a positive trend.

The biggest reduction of state aid in 2009 in comparison with 2008 was visible in the shipbuilding industry, where state aid was lower by HRK 739,4 million, and by HRK 1,972.6 million in comparison with 2007. In the transport sector the amount of state aid awarded was lower in 2009 in comparison with 2008, more specifically, by HRK 143.6 million. Also, other sectors were awarded HRK 75.3 million less. Also lower was state aid for restructuring (HRK 72 million) and for tourism (HRK 7 million).

The amount of the radio/TV licence fee was increased in 2009 in comparison with 2008, by HRK 64.6 million. State aid to the steel sector in the amount of HRK 2.2 million pertains to loans for salaries that the Croatian Privatisation Fund pays every month to the workers of Željezara Split d.d.

**Figure 10:** Structure of granted sector-specific aid in the period 2007 - 2009 (%)



### 4.2.1. Steel industry

Although state aid to the steel sector is prohibited pursuant to the EU state aid rules, in compliance with the provisions of Protocol 2 of SAA, the Republic of Croatia was able to grant state aid for rescue and restructuring of the steel sector in the period of five years following the coming of the SAA into force. Such state aid could be granted 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.

The Government of the Republic of Croatia has carried out the restructuring of steelworks through the privatisation process. Namely, the privatisation process for steelworks was launched at the end of 2006 and completed in 2007, when 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 (this was followed by the change of the company's name from Valjaonica cijevi Sisak d.o.o. to CMC Sisak d.o.o.). Also, an agreement on the 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 Government of the Republic of Croatia adopted the Restructuring Programme for the Croatian Steel Industry for 2007 – 2011. However, in 2009 Željezara Split d.d. encountered problems in business operations on account of the difficulties faced by its owner, Zlomrex S.A.. To provide subsistence to the current employees of Željezara Split, every month since then the Croatian Privatisation Fund awards loans for the payment of salaries of minimum wages to workers, which are reported in Table 20, and which also constitute state aid.

**Table 20:** State aid to the steel sector in the period 2007 – 2009

Steel industry	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
A2 debt write-off	196.3	26.8	0.0	0.0	0.0	0.0
C1 soft loans	0.0	0.0	0.0	0.0	2.2	0.3
<b>TOTAL</b>	<b>196.3</b>	<b>26.8</b>	<b>0.0</b>	<b>0.0</b>	<b>2.2</b>	<b>0.3</b>
share (%) in specific sectors	2.88		0.00		0.06	
share (%) in total state aid (less agriculture and fisheries)	2.45		0.00		0.04	
share (%) in total state aid	1.74		0.00		0.03	
share (%) in GDP	0.062		0.000		0.001	

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

## 4.2.2. Shipbuilding

In 2009 the shipbuilding sector was granted HRK 1,152.7 million in state aid<sup>22</sup>, which was by 39.08 percent less than in 2008, when the industry was awarded HRK 1,892.1 million in state aid. Of the total amount of state aid, issued state guarantees amounted to HRK 869.6 million, while HRK 283.1 million of state aid were grants<sup>23</sup>.

**Table 21:** State aid to shipbuilding sector in the period 2007 – 2009<sup>24</sup>

Shipbuilding	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
<b>A1 grants</b>	386.1	52.6	376.1	52.1	283.1	38.6
<b>D guarantees</b>	2.739.2	373.4	1.516.0	209.9	869.6	118.5
<b>TOTAL</b>	<b>3.125.3</b>	<b>426.0</b>	<b>1.892.1</b>	<b>261.9</b>	<b>1.152.7</b>	<b>157.1</b>
share (%) in specific sectors	45.85		39.46		30.14	
share (%) in total state aid (less agriculture and fisheries)	38.97		31.82		22.96	
share (%) in total state aid	27.67		19.79		13.26	
share (%) in GDP	0.99		0.55		0.35	

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

The drop in the state aid to shipbuilding should be observed in the context of lower ship orders with regard to the fact that the global financial and economic crisis has affected this sector as well. At the same time, as large shipyards are in difficulty, award of horizontal state aid to them is prohibited until they are no longer in difficulty, but they may only and exclusively be granted state aid for rescue and restructuring.

Table 22 presents state aid contained in the issued state guarantees for the shipbuilding sector, issued for loans to shipyards for financing ship building and other purposes, state guarantees issued for paid-in advance payments of clients who ordered ships, guarantees issued for rescue of shipyards approved on the basis of decisions of the Agency from September 2006 and January 2007 and the guarantees that were issued for loans to the undertaking Uljanik Brodogradilište d.d.

<sup>22</sup> The aid at issue is aid to large shipyards: Brodosplit – Brodogradilište d.o.o., 3. Maj Brodogradilište d.d., Brodogradilište Kraljevica d.d., Brodotrogir d.d., Uljanik Brodogradilište d.d. and Brodosplit – BSO d.o.o.

<sup>23</sup> In 2009 a total of HRK 450.4 million was granted in aid contained in issued state guarantees and HRK 100.7 million in grants for the undertaking Brodosplit – Brodogradilište d.o.o., HRK 255.5 million in aid contained in state guarantees and HRK 69.1 million in grants for the undertaking 3. Maj Brodogradilište d.d., HRK 69.5 million in aid contained in state guarantees and HRK 12 million in grants for the undertaking Brodogradilište Kraljevica d.d., HRK 56.3 million in aid contained in state guarantees and HRK 36.2 million in grants to the undertaking Brodotrogir d.d., HRK 30.7 million in aid contained in state guarantees and HRK 58.1 million in grants for the undertaking Uljanik Brodogradilište d.d., as well as HRK 7.2 million in aid contained in issued state guarantees and HRK 7 million in grants for the undertaking Brodosplit – BSO d.o.o.

<sup>24</sup> The Agency collected the data on state guarantees issued to the shipbuilding industry from aid providers and beneficiaries, whilst a part of the data was estimated on the basis of available data.

On the basis of the said amounts of state guarantees issued for various purposes, the amount of state aid contained in those guarantees per each purpose was calculated. In accordance with that methodology, state aid contained in the issued state guarantees for shipbuilding accounts for 100 percent of the value of guarantees for loans and for rescue<sup>25</sup>, except in the case of guarantees for advance payments, where the state aid is equal to a one-year interest which would be calculated according to the estimated market-based interest rate in the year of the issuance of the guarantees<sup>26</sup>. As can be seen from Table 22, in the case of the state guarantees issued for loans and for rescue of shipyards, the overall amount of issued state guarantees constitutes aid, due to the high probability that in the long run the state (the Ministry of Finance) will assume the obligation of repayment of the loans obtained on the basis of provided guarantees for rescue. Unlike the guarantees for loans and for rescue, the probability that the guarantees for advance payments will be invoked is significantly lower, since this happens only in case of a failure to deliver a ship, and/or if the client does not receive the corresponding compensation for the paid-in advance.

The exception are also the state guarantees issued for loans to Uljanik Brodogradilište d.d. Namely, since no guarantee was invoked for the undertaking at issue in the observed three years (Table 23), it can be expected that this loan will be repaid as well. Therefore, state aid contained in those loans was not calculated in the hundred-percent amount of guarantees, but as a difference between one-year interest which would be paid per estimated market-based interest rate in the year of issuance of the state guarantees and interest accrued on the basis of the contractual interest rate.

**Table 22:** Issued state guarantees to shipbuilding sector for the period 2007 – 2009 (HRK mill.)

No.	Description*	2007	2008	2009
1.	Issued state guarantees for loans	982.1	1,330.7	765.2
2.	Issued state guarantees for advance payments	1,833.8	1,070.0	643.2
3.	Issued state guarantees for rescue	1,567.8	79.4	0.0
4.	Issued state guarantees for Uljanik Brodogradilište d.d.	320.5	0.0	614.0
<b>5.</b>	<b>Total issued state guarantees (1.+2.+3.+4.)</b>	<b>4,704.2</b>	<b>2,480.1</b>	<b>2,022.4</b>
<b>6.</b>	<b>State aid in state guarantees for loans (100% state aid) (1.)</b>	<b>982.1</b>	<b>1,330.7</b>	<b>765.2</b>
7.	State aid in guarantees for advance payments (market-based interest) (2.)	174.6	105.9	73.6
<b>8.</b>	<b>State aid in guarantees for rescue (100% state aid) (3.)</b>	<b>1,567.8</b>	<b>79.4</b>	<b>0.0</b>
<b>9.</b>	<b>State aid in guarantees for Uljanik Brodogradilište d.d.</b>	<b>14.7</b>	<b>0.0</b>	<b>30.7</b>

<sup>25</sup> On 21 September 2006 by its decisions the Agency approved state guarantees for advance payments and loans for rescue of the undertakings 3. Maj Brodogradilište d.d., Brodogradilište Kraljevica d.d., Brodosplit – Brodogradilište d.o.o. and Brodotrogir d.d., and on 18 January 2007 it approved state guarantees for rescue of Brodosplit – BSO d.o.o.

<sup>26</sup> In this particular case, the estimated market interest rate is equal to the reference interest rate which was in effect in the year when the guarantee was awarded, increased by 400 basis points of the reference risk margin for an undertaking with poor creditworthiness, or is in financial difficulty (CCC and below), and the level of credit surety is high. This methodology is applied because, as a rule, for received advance payment, unlike the loans, interest is not paid. The market interest rate so calculated was 9.52 percent in 2007, 9.9 percent in 2008, and 11.45 percent in 2009.

	(difference in interest) (4.)			
10.	<b>Total amount state aid contained in state guarantees in the shipbuilding sector (6.+7.+8.+9.)</b>	<b>2,739.2</b>	<b>1,516.0</b>	<b>869.6</b>

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

The total amount of state aid contained in issued state guarantees was obtained on the basis of the calculation of the amount of state aid contained in each issued state guarantee for various purposes (for loans for production, advance payments, rescue and loans to Uljanik Brodogradilište d.d.), which amounted to HRK 869.6 million in 2009.

Table 23 presents the invoked (called) state guarantees for shipbuilding in the period from 2007 to 2009. Although in that period state guarantees were invoked in the amount of HRK 2,188.6 million, excluding recoveries, those guarantees were not included in the total amount of state aid in 2008 and 2009 because they were issued in previous years, and were factored in as state aid in the respective years of issuing.

**Table 23:** Invoked (called) state guarantees in the shipbuilding sector for the period 2007 – 2009 (HRK mill.)

Shipyard	Year of invoking of the guarantee	The amount of invoked guarantee
3. Maj Brodogradilište d.d.	2008	289.67
3. Maj Brodogradilište d.d.		581.11
Brodogradilište Kraljevica d.d.		120.14
Brodosplit Brodogradilište d.o.o.	2009	881.72
Brodosplit BSO d.o.o.		13.39
Brodotrogir d.d.		302.52
<b>Total</b>	<b>2009</b>	<b>1,898.88</b>
<b>Total</b>	<b>2008 and 2009</b>	<b>2,188.56</b>

Source: Ministry of Finance; data processed in CCA

*Rules on state aid to the shipbuilding sector<sup>27</sup> include undertakings performing the activities of ship conversion, ship repair and shipbuilding (including 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.*

*State aid may be provided to the shipbuilding industry 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 for coverage of costs of restructuring own contribution of undertaking is required, that aid is reduced to the minimum of required resources, that there are reduced capacities, and that such type of aid is awarded once in ten*

<sup>27</sup> The Decision on the publication of rules on state aid in the shipbuilding sector was published in Official Gazette No. 154/08.

years);

- as regional aid, only for investments into modernisation or upgrading of existing capacities aimed at improvement of usability of the existing devices and equipment (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 (such aid is awarded for eligible costs related to the following: payments to workers retired before legal retirement age or made redundant, the costs of counselling services to workers made or to be retired before legal retirement age or made redundant, payments to workers for vocational retraining, expenditure incurred for the redevelopment of the yards;
- for investment into innovation for shipbuilding, up to 20 percent of eligible costs may be provided, taking into consideration the levels of risk related to the project (in this case eligible costs are costs of investments and engineering activities that are exclusively and directly related to innovation part of the project);
- for providing export credits by the state 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 for regional aid for investments-related job creation, as well as aid for operating costs – operating aid, or for training and employment, and neither can it be provided to small and medium-sized enterprises.

#### 4.2.3. Land, maritime and air transport

State aid granted in 2009 to the transport sector amounted to HRK 1,309.2 million, which was less by 9.88 percent in comparison with 2008, and less by 6.96 percent than in 2007. The highest share of this aid in 2009, or 54 percent, pertained to the rail transport activities, whereas maritime transport accounted for 31 percent, and air transport for 13.9 percent.

**Table 24.:** State aid to the transport sector for the period 2007 - 2009

Transport	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
Rail transport	905.8	123.5	857.2	118.7	709.5	96.7
Maritime transport	431.4	58.8	495.7	68.6	407.0	55.5
Air transport	70.0	9.5	99.9	13.8	98.8	13.5
<b>TOTAL</b>	<b>1,407.2</b>	<b>191.8</b>	<b>1,452.8</b>	<b>201.1</b>	<b>1,215.3</b>	<b>165.6</b>
Guarantees	0.0	0.0	0.0	0.0	93.9	12.8
<b>TOTAL</b>	<b>1,407.2</b>	<b>191.8</b>	<b>1,452.8</b>	<b>201.1</b>	<b>1,309.2</b>	<b>178.4</b>
share (%) in specific sectors	20.64		30.30		34.24	
share (%) in total state aid (less agriculture and fisheries)	17.55		24.43		26.08	
share (%) in total state aid	12.46		15.19		15.06	
share (%) in GDP	0.45		0.42		0.39	

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

In 2009 state aid in the amount of HRK 709.5 million was awarded to **rail transport**, which was by HRK 147.7 million or 17.23 percent less in comparison with 2008 and by HRK 196.3 million or 21.67 percent less in comparison with 2007. In 2009 state aid to rail transport accounted for 8.16 percent of the total granted state aid in the Republic of Croatia in this year.

State aid was awarded to rail transport in 2009, like in previous years, in accordance with the Programme for the promotion of the railway, passenger and combined transport, and also for modernisation of rail transport. The majority of aid was awarded in the form of grants, and in 2007 and 2008 also as capital investments.

Aid for promoting railway, passenger and combined transport includes HRK 414 million awarded to undertakings HŽ-Putnički prijevoz (HRK 370 million) and HŽ Cargo d.o.o. (HRK 44 million), whereas state aid for the implementation of the Programme of Restructuring and Modernisation of Railways comprised HRK 295.5 million awarded to the undertakings: HŽ-Putnički prijevoz (HRK 38.3 million), HŽ Vuča vlakova d.o.o. (HRK 101.9 million), HŽ Hrvatske željeznice holding d.o.o. (HRK 16 million), HŽ Cargo d.o.o. (HRK 109.3 million) and HŽ Infrastruktura d.o.o. (HRK 30 million).

In the previous period from 2007 to the end of 2009 the undertaking HŽ – Hrvatske željeznice was awarded a total of HRK 2,472.5 million in state aid <sup>28</sup>, which does not include funds that the state invested into railway infrastructure because it is not considered aid within the meaning of the State aid act.

According to the data submitted by the counties, towns and municipalities, it was established that aid **for road and river transport** was awarded at the local level, with the estimated amount in 2009 at approximately HRK 61.5 million<sup>29</sup>.

In 2009, HRK 416.6 million in state aid was awarded to **maritime transport**, which was by 79,1 HRK million less in comparison with 2008, when that state aid amounted to HRK 495.7 million and by HRK 14.8 million less in comparison with 2007, when it amounted to HRK 431.4 million. State aid was awarded in the form of grants, which amounted to HRK 407 million, or 97.69 percent of the total of granted state aid to the transport sector and significantly less in the form of guarantees, which amounted to HRK 9.6 million, or 2.31 percent.

On the basis of the programme of Renewal of passenger fleet of Jadrolinija the Ministry of the Sea, Transport and Infrastructure awarded state aid in the form of grants in the amount of HRK 20 million to the undertaking Jadrolinija Rijeka, and this undertaking

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<sup>28</sup> On the basis of its Opinion of 19 October 2006, the Agency assessed that the funds that 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.

<sup>29</sup> 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.

was also provided a state guarantee in the amount of HRK 7.4 million. At the same time, the invoked (called) state guarantee in the amount of HRK 2.3 million pertaining to the undertaking Mediteranska plovidba d.d. Korčula also constitutes state aid.

Besides the kinds of state aid indicated above, in 2009 the Ministry of the Sea, Transport and Infrastructure also awarded de minimis aid, on the basis of the Programme for subsidising the difference in the fuel price for ship operators operation on national lines in the period from 2009 to 2011. In 2009, HRK 7.5 HRK million was earmarked for this state aid. At the same time, on the basis of the Programme for the construction and reconstruction of the passenger and excursion fleet for the needs of the Croatian ship owners – small enterprises in 2009 HRK 3.3 million was provided. Since the aid at issue constitutes de minimis aid, it is reported in section 7 of this Report.

The biggest aid provider for maritime transport is the Coastal Shipping Agency, which awarded grants on the basis of the grant scheme for the transport links between the islands and the mainland and between the islands, in the amount of HRK 387 million in state aid, namely: to Jadrolinija Rijeka in the amount of HRK 317.8 million, Rapska plovidba Rab HRK 1.3 million, Mediteranska plovidba d.d. Korčula HRK 2.6 million, G&V Line Dubrovnik HRK 19.4 million, to Miatrade Zadar HRK 12.5 million, Split Tours Split HRK 12.2 million, and to M.B.Kapetan Luka Krilo Jesenice HRK 12.6 HRK million, etc.

In 2009 state aid was granted for **air transport** in the amount of HRK 183.1 million. The undertaking Croatia Airlines d.d. was awarded aid in the form of grants, in the amount of HRK 94.7 million for the preservation of transportation links, and by payment of invoked guarantees in the amount of HRK 84.3 million. State aid was also awarded to Zračna luka Osijek d.o.o. in the form of grants in the amount of HRK 4.1 million on the basis of the Decision on the obligation of openness of Zračna luka Osijek for public air transport in the period from 2009 to 2013. State aid earmarked for Croatia Airlines with the seat in Zagreb for the preservation of transportation links (domestic air transport in the Republic of Croatia) and Zračna luka Osijek is state aid awarded for the performance of services of general economic interest.

*State aid awarded for the promotion of transport activity is related to aid granted to undertakings for the performance of services of general economic interest (SGEI). 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).*

*In compliance with the Decision, an undertaking is entrusted with the performance of services of general economic interest, pursuant to one or more official acts, which must contain the precise nature and the duration of the public service obligations, the undertakings and territory concerned, the nature of any exclusive or special rights assigned to the undertaking, the parameters for calculating, controlling and reviewing the compensation and the arrangements*

*for avoiding and repaying any over-compensation.*

*The amount of the compensation must not exceed the amount necessary to cover the costs incurred in the course of the performance of the public service obligation, taking into account the relevant income and reasonable rate of return on own capital invested in the fulfilment of those obligations.*

*The costs taken into account comprise all costs incurred in the course of the performance of the services of general economic interest, in the following manner: if the activities of the undertaking are restricted to the services of general economic interest, all costs are taken into account; if the undertaking also performs activities other than services of general economic interest, only those related to the service of general economic interest are taken into account; costs related to investments and infrastructure are taken into account if such investments are necessary for the performance of services of general economic interest.*

*If a firm performs activities that are both within and outside of the scope of services of general economic interest, the costs and income related to the services of general economic interest and those of other services are reported separately on internal accounts, as well as the parameters for classification of costs and income.*

*The undertaking has to return any excessively paid amount of the compensation. If the amount of excessive compensation does not exceed 10 % of the amount of the annual compensation, such excessive compensation may be rolled over to the next annual period and deducted from the amount of the compensation that needs to be paid for the relevant period.*

In 2009 air transport received HRK 83.2 million in state aid more than in 2008.

**Table 25:** State aid to transport by instruments in the period 2007 - 2009 (HRK mill.)

	2007	2008	2009
A1 grants	993.7	1,048.6	1,215.3
B1 equity participation	413.5	404.2	0.0
D guarantees	0.0	0.0	93.9
<b>Total</b>	<b>1,407.2</b>	<b>1,452.8</b>	<b>1,309.2</b>

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

In the period from 2007 to 2009 transport sector grants were the most significant aid instrument. In 2009 grants accounted for 92.83 percent of the total granted state aid, while guarantees accounted for 7.17 percent.

State aid to transport was also awarded in the form of de minimis aid, in the amount of HRK 0.8 million, which, together with state aid in the amount of HRK 1,309.2 million, made up the total state aid granted to the transport sector of HRK 1,320 HRK million.

*State aid in the transport sector<sup>30</sup> may be awarded under certain conditions.*

*Land transport activity - Rules on state aid to land transport are applied to undertakings*

<sup>30</sup> The Decision on the publication of the rules on state aid to the transport sector was published in Official Gazette No. 141/08.

*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 the 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 and regional objectives for 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. State aid to tourism**

State aid to tourism in 2009 amounted to HRK 164.5 million, which was by HRK 7 million, or 4.08 percent less in comparison with 2008. In addition, in 2009 state aid to tourism was lower by HRK 16.3 million, or 9.02 percent in comparison with 2007.

A larger part of state aid to tourism in 2009 were state guarantees and grants. Guarantees amounted to HRK 93 million, which accounted for 56.54 percent. They were followed by grants in the amount of HRK 58.9 million or 35.8 percent, soft loans in the amount of HRK 9 million or 5.47 percent and debt write-off to undertakings in the amount of HRK 3.6 million or 2.19 percent.

**Table 26:** State aid to tourism by instruments in the period 2007 – 2009

Tourism	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
<b>A1</b> grants	56.3	7.7	70.1	9.7	58.9	8.0
<b>A2</b> debt write-off	0.0	0.0	0.0	0.0	3.6	0.5
<b>C1</b> soft loans	2.4	0.3	8.7	1.2	9.0	1.2
<b>D</b> guarantees	122.1	16.6	92.7	12.8	93.0	12.7
<b>TOTAL</b>	<b>180.8</b>	<b>24.6</b>	<b>171.5</b>	<b>23.7</b>	<b>164.5</b>	<b>22.4</b>
share (%) in specific sectors	2.65		3.58		4.30	
share (%) in total state aid (less agriculture and fisheries)	2.25		2.88		3.28	
share (%) in total state aid	1.60		1.79		1.89	
share (%) in GDP	0.06		0.05		0.05	

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

In 2009 state aid to tourism was mostly realised through aid schemes of the Ministry of Tourism. The following programmes and activities of the Ministry were supported: the Loan Programme for small and medium-sized businesses in tourism – Incentive for success in the amount of HRK 58.5 million in the form of direct subsidised interest rates to undertakings Zadar gradnja d.o.o. Zadar, Adria terase d.o.o. Rab, V.E.M.S d.o.o. Vukovar, Luna d.o.o. Lun, Eles d.o.o. Rijeka, Hotel More d.o.o. Dubrovnik, Andro international d.o.o. Omiš, Hotel Punta Osejave d.o.o. Makarska, Minerva d.o.o. Medulin etc., and Programme of fostering of the design of the promotion and realisation of new tourist products The New tourist product - 2009. Under this programme state aid was granted to undertakings Danubiumtours, Hotel Alan d.d. Starigrad – Paklenica, Turistička agencija Zoa tours d.o.o. Požega etc.

In 2009 the Croatian Privatisation Fund provided to undertakings in difficulty in the tourism activity loans in order to ensure the continuation of their business operations. The amount in question was a total of HRK 9 million that the Management Board of the Croatian Privatisation Fund approved to ZRC Lipik in the amount of HRK 400,504, Jadran d.d. Crikvenica in the amount of HRK 1.6 million, Sunčani Hvar d.d., Hvar in the amount of HRK 6 million, Club Adriatic d.o.o. Zagreb in the amount of HRK 542,400 and Bizovačke toplice d.d. Bizovac in the amount of HRK 455,259.

Also, a part of state aid to tourism in 2009 were invoked state guarantees. Namely, loans for which state guarantees were issued became due, the amount at issue being HRK 93 million. Invoked guarantees pertain to loans granted on the basis of the Programme of loans for the preparation of tourist season to undertakings providing hotel accommodation services: ZRC Lipik d.d. Lipik, Hoteli Živogošće, Hoteli Plat, Hoteli Medena, Hoteli Podgora, Jadran d.o.o. Crikvenica, Apartmani Medena, Vis d.d. Vis, Hoteli Omišalj, Modra Špilja, Hum d.d., Hoteli Novi d.d., Šolta HT, PZ Nova Zora, President Zadar, Industrogradnja d.d., Hoteli Helios, Jadran Ploče, Hoteli Baška Voda and Slunjčica d.d. At the same time, debt of the undertaking Jelen from Županja was written off.

In 2009 the Ministry of Tourism, in cooperation with the Ministry of the Economy, Labour and Entrepreneurship, awarded a total of HRK 13.8 million for the tourism sector, under de minimis aid schemes, as laid out in greater detail in section 7. Aid was awarded under the following aid schemes: 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, Programme for the development of selective forms of tourism at sea „The Blue groove (Plava brazda)“, Programme Development of tourism in SMEs 2001-2003, Programme Tourism without barriers, Programme Tourism through regions, Tourism loans programme - Development of rural tourism, Programme for the promotion and creation of multisectoral clusters, Programme and project for enhancement of the quality of the catering industry, Program for the promotion of rural tourism – selective forms of inland tourism "The Green groove (Zelena brazda)", Programme for the promotion and development of tourist thematic trails, Programme for the promotion of education and training of employees in the catering industry and tourism etc.

Therefore, de minimis aid and state aid at the local level may be added to the amount of HRK 164.5 million, awarded in the form of state aid for tourism activities in 2009, to render a comprehensive view of the financial support to this sector by the state. Altogether, the total amount of state aid awarded for the promotion of tourism development in 2009 amounts to approximately HRK 180.5 million.

#### **4.2.5. Other industries**

In addition to state aid to industries such as iron and steel industry, shipbuilding and tourism, state aid was awarded in 2009, through various instruments, to undertakings in other industry sectors as well. The amount at issue is HRK 59.4 million in state aid awarded for the closure and dismantling of the undertaking TEF - Tvornica elektroda i ferolegura d.d. Šibenik in the amount of HRK 1.2 million, a guarantee was issued in the amount of HRK 51.5 million to the undertaking Plinacro d.o.o., and also grants in the amount of HRK 6.7 million were provided to Hrvatski olimpijski centar Bjelolasica d.o.o.

(Croatian Olympic Centre Bjelolasica Ltd.) for the performance of sports and communal services of general economic interest <sup>31</sup>.

**Table 27:** State aid to other specific sectors by instruments in the period 2007 – 2009

Other industries	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
<b>A1</b> grants	43.2	5.9	133.0	18.4	6.7	0.9
<b>B1</b> equity participation	8.0	1.1	0.0	0.0	0.0	0.0
<b>C1</b> soft loans	0.0	0.0	1.7	0.2	1.2	0.2
<b>D</b> guarantees	0.0	0.0	0.0	0.0	51.5	7.0
<b>TOTAL</b>	<b>51.2</b>	<b>7.0</b>	<b>134.7</b>	<b>18.6</b>	<b>59.4</b>	<b>8.1</b>
share (%) in specific sectors	0.75		2.81		1.55	
share (%) in total state aid (less agriculture and fisheries)	0.64		2.27		1.18	
share (%) in total state aid	0.45		1.41		0.68	
share (%) in GDP	0.02		0.04		0.02	

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

State aid to other industries activities in 2009 was significantly lower in comparison with 2008, when it amounted to HRK 134.7 million, and somewhat higher than the amount awarded in 2007. This shows that, except in the case of state aid awarded for the closure and dismantling of the undertaking TEF from Šibenik, the aid in question was individual, *ad hoc* state aid that was gradually abandoned, but due to specific conditions in some activities and the need for a state intervention to enable a specific investment, modernisation or resolve a problem which was a legacy, their application in the future is not excluded.

#### 4.2.6. Rescue and restructuring

In 2009 the total amount state aid for restructuring amounted to HRK 2.9 million, which was only 0.03 percent in the total awarded state aid. The state aid mentioned was granted by the Croatian Privatisation Fund in the form of soft loans to undertakings in difficulty.

**Table 28:** State aid for rescue and restructuring in the period 2007 - 2009

Rescue and restructuring	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.

<sup>31</sup> Pursuant to the Decision of 17 December 2008, 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.).

A1 grants	3.5	0.5	0.0	0.0	0.0	0.0
A2 debt write-off	706.3	96.3	4.1	0.6	0.0	0.0
B1 equity participation	8.4	1.1	34.1	4.7	0.0	0.0
C1 soft loans	11.9	1.6	25.2	3.5	2.9	0.4
D guarantees	111.8	15.2	11.5	1.6	0.0	0.0
<b>TOTAL</b>	<b>841.9</b>	<b>114.8</b>	<b>74.9</b>	<b>10.4</b>	<b>2.9</b>	<b>0.4</b>
share (%) in specific sectors	12.35		1.56		0.08	
share (%) in total state aid (less agriculture and fisheries)	10.50		1.26		0.06	
share (%) in total state aid	7.45		0.78		0.03	
share (%) in GDP	0.27		0.02		0.00	

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

State aid in the form of loans was awarded in the manner described above to the undertakings Slavonija MK d.d. Osijek, Sloga IMK d.d. Požega, ADRIACHEM Kaštel Sućurac and TRIMOT Imotski.

*State aid for rescue and restructuring<sup>32</sup> may be awarded to undertakings in difficulty, except for the 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, by providing guarantees or loans under market conditions, 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.*

#### **4.2.7. Public service broadcasting**

In 2009 the Croatian Radio-Television was granted state aid in the amount of HRK 1,133.1 million, in the form of a licence fee for the promotion of public service

<sup>32</sup> The Decision on the publication of the rules on state aid for rescue and restructuring was published in Official Gazette No. 20/07.

broadcasting. The aid amount was higher by HRK 64.6 million and HRK 119.4 million in comparison with 2008 and 2007, respectively.

**Table 29.:** State aid for public service broadcasting in the period 2007 - 2009

Public service broadcasting	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
A1 grants	1,013.7	138.2	1,068.5	147.9	1,133.1	154.4
<b>TOTAL</b>	<b>1,013.7</b>	<b>138.2</b>	<b>1,068.5</b>	<b>147.9</b>	<b>1,133.1</b>	<b>154.4</b>
share (%) in specific sectors	14.87		22.29		29.63	
share (%) in total state aid (less agriculture and fisheries)	12.64		17.97		22.57	
share (%) in total state aid	8.97		11.17		13.04	
share (%) in GDP	0.32		0.31		0.34	

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

State aid for public service broadcasting is considered compatible state aid, whose award is regulated by rules contained in the Decision on the publication of the rules on state aid for public service broadcasting adopted by the Government of the Republic of Croatia in 2008 (Official Gazette No. 68/08). The legal basis for the collection of the licence fee and performance of these public activities is found in the Croatian Radio-Television Act, stipulating that, pursuant to Article 53, all 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. For 2009 this monthly licence fee was HRK 78.

*As a rule, state aid is awarded to public radio and television broadcasters<sup>33</sup> for the performance of services of general economic interest provided that the following conditions are fulfilled: the service in question must be a service of general economic interest and clearly defined as such (definition); the undertaking in question must be explicitly entrusted with the provision of that service (entrustment); the undertaking entrusted with the performance of such a service is subject to the application of the competition rules, or rules on state aid, to the extent that the application of those rules does not obstruct the performance of the particular tasks assigned to the undertaking (proportionality test).*

*A definition of services of general economic interest fulfilling the democratic, social and cultural needs of a particular society and guaranteeing pluralism, including cultural and linguistic diversity may be considered compliant.*

*The public service remit should be entrusted to one or more undertakings by means of an official act (for example, by legislation, contract or terms of reference), and an effective supervision over the fulfilment of the public service obligation should be provided.*

*Funding schemes for public radio and television broadcasters may be “dual-funding”*

<sup>33</sup> The Decision on the publication of rules on state aid for public radio diffusion services (Official Gazette No. 68/08). In 2010 a new Decision on the publication of rules on state aid for public radio diffusion services came into force (Official Gazette No. 31/10).

*(combining public and commercial funds, such as advertising revenues) or “single-funding”, comprising solely public funds.*

*State aid for the performance of public services of radio and television broadcasters must be proportional, in other words, it may not exceed the costs incurred in the performance of the public service in question, taking into account all direct and indirect revenue generated from the performance of such public service.*

## 5. REGIONAL AID

In 2009 regional aid amounted to HRK 319.4 million, which was by HRK 8.5 million or by 2.7 percent more than in the previous year. At the same time, notwithstanding the changes in the methodology in the monitoring of aid in terms of the application of a number of acts promoting cohesion in the regional development (the Act on the Areas of Special State Concern, the Act on Reconstruction and Development of the Town of Vukovar, the Free Zones Act etc.) on account of which state aid contained in those acts is classified in the group of de minimis aid, and no longer like before, in the regional aid category, since tax advantages on profit tax are established in accordance with the rules on de minimis aid<sup>34</sup>, the share of this form of state aid in the total state aid has grown mildly in the observed period, more specifically, from 3.02 percent in 2007 to 3.67 percent in 2009.

**Table 30:** Regional aid in the period 2007 - 2009

Regional state aid	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
Regional state aid	340.9	46.5	310.9	43.0	319.4	43.5
share (%) in total state aid (less agriculture and fisheries)	4.25		5.23		6.36	
share (%) in total state aid	3.02		3.25		3.67	
share (%) in GDP	0.11		0.09		0.10	

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

It can be expected that regional aid will increase more intensively following Croatia's EU accession, when Croatia will become a user of structural funds, which encourage particularly the award of state aid earmarked for regional development.

*Regional aid is intended for promoting development of underdeveloped areas of the Republic of Croatia, i.e., areas where there is serious unemployment or where the standard of living is abnormally low<sup>35</sup>. It may be awarded in accordance with the regional aid map (Official Gazette No. 52/08).*

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

*Regional aid may also be awarded for the extension of an existing establishment for purpose of introducing additional products, expansion of an existing activity, for initial investment projects, 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*

<sup>34</sup> In the Annual Report on State Aid for 2008, tax advantages, relieves and incentives awarded under those acts were factored in as regional aid. However, in June 2008 the Agency took the preliminary binding opinions, whereby it assessed that those acts contain de minimis aid, and not regional aid, and this is how they are presented in this Report.

<sup>35</sup> The Decision on the publication of the rules on regional aid (Official Gazette No. 58/08).

*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 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 and also depend on the size of the undertaking).*

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

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

*In accordance with the Decision on the publication of rules on block exemptions in the field of state aid (Official Gazette, No. 37/09), regional state aid may be awarded for investments and employment and for newly established small enterprises. Regional aid for investment and employment is awarded in the regions identified in the regional aid map, provided that the investment was retained in the region within no less than five years of the investment's completion (or three years in case of small and medium-sized enterprises). Aid intensity may not exceed the regional aid threshold, and the thresholds may be increased by 20 percent in case of aid for small and 10 percent in case of aid for medium-sized enterprises (with the exception of state aid awarded for large investment projects and for the transport sector). The thresholds are applied to aid intensity, calculated as a percentage of eligible tangible and non-tangible investment costs (or as a percentage of the estimated costs of the salary for an employed person during two years for jobs directly linked to the investment project). In case of regional aid for start-up small enterprises eligible costs are legal, advisory, consulting and administrative costs directly linked to the establishment of the small enterprise, and also other special costs if they were actually incurred within the first five years of the establishment of the undertaking.*

In 2009 regional state aid was also awarded through various aid schemes of the Croatian Agency for Postal Services and Electronic Communications, the Croatian Bank for Reconstruction and Development, the Government of the Republic of Croatia and the Ministry of Economy, Labour and Entrepreneurship.

Namely, 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, in 2009 grants were awarded in the amount of HRK 15.8 million to the following beneficiaries: HT-Hrvatske telekomunikacije d.d., OT-Optima Telekom d.d., VIPnet services d.o.o., Wimax Telecom d.o.o. and Iskon internet d.d.

In 2009 the Croatian Bank for Reconstruction and Development granted regional aid in the form of grants and soft loans in the total amount of HRK 124.9 million. HRK 54.3 million was awarded in the form of grants in compliance with the Ordinance on basic requirements for the financing of specific target groups (Dubrovnik-Babin kuk d.d. Dubrovnik, CLARUS PRIMUS d.o.o. Zagreb, ELKA KABELI d.o.o. Zagreb, GLAZIR d.o.o., ZDENKA Veliki

Zdenci, Odašiljači i veze d.o.o., SIRENA - Mala sirana d.o.o., BAMBI d.o.o. Varaždin, SOLARIS d.d. Šibenik, BELIŠĆE d.d. Belišće and others). The Croatian Bank for Reconstruction and Development awarded HRK 8.5 million in soft loans under the Programme for providing loans to businesses, the Programme for providing loans to SAPARD candidates and the Loan programme for the tourist sector (CLARUS PRIMUS d.o.o., Dubrovnik-Babin kuk d.d. Dubrovnik, SIRENA - Mala sirana d.o.o., GLAZIR d.o.o., ZDENKA Veliki Zdenci and others).

Pursuant to the Investment Promotion Act, in 2009 HRK 208.8 million was awarded in state aid in the form of tax advantages to investors for job creation and training related to investments and for large investment projects. 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, the Ministry of Economy, Labour and Entrepreneurship awarded HRK 32 million in grants in 2009.

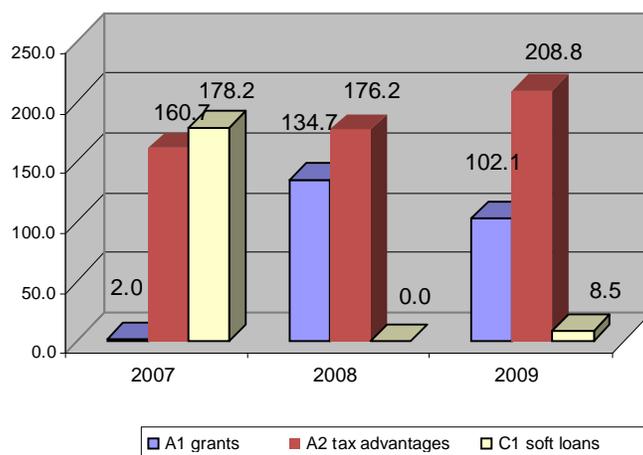
In 2009 the majority of regional aid was awarded in the form of tax advantages, which accounted for 65.37 percent, followed by grants, which accounted for 31.96 percent, whilst soft loans accounted for 2.67 percent.

**Table 31:** Regional aid by instruments 2007 – 2009 (HRK mill.)

Instrument	2007	2008	2009
A1 grants	2.0	134.7	102.1
A2 tax advantages	160.7	176.2	208.8
C1 soft loans	178.2	0.0	8.5
<b>TOTAL</b>	<b>340.9</b>	<b>310.9</b>	<b>319.4</b>

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

**Figure 11.:** Regional aid by instruments 2007 - 2009 (in HRK mill.)



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

In 2009, de minimis aid, which was granted for „regional“ objectives as well, was awarded by the Fund for Reconstruction and Development of the Town of Vukovar on the basis of the

Co-financing programme for economic projects in the Town of Vukovar in the amount of HRK 10 million, then also by the Ministry of 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 for 2009 in the amount of HRK 11.1 million. De minimis aid for promoting regional development in the same year was also awarded pursuant to the Free Zones Act in the amount of HRK 18.9 million, the Act on Hilly and Mountainous Areas in the amount of HRK 10.7 million, the Act on the Areas of Special State Concern in the amount of HRK 119.2 million, the Act on Reconstruction and Development of the Town of Vukovar in the amount of HRK 14.7 million, and the Income Tax Act in the amount of HRK 5.6 million. Adding to the amount of regional state aid awarded in 2009 totalling HRK 319.4 million the amount of HRK 190.2 million, which was the total awarded in the same year in the form of de minimis aid for the same purpose, the overall amount of state aid approved for implementation of regional objectives would equal HRK 509.6 million.

## 6. STATE AID AT LOCAL AND REGIONAL LEVEL

Local and territorial (regional) self-government units have at their disposal significantly lower funds to support the economy in comparison with central government bodies. Nevertheless, many of them actively support the development of entrepreneurship in their areas or assist in improving the entrepreneurial and other infrastructure. The Agency, therefore, collects data on state aid from them as well, and includes them in the programmes of cooperation and training on state aid.

Data on granted state aid for 2009 was submitted by 19 counties, including the City of Zagreb, 106 towns (of the total of 126), as well as 355 municipalities (of the total of 429)<sup>36</sup>.

Although incomplete, the data on state aid at the level of local and territorial (regional) self-government units give a comprehensive insight into the amounts and purposes of state aid and other forms of assistance that local self-government units provide for businesses in their respective territories. According to submitted reports, the highest share of budgetary funds of local self-government units is still targeting the objectives and projects that do not constitute aid within the meaning of the State Aid Act, but pertain to the so-called current grants (*tekuće donacije*) provided to various non-governmental organisations, sports and cultural and artistic societies, firefighting associations, the Red Cross charity organisation, political parties, health-care and religious institutions etc. As this type of aid does not constitute state aid<sup>37</sup> within the meaning of Article 2 paragraph 2 of the Act, the Agency did not analyse the data about the indicated activities of the local and regional self-government units.

State aid in 2009 granted by the counties, municipalities and towns amounted to HRK 218.9 million, which was by HRK 40.5 million or by 22.7 percent more than in 2008. The biggest individual aid provider at the level of local self-government units was the City of Zagreb, which awarded 95 HRK million to Croatian Railways (HŽ) for the promotion of railway transport, HRK 61.6 million was awarded for road transport, whereas HRK 62.3 million was state aid granted to the undertaking Arena Zagreb d.o.o. and other undertakings.

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<sup>36</sup> The Istria County and the following cities failed to submit data: Klanjec, Krapina, Oroslavje, Pregrada, Zabok, Zlatar, Bjelovar, Čazma, Grubišno polje, Krk, Novi Vinodolski, Biograd na moru, Nin, Vinkovci, Novigrad, Pula, Vodnjan, Dubrovnik, Metković and Opuzen as well as 74 municipalities.

<sup>37</sup> Within the meaning of the State Aid Act, 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.

**Table 32.:** State aid granted at local level by instruments in the period 2007 - 2009

Aid at local level	2007		2008		2009	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
A1 grants	170.1	23.2	149.8	20.7	200.8	27.4
A2 tax advantages	1.9	0.3	0.0	0.0	0.0	0.0
B1 equity participation	7.1	1.0	5.1	0.7	2.0	0.3
D guarantees	15.7	2.1	23.5	3.3	16.1	2.2
<b>TOTAL</b>	<b>194.8</b>	<b>26.6</b>	<b>178.4</b>	<b>24.7</b>	<b>218.9</b>	<b>29.8</b>
share (%) in total state aid (less agriculture and fisheries)	2.43		3.00		4.36	
share (%) in total state aid	1.72		1.87		2.52	
share (%) in GDP	0.06		0.05		0.07	

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

## 7. DE MINIMIS AID

In accordance with the State Aid Act and the EU acquis, de minimis aid constitutes state aid not exceeding the ceiling of HRK 1,500,000 per individual undertaking over any three fiscal years period. De minimis aid may be granted irrespective of the purpose they are used for (except for promotion of export) and is not subject to preliminary approval by the Agency or the EC because it is deemed that it does not significantly distort trade between the Republic of Croatia and the Member States of the European Union, this being the only reason why the rules on state aid are not taken into account in the calculations of state aid.

*De minimis aid<sup>38</sup> 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 and de minimis aid does not significantly distort trade between the Republic of Croatia and the Member States of the European Union.*

*De minimis aid may not be granted for the promotion of exports, to undertakings active in the steel sector, for the acquisition of road freight transport equipment and 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.*

Although there is no legal requirement for reporting de minimis aid, it is presented and analysed in this Report as well in order to present a comprehensive overview of all programmes/aid schemes used to instigate the development of the economy in the Republic of Croatia, given the significant budgetary funds – the taxpayers' money – used for those purposes. Following are data on the amount of resources earmarked for granting de minimis aid.

De minimis aid granted in 2009 amounted to HRK 625.4 million, which was by HRK 28 million less and by HRK 52.3 million more than in 2008 and 2007, respectively.

In terms of the 2009 breakdown, the biggest amount of de minimis aid (50 percent and 27.6 percent) was granted in the form of grants and tax relieves and exemptions, respectively.

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<sup>38</sup> The Decision on the publication of the rules on de minimis aid was published in Official Gazette No. 45/07.

HRK 472.7 million, or 75.59 percent of the total granted de minimis aid, was granted through various aid schemes at the national level, whereas 24.41 percent of aid was granted at the local level.

**Table 33:** De minimis aid in the period 2007 – 2009

De minimis aid	2007	2008	2009
	in HRK mill.	in HRK mill.	in HRK mill.
A1 Direct interest rate subsidies	9.0	36.6	86.9
A1 Grants	117.3	274.9	313.1
A2 Tax remission, tax relieves, exemptions and advantages	317.2	284.2	172.6
A2 Debt write-off	2.2	3.2	0.9
A2 Reductions in social security contributions, relieves and exemptions thereof	0.0	0.2	1.5
B1 Capital investments	0.0	8.0	5.3
C1 Soft loans	16.8	26.4	30.7
C1 Loans to firms in difficulty	0.0	2.1	0.2
D Guarantees	6.2	16.7	9.8
D Payments for invoked guarantees	1.2	1.1	4.3
E Other <sup>39</sup>	103.2	0.0	0.0
<b>TOTAL</b>	<b>573.1</b>	<b>653.4</b>	<b>625.4</b>

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

On the basis of the received documentation and data, the Agency established that the following aid providers granted de minimis in 2009:

- The Croatian Agency for Small Businesses in the total amount of HRK 91.7 million under the following aid schemes: Strengthening of the competitiveness of small businesses in the amount of HRK 55.8 million, Entrepreneurship support institutions HRK 6.4 million, Entrepreneurship of the youth, beginner entrepreneurs and disabled persons HRK 3 million, Women entrepreneurship HRK 4.5 million, Ordinance on HAMAG guarantees (de minimis aid) HRK 12.5 million, Training program and development of consultancy network for small businesses HRK 748,182, Development of trades and crafts HRK 6.3 million and Cooperative entrepreneurs in the amount of HRK 2.5 million. The amount of HRK 91.7 million in de minimis aid was awarded mostly in the form of grants, HRK 79.1 million, in the form of guarantees, HRK 7.4 million, in the form of invoked guarantees, HRK 4.3 million, and, to a lesser extent, through debt write-off, HRK 888,722;
- The Ministry of the Economy, Labour and Entrepreneurship in the total amount of HRK 113 million, more precisely: under the Operational plan for the promotion of SMEs for 2009, HRK 44.7 million, under the Programme for the promotion of development and application of new technologies in small businesses HRK 277,605, under the

<sup>39</sup> De minimis aid, which in 2007 was categorised under „E – other“ instrument, and which was awarded by the local and regional self-government units, in 2008 and 2009 was categorised by aid instruments.

Programme for the development of small and medium-sized enterprises in tourism HRK 860,884, under the Program for the promotion of international competitiveness and internationalisation of the economy of the Republic of Croatia from 2009 to 2010 HRK 36.7 million, under the Operational programme containing state aid to the textiles and clothing industry and to leather processing and leather products industry 2009 HRK 11.1 million, under the Programme for development of SMEs in tourism and under the Programme for the promotion of development and application of new technologies in small businesses 407.715, and pursuant to the Free Zones Act HRK 18.9 million. The funds were awarded in the form of grants in the amount of HRK 94.1 million and tax advantages in the amount of HRK 18.9 million;

- The Ministry of the Sea, Transport and Infrastructure in the total amount of HRK 21.7 million in de minimis aid in the form of grants, of which on the basis of the Regulation on the conditions, criteria, charges and manner of exercising the rights relating to the maintenance and creation of new jobs for employers located on islands in the amount of HRK 9.9 million, under the Programme for fuel subsidies for ship operators on national lines in the period from 2009 to 2011 the amount of HRK 7.5 million, under the 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 in the period from 2008 to 2009 HRK 3.3 million and also under the Programme for the promotion of production of traditional souvenirs HRK 1 million;
- The Development and Employment Fund awarded HRK 21.1 million under the Entrepreneurial programme based on de minimis aid, mostly in the form of soft loans
- The Fund for Professional Rehabilitation and Employment of Disabled Persons awarded HRK 19.4 million in de minimis aid exclusively in the form of grants
- The Environmental Protection and Energy Efficiency Fund awarded HRK 18.6 million, under the Environmental state aid programmes (Waste recovery and utilisation of valuable waste properties, Promoting cleaner production, avoiding and reduction of waste generation and harmful gas emission, Promoting of educational, research and development studies and programmes, Promoting sustainable development of rural environment) HRK 12.3 million, and under the Programme of state aid in the field of energy efficiency (Promoting cleaner transport, Promoting the use of renewable energy sources, Promoting sustainable construction, Implementation of national energy programmes, Implementation of energy audits) HRK 6.3 million. State aid was awarded mostly in the form of direct subsidised interest in the amount of HRK 9.8 million and soft loans in the amount of HRK 8.5 million, whereas only HRK 343,364 was awarded in the form of grants;
- The Ministry of Tourism awarded HRK 12.4 million under the following aid schemes: Incentives Programme for enhanced competitiveness of the tourist market – Promotion of manifestations as a part of the tourist offer in the amount of HRK 2.4 million, Programmes and projects for enhancement of the quality of the catering industry HRK 1.9

million, Programme for the development of small and medium-sized businesses in tourism from 2001 to 2003 HRK 1.5 million, Programme for the development of selective forms of tourism at sea „The Blue groove (Plava brazda)“, HRK 1.5 million, tourist projects for which resources were approved from the EU pre-accession funds and other international funds HRK 1.5 million, Programme for the revival, valorisation and revitalisation of cultural, traditional and natural heritage as a new tourist product HRK 1.4 million, Program for the promotion of rural tourism – selective forms of inland tourism "The Green groove (Zelena brazda)" HRK 1.1 million, Programme for the promotion and development of tourist thematic trails HRK 350,000, Programme for the promotion and creation of multisectoral clusters HRK 300,000, Programme Tourism through regions HRK 160,000, Programme for the promotion of education and training of employees in the catering industry and tourism HRK 100,000, Programme Tourism without barriers HRK 60,000 and Tourism loans programme - Development of rural tourism HRK 157,649. State aid was awarded in the form of grants (HRK 10.9 million) and direct subsidised interest HRK 1.5 million);

- The Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity awarded HRK 5.2 million in grants under the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011;
- Pursuant to the Income Tax Act HRK 5.6 million was awarded in the form of tax advantages;
- The Ministry of Culture awarded HRK 2 million in grants under the Operational promotion plan for small and medium-sized enterprises for 2009 (Entrepreneurship in culture);
- Pursuant to the Act on Hilly and Mountainous Areas HRK 10.7 million was awarded, pursuant to the Act on Reconstruction and Development of the Town of Vukovar HRK 14.7 million and the Act on Areas of Special State Concern HRK 119.2 million in de minimis aid in the form of tax advantages;
- The Fund for Reconstruction and Development of the Town of Vukovar awarded HRK 10 million in grants under the Programme for the co-financing of economic projects in the Town of Vukovar;
- The Croatian Bank for Reconstruction and Development awarded funds in accordance with the Ordinance on basic conditions for financing of specific target groups in the amount of HRK 7.3 million, namely, in the form of grants HRK 6.1 million, soft loans HRK 1 million and HRK 171,697 by relieving from payment of charges;
- The Croatian Pension Insurance Fund awarded state aid in the amount of HRK 105,155 in the form of write-off of contributions and interests for workers employed with physical persons;

- Counties, municipalities and towns awarded the amount of HRK 152.7 million in de minimis aid.

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

At the time before the financial and economic crisis, i.e., before the autumn of 2008, the European Union recorded a balanced economic growth, so the level of state aid to industry and services (less agriculture, fisheries and transport), expressed as their share in GDP, decreased by 2 percent annually on average, reaching approximately EUR 65 billion, or less than 0.5 percent of GDP in 2007. Budgetary deficits decreased to the average amount of 0.8 percent of GDP in 2007, which was the best accomplishment in the last thirty years. This period also saw shrinking of unemployment, which stopped at 7 percent in the long term.

However, the global economic and financial crisis in the EU, for the first time after 2000, abruptly stopped the previous trend of uniform GDP growth rates, a low level of expenditures in the form of state aid, as well as the trend of reducing budget deficits of the Member States.

Due to anti-crisis measures undertaken in 2009, in comparison with 2008, the level of state aid awarded in the EU grew (excluding the railway transport) to no less than 3.6 percent of GDP, primarily because of high expenditures for rescue and restructuring of the financial sector in the period of crisis. On the other hand, state aid to the real sector of the economy granted in 2009 in compliance with the Temporary framework of the Community for state aid measures supporting access to financing in the current financial and economic crisis<sup>40</sup> contributed to a lesser degree to the overall increase in the amount of the awarded state aid.

When interbank lending stopped due to the financial crisis in the EU in September 2008, in order to ensure a smooth continuation of lending to households and corporate lending, and avoid the so-called systemic risk that the collapse of the financial sector might lead to, the EU Member States started injecting large amounts of state aid into the banking sector. At the same time, in compliance with the provisions of the Temporary framework, the EU Member States started supporting the business operations of the real sector more intensively.

Consequently, it can be concluded that more flexible rules on the award of state aid adopted by the EU institutions enabled for state aid to become one of the main instruments used by the EU Member States in the fight against the biggest financial crisis in modern history. Since the existing rules on rescue and restructuring of firms in difficulty were unable to respond promptly to worsening financial situation in the market, the European Commission, in compliance with Article 107(3)(b) of the Treaty on the

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<sup>40</sup> The EU Member States, as well as the Republic of Croatia, started implementing this framework in 2009.

functioning of the European Union adopted a number of acts<sup>41</sup> with a view to resolve the problems in the financial and banking sector.

In doing so, the new rules on interventions in the financial sector<sup>42</sup> and the Temporary framework, as well as other rules and aspects of the EC state aid policy, have played the key role, so that this ultimately successful process of rescue and rehabilitation/restructuring of banks and the real sector in the financial and economic crisis would be implemented in a concerted way, providing for a new system of efficient state aid measures, while adhering to the legal requirements of the EU Common Market.

Table 34 in this section of the Report presents the data on state aid awarded by the EU countries in 2009, with the indication in parentheses of the amount of state aid, which includes crisis aid granted to the financial and real sector. The table shows state aid in the EU in comparison with state aid granted in the Republic of Croatia in 2009 and 2008, excluding agriculture, fisheries and railway transport, in accordance with the EC methodology.

The volume of support to the financial sector in the Member States approved by the European Commission between October 2008 and October 2010 amounted to around EUR 4.5 trillion, with EUR 1.1 trillion of that amount earmarked for 2009 only. Although the amounts mentioned above are the total amounts of interventions of which only a portion constitutes state aid, the data indicated show the depth and volume of engagement of the Member States in the financial sector rescue. The majority of the interventions referred to above consisted in granting state guarantees (76%) to sustain interbank funding, while the recapitalisation of the banking sector accounted for 12% of the interventions.

The total granted state aid (excluding railway transport) in the EU in 2009 amounted to EUR 427.2 billion, or 3.6 percent of EU-27 GDP. Of this amount, EUR 353.9 billion, or 2.98 percent of EU-27 GDP pertained to aid crisis measures undertaken in the Member States, of which EUR 351.7 billion was provided for state aid to the financial sector, whereas state aid granted to the real sector of the economy amounted to only EUR 2.2 billion, or 0.02 percent of GDP of all the 27 EU Member States.

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<sup>41</sup> Article 107(3)(b) of the Treaty on the Functioning of the European Union in substance corresponds to the provisions of Article 4 paragraph 3 point c of the State Aid Act, according to which state aid to promote the execution of important international projects or to remedy a serious disturbance in the economy may be considered to be compatible with this Act.

<sup>42</sup> Commission Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, Commission Communication – The recapitalisation of financial institutions in the current financial crisis, Communication from the Commission on the treatment of impaired assets in the Community banking sector, and Commission Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules.

Not including state aid intended for eliminating the consequences of the financial and economic crisis, the total state aid exclusive of railway transport in the EU in 2009 amounted to EUR 73.2 billion or 0.62 percent EU-27 of GDP.

**Table 34: State aid in comparison with the EU Member States in 2009\***

	EU 2009				
	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 horizontal/regional aid <sup>43</sup> (%)
Croatia 2008	1.2	2.5	0.6	1.3	22
Croatia 2009	1.1 (1.1)	2.4 (2.4)	0.5 (0.5)	1.1 (1.1)	24 (26)
<b>EU – 27</b>	<b>73.2 (427.2)</b>	<b>0.6 (3.6)</b>	<b>58.1 (412.1)</b>	<b>0.5 (3.5)</b>	<b>84 (12)</b>
<b>EU – 15</b>	<b>65.1 (417.3)</b>	<b>0.6 (3.8)</b>	<b>53.4 (405.6)</b>	<b>0.5 (3.7)</b>	<b>85 (11)</b>
<b>EU – 12</b>	<b>8.1 (9.9)</b>	<b>0.9 (1.1)</b>	<b>4.7 (6.5)</b>	<b>0.5 (0.8)</b>	<b>76 (55)</b>
Belgium	2.0 (34.3)	0.6 (10.2)	1.6 (33.9)	0.5 (10.1)	100 (5)
Bulgaria	0.7 (0.7)	2.1 (2.1)	0.03 (0.0)	0.1 (0.1)	100 (100)
The Czech Republic	0.9 (0.9)	0.7 (0.7)	0.7 (0.7)	0.5 (0.5)	88 (88)
Denmark	2.1 (10.2)	1.0 (4.6)	1.9 (10.0)	0.9 (4.5)	97 (19)
Germany	16.7 (116.8)	0.7 (4.8)	15.2 (115.4)	0.6 (4.8)	86 (11)
Estonia	0.04 (0.04)	0.3 (0.3)	0.01 (0.01)	0.1 (0.1)	100 (100)
Ireland	1.5 (12.6)	0.9 (7.7)	0.7 (11.8)	0.5 (7.2)	89 (6)
Greece	2.0 (14.3)	0.8 (6.0)	1.8 (14.1)	0.7 (5.9)	87 (11)
Spain	5.7 (13.2)	0.5 (1.3)	4.9 (12.4)	0.5 (1.2)	80 (32)
France	14.7 (42.3)	0.8 (2.2)	11.7 (39.3)	0.6 (2.1)	79 (23)
Italy	5.7 (10.2)	0.4 (0.6)	4.6 (9.2)	0.3 (0.6)	84 (45)
Cyprus	0.2 (0.4)	1.0 (2.4)	0.1 (0.3)	0.4 (1.7)	95 (21)
Latvia	0.2 (1.1)	1.0 (5.8)	0.0 (0.9)	0.1 (4.9)	100 (2)
Lithuania	0.2 (0.2)	0.8 (0.8)	0.1 (0.1)	0.3 (0.3)	100 (100)
Luxemburg	0.1 (1.0)	0.3 (2.8)	0.1 (1.0)	0.2 (2.7)	100 (9)
Hungary	1.4 (1.9)	1.5 (2.0)	0.9 (1.5)	1.0 (1.5)	76 (50)
Malta	0.1 (0.1)	2.0 (2.0)	0.1 (0.1)	1.7 (1.7)	23 (23)
The Netherlands	2.4 (12.1)	0.4 (2.1)	1.7 (11.4)	0.3 (2.0)	99 (15)
Austria	1.7 (11.2)	0.6 (4.1)	1.0 (10.5)	0.4 (3.8)	99 (10)
Poland	2.9 (2.9)	0.9 (0.9)	2.2 (2.2)	0.7 (0.7)	71 (71)
Portugal	1.6 (1.7)	1.0 (1.0)	1.6 (1.6)	0.9 (1.0)	19 (18)
Romania	0.8 (0.8)	0.7 (0.7)	0.2 (0.2)	0.1 (0.1)	50 (50)
Slovenia	0.3 (0.5)	0.9 (1.5)	0.2 (0.4)	0.7 (1.3)	91 (47)
Slovakia	0.3 (0.3)	0.5 (0.5)	0.2 (0.2)	0.4 (0.4)	90 (89)
Finland	2.1 (2.1)	1.2 (1.2)	0.8 (0.8)	0.5 (0.5)	99 (98)
Sweden	2.6 (11.1)	0.9 (3.8)	2.4 (10.9)	0.8 (3.7)	100 (22)
Great Britain	4.0 (124.2)	0.3 (7.9)	3.2 (123.2)	0.2 (7.9)	91 (2)

\*The amounts in parentheses include state aid measures for mitigating impacts of crisis.

Source: DG Competition

In absolute terms, five EU countries – the biggest aid providers granted a total of as much as EUR 39.8 billion in state aid in 2009. The share of this amount in total state aid (excluding anti-crisis measures) was 68.2 percent. Of this amount, Germany granted EUR 15.3 billion (or 26.3 percent of total state aid), France EUR 11.7 billion (20.1

<sup>43</sup> The amount of regional and horizontal aid does not include aid granted by local and regional self-government units, since the majority of aid granted by those units are various forms of sector-specific aid.

percent of total state aid), Spain EUR 4.9 billion (8.4 percent of state aid), Italy EUR 4.6 billion (7.9 percent), and Great Britain EUR 3.3 billion (5.5 percent).

Not including state aid granted in the European Union to financial, banking and the real sector to fight economic and financial crisis, horizontal aid account for as much as 84 percent of state aid to industry and services, whereas sector-specific aid accounts for the remaining 16 percent.

The three main objectives for which horizontal aid was awarded in the EU in 2009 are related to regional state aid (24 percent), environmental protection (23 percent) and research and development and innovation (18 percent). In 2009 as many as 15 Member States granted 90 percent and more state aid for horizontal objectives. Some of the "old" EU-15 Member States granted more sector-specific state aid in 2009 in comparison to 2008; nevertheless, in all EU-12 new Member States a progressive shift of state aid from sector-specific towards horizontal objectives is observed.

In 2009, 22 EU Member States granted crisis aid to the financial sector. More specifically, by 1 October 2010 the European Commission approved state aid measures aimed at mitigating financial crisis in all EU-15 Member States and Cyprus, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, and all the Member States also granted state aid in compliance with the Temporary framework, except for Cyprus.

As already mentioned, to mitigate adverse effects of the crisis, in 2009 the EU Member States set aside a total of EUR 353.9 billion in state aid, excluding state aid to railway transport.

In contrast to the European Union, in 2009 Croatia granted state aid to mitigate the consequences of the crisis exclusively in compliance with the Temporary framework (0.03 percent of GDP of the Republic of Croatia), whilst in the EU the largest portion of crisis aid was, nevertheless, granted to banks and other financial institutions (2.98 percent of GDP EU-27), whereas a far lower amount of crisis aid was granted to the real sector under the Temporary framework (0.02 percent of GDP of EU-27).

## 9. INTEREST RATE

In its scope of competence, among other activities, the Agency regularly calculates the reference and discount rates and publishes them on its web page. Reference and discount rates are applied for the calculation of the aid element in three cases: as a margin interest rate to determine if a loan approved by the state can be considered aid, as a discount rate for calculating present values of granted state aid, and for calculating the future value of illegal aid upon recovery.

In line with the Decision on the publication of rules on setting of the reference and discount rates contained in the Communication from the Commission on the revision of the method for setting the reference and discount rates, Official Gazette No. 114/08, the Agency calculates the base rate on the basis of the average interest rate on T-bills of the Ministry of Finance with a maturity of 364 days, recorded in the last quarter.

Starting from the rules in the Temporary framework enabling to undertakings a more flexible application of state aid rules, the Agency calculated the temporary (decreased) rate, which is much more favourable than the regular one that would be obtained by using the standard methodology of calculation. Namely, the temporary (decreased) base rate may be applied in case of an existing aid scheme submitted by the aid provider, which has been approved by the Agency. The temporary base rate approved in the manner described above may be applied on soft loans granted to undertakings until 31 December 2010 and interests paid until 31 December 2012. The Agency calculated the said rate by decreasing the current base rate by the percentage of decrement of the base rate in Euro-zone, i.e., the difference between the base rate and the temporary rate.

Since 1 January 2009 the base rate in the amount of 6.54 percent has been applied, whereas the temporary (decreased) rate amounted to 4.73 percent. In accordance with the obligation of regular calculation and publication of the rates, the Agency monitored and calculated the average rate on a continual basis. More precisely, if the average interest rate on treasury bills recorded in the last three months deviates by more than  $\pm 15$  percent from the last set average, the Agency is obliged to change the base rate in the course of the year. Given that in the beginning of 2009 the interest rates (yields) on treasury bills grew by more than 15 percent since the last set average rate, the Agency calculated new rates that were applied as of 1 March 2009 – the base rate at the level of 7.63% and the temporary (decreased) rate at the level of 6.1%.

**Table 35:** Base rate, discount and temporary base rates in 2009

Period		Base rate	Discount rate	Temporary (decreased) base rate
From	To			
15 Oct. 2009	31 Dec. 2009	7.63%	8.63%	5.21%
1 July 2009	14 Oct. 2009	7.63%	8.63%	4.46%
1 April 2009	30 June 2009	7.63%	8.63%	4.46%
1 March 2009	31 March 2009	7.63%	8.63%	6.10%
1 January 2009	28 Feb. 2009	6.54%	7.54%	4.73%

*Data processed in CCA.*

However, while the base rate remained unchanged by the end of 2009, (7.63%), the temporary (decreased) rate changed significantly. In accordance with the changes in the difference in the reference rates in Euro-zone, in the period from April to the end of 2009 the Agency also set the following temporary (decreased) rates: from 1 April to 14 October 2009 at the level of 4.46%, and from 15 October to the end of 2009 at the level of 5.21%.

The base rate and the temporary (decreased) rate are increased by the risk margin depending on the creditworthiness of the undertaking and collaterals, and increased by the fixed margin of 100 basis points, the base rate is applied as a discount interest rate in the calculation of the present value of the state aid granted.

**Table 36:** Risk margins (the amounts in basis points)

Rating category	Collateralisation		
	High	Average	Low
Strong (AAA-A)	60	75	100
Good (BBB)	75	100	220
Satisfactory (BB)	100	220	400
Weak (B)	220	400	650
Bad / Financial difficulties (CCC and below)	400	650	1000

*Source: Decision on the publication of the rules on setting the reference and discount rates (Official Gazette No. 114/08). Data processed in CCA.*

## 10. CONCLUSION

The basic characteristic of trends in the field of state aid awarded in the period from 2007 to 2009 was strengthened discipline of aid providers, which reflected in an increase in the volume of state aid granted under aid schemes, with increasingly lower “ad hoc” state aid.

The total amount of state aid awarded in 2009 was lower by 9.1 percent in comparison with 2008. The share of total state aid in GDP decreased as well, to 2.6 percent. The total state aid, which amounted to HRK 8.7 billion in 2009, decreased mostly because of increasingly lower sector-specific state aid for shipbuilding, state aid for rescue and restructuring and aid for transport. Yet, overall still the highest volume of state aid in 2009 was also granted to specific economic sectors, primarily to transport (HŽ – Hrvatske željeznice), shipbuilding and the Croatian Radio-television. At the same time, state aid to agriculture and fisheries continued to grow, accounting for 42.2 percent in total state aid. On the positive side, 2009 also saw the growth of regional state aid and aid granted by the local and regional self-government units.

State aid for horizontal objectives were somewhat lower than in 2008 due to reduced investments into objectives such as research and development and innovation, employment and training. However, their relative share in total aid grew by 9.4 percent in comparison with 2008. In contrast to sector-specific state aid, horizontal aid in particular contributed to the increase in efficiency, competitiveness and employment. It is, therefore, hardly surprising that in the EU Member States the share of horizontal aid in state aid for industry and services exceeds 80 percent, whereas in Croatia their volume and share in total aid is still at a low level, so they can not impact the increase in economic growth and employment. Namely, the share of horizontal, regional and state aid at the local level in total aid accounts for 14 percent, while their share in state aid granted to the industry and services sector, excluding agriculture and fisheries and rail transport, is approximately 28 percent.

A novelty in 2009 was state aid in the amount of HRK 93.6 million granted in compliance with the Temporary framework for state aid measures supporting access to financing in the current financial and economic crisis.

In conclusion, although there are clear rules and regulations on granting state aid, in the EU and in the Republic of Croatia alike, state aid can evidently be an exceptionally powerful and important economic or industrial policy instrument of any country. The strongest evidence to that effect are the data on state aid that the EU and its Member States granted their respective economies in the fight against the financial and economic crisis in the previous two years, and the whole sectors and undertakings rescued and restructured specifically as a result of the granted state aid. At the same time, rules and regulations evidently are not an obstacle for the support to the economy

if there are aid schemes prepared in a quality manner and sustainable in the long term that can justify the resources provided to the economy in the form of state aid.

## 11. APPENDIX 1

<i>Aid providers at the central government level in 2009</i>
1. The Ministry of Finance
2. The Ministry of Economy, Labour and Entrepreneurship
3. The Ministry of Culture
4. The Ministry of the Sea, Transport and Infrastructure
5. The Ministry of Agriculture, Fisheries and Rural Development
6. The Ministry of Regional Development, Forestry and Water Management
7. The Ministry of Tourism
8. The Ministry of Science, Education and Sport
9. The Fund for Professional Rehabilitation and Employment of Disabled Persons
10. The Environmental Protection and Energy Efficiency Fund
11. The Croatian Privatisation Fund
12. The Coastal Shipping Agency
13. The Croatian agency for post and electronic communication
14. The Croatian Audiovisual Centre
15. The Croatian Bank for Reconstruction and Development

## 12. APPENDIX 2

### *Aid instruments*

#### **A – Grants and tax exemptions, tax rate relieves and reduction in social security contributions**

Grants and tax exemptions fall under this first group of aid instruments where aid is transferred in full to the recipient and constitutes state aid. This group is divided into two subgroups:

- **A 1** – grants (subsidies, interest rate subsidies, debt write-off)
- **A 2** – tax exemptions, tax rate relieves and reduction in social security contributions and other tax allowances such as different forms of profits tax reduction, as follows: (i) lower profit tax rates in the areas of special state concern, (ii) lower profit tax rates and tax relieves for tax payers in the area of the Town of Vukovar, (iii) lower profit tax rates and tax relieves for tax payers operating in free zones, (iv) lower profit tax rates as incentives for investment, (v) lower profit tax for the employment of disabled persons, (vi) reduction in tax base relating to R&D costs for the promotion of research and development.

Beside subsidies and tax exemptions, debt write-offs, claim write-offs and assumption of indebtedness by the state also fall under A 2.

#### **B – Equity participation**

In order for the state to provide financial advantage to an undertaking, it may convert its claims into equity (equity participation). Here are particularly meant the following: equity injections by the state, the primary objective of which is not the creation of profit, conversion of debt into equity, sale of state property under favourable terms, participation in a company's profits etc. These are mainly granted to firms in difficulty receiving state support.

#### **C – Soft loans and tax deferrals**

- **C 1 – Soft loans** – loans given by the state, directly or through officially recognized organizations or commercial banks, to undertakings under the more favourable conditions than those obtainable on the market, such as lower interest rates, longer grace periods or favourable loan repayment schedule etc. Such loans are generally aimed at firms in difficulty which would not obtain loans on the market and are usually given by the Croatian Bank for Reconstruction and Development, Development and Employment Fund and Regional Development Fund.
- **C 2 – Tax deferrals** – indebtedness by undertakings which do not settle their financial obligations in the form of taxes or social security contributions which results in reduction of state revenue. Such indebtedness actually means that the state gives credits to certain undertakings and such tax deferral may be considered the same as indirect state aid received in the form of soft loans.

#### **D – Guarantees**

State guarantees cover commercial and non-commercial risks expressed in nominal amounts. State guarantees enable aid beneficiaries to obtain loans under more favourable conditions than those applicable on financial markets. Generally, an individual state guarantee does not constitute state aid if the borrower is not in financial difficulty, the borrower would in principle be able to obtain a loan on market condition from the financial markets without any intervention by the state, the guarantee is linked to a specific financial transaction, is for a fixed maximum amount, is not open-ended, does not cover more than 80% of the financial obligation and the market price for the guarantee is paid. All the above listed criteria must be cumulatively met as to ensure that a state guarantee does not constitute state aid.

The aid instruments described above account for the vast majority of state aid usually granted in Croatia.

## Methods of assessing the aid element

Group A1	
Grants	Total value of the grant received
Interest rate subsidies received directly by the recipient	Total value of the subsidies received (or unpaid interest)
Fundamental R&D projects	Total amount of funds allocated to such projects
Other R&D projects and activities	The amount of state funds used for co-financing of the projects, irrespective of whether the funds are allocated directly to the beneficiary or research institution
Remission of loan-related debts for operating undertakings	The value of the written-off debt
Compulsory settlement and bankruptcy of undertakings	The estimated decreased settlement payment or the recovered value from the bankruptcy estate with respect to other creditors due to wilfully caused deterioration in the position of the state as a creditor in the settlement or bankruptcy procedure

Group A2	
Tax deferrals	Interest payable for the deferred period calculated at current values and based on the annual reference interest rate* (linear calculation method)
Tax remission, tax relieves, exemptions and allowances	This does not include general tax credits (such as profit tax which is a general measure within the meaning of the Profit Tax Act) but only allowances which are specific for a particular undertaking or a group of undertakings (e.g. advantages for undertakings employing disabled persons); The element of aid is the total amount of tax exemption or allowance
Reductions in social security contributions, relieves and exemptions thereof	With respect to reductions, relieves and exemptions of social security contributions the same principle as for tax exemptions applies – state aid does not involve general allowances; The aid element is the total estimated amount of exemption or relief
Debt write-off	Amount of debt written-off

Group B	
Equity investments	The aid element is present in all state investments the primary objective of which is not the creation of profit; The aid element is the estimated benefit value for the aid beneficiary
Conversion of debt into equity (equity participation)	The aid element exists where the state is in a less favourable position than that of other creditors; The aid element is the estimated benefit value for the aid beneficiary resulting from the less favourable position of the state
Sale of state property under favourable terms	The aid element exists where the state is in a less favourable position than that of other creditors; The aid element is the estimated benefit value for the aid beneficiary resulting from the less favourable position of the state
Participation in a company's profits	A share in the distributed profit deriving from the equity share held by the state in the undertaking and which the state renounces, represents in full the amount of state aid

Group C1	
Soft loans	The balance between the loan costs (interest) with an annual reference interest rate and a more favourable interest rate; The calculation is made for the whole period of the loan and relates to its current value (linear calculation method)
Loans to the firms in difficulty	To (restructuring) firms in difficulty which cannot obtain loans on the market, the aid amounts to 20% of the loan value, irrespective of whether the loan was paid off under the market or less favourable conditions

Group C2	
All other instruments	The estimated value of the aid (e.g. tax debt)

Group D	
Guarantees	The balance between the price of the market guarantee and the state guarantee which is lower; The aid element is calculated on the basis of the guaranteed debt amount and the reference risk rate
Revoked guarantees payments	Full payments of guaranteed obligations

## 13. APPENDIX 3

### *Aid categories*

Rules	Category	Earmarked
<b>HORIZONTAL RULES</b>		
	<b>Research and development</b>	
		Fundamental research
		Industrial research
		Precompetitive development
		Feasibility studies
	<b>Environmental protection</b>	
		Adaptation to the binding ecological standards
		Going beyond the existing standards or investments in environmental protection as long as no binding standards exist
		Energy efficiency and investments in the combined production of electric power and heat and aid to renewable sources of energy
		Rehabilitation of polluted industrial sites
		Operating aid (under specified conditions)
	<b>SMEs</b>	
		Initial investment aid and aid to job creation
		Consultancy services
		Participation in fairs and exhibitions
	<b>Employment</b>	
		Creation of new employment in SMEs
		Aid to maintain jobs
		Aid for recruitment of disabled workers or for recruitment of disadvantaged workers
		Aid to job-sharing and the conversion of temporary or fixed-term employment contracts into contracts of indeterminate duration
	<b>Training</b>	
		Specific training aid
		General training aid
	<b>Culture</b>	
		Aid to promote culture and protection of heritage
		Aid to promote audiovisual industry
	<b>Energy saving</b>	
		Particular measures aimed at energy saving
<b>PARTICULAR SECTORAL RULES</b>		
	<b>Steel industry</b>	
		Research and development
		Environmental protection
		Employment
		Training
		Aid to SMEs for consultancy services and participation in fairs and exhibitions
		Payments to workers made redundant or retired before legal retirement age provided that the payments arise from the partial or total closure of steel plants

		Permanent cease of steel production
		Restructuring aid (Protocol 2)
	<b>Inland transport</b>	
	Rail, road and inland waterways	
		Research and development
		Environmental protection
		Rescue and restructuring
		Employment
		Training
		Reimbursement for the discharge of certain obligations inherent in the concept of a public service
		Allocation of infrastructure costs, where aid is granted to undertakings which have to bear expenditure relating to the infrastructure used by them, while other undertakings are not subject to a like burden
		Eliminate excess capacity causing serious structural problems
		Compensation in respect of additional financial burdens for railway undertakings
	<b>Maritime transport</b>	
		Research and development
		Environmental protection
		Rescue and restructuring
		Training
		Pension, disability and medical insurance for seafarers working on board ships entered in Croatian registers
		Reimbursement of the costs of repatriation of seafarers
		Public service obligations
		Investment in new vessels provided that they comply with the construction and safety at sea standards
		Promote the repatriation of the strategic and commercial management of board ships not entered in Croatian registers
		Regional aid
	<b>Air transport</b>	
		Research and development
		Environmental protection
		Aid to SMEs
		Employment
		Training
		Rescue and restructuring
		Regional aid
	<b>Shipbuilding</b>	
		Research and development
		Environmental protection
		Rescue and restructuring provided reduction in capacity
		Partial or total closure of shipyards
		Investment aid for genuinely and substantially new innovation
		Regional investment aid for investment in upgrading or modernising existing yards, with the objective of improving the productivity of existing installations

	<b>Tourism</b>	All aid types
	<b>Financial services</b>	All aid types
	<b>Other sectors</b>	All aid types
<b>REGIONAL RULES</b>		
	<b>Areas A</b>	
		Initial tangible and intangible investments
		New employment
		Reimbursement of operating costs in exceptional cases
	<b>Areas B</b>	
		Initial tangible and intangible investments
		New employment

**Aid level:**

Level description:
1. State level
2. Regional level
3. Local level
4. Other

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