



**REPUBLIC OF CROATIA
CROATIAN COMPETITION AGENCY**

**Annual Report
on State Aid for 2010**

December 2011

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1. INTRODUCTION

The Annual Report on State Aid for 2010 comprises an analytical overview of the state aid granted in the Republic of Croatia in 2010, and a comparative overview of state aid is also provided for the period of the previous two years, i.e., 2008 and 2009. The Report is based on the data on granted state aid provided to the Croatian Competition Agency (hereinafter: the Agency) by aid providers, in other words, competent ministries, agencies, funds, banks and regional and local self-government units.

Efficient granting of state aid to one undertaking, a group of undertakings or a region, so that other undertakings, groups of undertakings or regions that do not receive state aid would not be placed at a competitive disadvantage on the market, is a prerequisite for the creation of a fair and correct macroeconomic and regulatory environment which fosters economic growth, new investments, growth of employment and an overall economic wellbeing.

State aid control in the Republic of Croatia is set up pursuant to the State Aid Act (Official Gazette, No.: 140/05 and 24/11) and regulations adopted pursuant to this Act. According to this Act the Croatian Competition Agency is entrusted with the tasks related to the review and assessment of proposals of state aid, supervision of the implementation and impacts of granted state aid, recovery of state aid granted unlawfully and collection, processing and recording of state aid data, and also other activities pertaining to granting and control of granting of state aid, as well as the cooperation with state aid providers.

Starting from the above legislative powers, the Agency has adopted the Ordinance on the form and content and manner of data collection and keeping the register of state aid (Official Gazette, No. 2/2010; hereinafter: the Ordinance). Among other things, the Ordinance provides for the manner of the collection of data from state aid providers for the preparation of annual reports on state aid.

In addition to the State Aid Act, the state aid system in the Republic of Croatia is also regulated by the Regulation on State Aid (Official Gazette No. 50/06) and decisions of the Government of the Republic of Croatia which are published pursuant to the Regulation on State Aid, and regulate rules for the award of specific categories of state aid in line with the EU *acquis*. In the assessment and control of the categories of state aid not regulated by the decisions of the Government of the Republic of Croatia mentioned above, the Agency, in accordance with Article 6 para. 4 of the State Aid Act, applies in a corresponding manner the criteria that arise from the application of the state aid rules arising 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: the SAA).

Pursuant to Article 20 of the State Aid Act, the Agency is obliged to submit to the Croatian Parliament the Annual Report on State Aid for adoption. At the same time, in accordance with the SAA, in order to ensure transparency in the area of state aid, the Republic of Croatia has assumed the obligation to submit regular annual reports on state aid to competent EU

institutions, following the methodology and review contained in the overview of state aid in the EU.

Further to the above, the Annual Report on State Aid for 2010 comprises data on state aid granted in the Republic of Croatia in 2010 in accordance with the information on granted state aid received from aid providers, which have been processed and reported according to the methodology and the overview layout of the EU and relevant national legislation, respectively. Therefore, the analytical overview of state aid set up in the manner described enables a comparison of both the level and the structure of state aid granted in the Republic of Croatia with the corresponding EU data as a whole and also a comparison with individual EU Member States.

1.1. Definition of 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 commitments undertaken by the Republic of Croatia in respect of state aid arising from the SAA.

A state aid beneficiary within the meaning of the State Aid Act is a legal and natural person who, in the performance of an economic activity, takes part in the trade of goods and/or services, and is using state aid. In other words, granting of state resources constitutes state aid only in case of award of state transfers to beneficiaries engaging in entrepreneurship – undertakings.

In accordance with the above definition of state aid, in other words, to ascertain if a state intervention constitutes state aid, it is necessary to establish in each particular case 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 due to tax non-compliance, unpaid contribution or another unpaid debt or unfulfilled financial obligation towards the state 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 which 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 the 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 the SAA, provides for a ban on aid that adversely affects (or may adversely affect) trade between the Republic of Croatia and the European Union. Accordingly, the Agency should check if the beneficiary of state aid is involved in economic activities which are actually or potentially subject of trade and/or exports.

Consequently, any measure based on a state aid scheme, or awarded to an individual beneficiary, provided that the above criteria are fulfilled cumulatively, constitutes state aid.

When awarding state aid, the decisive factor is the effect of the subject measure, and not its cause, type or objective. The notion of state aid includes not only grants (the expenditure side of the State budget), but also other state aid instruments which reduce, in various ways, the revenue side of the State budget, and have the same effects as grants (e.g. tax relief or reduction of corporate profit tax). State aid instruments are presented in Appendix 2 of this Report.

What does not constitute state aid?

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

- aid to public bodies performing an activity that does not have an economic character,
- general measures intended for all undertakings and all sectors in the economy in the country,
- state measures neutral in relation to the State budget (the so-called regulatory measures),
- procurement of goods and services at market prices, i.e., at market-based value (public competitions consistent with public procurement rules),
- financial support meeting the market economy investor principle (made on terms that would be acceptable to a private agent operating under market conditions),
- aid for general-purpose infrastructure projects, i.e., when an economic advantage is not provided to an individual undertaking, sector or region,
- state guarantees, if the following conditions are cumulatively met: if the borrower is not in financial difficulty; if the borrower would, in principle, be able to obtain a loan under market conditions from the financial markets without any intervention by the state; if the market price for the guarantee is paid for the state guarantee; if the guarantee is linked to a specific financial transaction; if the state guarantee is not open-ended, does not cover more than 80% of the outstanding debt or another financial obligation.
- aid to individuals or employees where undertakings do not enjoy a direct benefit,
- de minimis aid which does not exceed EUR 200,000 per beneficiary in the period of three fiscal years.

For instance, assistance to households, disabled persons, public bodies for activities which do not have an economic character, education institutions, hospitals, for building of residential buildings in state ownership for socially deprived groups, public centres for professional improvement, reducing of the value added tax for certain groups of products, support earmarked for defence and for public works also do not have the status of state aid.

1.2. Collection and processing of data

The Annual Report on State Aid is based on the data on granted state aid submitted to the Agency by aid providers according to the instructions and forms from the Ordinance. The Ordinance also provides for the content of the Annual Report, which has to contain the description of the methodology, the amounts of state aid by categories/objectives and instruments, the evaluation of the collected data, and also the data on de minimis aid submitted by aid providers to the Agency in line with regulations regulating de minimis aid.

The Ordinance stipulates that, for purposes of the preparation of the Annual Report on State Aid, state aid is reported depending on the purpose and level by categories and/or objectives for which it is awarded. The aid is, therefore, reported for the activity of agriculture and fisheries separately from the aid for the area of industry and services. Since granting of state aid for agriculture and fisheries, including forestry, food and tobacco industry, is not a subject of the control of the Agency, i.e., it is not regulated by the State Aid Act, the Annual Reports on State Aid contain a detailed overview of granted state aid for the branches of the economy for which the data are submitted to the Agency by the competent Ministry, in accordance with the obligation referred to in Article 20 of the State Aid Act.

It should be noted that the methodology of the analytical overview of state aid mentioned above is based on almost the same methodology used by the European Commission in the preparation and reporting of state aid in the EU.

As regards the preparation of this Report, it should be noted that not all of the aid providers have given the same level of attention to the preparation of their reports on state aid and submitted them to the Agency.

Also, an explanation for a certain delay in the preparation of the report for 2010 are technical problems in the processing of data specifically because of the need for the harmonisation of personal identification numbers of undertakings – aid beneficiaries with OIB. In addition, the European Commission also publishes the Annual Report on State Aid in the EU on 1 December of the current year for the year preceding the previous year, to be able to compare the state aid in the Republic of Croatia with aid in the Member States and the EU as a whole, and the Agency has adapted its reports on state aid to this schedule of publication of the EU Report for several years now.

1.3. Methodologies of reporting state aid

State aid to industry and services is reported in annual reports by categories and objectives and by instruments, i.e., the manner of granting aid.

In terms of the category state aid may be horizontal and sector-specific, regional and aid at the level of local and regional self-government units.

Horizontal state aid includes the following types of state aid:

- research and development and innovation,
- environmental protection and energy savings,
- small and medium-sized enterprises,
- rescue and restructuring through state aid schemes,
- employment,
- training,
- culture and protection of heritage,
- risk capital, and
- other horizontal objectives.

Special rules apply in granting of sector-specific state aid, which are consistent with state aid regulations. This aid mostly relates to the following sectors and activities:

- land transport, specifically, road, railway and inland waters transport,
- maritime transport,
- air transport,
- tourism,
- financial services,
- rescue and restructuring of undertakings in difficulty,
- cinematography and other audiovisual activities,
- public broadcasting services,
- postal services, and
- other activities not mentioned above.

Regional aid is the third category of state aid presented in the state aid report, whereas state aid at the level of local and regional self-government is the fourth category of state aid presented in the report.

Following the onset of the global financial and economic crisis in the autumn of 2008, specific rules started to be applied to granting of state aid whose objective was mitigating and reduction of the impact of the crisis on the financial and economic sectors. Therefore, methodology-wise,

a special category of aid for those objectives has been added to the overview of the state aid for those purposes.

State aid may be granted in various forms, i.e., by using various instruments such as:

- grants,
- tax remission and exemptions from payment of social security contributions,
- tax deferral,
- debt write-off or deferral of debt settlement,
- equity participation,
- soft loans and
- guarantees.

*By type, state aid is divided into **state aid schemes and individual state aid**:*

Within the meaning of this Act, state aid scheme (hereinafter: aid scheme) shall mean any legal document on the basis of which, without any additional implementing measures required, individual aid may be granted to ex ante unspecified aid beneficiaries, and any legal document on the basis of which state aid which is not linked to a particular project may be awarded to one or more aid beneficiaries for an indefinite period of time and/or in an indefinite amount. (Article 3 paragraph 2 of the Act.)

Individual state aid shall mean any state aid which is not granted under the aid scheme which is subject to additional authorisation. (Article 3 paragraph 3 of the Act.)

A detailed overview of the categories of state aid is provided in Appendix 3 of this Annual Report, while instruments of award of state aid are presented in Appendix 2 of this Report.

The State Aid Act regulates general conditions and rules of approval, control of implementation and recovery of unlawful state aid for purpose of the implementation of international commitments of the Republic of Croatia arising from the SAA and, except for the cases provided for by the Act, it stipulates that state aid which, regardless of the form, distorts or might distort competition by providing an advantage to the aid beneficiary, to the extent that it might adversely impact the fulfilment of the above international commitments of the Republic of Croatia, is incompatible with the State Aid Act.

However, the following types of state aid are exempted from the general prohibition of state aid pursuant to the State Aid Act:

- a) state aid to mitigate or make good the damage caused by natural disasters, extraordinary circumstances or war activities,
- b) state aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment,
- c) state aid to promote culture and heritage conservation,
- d) state aid to implement significant international projects or to remedy a serious disturbance in the economy,

- e) state aid to facilitate the development of certain economic activities or of certain economic areas,
- f) state aid to legal and natural persons entrusted, pursuant to special regulations, with the performance of a service of general economic interest or provided with an exclusive right to perform a specific activity, without whom the tasks entrusted to them could not be performed, provided that the state aid is exclusively a fee for the performance and implementation of those tasks.

1.4. Summary of Annual Report on State Aid for 2010

In 2010 state aid in the Republic of Croatia amounted to HRK 9.4 billion, an 8-percent growth in comparison with 2009. The share of state aid in GDP was 2.8 percent, which was an increase by approximately 8 percent in relation to 2009, when this share accounted for 2.6 percent. The share of state aid in government expenditures accounted for 7.8 percent in 2010, growing by 6 percent in comparison with 2009. At the same time, the average amount of state aid per employee increased from approximately HRK 6,000, which was its amount in 2009, to approximately HRK 6,800 in 2010. According to this data, in 2010 each citizen of the Republic of Croatia set aside HRK 2,132 for state aid.

Sector-specific aid still prevailed in the structure of state aid with a 44.2-percent share or HRK 4.1 billion of the total granted aid. State aid for agriculture and fisheries amounted to HRK 4 billion and accounted for 42.7 percent of the total granted state aid in 2010. Horizontal aid accounted for 13.1 percent in the structure of total state aid, in other words, HRK 1.2 billion was invested into those objectives. Consequently, state aid for horizontal objectives (research and development, employment, small and medium-sized enterprises, for environmental protection, training etc.), inclusive of regional aid and aid awarded by local and territorial (regional) self-government in the last three years stagnated at somewhat more than HRK 1 billion per annum and grew at minimal rates. For instance, in 2010, in comparison with the year before, the total allocations for horizontal objectives increased by 3 percent.

The highest share of allocated funds for sector-specific aid (HRK 4.1 billion) in 2010 was the one for the transport sector – HRK 1.5 billion. The funds were not utilised for investment into transport infrastructure, but were exclusively state aid to support business operations of companies in the area of transport, such as Croatian Railways (Hrvatske željeznice), for which approximately HRK 850 million was provided, or aid to Croatia Airlines, which amounted to in excess of HRK 280 million, and Jadrolinija, more than HRK 300 million. Furthermore, HRK 1.2 billion was allocated to shipbuilding, while HRK 1.18 billion was provided for public service broadcasting (HRT).

In 2010 as well grants were the most important instrument of state aid, accounting for 72.6 percent of the total granted state aid, whereas 18.5 percent of state aid pertained to the state aid element in provided state guarantees. 8.5 percent of state aid was granted in the form of tax

relieves, debt write-off and relieves and exemptions from payment of social security contributions and similar allowances.

Two thirds of state aid is set aside for specific sectors – agriculture and fisheries, transport, shipbuilding, HRT, whereas somewhat more than 13 percent of state aid is allocated for horizontal objectives, or 23 percent of the total granted aid to industry and services. The ratios in the European Union, which the Agency uses in the comparative overview in Chapter 6 of this Report, indicate a completely different situation. Namely, in the EU more than 85 percent of state aid granted to industry and services is channelled to horizontal objectives (without aid to the financial sector), in other words, to state aid for projects of environmental protection and conservation of energy, for regional development, for research, development and innovation, employment etc. However, the situation in the Republic of Croatia is significantly more favourable than in the majority of the EU Member States when it comes to granting of aid to the financial sector, primarily the banking sector, because in Croatia in 2010, unlike those countries, there was no need for state intervention, i.e., state aid, in that sector either.

It is, therefore, important to stress in this report as well the importance of the implementation of the state aid system as a part of competition, not only in order to provide for all undertakings a level playing field and thereby chances of success, but also as an important factor of increasing the competitiveness of Croatian undertakings, as well as attracting and providing incentives for domestic and foreign investors in the Republic of Croatia. Focusing of state aid on financing of horizontal objectives, for example, research and development, environmental protection, employment and regional development, contributes to economic and regional development and strengthening of the competitiveness of strategic economic activities. In contrast, granting of state aid on the basis of individual approvals to certain undertakings, particularly to those in difficulty, should be a one-time, *ad hoc* exception whose purpose is restoring of the long-term sustainability of undertakings on the market.

The state aid policy has become a part of economic and industrial policies by which the European Union Member States promote competitiveness of their own companies, or, by awarding state aid to the financial sector, contribute to the financial and economic stability in the time of crisis as well. Their long-term commitment is assisting to sectors that bring them growth and development, while for horizontal objectives they provide significantly higher amounts than the ones indicated for the Republic of Croatia by the data from this Report.

1.5. Structure of Annual Report on State Aid for 2010

The Annual Report on State Aid for 2010 consists of seven chapters and appendices to the Annual Report. Following the introductory part which in Chapter 1 defines state aid, explains the methodology of the collection and overview of data and provides a summary of this Report, Chapter 2 presents data and describes state aid trends in the above three-year period, both in absolute amounts and in relative terms, in relation to the gross national product, budgetary

revenues, the employed etc. An overview of state aid according to objectives and categories of state aid (sector-specific and horizontal) as well as instruments of granting aid are also provided.

Chapter 3 brings data on state aid to agriculture and fisheries, whereas in Chapter 4 there is a comprehensive and detailed description of the amounts, categories, instruments, providers and beneficiaries of state aid in the industry and services sector. This chapter also includes an overview of state aid earmarked for regional development and aid granted by local and regional self-government units. In conclusion, this chapter deals with sector-specific aid in certain industries.

Chapter 5 provides an overview of state aid of small value (the so-called de minimis aid) which is subject to special rules for awarding and whose award is not controlled by the Croatian Competition Agency¹.

Chapter 6 brings a comparative overview of state aid in the Republic of Croatia and the European Union and its Member States, although such comparisons are performed in a corresponding manner at other places in this report as well.

Chapter 7 contains an assessment of the Agency about granted state aid in 2011.

At the end of the Report there is a chapter entitled The Conclusion as a separate unit, as well as the proposals related to setting up of a more efficient state aid policy.

¹ State aid of small value (de minimis aid) is not considered state aid within the meaning of the State Aid Act, because due to the limited value of no more than HRK 1,500,000 it does not affect the trade between the Republic of Croatia and the Member States of the European Union and the amounts of this aid are not added to the total amount of granted aid.

2. STATE AID IN 2010

2.1. Comparison with macroeconomic indicators

In 2010 state aid in the Republic of Croatia amounted to HRK 9,381.5 million, which was higher by HRK 689.7 million, or almost 8 percent in relation to 2009, when it amounted to HRK 8,691.8 million, or a decrease by HRK 180.3 million or 1.9 percent in comparison with 2008, when it amounted to HRK 9,561.8 million.

An increase in total granted state aid in 2010 in comparison with 2009 is mostly a consequence of the increase in state aid to the agriculture and fisheries sector, which were higher by HRK 335.9 million in 2010, and an increase in sector-specific aid, in particular transport (by HRK 215.3 million), shipbuilding (by HRK 91.3 million) and aid for rescue and restructuring (HRK 24.9 million).

The state aid-to-GDP ratio in 2010 was 2.8 percent, an 8.1-percent and a 1.1-percent increase in relation to 2009 and 2008, respectively.

State aid per employee in 2010 amounted to HRK 6,789.9, an increase by 13.3 percent in comparison with 2009, when aid per employee amounted to HRK 5,994.2, and by 9.6 percent compared to 2008, when aid per employee amounted to HRK 6,193.4. Per capita state aid in 2010 amounted to HRK 2,132.2, which represents an increase by 7.9 percent in relation to 2009, but a 1.9-percent reduction in relation to 2008.

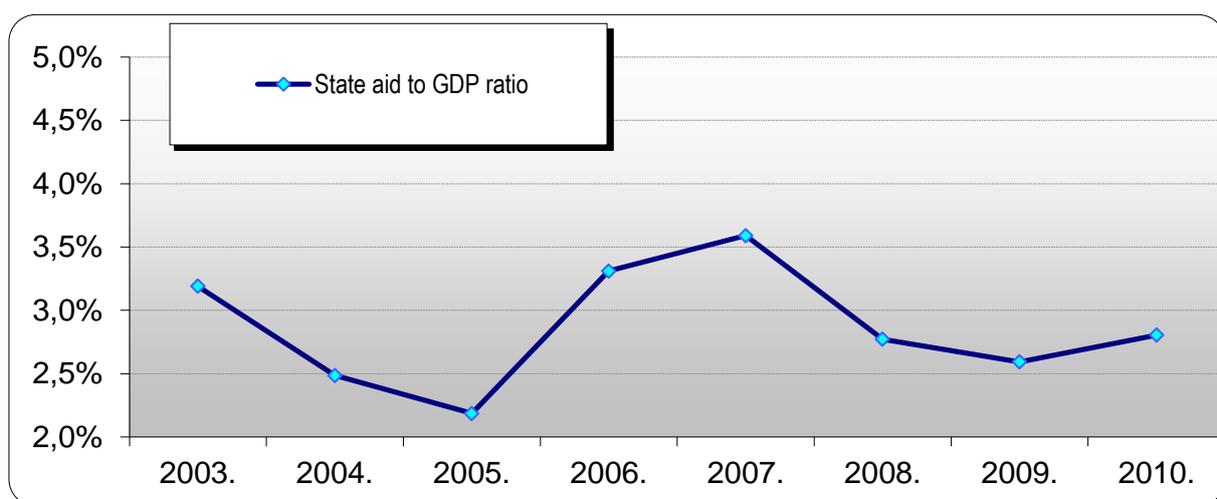
Table 1: Total state aid granted in the period 2008 - 2010

	Measure	2008	2009	2010	Indices	
					2009 /2008	2010 /2009
State aid	in HRK mill.	9,561.8	8,691.8	9,381.5	91	108
State aid	in EUR mill.	1,323.8	1,184.2	1,287.6	89	109
GDP	in HRK mill.	345,015.0	335,189.0	334,564.0	97	100
GDP	in EUR mill.	47,765.0	45,668.9	45,917.3	96	101
Government expenditure	in HRK mill.	115,292.4	117,924.0	120,323.0	102	102
Government expenditure	in EUR mill.	15,961.5	16,066.9	16,513.8	101	103
Employees	number	1,543,878	1,450,039	1,381,676	94	95
Share of state aid in GDP	%	2.77	2.59	2.80	94	108
State aid per employee	HRK	6,193.4	5,994.2	6,789.9	97	113
State aid per employee	EUR	857.4	816.7	931.9	95	114
State aid share in government expenditure	%	8.29	7.37	7.80	89	106
Per capita state aid of Croatia	HRK	2,173.1	1,975.4	2,132.2	91	108
Per capita state aid of Croatia	EUR	300.9	269.1	292.6	89	109

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

Data processed in the Croatian Competition Agency (CCA).

Figure 1: State aid-to-GDP ratio in the period 2003 - 2010



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

Figure 1 shows that after a positive trend of decreasing of state aid in the gross domestic product of the Republic of Croatia that marked the period from 2007 to 2009, the year 2010 saw a repeated increase in the state aid-to-GDP ratio of 2.8 percent, which, on the one hand, is a consequence of an increase in budget expenditures for state aid, and on the other, a weak economic recovery in general, which was reflected in the zero GDP growth rate in 2010, reported in HRK, in comparison with 2009 (reported in EUR the GDP growth was 1 percent).

Table 2: Aid in the period 2008 – 2010 (less agriculture, fisheries and transport)

Measure		2008	2009	2010
Amount of state aid	in HRK mill.	4,493.9	3,711.6	3,850.1
Amount of state aid	in EUR mill.	622.1	505.7	528.4
GDP	in HRK mill.	345,015.0	335,189.0	334,564.0
GDP	in EUR mill.	47,765.0	45,668.9	45,917.3
Share of state aid in GDP	%	1.30	1.11	1.15

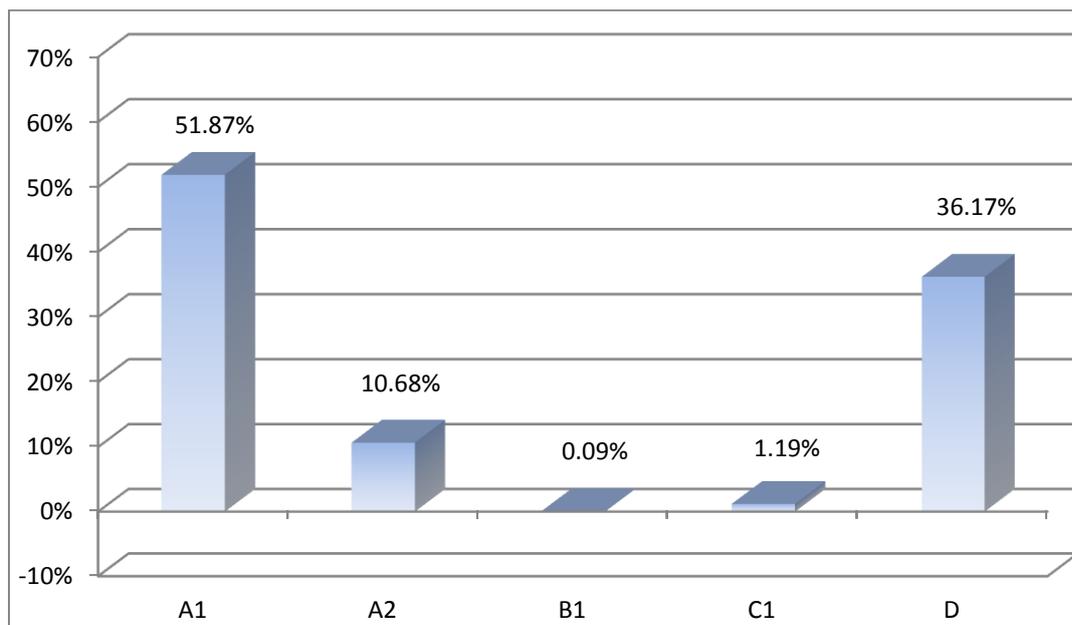
Source: Ministry of Finance, other state aid providers; data processed in CCA

Given that state aid to the transport sector, and aid to agriculture and fisheries are methodologically reported separately from state aid earmarked for other economic sectors starting from specifics of those activities and special rules that apply to granting of state aid, in this report as well the overview of state aid does not include state aid to agriculture and fisheries or transport. More precisely, in addition to market objectives, state aid to agriculture and fisheries has other objectives as well. At the same time, the transport sector is of vital importance for the growth of the national economy and development of the society as a whole. Therefore, most of the state aid to this sector is granted in the form of compensation for the performance of services of general economic interest, with a valid rule that each country itself determines the type of services of general interest, the scope and time and the amount of resources it will invest into the provision of that service.

In 2010, aid granted to the economy, less agriculture, fisheries and transport (land, maritime and air transport) amounted to HRK 3,850.1 million, which was an increase by HRK 138.5

million, or by 3.7 percent in comparison with 2009, and a reduction of HRK 643.8 million, or by 14.3 percent in relation to 2008. The share of aid, less agriculture and transport, in GDP in 2010 amounted to 1.15 percent, which was higher by 3.6 percent than in 2009 and less by 11.5 percent than in 2008. With the above share of state aid less agriculture and transport in the national GDP, in comparison with the EU Member States, Croatia ranks the second, behind Hungary, in which state aid accounts for more than 1.94 percent of GDP.

Figure 2: State aid by instruments in 2010 (less agriculture, fisheries and transport)²



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

In 2010, the type of aid to the economy, less agriculture, fisheries and transport, with the highest share were grants (the share of grants in total state aid accounts for approximately 51.9 percent, or HRK 1,997.1 million), followed by guarantees (36.2 percent or HRK 1,392.7 million), followed by tax relieves and allowances (10.7 percent, or HRK 411 million), soft loans to undertakings (1.2 percent or HRK 45.8 million) and equity participation (approximately 0.1 percent or HRK 3.5 million).

Since the railway transport sector has traditionally had a special significance, whether regarding the transportation of passengers or cargo, and taking into consideration that it has only recently been liberalised in Europe as well, state aid in this sector is a common and significant instrument of incentives, especially in comparison with other transport activities. The table below indicates state aid excluding state aid to the railway transport sector, whereas state aid to air, maritime and other land transport is included into the indicated amount of granted state aid. Such manner of reporting state aid is usual according to the EU methodology and is used in this

² 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 element in guarantees.

report to enable a comparison of state aid granted in the Republic of Croatia with state aid in the EU and its Member States.

Table 3: Total state aid in the period 2007 – 2009 (with agriculture and fisheries, less railway transport)

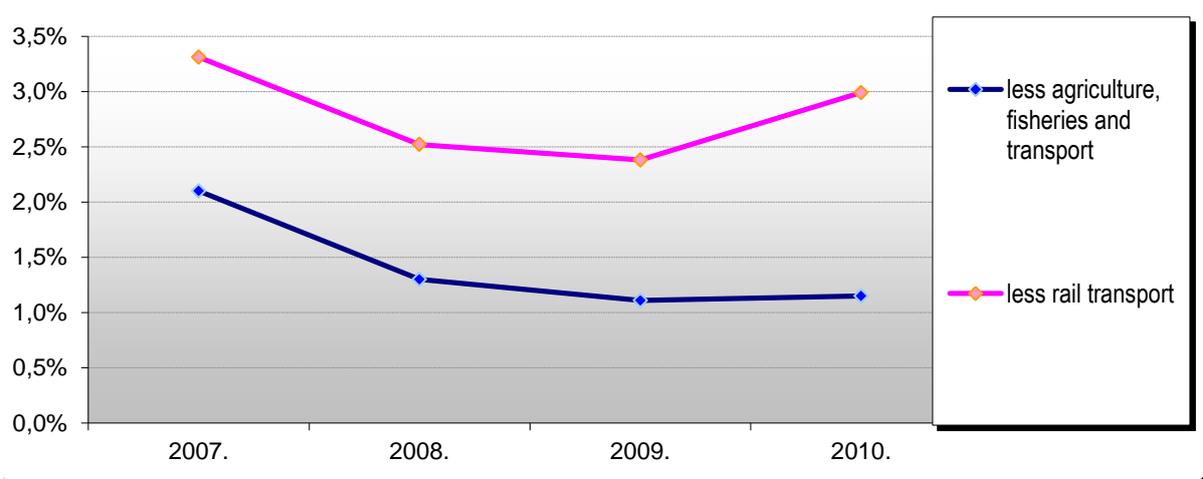
	Measure	2008	2009	2010
Amount of state aid	in HRK mill.	8,704.6	7,982.3	8,531.8
Amount of state aid	in EUR mill.	1,205.1	1,087.6	1,170.9
GDP	in HRK mill.	345,015.0	335,189.0	334,564.0
GDP	in EUR mill.	47,765.0	45,668.9	45,917.3
Share of state aid in GDP	%	2.52	2.38	2.55

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

In 2010 state aid granted to railway transport amounted to HRK 849.7 million, which was more by HRK 140.2 million or 19.8 percent in relation to 2009, when it amounted to HRK 709.5 million. Nevertheless, state aid to railway transport in the observed year was somewhat lower than in 2008, when it amounted to HRK 857.2 million. In addition to the above state aid that to the greatest extent pertain to financing of the provision of core services, in 2010 railway was granted resources for infrastructure maintenance, which is not considered state aid within the meaning of the State Aid Act because that infrastructure, although for the time being still only theoretically, may also be used by other providers of services of railway transportation, and not only Croatian Railways since liberalisation of this market has been carried out legally as well.

The shares of state aid in GDP less agriculture, fisheries and transport, and in GDP less rail transport and the structure of state aid are presented in the Figures below.

Figure 3: State aid-to-GDP ratio in the period 2007 – 2010

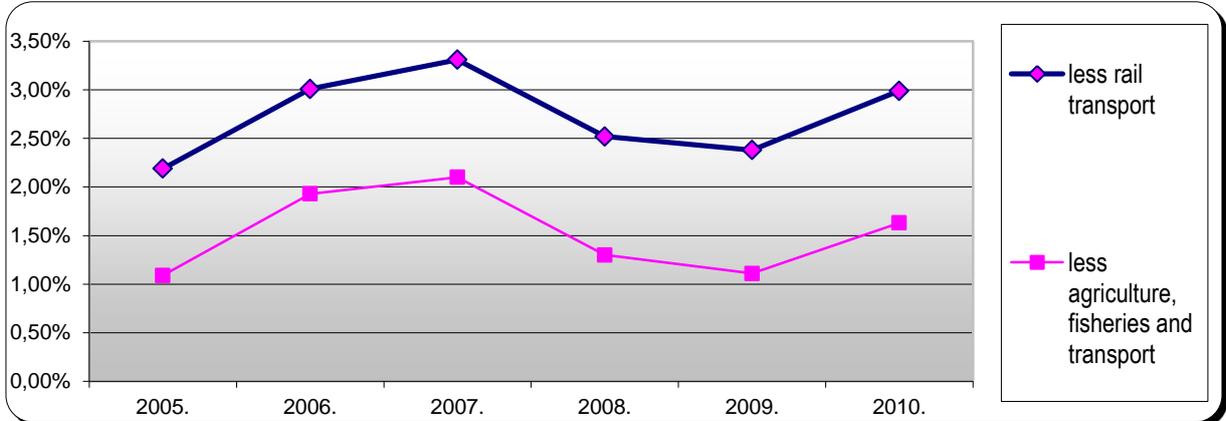


Source: Ministry of Finance, other state aid providers; data processed in CCA

Figures 3 and 4 indicate a considerably more favourable trend of the share of state aid in GDP when state aid to agriculture, fisheries and transport as a whole is excluded from the data on state aid, whilst

excluding of state aid for rail transport from the total state aid does not have a significant impact on the state aid trend.

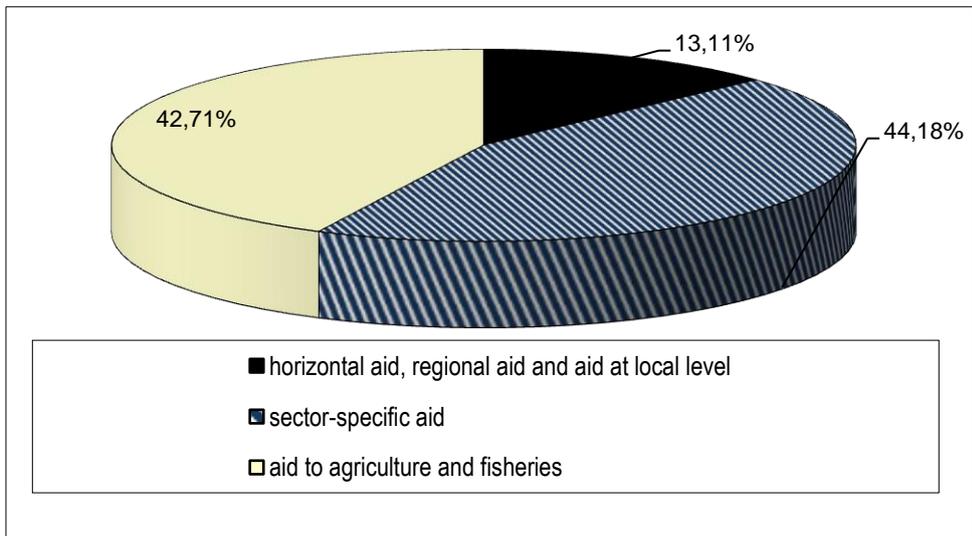
Figure 4: State aid-to-GDP ratio in the period 2005 - 2010



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

The structure of total granted state aid in 2010 indicates that the Republic of Croatia has still not abandoned the inherited system of state aid policy in which, besides the state aid for traditional beneficiaries such as transport, where the highest allocation of state aid is provided to rail and maritime transport aimed at as efficient and good connections of islands with land as possible, the share of state aid for agriculture and fisheries has an upward trend, whereas the share of state aid for horizontal objectives and regional development is almost negligible. For purpose of comparison, agriculture and fisheries in the EU Member States are mostly financed from EU funds, whereas the Member States set aside on average 85 percent of the granted state aid for regional development, environmental protection and energy savings, research, development and innovation, small and medium-sized enterprises and similar sectors. Moreover, in 19 of 27 of the EU Member States, state aid for the horizontal objectives mentioned above in the structure of state aid also make up more than 85 percent in the structure of state aid.

Figure 5: Structure of total granted state aid in 2010



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

As indicated by Figure 5, in the Republic of Croatia, sector-specific aid accounted for the largest share in the structure of granted state aid in 2010, at approximately 44.2 percent, followed by state aid to agriculture and fisheries with a share of 42.7 percent, and together horizontal and regional aid and state aid at the local level with the share of 13.1 percent.

2.2. Categories of state aid

In terms of categories and objectives, state aid may be divided into several groups, namely: state aid for horizontal objectives (such as research and development and innovation, environmental protection and energy saving, promoting small and medium-sized enterprises, employment, training, cultural objectives), then sector-specific aid, which is earmarked for promoting specific economic sectors (usually those are transport, iron and steel production, shipbuilding, tourism, public broadcasting service, audio-visual works etc.), and regional aid, which promotes the development of areas with unusually low living standards or high unemployment. In the methodology of granting and monitoring of state aid in the EU, regional aid is usually considered horizontal state aid, as well as aid provided by local and regional authorities.

The above state aid classification refers to the areas of industry and services, but not to state aid for agriculture and fisheries. Namely, state aid for agriculture and fisheries is state aid for which special regulations apply pursuant to the common agricultural policy and policy of rural development in the EU, so it is also not a subject of the State Aid Act and control of this Agency. In other words, although in terms of methodology it is included into an overview of the total granted state aid, state aid to agriculture and fisheries is not reported either as sector-specific or as horizontal aid.

Table 4: State aid amounts specified by aid categories in the period 2008 – 2010

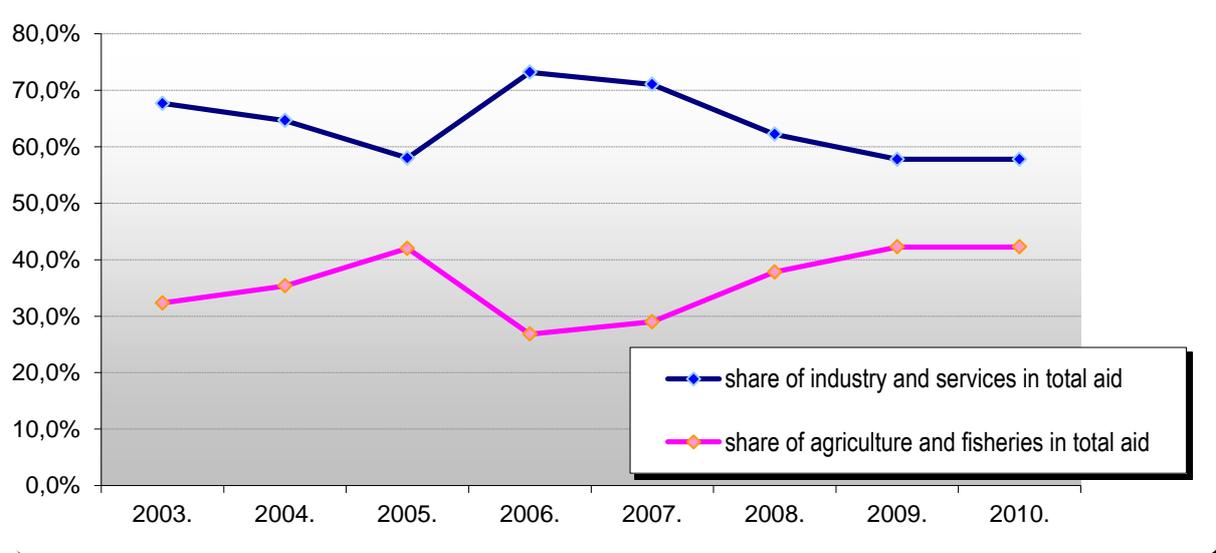
Categories	2008			2009			2010		
	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
1. <i>Agriculture and fisheries</i>	3,615.1	500.5	37.81	3,671.0	500.2	42.24	4,006.9	549.9	42.71
2. <i>Industry and services</i>	5,946.7	823.3	62.19	5,020.8	684.1	57.76	5,374.6	737.6	57.29
<i>Horizontal objectives</i>	662.9	91.8	6.93	658.5	89.7	7.58	636.4	87.3	6.78
Research and development and innovation	209.5	29.0	2.19	139.1	19.0	1.60	167.6	23.0	1.79
Environmental protection and energy saving	37.2	5.2	0.39	64.6	8.8	0.74	27.3	3.7	0.29
Small and medium-sized-sized enterprises	172.3	23.9	1.80	228.3	31.1	2.63	170.9	23.5	1.82
Training	68.9	9.5	0.72	53.9	7.3	0.62	48.0	66	0.51
Employment	136.4	18.9	1.43	42.6	5.8	0.49	93.1	12.8	0.99
Culture	38.6	5.3	0.40	36.4	5.0	0.42	51.4	7.1	0.55
Support to access to finance during financial and economic crisis	0.0	0.0	0.00	93.6	12.8	1.08	78.1	10.7	0.83
<i>Specific sectors</i>	4,794.5	663.8	50.14	3,824.0	521.0	44.00	4,145.1	568.9	44.18
Steel production	0.0	0.0	0.00	2.2	0.3	0.03	0.0	0.0	0.00
Transport	1,452.8	201.1	15.19	1,309.2	178.4	15.06	1,524.5	209.2	16.25

Shipbuilding	1,892.1	261.9	19.79	1,152.7	157.1	13.26	1,244.0	170.7	13.26
Tourism	171.5	23.7	1.79	164.5	22.4	1.89	157.7	21.6	1.68
Public service broadcasting	1,068.5	147.9	11.17	1,133.1	154.4	13.04	1,182.5	162.3	12.60
Other sectors	134.7	18.6	1.41	59.4	8.1	0.68	8.6	1.2	0.09
Rescue and restructuring	74.9	10.4	0.78	2.9	0.4	0.03	27.8	3.8	0.30
Regional aid	310.9	43.0	3.25	319.4	43.5	3.67	309.2	42.4	3.30
Aid at local level	178.4	24.7	1.87	218.9	29.8	2.52	283.9	39.0	3.03
TOTAL	9,561.8	1,323.8	100.00	8,691.8	1,184.2	100.00	9,381.5	1,287.6	100.00

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

In 2010 state aid to industry and services amounted to HRK 5,374.6 million and accounted for 57.3 percent in the total structure of state aid. The share of state aid to industry and services in the total granted state aid did not change significantly in comparison with 2009, when it was 57.8 percent. As regards the period from 2006 to date, there is a noticeable declining trend of the share of state aid to industry and services in the total structure of state aid, while there has been a growing share of state aid earmarked for agriculture and fisheries, which in 2010 reached the amount of HRK 4,006.9 million. This is illustrated by Figure 6.

Figure 6: Share of aid for agriculture and fisheries and aid for industry and services in total granted aid in the period 2003 – 2010



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

In the structure of state aid to industry and services, aid for specific sectors and undertakings still has the highest share in total granted state aid.

At the same time, in 2010 there was a reduction of horizontal state aid proper, i.e., state aid earmarked for research and development, environmental protection, small and medium-sized enterprises, training etc., and those categories of state aid amounted to HRK 636.4 million. As part of horizontal state aid in a wider sense, in 2010 regional aid amounted to HRK 309.2 million. At the same time, in 2010 state aid granted by local and regional self-government units amounted to HRK 283.9 million.

2.3. State aid by instruments

State aid is awarded through various aid instruments³ or forms of aid, among which the most significant ones are grants (A1), tax relieves, exemptions, tax remission and reduction of social contributions and allowances (A2)⁴, equity participation (B1), soft loans (C1), state aid element in guarantees (D).

Grants were the most prevalent aid instrument in 2010. They amounted to HRK 6,808.1 million, making up 72.6 percent of the total granted state aid. They were followed by state guarantees in the amount of HRK 1,730.9 million or 18.5 percent of the total granted state aid, tax relieves and tax advantages in the amount of HRK 793.2 million or an 8.5-percent share, followed by soft loans in the amount of HRK 45.8 million. Aid for equity participation ranked the last with the amount of HRK 3.5 million.

Also, in 2010 in the agriculture and fisheries sector as well, the most frequent form of granting state aid was grants, which accounted for almost 90 percent of the state aid granted to that sector.

In terms of state aid categories, in sector-specific state aid as well the most prevalent state aid instrument was grants, more specifically, grants were provided in the amount of HRK 2,444.2 million, with the share of 59 percent.

Under horizontal state aid, grants were also the most frequently awarded form of state aid, particularly when it comes to aid to small and medium-sized undertakings, state aid for culture and for support to access to finance during financial and economic crisis. Grants were also the prevailing form of aid at the level of local and regional self-government units.

State aid in the form of guarantees in 2010 was mostly granted to shipbuilding.

State aid granted in the form of tax relieves and tax advantages prevail with state aid for regional development, which is awarded pursuant to special laws (the Investment Promotion Act, the Act on the Areas of Special State Concern, the Act on Reconstruction and Development of the Town of Vukovar etc.).

A detailed overview of granted state aid by categories for 2010 is presented in the report in the text below.

³ Appendix 2 contains a list of aid instruments, as well as the methodology of calculating the aid element in specific instruments.

⁴ The group of state aid instruments designated A2, in addition to tax exemptions, tax allowances and relieves and exemptions from payment of social security contributions, also includes debt write-off in respect of various state creditors.

Table 5: Aid by instruments in 2010 (HRK mill.)

Categories		A1	A2	B1	C1	D	Total
1.	Agriculture and fisheries	3,596.2	382.1	0.0	0.0	28.6	4,006.9
2.	Industry and services	3,211.9	411.1	3.5	45.8	1,702.3	5,374.6
	Horizontal objectives	445.2	164.1	0.0	27.1	0.0	636.4
	Research and development and innovation	51.5	116.1	0.0	0.0	0.0	167.6
	Environmental protection and energy saving	26.3	0.0	0.0	1.0	0.0	27.3
	Small and medium-sized enterprises	158.8	0.0	0.0	12.1	0.0	170.9
	Training	0.0	48.0	0.0	0.0	0.0	48.0
	Employment	93.1	0.0	0.0	0.0	0.0	93.1
	Culture	51.4	0.0	0.0	0.0	0.0	51.4
	Support to access to finance during financial and economic crisis	64.1	0.0	0.0	14.0	0.0	78.1
	Specific sectors	2,444.2	0.0	0.0	17.9	1,683.0	4,145.1
	Steel industry	0.0	0.0	0.0	0.0	0.0	0.0
	Transport	1,214.9	0.0	0.0	0.0	309.6	1,524.5
	Shipbuilding	4.0	0.0	0.0	0.0	1,240.0	1,244.0
	Tourism	42.8	0.0	0.0	0.0	114.9	157.7
	Public service broadcasting	1,182.5	0.0	0.0	0.0	0.0	1,182.5
	Other sectors	0.0	0.0	0.0	0.4	8.2	8.6
	Rescue and restructuring	0.0	0.0	0.0	17.5	10.3	27.8
	Regional aid	61.4	247.0	0.0	0.8	0.0	309.2
	State aid at local level	261.1	0.0	3.5	0.0	19.3	283.9
	TOTAL	6,808.1	793.2	3.5	45.8	1,730.9	9,381.5

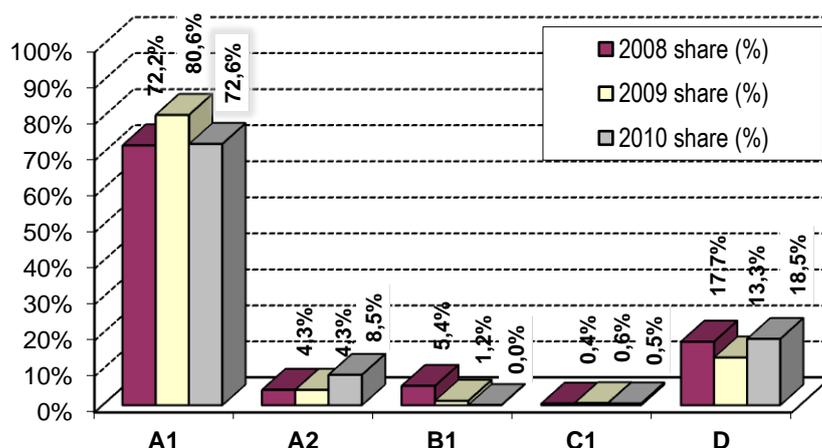
Source: Ministry of Finance, other state aid providers; data processed in CCA

Table 6: Aid by instruments in the period 2008 – 2010 (including agriculture and fisheries)

	2008			2009			2010		
	in HRK	in EUR	Share (%)	in HRK	in EUR	Share (%)	in HRK	in EUR	Share (%)
	mil.	mil.		mil.	mil.		mil.	mil.	
A1	6,901.8	955.5	72.18	7,009.7	955.1	80.65	6,808.1	934.4	72.57
A2	410.6	56.8	4.29	372.4	50.7	4.28	793.2	108.8	8.45
B1	515.2	71.3	5.39	106.0	14.4	1.22	3.5	0.5	0.04
C1	42.4	5.9	0.44	49.3	6.7	0.57	45.8	6.3	0.49
D	1,691.8	234.2	17.69	1,154.4	157.3	13.28	1,730.9	237.6	18.45
	9,561.8	1,323.8	100.00	8,691.8	1,184.2	100.00	9,524.5	1,287.6	100.00

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

Figure 7: Total aid by instruments in the period 2008 – 2010



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

2.4. State guarantees as aid instrument

State guarantees as an aid instrument is specific in the state aid granting system as special rules apply to this form of state aid. Namely, the Decision on the publication of rules on state aid in the form of guarantees (Official Gazette, No. 39/09) regulates the manner and conditions under which state guarantees may be granted as state aid, in other words, the conditions that should be fulfilled in order for state guarantees not to be considered aid. Also, this Decision also provides for the methodology of calculation of state aid element contained in a guarantee.

The above Decision provides that a state guarantee does not constitute aid if it is provided on the basis of the criteria based on the „market economy investor principle“. In other words, 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, if the granted guarantee is linked to a specific financial transaction and is granted for a fixed maximum amount and is time bound, and if the granted guarantee obligation does not cover more than 80 percent of the loan, i.e., financial obligation, i.e., the undertaking pays a market-

based fee for the granted guarantee. 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. Furthermore, the rules on state guarantees issued for small and medium-sized enterprises pursuant to the above Decision provide for simpler assessment criteria as to whether a guarantee contains aid or not, expressed in the so-called „safe harbour premium⁵“.

In all cases when the criteria according to which a guarantee is not considered state aid are not cumulatively met, a state guarantee is state aid which is calculated by a special methodology. In this process 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. However, in cases when the market price for a guarantee cannot be determined, the element of state aid is calculated as the countervalue (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. A state guarantee in the whole amount or in the amount which is a guarantee for a specific loan will be considered state aid 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, which refers to cases of issuing of state guarantees for purpose of obtaining a loan for loan beneficiaries considered undertakings in difficulty⁶, when the guarantee is invoked as the loan beneficiary is unable to repay it so the State repays it, and if it became due for payment by the State as the provider of the guarantee, and the debt is written off.

In the period from 2008 to 2010, as indicated in Table 7, the highest number of state guarantees was issued for purposes which do not constitute state aid within the meaning of the Act, such as for construction of roads and motorways, railway and port infrastructure, hospitals, investments into power production, capital investments into water supply etc.

Guarantees issued for purposes considered state aid under Article 3 of the State Aid Act pertain to the shipbuilding industry, land rail transport and other industries.

⁵ If state guarantees are issued to small or medium-size enterprises, notwithstanding point 3.2. item (d) of the Decision on the publication of rules on state aid in the form of guarantees, a simpler assessment may be adopted that provides an answer to the question whether the loan guarantee concerned contains an aid element or not. If other requirements described in point 3.2. items (a), (b) and (c) of the Decision are met as well, the state guarantee is considered as not containing state aid if the minimum annual premium, i.e., „safe harbour premium“ is paid on the amount for which the state effectively guarantees, which is based on the assessment of the loan beneficiary. Safe harbour premiums are determined according to the margins set forth for loans in a manner similar to assessed undertakings in the Commission Notice on the revision of the method for setting the reference and discount rates (SL C 14, 19 January 2008, p. 6). Safe harbour premiums are applied to the actual amount of guarantee or the amount of counter-guarantee provided by the government at the beginning of each respective year.

⁶ An undertaking in financial difficulty, in accordance with the Decision on the publication of rules on state aid for rescue and restructuring, published in Official Gazette, No. 20/07, is considered to include any undertaking not capable with its own resources or resources of its owners or creditors to abandon loss-making activities, which would jeopardize the survival of the undertakings without state aid.

Table 7: State guarantees in the period 2008 – 2010 (HRK mill.)

No.	Description	2008	2009	2010
1.	Total guarantees issued	7,866.7	9,392.1	9,628.5
2.	Issued state guarantees which do not constitute aid	5,386.6	6,780.9	6,398.7
3.	Issued state guarantees containing aid elements (rows 1-2)	2,480.1	2,611.2	3,229.8
4.	Amount of aid involved in issued state guarantees containing aid elements (row 3)	1,516.0	928.5	1,388.3
5.	Invoked state guarantees containing aid elements (less shipbuilding)	152.3	209.8	323.3
6.	Other guarantees (local and regional)	23.5	16.1	3.7
7.	Total amount state aid contained in state guarantees (lines 4+5+6)	1,691.8	1,154.4	1,715.3

Source: Ministry of Finance; data processed in CCA

In 2010, total issued state guarantees with state aid element amounted to HRK 1,715.3 million, and were higher by 48.6 percent and 1.4 percent in comparison with 2009 and 2008, respectively.

State aid contained in state guarantees pertain to state aid contained in issued state guarantees and calculated element of state aid in guarantees, namely, invoked state guarantees for which the commitment was taken over by the Ministry of Finance and local and regional self-government units.

State guarantees invoked, i.e., called in 2010 pertain to the following activities: shipbuilding, air transport, tourism, maritime transport, restructuring of undertakings in difficulty and to agriculture.

In 2010, in relation to the previous periods, there was a visible rise in issued state guarantees with a state aid element, which amounted to HRK 3,229.8 million, which was more by 23.7 percent or HRK 618.6 million in comparison with 2009, when guarantees amounted to HRK 2,611.2 million. The increase in state aid contained in guarantees in comparison with 2008, when the said guarantees amounted to HRK 2,480.1 million, was 30.2 percent, so the increase was HRK 749.7 million.

A positive trend in the area of state aid in 2010 was a decrease in the amount of total invoked guarantees. Namely, in 2010 HRK 1,095.5 million in liabilities regarding issued guarantees became due for the Ministry of Finance, which was less by 48.1 percent or HRK 1,013.2 million relative to 2009, when the state had to take over liabilities in the amount of HRK 2,108.7 million in debt of specific undertakings to which state guarantees had been issued so that they could obtain loans from commercial banks. However, in comparison with 2008 this was more by 147.9 percent or HRK 653.5 million.

In 2010 a certain amount of guarantees issued to shipyards in previous years was also invoked, but those guarantees were considered state aid already at the moment of issuance and the Agency reported them in its previous annual reports as state aid to shipyards. Therefore, to

avoid double representation of the same data, state guarantees for the shipbuilding industry issued before, and invoked in 2010 are not reported as state aid in this Report.

Table 8: Default risk for invoking of state guarantees in the period 2008 – 2010 (HRK mill.)

No.	Description	2008	2009	2010
1.	Issued state guarantees with aid element	2,480.1	2,611.2	3,229.8
2.	Invoked state guarantees for shipbuilding	289.7	1,898.9	772.2
3.	Other invoked state guarantees with aid element	152.3	209.8	323.3
4.	Total invoked guarantees (rows 2+3)	442.0	2,108.7	1,095.5
5.	Default risk less shipbuilding (row 3/1)	6.14%	8.03%	10.01%
6.	Default risk including shipbuilding (row 4/1)	17.82%	80.76%	33.92%

Source: Ministry of Finance; data processed in CCA

The risk of default for invoking of state guarantees, i.e., the probability of default in repayment of loans covered by a guarantee, is presented in Table 8. The risk of default represents the estimated amount of the market-based price of a guarantee with regard to the said risk factor or the probability of default by undertaking to which the state guarantee was issued. This risk is significantly higher than the „price“ of the guarantee prescribed by the Decision on the criteria for issuing of state guarantees (Official Gazette, No. 16/03 and 108/03) and accounted for 0.5 percent of the nominal amount of issued state guarantees.

3. AGRICULTURE AND FISHERIES

In 2010 agriculture and fisheries were granted aid in the amount of HRK 4,006.9 million, which was an increase by HRK 335.9 HRK million or 9.2 percent in comparison with 2009, when aid granted amounted to HRK 3,671 million, i.e., increased by HRK 391.8 million or 10.8 percent in comparison with 2008, when state aid agriculture and fisheries amounted to HRK 3,615.1 million.

The share of state aid to this sector in the total granted state aid in 2010 accounted for 42.7 percent, whereas its share in GDP was 1.2 percent. Evidently, the growth in the share of state aid for agriculture and fisheries in the total granted state aid was accompanied by a rising share of this aid in GDP (in 2009 it was 1.1 percent, whilst in 2008 it accounted for somewhat more than 1 percent).

Table 9: Total state aid and state aid to agriculture and fisheries in the period 2008 – 2010

Agriculture and fisheries	2008		2009		2010		Indices	
	in HRK mill.	in EUR mil	in HRK mill.	in EUR mil	in HRK mill.	in EUR mill.	2009 /2008	2010 /2009
Total state aid	9,561.8	1,323.8	8,691.8	1,184.2	9,381.5	1,287.6	90.9	107.9
Aid less agriculture and fisheries	5,946.7	823.3	5,020.8	684.1	5,374.6	737.6	84.4	107.0
Aid to agriculture and fisheries	3,615.1	500.5	3,671.0	500.2	4,006.9	549.9	101.5	109.2
Share (%) in the total state aid	37.81		42.24		42.71		111.7	101.1
Share (%) of GDP	1.05		1.10		1.20		104.5	109.4

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

Although the Agency is not competent for the approval of state aid to the agriculture and fisheries sector because the control of state aid in agriculture and fisheries, including food industry, industry of beverages and tobacco industry is not subject to the provisions of the State Aid Act and other regulations on state aid adopted pursuant to this Act, in accordance to its provisions, for purpose of the preparation of Annual Report on State Aid, the Agency still reports this aid according to the data submitted to it by the Ministry of Agriculture, Fisheries and Rural Development, the Ministry of Regional Development, Forestry and Water Management and the Ministry of Finance.

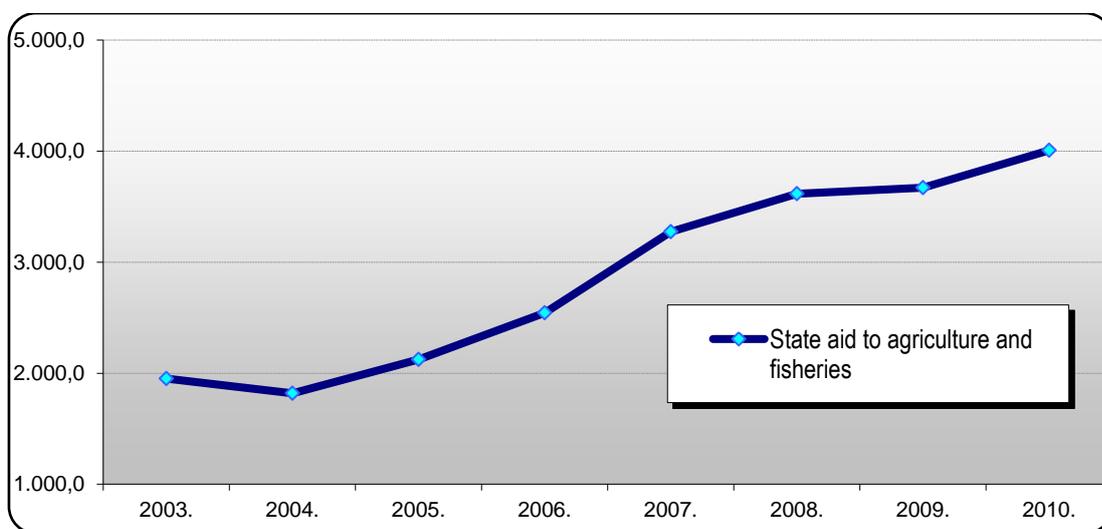
State aid to agriculture and fisheries was awarded mostly through grants in the amount of HRK 3,596.2 million, accounting for a 89.8-percent share in the total granted state aid to agriculture and fisheries, tax advantages in the amount of HRK 382.1 million, which was a share of 9.5 percent, whereas the share of 0.7 percent, or the amount of HRK 28.6 million, pertained to invoked state guarantees.

State aid amounting to HRK 3,596.2 million pertains to the following: promoting agricultural production and interventions on the market in the amount of HRK 2,899 million, investment state aid in agriculture in the amount of HRK 321.9 million, state aid to income for non-commercial farmers (engaging in subsistence farming) in the amount of HRK 161.1 million, market interventions HRK 118.5 million, protected breeds HRK 24.8 million, rural development 18.2 million, adapting the capacity of fishing fleets HRK 14.9 million, maintenance of fisheries ecosystem HRK 13.6 million, development of mariculture, commercial freshwater fishing, processing and marketing of fisheries products HRK 7.6 million, promoting the organisation of producers' associations HRK 7.8 million, IPARD HRK 3.7 million, manifestations and fairs HRK 2.7 million, research in agriculture HRK 1.4 million and projects of common interest of HRK 1 million.

An amount of HRK 382.1 million was granted through tax advantages for consumption of the so-called blue diesel.

According to the data of the Ministry of Finance, HRK 28.6 million of state guarantees to undertakings from the activity of agriculture and fisheries was invoked, and the said amount refers to HRK 24.1 million invoked guarantees for IPK Osijek and HRK 4.5 million invoked guarantees for Sušionica d.o.o. Vrpolje.

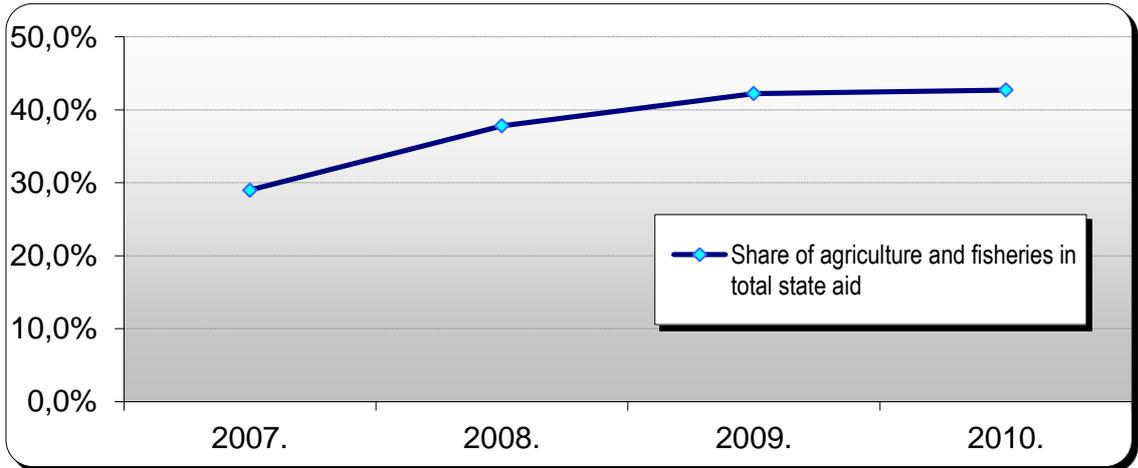
Figure 8: Total state aid to agriculture and fisheries in the period 2003 – 2010 (HRK 000)



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

Figure 8 indicates that state aid for agriculture and fisheries have recorded a continual growth since 2004, when it amounted to HRK 1,950.4 million. In the period from 2004 to 2008 state aid for agriculture and fisheries recorded an average annual growth of 18.9 percent. Following 2008, growth continued, however, at a somewhat slower pace, but 2010 again saw an accelerated rise in state aid for the purposes indicated.

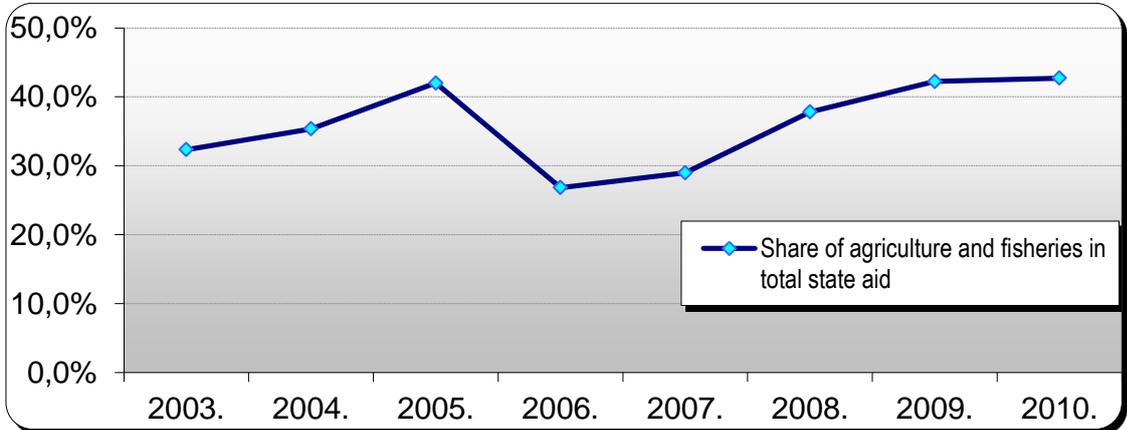
Figure 9: Share of aid to agriculture and fisheries in the total aid in the period 2007 - 2010



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

Figure 9 also indicates a steady growth of the share of state aid to agriculture and fisheries in the total granted state aid in the period from 2007 to 2010, continuing the trend of growth that started in 2006. The share of state aid to agriculture and fisheries in the total granted state aid in 2007 was 29 percent, in 2008 it was 38 percent, in 2009 it accounted for 42 percent, whilst in 2010 this share was 43 percent.

Figure 10: Share of state aid to agriculture and fisheries in the total state aid in the period 2003 – 2010



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

In terms of a somewhat longer period, since 2003 to date, there has been a steady growth of the share of state aid to agriculture and fisheries in the total granted state aid, with the exception of 2006 and 2007, when, the increase in state aid for these purposes notwithstanding, a more significant growth occurred in the area of state aid to shipbuilding industry, which has, on the other hand, had an effect on a decrease in the share of state aid granted to agriculture and fisheries in the total granted state aid.

4. INDUSTRY AND SERVICES

In 2010 the industry and services sector was granted state aid in the amount of HRK 5,374.6 million, which was by HRK 353.8 million, or 7.1 percent, more than in 2009, when it amounted to HRK 5,020.8 million. However, in comparison with 2008, in 2010 state aid to industry and services was lower by HRK 572.1 million, or 9.6 percent.

In terms of categories, the share of state aid earmarked for specific sectors in the total granted state aid to industry and services accounted for 77 percent, while the share of state aid for horizontal objectives, including regional and state aid at local level, accounted for 23 percent.

In other words, of the total granted HRK 5,374.6 million state aid to industry and services, HRK 4,145.1 million pertained to sector-specific aid, whereas the state aid for horizontal objectives amounted to HRK 1,229.5 million. In 2010 the highest share in sector-specific state aid pertained to transport, shipbuilding and public service broadcasting.

The reported horizontal aid amounted to HRK 1,229.5 million, which was by HRK 32.7 million or 2.7 percent more in comparison with 2009, when state aid for horizontal objectives amounted to HRK 1,196.8 million, or by HRK 77.3 million or 6.7 percent more in comparison with 2008.

Table 10: State aid to industry and services in the period 2008 – 2010

Categories	2008			2009			2010		
	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)	in HRK mill.	in EUR mill.	share (%)
Industry and services	5,946.7	823.3	100.00	5,020.8	684.1	100.00	5,374.6	737.6	100.00
1. Sector-specific aid	4,794.5	663.8	80.62	3,824.0	521.0	76.16	4,145.1	568.9	77.12
2. Horizontal aid	1,152.2	159.5	19.38	1,196.8	163.0	23.84	1,229.5	168.7	22.88
2.1. Horizontal objectives ⁷	662.9	91.8	11.15	658.5	89.7	13.12	636.4	87.3	11.84
2.2. Regional aid	310.9	43.0	5.23	319.4	43.5	6.36	309.2	42.4	5.75
2.3. State aid at local level	178.4	24.7	3.00	218.9	29.9	4.36	283.9	39.0	5.28

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

⁷ Horizontal objectives encompass research and development and innovation, environmental protection and energy saving, small and medium-sized enterprises, employment, training, culture and heritage protection, and support to access to financing during economic and financial crisis.

4.1. HORIZONTAL AID

State aid earmarked for horizontal objectives distorts competition to a lesser extent than state aid earmarked for specific sectors or even individual undertakings, since its purpose is eliminating market failures – in other words, it is focused on the objectives in which the market cannot yield appropriate results. This is state aid earmarked for research and development and innovation, environmental protection and energy saving, small and medium-sized enterprises, training, employment, culture etc.

In the period from 2008 to 2010, horizontal aid, without regional aid and state aid at local level – in other words, the subgroup of state aid which includes aid for the above objectives, recorded a continual decline. In 2010 this state aid amounted to HRK 636.4 million and was lower by HRK 22.1 million, or 3.4 percent in comparison with 2009, when it amounted to HRK 658.5 million, and by HRK 26.5 million or 4 percent in comparison with 2008. The share of this aid category in the total granted state aid in 2010 accounted for 6.8 percent, in 2009 for 7.6 percent, whereas in 2008 this share was 6.9 percent. Its share in GDP in the observed years was from 0.19 to 0.20 percent.

Table 11: Horizontal aid in the period 2008 – 2010 (less regional state aid and state aid at local level)

Horizontal state aid	2008			2009			2010		
	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)
Research and development and innovation	209.5	29.0	0.06	139.1	19.0	0.04	167.6	23.0	0.05
Environmental protection and energy saving	37.2	5.2	0.01	64.6	8.8	0.02	27.3	3.7	0.01
Small and medium-sized-enterprises	172.3	23.9	0.05	228.3	31.1	0.07	170.9	23.5	0.05
Training	68.9	9.5	0.02	53.9	7.3	0.02	48.0	6.6	0.01
Employment	136.4	18.9	0.04	42.6	5.8	0.01	93.1	12.8	0.03
Culture	38.6	5.3	0.01	36.4	5.0	0.01	51.4	7.1	0.02
Support for access to finance during economic and financial crisis	0.0	0.0	0.00	93.6	12.8	0.03	78.1	10.7	0.02
TOTAL	662.9	91.8	0.19	658.5	89.7	0.20	636.4	87.3	0.19

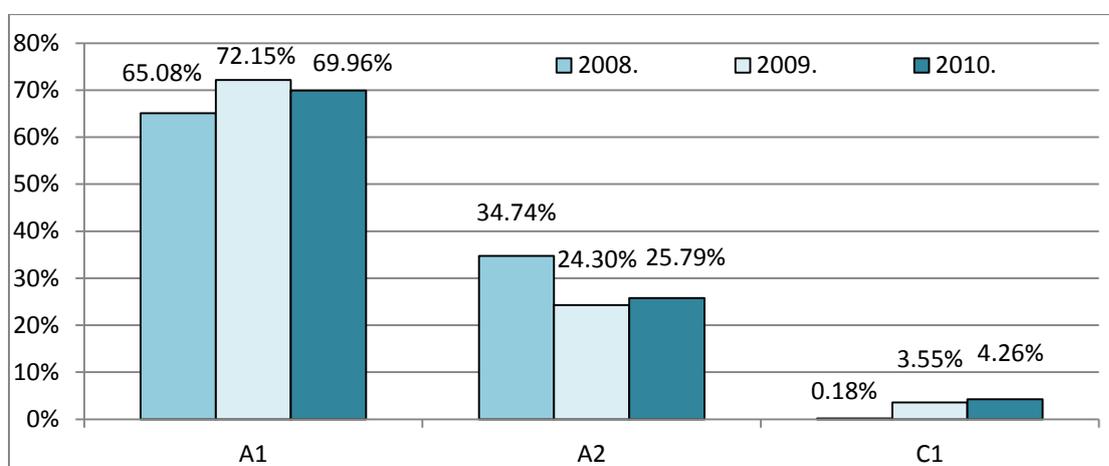
Source: Ministry of Finance, other state aid providers; data processed in CCA

A reduction of horizontal aid in 2010 in comparison with 2009 was mostly a consequence of lower state aid to small and medium-sized enterprises, specifically, by HRK 57.4 million, state aid for environmental protection and energy saving, which was lower by HRK 37.3 million than in 2009, whereas the reduction of state aid for access to finance during economic and financial crisis amounted to HRK 15.5 million, and aid for training dropped by HRK 5.9 million.

Within this subgroup of state aid growth in 2010 was recorded in state aid for research and development and innovation in the amount of HRK 28.5 million, state aid for employment in the amount of HRK 50.5 million and state aid for culture in the amount of HRK 15 million.

In the structure of horizontal state aid in 2010, state aid for small and medium-sized undertakings had the biggest share or almost 27 percent, followed by state aid for research and development and innovation with the share of more than 26 percent, state aid for employment with the share of 14.6 percent, state aid supporting the access to finance in the economic and financial crisis had the share of 12.3 percent, the share of state aid for culture was 8.1 percent, state aid for training the share of 7.5 percent, whereas state aid for environmental protection and energy saving had the lowest share, which accounted for 4.3 percent.

Figure 11: Horizontal aid by instruments⁸ in the period 2008 – 2010 (%)



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

In terms of aid instruments, in 2010 horizontal aid was mostly awarded in the form of grants and tax advantages and relieves. Namely, 70 percent of total state aid granted for horizontal objectives were grants, 25.8 percent was state aid granted in the form of tax relieves, exemptions, debt write-off and exemptions from payment of social security contributions and tax advantages and 4.2 percent in the form of soft loans.

4.1.1. Research and development and innovation

In 2010 state aid for research and development and innovation was awarded in the amount of HRK 167.6 million, which was more by HRK 28.5 million or 20.5 percent in comparison with 2009, but at the same time less by HRK 41.9 million or 20 percent in comparison with 2008. The share of this category of state aid in the total state aid granted for horizontal objectives in 2010 amounted to 26.3 percent, whereas in 2009 this share was smaller and accounted for 21.1 percent, while in 2008 it accounted for 31.6 percent. The share of the above state aid in the total state aid in 2010 was 1.8 percent, whilst its share of GDP accounted for 0.05 percent. The

⁸ A1 grants, A2 tax relieves, exemptions, tax remission and reduction of social contributions and allowances, C1 soft loans.

share of state aid for same category objectives in state aid to industry and services in EU 27 in 2010 accounted for approximately 18 percent, whereas its share in GDP in EU 27 accounted for 0.1 percent⁹.

Table 12: State aid for research and development and innovation in the period 2008 – 2010

Research and development and innovation	2008		2009		2010	
	in HRK mill.	in EUR mill.	In HRK mill.	In EUR mill.	in HRK mill.	in EUR mill.
A1 grants	46.9	6.5	31.6	4.3	51.5	7.1
A2 tax advantages	162.6	22.5	107.5	14.6	116.1	15.9
TOTAL	209.5	29.0	139.1	19.0	167.6	23.0
share (%) in horizontal objectives	31.60		21.12		26.34	
share (%) in the total state aid (less agriculture and fisheries)	3.52		2.77		3.12	
share (%) in the total state aid	2.19		1.60		1.79	
share (%) of GDP	0.06		0.04		0.05	

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

In 2010 state aid for research, development and innovation was granted under the state aid schemes of the Ministry of Science, Education and Sports and on the basis of provisions on tax allowances provided for by the Scientific Activity and Higher Education Act and also the Act on State Aid for Education and Training. State aid pursuant to those acts amounted to HRK 116.1 million. Also, the same Ministry granted state aid in accordance with the Guidelines for encouraging the Programme of the Croatian innovation technology system (TEHCRO, IRCRO, RAZUM, KONCRO), awarding grants in the amount of HRK 47.5 million. Grants were mostly awarded to small undertakings, with the highest amounts utilised by the following undertakings: TGL Stimulacijski servisi d.o.o., Systemcom d.o.o., Iturus sum d.o.o., InfoDom d.o.o., TEB Elektronika d.o.o., Hipersfera d.o.o., Banko d.o.o. and IN2 d.o.o.

The Ministry of Science, Education and Sports awarded through the Business Innovation Centre of Croatia BICRO d.o.o. de minimis aid in the form of grants on the basis of the Proof of concept (PoC) programme, in the amount of HRK 2 million. However, de minimis aid is not considered aid within the meaning of the State Aid Act and is, therefore, not reported in this part of the Report, but in the part pertaining to granting of de minimis aid.

Also, in 2010 the Ministry of Economy, Labour and Entrepreneurship also granted state aid for research and development and innovation in the form of grant in the amount of HRK 4 million under the programme entitled Measures for the promotion of the development and production of equipment for the application of renewable energy sources in the manufacturing industry 2008 - 2010. Grants were awarded to Končar-Institut za elektrotehniku d.d., Solvis d.o.o., Centrometal d.o.o., Đuro Đaković Kotlovi d.o.o., Brini d.o.o., Brodarski institut d.o.o., Elektrokem d.o.o. and others.

⁹ At the March 2002 summit in Barcelona the European Council set the objective of increasing the allocations for research and development to 3 percent of GDP of the EU until 2010, of which two-thirds should be financed from the private sector, and one-third from the public sector.

Rules on granting state aid for research and development and innovation¹⁰

Area of application and objective of state aid

- for fundamental research,
- for industrial research,
- for development research,
- for research and development projects.

Eligible costs

- 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,
- additional overheads and other operating expenses incurred directly as a result of research and development.

Aid amount and aid intensity

- fundamental research up to 100 percent of eligible costs,
- industrial research up to 70 percent of eligible costs for small enterprises, 60 percent for medium-sized enterprises and 50 percent for large enterprises,
- industrial research 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 in relation to eligible costs accounted to up to 80 percent for small enterprises, up to 75 percent for medium-sized enterprises and up to 65 percent for large enterprises,
- development research up to 45 percent of eligible costs for small enterprises, up to 35 percent medium-sized enterprises and up to 25 percent for large enterprises,
- development research in cases of a collaboration between two or more independent undertakings; for transnational projects for a large enterprise with included at least one medium-sized or small enterprise or collaboration of one enterprise with a research organisation, aid intensity in terms of eligible costs amounted to up to 60 percent for small enterprises, up to 50 percent for medium-sized enterprises and up to 40 percent for large enterprises,
- for technical feasibility studies: state aid 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.

4.1.2. Environmental protection and energy saving

In 2010 state aid for environmental protection and energy saving, pursuant to data submitted to the Agency by aid providers, recorded y large drop in comparison with the previous period and amounted to HRK 27.3 million, which was by HRK 37.3 million or 57.7 percent less in comparison with 2009. In comparison with 2008, state aid for environmental protection in 2010

¹⁰ The Decision on the publication of rules on state aid for research and development and innovation was published in Official Gazette No. 84/07.

was lower by HRK 9.9 million, or by 26.6 percent. The share of this state aid in the total state aid granted for horizontal objectives in 2010 accounted for 4.3 percent, whereas this share in 2009 accounted for 9.8 percent. The share of state aid for environmental protection and energy saving in the total state aid in 2010 was 0.3 percent, in state aid for industry and services 0.5 percent, whereas its share of GDP accounted to only 0.01 percent. As an illustration, the share of state aid for environmental protection and energy saving in aid to industry and services in the EU accounted for approximately 24 percent in 2010.

Table 13: Aid for environmental protection and energy saving in the period 2008 – 2010

Environmental protection and energy saving	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	36.0	5.0	62.2	8.5	26.3	3.6
C1 soft loans	1.2	0.2	2.4	0.3	1.0	0.1
TOTAL	37.2	5.2	64.6	8.8	27.3	3.7
share (%) in horizontal objectives	5.61		9.81		4.29	
share (%) in the total state aid (less agriculture and fisheries)	0.63		1.29		0.51	
share (%) in the total state aid	0.39		0.74		0.29	
share (%) of GDP	0.01		0.02		0.01	

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

In terms of aid instruments, in 2010 state aid for environmental protection and energy saving was mostly awarded in the form of grants, which amounted to HRK 26.3 million, whilst the amount of HRK 1 million was granted in the form of soft loans.

In 2010 the Environmental Protection and Energy Efficiency Fund provided state aid under state aid schemes in the area of environmental protection, more specifically, for remediation of hazardous waste landfills, environmental hot spots pursuant to the Environmental Protection Act in the amount of HRK 5.6 million, with state aid granted to undertakings Koksar d.o.o. Bakar and Tvornica elektroda i ferolegura d.d. TEF Šibenik. Also, the Environmental Protection and Energy Efficiency Fund, under a programme entitled Protection and conservation of biological and landscape diversity awarded state aid in the amount of HRK 278,331 to undertakings Nacionalni park Brijuni Fažana and the catering firm Ugostiteljski obrt „Pavićeve Mlinice" Trogir.

In 2010 the Ministry of Economy, Labour and Entrepreneurship continued granting state aid to the undertaking Koksar d.o.o. Bakar for the dismantling of industrial plant, for which one-half million HRK was allocated.

The biggest amounts of state aid for environmental protection in 2010 were granted on the basis of the Programme of shipbuilding for Croatian ship operators in the period from 2007 to 2011 in the amount of HRK 21 million. Undertakings granted the above funds were Uljanik plovidba d.d. Pula, Tankerska plovidba d.d. Zadar and Jadroplov d.d. Split.

Besides the state aid for environmental protection and energy saving indicated above, the Environmental Protection and Energy Efficiency Fund granted HRK 13.6 million in de minimis aid for the same purposes, but in limited amounts per individual beneficiary.

Since the Agency has not been notified of any other programme that would promote in a quality manner, modelled by programmes in other European countries, waste management projects, projects dealing with use of alternative energy sources or energy savings by using state aid, it can be concluded that in Croatia there is still not sufficient awareness of the need for granting state aid to undertakings for the objectives indicated. Some EU Member States, for example Sweden, Finland or Slovenia, earmark the largest shares of state aid particularly for environmental protection, and also rules on granting state aid for these purposes in the EU, and also in the Republic of Croatia, enable significant expenditures in particular for these purposes.

Rules on granting state aid for environmental protection and energy saving¹¹

Area of application and objective of state aid

State aid for environmental protection and energy saving may be awarded for the following purposes: 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.

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.

State aid to undertakings that exceed environmental standards or enhance 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.

Eligible costs

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, while eligible costs of aid for relocation of an undertaking pertain to the difference of revenue and expenditures connected with abandoning of the plant or acquisition or construction of a new one.

Aid amount and aid intensity

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

¹¹ The Decision on the publication of the rules on state aid for environmental protection was published in Official Gazette No. 154/08.

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 and 20 percentage points for medium-sized enterprises and for small enterprises, respectively. 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 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.

4.1.3. Employment

In 2010 state aid for employment amounted to HRK 93.1 million, an increase of HRK 50.5 million or by 118.5 percent in comparison with 2009, but still less than in 2008, when it amounted to HRK 136.4 million. The share in the total state aid granted for horizontal objectives in 2010 amounted to 14.6 percent, which was significantly more than in 2009, when this share was 6.5 percent, and less than in 2008 (20.6 percent). The share of state aid for employment in the total state aid in 2010 accounted for approximately 1 percent, whereas the share of state aid in GDP was 0.03 percent.

Table 14: State aid for employment in the period 2008 – 2010

Employment	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	u mln EUR	in HRK mill.	u mln EUR
A1 grants	132.2	18.3	40.5	5.5	93.1	12.8
A2 tax advantages	4.2	0.6	2.1	0.3	0.0	0.0
TOTAL	136.4	18.9	42.6	5.8	93.1	12.8
share (%) in horizontal objectives	20.58		6.47		14.63	
share (%) in the total state aid (less agriculture and fisheries)	2.29		0.85		1.73	
share (%) in the total state aid	1.43		0.49		0.99	
share (%) of GDP	0.04		0.01		0.03	

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

In terms of aid instruments, in 2010 state aid for employment was granted exclusively through grants.

In 2010 aid providers for employment were the Croatian Employment Service, the Fund for Professional Rehabilitation and Employment of Disabled Persons and the Ministry of the Economy, Labour and Entrepreneurship. Namely, the Croatian Employment Service provided HRK 68.7 million in grants under the National employment implementation plan for 2009 through 2010, pursuant to the Act on employment mediation and rights during unemployment.

The Fund for Professional Rehabilitation and Employment of Disabled Persons awarded grants for employment in the amount of HRK 23.3 million on the basis of the Decision on eligibility criteria for employment incentives for disabled persons to the undertakings such as URIHO, DES Split, INA d.d., Geneza d.o.o., Suvenir Arbor Vitae d.o.o., Podravka d.d., Privredna banka Zagreb d.d., Belišće d.d., Biokalnik – IPA, Franck d.d. and others.

Pursuant to the Investment Promotion Act, whose implementation is in the competence of the Ministry of the Economy, Labour and Entrepreneurship, state aid for employment was provided in the form of grants in the amount of HRK 1 million to undertakings Alca Zagreb d.o.o., Elektrotermički sustavi d.o.o., Tubla d.o.o., Magma d.o.o., Spectra - media d.o.o. and Galko d.o.o.

In 2010 de minimis aid for employment was also provided, more specifically, as follows: the Fund for Professional Rehabilitation and Employment of Disabled Persons, through grants in the amount of HRK 16.5 million, the Ministry of Family, Veterans' Affairs and Intergenerational Solidarity awarded HRK 6.8 million in grants on the basis of the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011, whilst the Croatian Pension Insurance Institute awarded HRK 168,700 in the form of reduction, relieves, advantages, exemptions and exclusion from payment of social security contributions for employed workers working for natural persons.

Rules on granting state aid for employment ¹²
Area of application and objective of state aid
<i>State aid for employment 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.</i>
<i>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.</i>
Eligible costs
<i>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.</i>
Aid amount and aid intensity
<i>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 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 of eligible costs.</i>

¹² The Decision of the publication of rules on block exemptions in the area of state aid was published in Official Gazette No. 37/09.

4.1.4. Small and medium-sized enterprises

In 2010 state aid to small and medium-sized enterprises was granted in the amount of HRK 170.9 million, which was by HRK 57.4 million or 25.1 percent less in comparison with 2009, and less by HRK 1.4 million in comparison with 2008.

Table 15: State aid to small and medium-sized enterprises in the period 2008 – 2010

Small and medium-sized enterprises	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	172.3	23.9	208.8	28.4	158.8	21.8
C1 soft loans	0.0	0.0	19.5	2.7	12.1	1.7
TOTAL	172.3	23.9	228.3	31.1	170.9	23.5
share (%) in horizontal objectives	25.99		34.67		26.85	
share (%) in the total state aid (less agriculture and fisheries)	2.90		4.55		3.18	
share (%) in the total state aid	1.80		2.63		1.82	
share (%) of GDP	0.05		0.07		0.05	

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

In 2010 the share of state aid to small and medium-sized enterprises in the total state aid for horizontal objectives accounted for 26.9 percent, whilst this share in 2009 accounted for 34.7 percent, and 26 percent in 2008. The share of state aid to small and medium-sized enterprises in the total state aid in 2010 accounted for 1.8 percent, whereas its share in GDP was 0.05 percent.

In terms of instruments, in 2010 state aid to small and medium-sized enterprises to small and medium-sized enterprises was mostly awarded as grants, which amounted to HRK 158.8 million or 92.9 percent, whereas HRK 12.1 million or 7.1 percent was granted in the form of soft loans.

The largest aid providers to small and medium-sized enterprises were the Croatian Bank for Reconstruction and Development, the Ministry of the Economy, Labour and Entrepreneurship and the Ministry of Regional Development, Forestry and Water Management.

Namely, on the basis of the Ordinance on the basic financing criteria for specific target groups the Croatian Bank for Reconstruction and Development awarded HRK 12.1 million of state aid, either through grants or through soft loans. On the basis of the Ordinance state aid was granted through a number of programmes, such as the Programme for providing loans to businesses, the Programme for providing loans to start-up enterprises, the Programme for providing loans for projects to candidates for IPARD Measure 1.1. and Measure 1.2., the Programme for providing loans for projects of environmental protection, energy efficiency and renewable energy sources, the Programme for providing loans to small and medium-sized enterprises, the Programme for

providing loans for development of islands and other programmes. Also, pursuant to the above Ordinance on the basic financing criteria for specific target groups another HRK 70 million of state aid was granted. A number of undertakings used the opportunities provided for by this Ordinance, such as Eurocable Group d.d., Strizivojna hrast d.o.o., Salve Regina - Marija Bistrica d.o.o., Biranj d.o.o., Zdenka - mliječni products d.o.o., Olympia Vodice d.d., Gea - tvornica ulja d.o.o., Oaza dom d.o.o., Odašiljači i veze d.o.o., Dina - Petrokemija d.d., Furnir otok d.o.o., Sladorana d.d., Krauthaker d.o.o., Congama d.d., Laguna Newgrad d.d. and others.

The Ministry of Regional Development, Forestry and Water Management awarded grants to small and medium-sized enterprises under two aid schemes: under the Operational programme for development of industrial wood processing of the Republic of Croatia from 2006 to 2010 in the total amount of this Ministry awarded HRK 65 million in grants to undertakings from the area of wood industry for technological upgrading of production, so the beneficiaries of this state aid were, for instance, Valis Fagus d.o.o., AG Dinas d.o.o., Bilocalik - Drvo d.o.o., DI Čazma d.o.o., DI Klana d.d., Drvoproizvod d.d., Drvenjača d.d. and others. The objective of the above state aid scheme is to multiply the value of wood raw material through products with a high level of finalisation characterised by high quality, design and recognisability, while the production of finished products will lead to an increase in their shares and competitiveness on the market, increase employment and retaining the population in rural areas and promoting development and protection of the national industrial wood processing. Another objective is adaptation of obsolete technological plants to new technologies in the area of environmental protection and further development of environmentally friendly industry.

At the same time, under the Social and economic recovery project covering the areas of special state in the Republic of Croatia HRK 24.2 million was awarded in grants to undertakings Tušak d.o.o., Elatio d.o.o., Nileks d.o.o., Furnir Otok d.o.o., Probis d.o.o., Agrobiv d.o.o., Eko gradnja d.o.o., Konavle metal d.o.o., Autotransport Slunj and others. The development objective of the project is support to economic and social revival of disadvantaged and war affected areas focusing on strengthening social cohesion, which was consistent with the Government's EU accession plan.

Like in the previous period, state aid to small and medium-sized undertakings in 2010 were also awarded through de minimis aid in the total amount of HRK 122.9 million.

For example, the Ministry of the Economy, Labour and Entrepreneurship granted de minimis aid upon the adoption of the Operational plan for the promotion of SMEs for 2010, the Ministry of Culture granted state aid pursuant to the Operational plan for the promotion of SMEs for 2010 (Entrepreneurship in culture), whereas the Croatian Agency for SMEs awarded state aid pursuant to aid schemes Strengthening of the competitiveness of small businesses, Entrepreneurship support institutions, Entrepreneurship of the youth, beginner entrepreneurs and disabled persons, Women entrepreneurship, Ordinance on HAMAG guarantees, Training program and development of consultancy network for small businesses, Development of trades and crafts and Cooperative entrepreneurs.

Rules on granting state aid for small and medium-sized enterprises¹³**Area of application and objective of state aid**

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 contribute to economic development also 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 for promotion of investments and employment, consultancy services and participation in fairs and exhibitions.

Eligible costs

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.

Aid amount and aid intensity

The allowed maximum aid intensity (aid ceiling) 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. If the undertaking is situated in a region that may be awarded to regional aid, aid intensity is increased to the amount specified by the regional aid map.

4.1.5. Training

In 2010 state aid for training amounted to HRK 48 million, and was lower by HRK 5.9 million or 11 percent in comparison with 2009, while in comparison with 2008 it was lower by HRK 20.9 million or 30.3 percent. The share of state aid for training in the total granted horizontal state aid accounted for 7.5 percent, and in the total state aid its share was 0.5 percent, whereas its share in GDP accounted for 0.01 percent.

Table 16: State aid for training in the period 2008 – 2010

Training	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.

¹³ The Decision of the publication of rules on block exemptions in the area of state aid was published in Official Gazette No. 37/09.

A1 grants	5.4	0.7	3.5	0.5	0.0	0.0
A2 tax advantages	63.5	8.8	50.4	6.9	48.0	6.6
TOTAL	68.9	9.5	53.9	7.3	48.0	6.6
share (%) in horizontal objectives	10.39		8.19		7.54	
share (%) in the total state aid (less agriculture and fisheries)	1.16		1.07		0.89	
share (%) in the total state aid	0.72		0.62		0.51	
share (%) of GDP	0.02		0.02		0.01	

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

In terms of aid instruments, in 2010 state aid for training was granted in the form of tax advantages pursuant to the Act on State Aid for Education and Training¹⁴. Particularly pursuant to this Act the total amount of HRK 48million state aid was granted for training.

Rules on granting state aid for training
Area of application and objective of state aid <i>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.</i>
Eligible costs <i>When a project covers both 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.</i>
Aid amount and aid intensity <i>Aid intensity ceiling 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.</i>

4.1.6. Culture

State aid to promote culture recorded growth in 2010, reaching the amount of HRK 51.4 million, and in comparison with 2009 it is more by HRK 15 million or 41.2 percent. In comparison to 2008 state aid to culture was higher by HRK 12.8 million or 33.2 percent.

¹⁴ The Act on State Aid for Education and Training was published in Official Gazette, No. 109/07, 134/07 and 152/08.

Table 17: State aid to promote culture in the period 2008 – 2010

Culture	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	38.6	5.3	36.4	5.0	51.4	7.1
TOTAL	38.6	5.3	36.4	5.0	51.4	7.1
share (%) in horizontal objectives	5.82		5.53		8.08	
share (%) in the total state aid (less agriculture and fisheries)	0.65		0.72		0.96	
share (%) in the total state aid	0.40		0.42		0.55	
share (%) of GDP	0.01		0.01		0.02	

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

The share of state aid to promote culture in the total horizontal objectives accounted to 8.1 percent in 2010, and, as indicated by data in Table 17, in 2009 this share accounted for 5.5 percent, while in 2008 it was 5.8 percent. The share of state aid to promote culture in the total state aid in 2010 accounted for approximately 0.6 percent, while its share in GDP was 0.02 percent.

State aid was awarded exclusively in the form of grants.

According to the data submitted by aid providers, state aid in the area of culture is awarded by the Ministry of Culture and the Croatian Audiovisual Centre. The Ministry of Culture subsidised aid beneficiaries according to the conditions and criteria from the Programme for the financing of publishers in 2010, awarding HRK 15.9 million in state aid for publishing of books and magazines, financing literary events etc. State aid beneficiaries under this aid scheme were undertakings Zajednica nakladnika i knjižara Grupacija nakladnika hrvatske knjige, HKZ Hrvatsko slovo d.o.o., Matica hrvatska Zagreb, Profil multimedija d.o.o., Fraktura d.o.o., Naklada Ljevak d.o.o., V.B.Z. d.o.o. and others.

In 2010 the Croatian Audiovisual Centre awarded HRK 35.5 HRK million in grants under the aid scheme Film and Cinematography to undertakings Kinorama d.o.o., Ars Septima, Mainframe - Zagreb d.o.o., Hrvatski filmski savez, Formula film, Hula Hop d.o.o., Inter film d.o.o., Bonobo Studio d.o.o., Propeler film d.o.o. and others.

Rules on granting state aid to promote culture

Area of application and objective of state aid

- promoting culture and heritage preservation¹⁵, as well as the promotion of audiovisual and cinematography industry¹⁶.

Eligible costs and aid intensity

- 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

¹⁵ In compliance with the Regulation of State aid published in Official Gazette, No. 121/03.

¹⁶ 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.

Croatian culture;

- 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.

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

On the basis of 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) existing rules on state aid were partially amended in order to facilitate business operations during the economic crisis and mitigate its consequences.

In 2010 state aid for access to finance during economic and financial crisis amounted to HRK 78.1 million, and it was lower by HRK 15.5 million or 16.6 percent in comparison with 2009. The said state aid has the share of 12.3 percent in the total horizontal state aid in 2010, whereas in 2009 this share accounted for 14.2 percent. Its share in the total state aid in 2010 was 0.8 percent, while the share of this category of state aid in GDP accounted for 0.02 percent.

Table 18: State aid supporting access to finance in the current financial and economic crisis in the period 2008 – 2010

Support to access to finance during crisis	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	0.0	0.0	92.1	12.5	64.1	8.8
C1 soft loans	0.0	0.0	1.5	0.2	14.0	1.9
TOTAL	0.0	0.0	93.6	12.8	78.1	10.7
share (%) in horizontal objectives	0.00		14.21		12.27	
share (%) in the total state aid (less agriculture and fisheries)	0.00		1.86		1.45	
share (%) in the total state aid	0.00		1.08		0.83	
share (%) of GDP	0.00		0.03		0.02	

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

In terms of aid instruments, state aid supporting access to finance was mainly awarded as grants, and less through soft loans. In 2010 HRK 64.1 million was awarded in grants, and HRK 14 million in soft loans.

Aid providers who used less strict state aid rules to mitigate the negative impacts of the financial and economic crisis were the Environmental Protection and Energy Efficiency Fund and the

Croatian Bank for Reconstruction and Development, together with the Ministry of Finance and the Ministry of the Economy, Labour and Entrepreneurship. The Environmental Protection and Energy Efficiency Fund pursuant to the measures from the Decision on the Measures of the Temporary framework and 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, in 2010 awarded HRK 29.9 million in grants to beneficiaries in the field of road transport.

The Croatian Bank for Reconstruction and Development and the Ministry of Finance granted state aid consistent with the rules from the Decision on the Measures of the Temporary framework in 2010 in the total amount of HRK 48.2 million, of which HRK 34.2 million in the form of grants and HRK 13.9 million in the form of soft loans.

Also, under the Aid scheme for providing loans for permanent working capital for enhancement of business operations HRK 18.6 million was awarded in funds in the form of loans with favourable interest rates (below the market interest rates), with state aid beneficiaries of this aid scheme encompassing Milenij Hoteli d.o.o., Hup-Zagreb d.d., Keramika Modus d.o.o., Zvečevo d.d., Megst d.o.o., Riječka industrija odjeće d.o.o., Feroimpex automobilska tehnika d.o.o., Itas - Prvomajska d.d. and others.

HRK 24.7 million was granted under the Aid scheme for providing loans for permanent working capital, to undertakings Adriatica.Net d.o.o., Agro - Rijeka d.o.o., Crosco d.o.o., Petrokemija d.d., Adria d.d., Tehnika d.d., Belišće d.d., Samoborka d.d., Jedinstvo d.d., Medika d.d., Tehnika d.d., Istravino d.d., Kraš d.d. and others.

Aid scheme for providing loans for financial restructuring provided HRK 4.9 million, aid beneficiaries of this aid scheme being Etna Trading d.o.o., Stipex - Mesna Industrija d.o.o. and Tofrado d.o.o.

Rules on granting state aid to support access to finance in the current financial and economic crisis

Area of application and objective of state aid¹⁷

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.

¹⁷ The Decision on the publication of rules of the Temporary framework for the state aid measures to support access to finance in the current financial and economic crisis, Official Gazette No. 56/09).

4.2. Regional aid

In 2010 regional aid amounted to HRK 309.2 million, and was lower by HRK 10.2 million or 3.2 percent in comparison with 2009, when it amounted to HRK 319.4 million.

Table 19: Regional aid in the period 2008 – 2010

Regional aid	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
Regional aid	310.9	43.0	319.4	43.5	309.2	42.4
share (%) in the total state aid (less agriculture and fisheries)	5.23		6.36		5.75	
share (%) in the total state aid	3.25		3.67		3.30	
share (%) of GDP	0.09		0.10		0.09	

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

The amount of state aid earmarked for regional development in the previous three years, as indicated by Table 19, was somewhat higher than HRK 300 million, and its share in the total state aid amounted to somewhat more than 3 percent, and approximately 5.8 percent in the total state aid earmarked for the industry and services sector. In the EU 27 regional aid is of exceptionally great importance as it promotes investments and employment in areas less developed in comparison with average development in the EU (measured by the level of GDP). Therefore, this category of state aid accounted for almost 25 percent in the total granted state aid for industry and services in the EU in 2010.

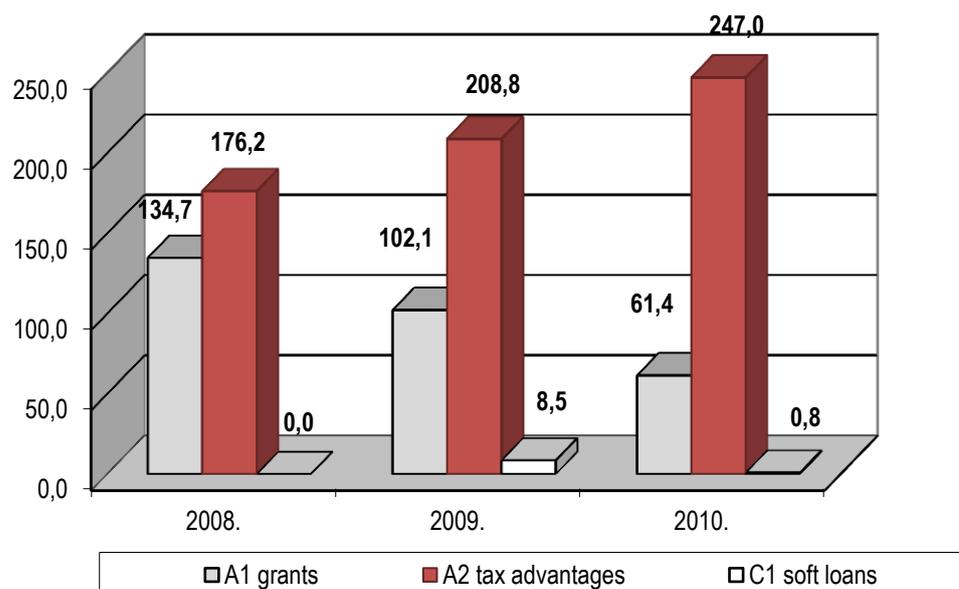
Table 20: Regional aid by instruments 2008 – 2010 (HRK mill.)

Instrument	2008	2009	2010
A1 grants	134.7	102.1	61.4
A2 tax advantages	176.2	208.8	247.0
C1 soft loans	0.0	8.5	0.8
TOTAL	310.9	319.4	309.2

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

Regional aid in 2010 was mostly granted in the form of tax advantages, more precisely, in the amount of HRK 247 million (80 percent), followed by grants in the amount of HRK 61.4 million (19.8 percent) and in the form of soft loans, HRK 0.8 million.

Figure 12: Regional aid by instruments 2008 - 2010 (in HRK mill.)



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

State aid earmarked for regional development in the Republic of Croatia is mostly regulated by special regulations (the Investment Promotion Act) and state aid schemes, and only exceptionally was it awarded as individual state aid.

According to submitted data, in 2010 regional state aid providers were the Croatian Bank for Reconstruction and Development, the Ministry of the Economy, Labour and Entrepreneurship, and the Croatian Agency for Postal Services and Electronic Communications.

For instance, the Croatian Agency for Postal Services and Electronic Communications provided grants in the amount of HRK 1.4 million on the basis of the Decision on the conditions and criteria for the award of incentives for the development of broadband infrastructure in areas where there is not sufficient interest in development and investment into broadband internet access infrastructure to the undertaking Odašiljači i veze d.o.o., Zagreb.

Further, the Croatian Bank for Reconstruction and Development awarded regional aid in the amount of HRK 28 million in soft loans, in compliance with the Ordinance on basic requirements for the financing of specific target groups pursuant to under the Programme for providing loans to businesses and the Loan programme for the tourist sector.

There was a large number of undertakings which were beneficiaries of the state aid from the above Ordinance and specific aid schemes that it contains. Those were, for example, Eurocable Grupa d.d., Zagreb, DINA - Petrokemija d.d., Omišalj, Sladorana d.d., Županja, Odašiljači i veze d.o.o., Zagreb. Under the Loan programme for environmental protection, energy efficiency and renewable energy sources projects, HRK 6.3 million was awarded in state aid to undertakings Kalos, Vela Luka and Strizivojna hrast d.o.o., Strizivojna. Tourist activity received somewhat more than HRK 5 million pursuant to the Loan programme for the tourist sector.

The Ministry of the Economy, Labour and Entrepreneurship granted regional aid under several aid schemes. The total amount of funds earmarked for those purposes amounted to HRK 279.8 million.

In conformity with the Operating state aid scheme for sustaining the competitiveness of textile industry, leather industry and leather products for 2010, this Ministry awarded grants in the amount of HRK 14.3 million. The Operating state aid scheme was envisaged as a measure for growth of demand, preservation of jobs and new investments to attain long-term sustainability, and it is planned that this aid scheme will promote launching of investment projects which will have a positive impact on strengthening of competitiveness of textile industry, leather industry and leather products, ensure job creation related to start-up investments and it was provided for as one of the measures for eliminating serious difficulties in the economy emerging due to the economic and financial crisis. There were many beneficiaries of state aid, e.g.: Čateks d.d., Psunj d.d., Arena modna kuća d.o.o., Lola Ribar d.d., T7 Vis d.o.o., Bulgari Filati d.o.o., Zlatna igla - Siscia d.o.o., Galko d.o.o., Neda Senj d.o.o., Galeb d.d., Penić Textil export import d.o.o., Kotka d.d., itd.

In 2010 the same Ministry also awarded grants in the amount of HRK 6.8 million under the Operating state aid scheme for the production of chemicals and chemical products, production of basic pharmaceuticals and pharmaceutical preparations, production of rubber and plastic products and production of other non-metal mineral products. The objective and purpose of this aid scheme is more efficient production, since the funds will be invested into machinery and equipment, which will bring about a change in the structure of the production, with focus on higher quality and price ranges, continual technological modernisation of production and application of transferred innovations and own know-how, specialisation and connecting of undertakings in the value-added chain, and organisation of the clusterisation of the activity on identified and adopted cluster activity centres/hubs (*čvorišta zajedništva*), as provided for by the strategic determinants. The beneficiaries of this aid scheme, despite relatively small funds, were Belupo d.d. Koprivnica, Chromos boje i lakovi d.d. Zagreb, Bifix d.o.o. Buje, New Forma d.o.o. Zagreb, Saponia d.d. Osijek, Muraplast d.o.o. Kotoriba, Jadran Galenski Laboratorij d.d. Rijeka, itd..

Also, under the Operating state aid scheme for sectors of production of electronic and optical products, electrical equipment, machines and devices, motor vehicles, trailers and semi-trailers for 2010, the Ministry awarded grants in the amount of HRK 6.1 million to large number of undertakings, such as: P.P.C. Buzet d.o.o. Buzet, Ericsson Nikola Tesla d.d. Zagreb, Končar - kućanski aparati d.o.o. Zagreb, Dekor tvornica rasvjete d.o.o. Zabok, Dese elettronica d.o.o. Newgrad, TTO thermotechnik d.o.o. Dražice, Specijalna oprema Lučko d.o.o. Donji Stupnik, Hydromat inženjering d.o.o. Ivanec, Labinprogres tps d.o.o. Labin, itd. The objective of the aid scheme was to promote the development of the manufacturing industry, increase its share in the gross domestic product of the Republic of Croatia, and increase employment and create the prerequisites for an even regional development.

In 2010 the Ministry also adopted the Operating state aid scheme for the development of production of metals and finished metal products in 2010, which was the basis for awarding of grants in the amount of HRK 5.6 million to undertakings such as: Omco Croatia d.o.o. Hum na Sutli,

PK d.o.o. Škrnjevo, Pluto d.d. Hrvatski Leskovac, Metal Product d.o.o. Zagreb, Hittner d.o.o. Bjelovar, Kordun Alati d.o.o. Karlovac, Metalska industrija Varaždin d.d. Varaždin and others. The objective of the above aid scheme was changing the structure of the production, with focus on higher quality and price ranges, continual technological modernisation of production and application of international standards and own know-how, adaptation of staffing structure to new technologies and specialisation and agglomeration of companies around implementing agents of development.

The possibility of utilisation of regional state aid for new investments and promoting employment is regulated by the Investment Promotion Act as well. Pursuant to this Act in 2010 it was possible to utilise HRK 247 million in state aid in the form of tax advantages.

Rules on granting regional state aid¹⁸

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. 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 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

¹⁸ The Decision on the publication of the rules on regional aid was published in Official Gazette No. 58/08.

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.

4.3. State aid at local and regional level

The Agency collects data on granted state aid at the level of local and territorial (regional) self-government units. Although local and regional self-government units have at their disposal significantly lower funds for activities aimed at supporting economic development in comparison with central government bodies, those funds may actively support the development of entrepreneurship, particularly in terms of improving and upgrading entrepreneurial infrastructure and other conditions which provide for facilities for the performance of a specific production or service activity, access to financing of start-up activities of undertakings etc.

Data on granted state aid for 2010 were submitted by all counties (21), including the City of Zagreb, 111 cities (of the total of 126) and 353 municipalities (of the total of 429). Data on state aid were not submitted by the following cities: Dubrovnik, Ilok, Klanjec, Krapina, Metković, Novi Vinodolski, Opuzen, Oroslavlje, Ploče, Pregrada, Rovinj, Skradin, Šibenik, Zabok and Zlatar, and 76 municipalities did not submit data either. It may be assumed that those that did not submit data do not grant state aid within the meaning of the State Aid Act.

Namely, the highest share of budgetary funds of local and regional self-government units, particularly small ones, 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.

In 2010, however, for objectives and purposes that constitute state aid within the meaning of the State Aid Act, local and territorial (regional) self-government units set aside HRK 283.9 million, which was by HRK 65 million or 30 percent more in comparison with 2009. The increase in comparison with 2008 is even more significant and amounted to HRK 105.5 million or 59 percent. The share of state aid granted at the level of local and territorial (regional) self-government units in the total state aid in 2010 was 3 percent, while their share in state aid pertaining to horizontal objectives was 23.1 percent.

Table 21: State aid granted at local level by instruments in the period 2008 – 2010

State aid at local level	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	149.8	20.7	200.8	27.4	242.9	33.3
A1 direct subsidised interest	0.0	0.0	0.0	0.0	18.2	2.5
B1 equity participation	5.1	0.7	2.0	0.3	3.5	0.5
D guarantees	23.5	3.3	16.1	2.2	19.3	2.6
TOTAL	178.4	24.7	218.9	29.8	283.9	39.0
share (%) in the total state aid (less agriculture and fisheries)	3.00		4.36		5.28	
share (%) in the total state aid	1.87		2.52		3.03	
share (%) in GDP	0.05		0.07		0.08	

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

A significant growth of state aid at the level of local and territorial (regional) self-government units was partially a consequence of the actual increase in funds earmarked for the growth of businesses, and partially a consequence of stricter discipline of aid providers, i.e., counties, cities and municipalities which, nevertheless, do respond to the request of the Agency and submit more regularly the requested reports on granted state aid. For instance, in 2008 3 counties, 23 cities and 70 municipalities failed to submit the requested data, whilst in 2009 and particularly in 2010 this turnout was much better.

In terms of aid instruments, in 2010 local and regional self-government units awarded state aid mainly through grants (HRK 242.9 million or 85.6 percent), followed by guarantees (HRK 19.3 million or 6.8 percent), subsidised interests in the amount of HRK 18.2 million (6.4 percent) and through capital investments or equity participation in the amount of HRK 3.5 million (1.2 percent).

The biggest individual aid provider at the level of local self-government units was still the City of Zagreb, which, among other things, in 2010 granted HRK 54.9 million to the undertaking Arena Zagreb d.o.o., Hrvatske željeznice d.o.o. HRK 81.1 million, while providing the amount of HRK 5.3 million to small undertakings through the aid scheme „Local development project – undertaking“.

4.4. Sector-specific aid

The total amount of state aid earmarked for specific industry and services sectors in 2010 was HRK 4,145.1 million, which was by HRK 321.1 million or 8.4 percent more in comparison with 2009, when it amounted to HRK 3.824 billion, and by HRK 649.4 million or 13.5 percent less than in 2008, when it amounted to HRK 4,794.5 million. As already mentioned, the share of sector-specific state aid in the total state aid accounted for 44.2 percent, and in the state aid to the industry and services sector, 77 percent. The share of sector-specific state aid in GDP amounted to 1.24 percent.

Table 22: Sector-specific aid in the period 2008 – 2010

Specific sectors	2008			2009			2010		
	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)	in HRK mill.	in EUR mill.	share of GDP (%)
Steel production	0.0	0.0	0.00	2.2	0.3	0.00	0.0	0.0	0.00
Transport	1,452.8	201.1	0.42	1,309.2	178.4	0.39	1,524.5	209.2	0.46
Shipbuilding	1,892.1	261.9	0.55	1,152.7	157.1	0.34	1,244.0	170.7	0.37
Tourism	171.5	23.7	0.05	164.5	22.4	0.05	157.7	21.6	0.05
Public service broadcasting	1,068.5	147.9	0.31	1,133.1	154.4	0.34	1,182.5	162.3	0.35
Other sectors	134.7	18.6	0.04	59.4	8.1	0.02	8.6	1.2	0.00
Rescue and restructuring	74.9	10.4	0.02	2.9	0.4	0.00	27.8	3.8	0.01
Total	4,794.5	663.8	1.39	3,824.0	521.0	1.14	4,145.1	568.9	1.24

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

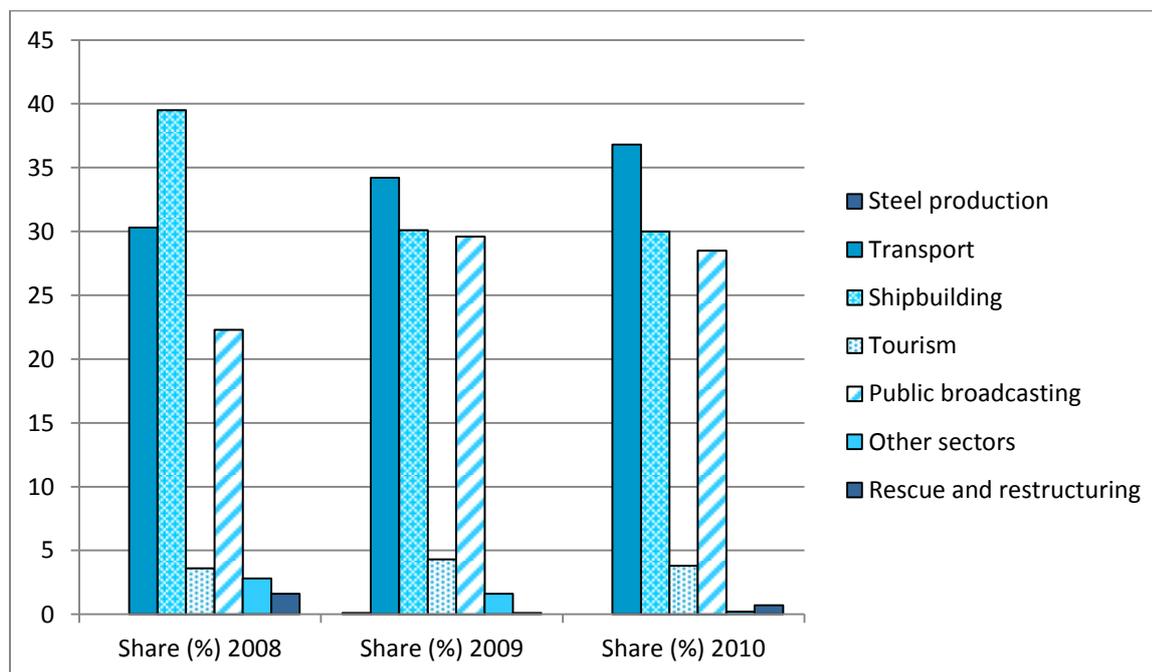
The biggest allocations and the largest share in sector-specific state aid pertains to the transport sector, which in 2010 was awarded HRK 1,524.5 million in state aid. The largest beneficiary of state aid in this sector is railway transport, which was granted HRK 849.7 million in state aid (55.7 percent), followed by maritime transport with the amount of state aid of HRK 378.8 million (24.9 percent), and air transport with the amount of state aid of HRK 296 million (19.4 percent).

The shipbuilding sector was awarded state aid in the amount of HRK 1,244 million, whereas provision of public television services, i.e., public service broadcasting, received HRK 1,182.5 million of provided state aid.

Of other economic sectors tourism stands out with provided HRK 157.7 million in state aid.

HRK 27.8 million was granted for rescue and restructuring of undertakings in difficulty, whereas other sectors received HRK 8.6 million.

Figure 13: Structure of state aid granted to specific sectors in the period 2008 – 2010 (%)



Observed by aid instruments, the prevailing instrument of sector-specific state aid was grants, amounting to HRK 2,444.2 million, or 59 percent of the provided state aid, followed by state guarantees with the amount of HRK 1,683 million (41 percent).

4.4.1. Transport

State aid granted to the transport sector in 2010 was higher by HRK 215.3 million or 16.5 percent in comparison with 2009, when it amounted to HRK 1,309.2 million. Growth of state aid to transport was somewhat lower in comparison with 2008, when it amounted to HRK 1,452.8 million. The share of state aid to the transport sector in 2010 in the total state aid in 2010 was 16.3 percent, while in state aid to the industry and services sector it accounted for 28.4 percent, whereas its share in GDP amounted to 0.46 percent.

Table 23: State aid to the transport sector in the period 2008 – 2010

Transport	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
Railway transport	857.2	118.7	709.5	96.7	849.7	116.6
Maritime transport	495.7	68.6	416.6	56.8	378.8	52.0
Air transport	99.9	13.8	183.1	24.9	296.0	40.6
TOTAL	1,452.8	201.1	1,309.2	178.4	1,524.5	209.2
share (%) in specific sectors	30.30		34.24		36.78	
share (%) in the total state aid (less agriculture and fisheries)	24.43		26.08		28.36	
share (%) in the total state aid	15.19		15.06		16.25	
share (%) of GDP	0.42		0.39		0.46	

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

In 2010 state aid to the transport sector was mostly awarded in the form of grant, with the share of 80 percent, whereas state aid awarded in the form of guarantees has a share of 20 percent.

Table 24: State aid to transport by instruments in the period 2008 – 2010 (HRK mill.)

	2008	2009	2010
A1 grants	1,048.6	1,215.3	1,214.9
B1 equity participation	404.2	0.0	0.0
D guarantees	0.0	93.9	309.6
Total	1,452.8	1,309.2	1,524.5

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

As already mentioned, the largest amount of state aid to the transport sector in 2010 pertained to the railway transport (HRK 849.7 million), the maritime transport activity (HRK 378.8 million) and air transport activity (HRK 296 million).

State aid awarded to **rail transport** was higher by HRK 140.2 million or 20 percent in comparison with 2009, when it amounted to HRK 709.5 million. State aid for railway transport accounted for 9 percent in the total granted state aid in 2010.

By aid instruments, state aid awarded to rail transport in 2009 and 2010 was awarded in the form of grants pursuant to the Programme for the promotion of the railway, passenger and combined transport, whereas in previous years it had been granted as capital investments as well. In 2010, under the above Programme HRK 709.7 million was awarded in grants, in which the amount of HRK 396 million pertained to promoting passenger and combined transportation. The amount of HRK 313.7 million was granted by the Ministry of the Sea, Transport and Infrastructure for the implementation of the Programme of Restructuring and Modernisation of Railways.

Also, in 2010 the Ministry of Finance also issued state guarantees in the amount of HRK 140 million, to undertakings HŽ Cargo d.o.o. and HŽ Vuča vlakova d.o.o.

It should be noted that significantly more funds from the State budget were granted to Hrvatske željeznice in the observed period. However, as those funds were earmarked for renovation and modernisation of infrastructure intended for all actual and potential beneficiaries and future operators on this market, those funds are not considered state aid. Although this market has not been liberalised as yet, it is exclusively Hrvatske željeznice that benefits from these investments.

Besides the funds from the State budget, in 2010 railways were also granted state aid by local and territorial (regional) self-government units in the amount of HRK 81 million.

State aid for other **land transport** (road and river transport) was awarded in the amount of HRK 81.7 million, aid providers of this state aid being counties, towns and municipalities and it is presented in Chapter 4.3. State aid at local level.

In 2010 **maritime transport** was granted HRK 378.8 million in state aid, which was less by HRK 37.8 million than in 2009, when state aid for maritime transport amounted to HRK 416.6 million. The reduction of state aid to maritime transport is even more observable when this state aid is compared with the one provided in 2008. Namely, in 2008 state aid amounted to HRK 495.7 million and was higher by approximately 24 percent.

In 2010 state aid to maritime transport in the form of grant in the amount of HRK 372.5 million and invoked state guarantees in the amount of HRK 6.3 million. State aid earmarked for maritime transport in 2010 accounted for 4 percent and 7 percent in the total granted state aid and in state aid earmarked for industry and services sector, respectively.

State aid in this segment of transport was mostly awarded by the Coastal Shipping Agency for coastal shipping 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 372.5 million, provided to undertakings Jadrolinija Rijeka, G&V Line d.o.o., Linijska nacionalna plovidba d.d., Mediteranska plovidba d.d., Rapska plovidba d.d., Bura line & Offshore and others.

Also, in 2010 state guarantees worth HRK 6.3 million were invoked, and this amount pertains to the undertaking Mediteranska plovidba d.d. Korčula.

At the local level in 2010 maritime transport was also provided with grants in the amount of HRK 3.7 million, specifically, to the undertaking Linijska nacionalna plovidba d.d. Split for the transport links between the islands and the mainland.

Also, the Ministry of the Sea, Transport and Infrastructure prepared for the maritime transport activity several state aid schemes state aid implemented as de minimis aid schemes (not included in Table 23 particularly because they involve de minimis aid, which is not considered state aid within the meaning of the State Aid Act as due to their limited amount they do not affect the trade between the Republic of Croatia and the EU, but they are reported since they

constitute a budget expenditure earmarked for the maritime transport activity). The amount at issue was HRK 7.5 million in grants awarded pursuant to 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, as well as HRK 5.5 million under the Programme on fuel subsidies for ship operators on national lines in the period from 2010 to 2012, and HRK 3.9 million on the basis of the Programme for the construction and re-construction of the passenger and excursion fleet for the needs of the Croatian ship owners - small undertakings in the period from 2010 to 2012.

State aid to **air transport** in 2010 was awarded in the amount of HRK 296 million and was higher by HRK 112.9 million, or 62 percent in comparison with 2009, when it amounted to HRK 183.1 million, and by HRK 196.1 million in comparison with 2008. State aid to air transport in 2010 was awarded in the form of grants in the amount of HRK 132.7 million and as invoked state guarantees in the amount of HRK 163.3 million.

State aid to air transport in the amount of HRK 125 million was awarded as state aid for the performance of services of general economic interest. Namely, on the basis of the Decision of the Government of the Republic of Croatia on the obligation of the performance of domestic scheduled air transport Croatia Airlines d.d. in the period from 2007 to 2011, and for the preservation of transportation links, the Ministry of the Sea, Transport and Infrastructure granted state aid in the amount of HRK 125 million for subsidising of air transport carried out by Croatia Airlines d.d. Also, the amount of HRK 163.3 million in invoked guarantees pertained to the state aid to the undertaking Croatia Airlines d.d. for the refinancing of Croatia Airlines' Airbus fleet, i.e., total outstanding debt on the existing loans for 6 airbus aircraft 319/320.

State aid to Osijek and Rijeka airports was provided for the performance of services of general economic interest, pursuant to corresponding decisions of the Government of the Republic of Croatia. Zračna luka Osijek d.o.o., was awarded grants in the amount of HRK 3.5 million in accordance with the Decision on the obligation of openness of Osijek Airport for public air transport in the period from 2009 to 2013, whilst Zračna luka Rijeka d.o.o. was using grants in the amount of HRK 4.2 million on the basis of the Decision on the obligation of openness of Rijeka Airport in the period from 2010 to 2014.

Rules on granting state aid to transport sector – services of general economic interest¹⁹

Area of application and objective of state aid

(Official Gazette, No. 39/08).

State aid awarded for the promotion of transport activity is to the largest extent 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 public services (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

¹⁹ The Decision on the publication of the rules on state aid to the transport sector was published in Official Gazette No. 141/08 and 31/10.

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.

State aid to land, maritime and air transport²⁰

Area of application and objective of state aid

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

²⁰ The Decision on the publication of the rules on state aid to the transport sector was published in Official Gazette No. 141/08.

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.

4.4.2. Steel industry

In the period 2008 - 2010 in the Republic of Croatia state aid was not awarded to the steel industry. As an exception, following the departure of the Polish investor from Željezara Split, the Croatian Privatisation Fund was paying minimal salaries to the workers of this ironworks plant in 2009.

Table 25: State aid to the steel sector²¹ in the period 2008 – 2010

Steel industry	2008		2009		2010	
	in HRK mill.	in EUR mil.	in HRK mil.	in EUR mill.	in HRK mil.	in EUR mill.
A2 debt write-off	0.0	0.0	0.0	0.0	0.0	0.0
C1 soft loans	0.0	0.0	2.2	0.3	0.0	0.0
TOTAL	0.0	0.0	2.2	0.3	0.0	0.0
share (%) in specific sectors	0.00		0.06		0.00	
share (%) in the total state aid (less agriculture and fisheries)	0.00		0.04		0.00	
share (%) in the total state aid	0.00		0.03		0.00	
share (%) of GDP	0.00		0.001		0.00	

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

²¹ The Decision on the publication of the rules on state aid to the steel sector was published in Official Gazette No. 134/08.

4.4.3. Shipbuilding

In 2010 the shipbuilding sector was granted HRK 1,244 million in state aid, which was an increase by HRK 91.3 million or by 8 percent in comparison with 2009. In contrast, state aid in this reporting year was lower by HRK 648.1 million or by 34 percent in comparison with 2008. In the course of 2010 the beneficiaries of state aid were large shipyards (Brodosplit – Brodogradilište d.o.o., Brodosplit – BSO d.o.o., 3. Maj Brodogradilište d.d., Brodogradilište Kraljevica d.d., Brodogradilište Brodotrogir d.d. and Uljanik Brodogradilište d.d. Pula), but also small commercial shipyards pursuant to a special aid scheme.

The share of state aid to the shipbuilding sector in the total granted sector-specific state aid in 2010 amounted to 30 percent, in the total state aid for 2010 it accounted for 13.3 percent, whereas its share in GDP accounted for 0.37 percent.

Table 26: State aid to the shipbuilding sector in the period 2008 – 2010

Shipbuilding	2008		2009		2010	
	in HRK mill.	in EUR mil.	in HRK mil.	in EUR mill.	in HRK mil.	in EUR mill.
A1 grants	376.1	52.1	283.1	38.6	4.0	0.5
D guarantees	1,516.0	209.9	869.6	118.5	1,240.0	170.2
TOTAL	1,892.1	261.9	1,152.7	157.1	1,244.0	170.7
share (%) in specific sectors	39.46		30.14		30.01	
share (%) in the total state aid (less agriculture and fisheries)	31.82		22.96		23.15	
share (%) in the total state aid	19.79		13.26		13.26	
share (%) of GDP	0.55		0.34		0.37	

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

In terms of aid instruments, of the total amount of granted state aid, issued state guarantees were worth HRK 1,240 million, whereas the amount of HRK 4 million pertains to grants to small shipbuilding.

State aid contained in issued state guarantees in 2010 in the amount of HRK 1,240 million were issued guarantees for the undertaking Brodosplit – Brodogradilište d.o.o. in the amount of HRK 710.5 million, HRK 426.7 million for Brodogradilište Brodotrogir d.d., HRK 59.3 million pertained to the undertaking 3. Maj Brodogradilište d.d., HRK 25.4 million to the undertaking Uljanik Brodogradilište d.d., while issued guarantees for the undertaking Brodosplit – BSO d.o.o. were worth HRK 18.1 million.

The amount of HRK 4 million in 2010 comprised grants to small shipbuilding, and this state aid was awarded on the basis of the Operating state aid scheme for promoting competitiveness and innovation in small shipbuilding industry for 2010. State aid was granted to the undertakings Mf Primus Marine, Sas-Vektor, Pičuljan Marine, Radež, Belmarin Brodovi, Brodogradilište Cres, Brodogradnja Pičuljan, Remia – Plast, Adriatic Workboats d.o.o., Vineta, Dunkić, Euronautic International and others.

Table 27: Issued state guarantees to shipbuilding sector in the period 2008 – 2010 (HRK mill.)

No.	Description	2008	2009	2010
1	Issued state guarantees for loans	1,330.7	765.2	1,113.6
2	Issued state guarantees for advance payments	1,070.0	643.2	1,544.3
3	Issued state guarantees for rescue	79.4	0.0	0.0
4	Issued state guarantees for Uljanik Brodogradilište d.d.	0.0	614.0	326.3
5	Total issued state guarantees (1.+2.+3.+4.)	2,480.1	2,022.4	2,984.2
6	State aid in guarantees for loans (100% state aid) (1.)	1,330.7	765.2	1,113.6
7	State aid in guarantees for advance payments (market- based interest) (2.)	105.9	73.6	101.0
8	State aid in guarantees for rescue (100% state aid) (3.)	79.4	0.0	0.0
9	State aid in guarantees for Uljanik Brodogradilište d.d. (difference of interests) (4.)	0.0	30.7	25.4
10	Total state aid in issued guarantees (6.+7.+8.+9.)	1,516.0	869.6	1,240.0

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

Table 27 provides an overview of all state guarantees issued for Croatian shipyards in the period 2008 – 2010 and the calculation of state aid contained in those guarantees pursuant to state aid rules in case of state guarantees²². This is state aid contained in issued state guarantee for various purposes (for loans to shipyards for financing of production and other purposes, state aid contained in issued guarantees for paid-in advance payments etc.).

Given that the state guarantees were issued for various purposes, the amounts of state aid contained in those guarantees were, starting from state aid rules, calculated separately for each of those purposes. For example, state aid contained in issued state guarantees for financing ship building in shipyards in difficulty where the risk of invoking (calling) guarantees is very high, and because without an issued state guarantee those shipyards would not be able to obtain a loan from commercial banks, accounted for 100 percent of the value of the guarantees for such a loan, whereas in case of the issuance of state guarantees issued for paid-in advance payments of clients who ordered ships, where the risk of invoking guarantees is significantly lower, the amount of state aid is equal to the one-year interest rate which would have been calculated according to the estimated market interest rate in the year of the issuance of the guarantee²³.

State guarantees issued for loans to the undertaking Uljanik Brodogradilište d.d. are observed separately as well, because Uljanik Brodogradilište d.d. is not considered an undertaking in difficulty (the presumption, therefore, being that the loans will be duly repaid), so state aid contained in those loans was not calculated in 100-percent amount of guarantees.

²² The Decision on the publication of rules on state aid in the form of a guarantee was published in Official Gazette No. 39/09.

²³ 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 9.9 percent in 2008, 11.45 percent in 2009 and 7.79 percent in 2010.

Table 28: Invoked (called) state guarantees in the shipbuilding sector in the period 2008 – 2010 (HRK mill.)

Shipyard	2008	2009	2010
3. Maj Brodogradilište d.d.	289.7	581.1	181.3
Brodogradilište Kraljevica d.d.	-	120.1	68.6
Brodosplit Brodogradilište d.o.o.	-	881.7	353.1
Brodosplit BSO d.o.o.	-	13.4	22.0
Brodotrogir d.d.	-	302.5	147.2
Total invoked guarantees	289.7	1,898.9	772.2

Source: Ministry of Finance; data processed in CCA

It should be noted that invoked (called) state guarantees in the shipbuilding sector in 2010 are not included into the calculation of state aid for this year since, pursuant to regulations, state aid in the issued guarantee is reported as state aid in which the respective guarantee is issued, and not when it was invoked. Consequently, guarantees in the amount of HRK 772.2 million that were invoked in 2010 have already been reported as state aid, so they cannot be reported two times.

Rules on granting state aid for shipbuilding²⁴

Area of application and objective of state aid

Rules on state aid to the shipbuilding sector 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 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*

²⁴ The Decision on the publication of rules on state aid to the shipbuilding sector was published in Official Gazette No. 154/08.

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.

4.4.4. State aid to tourism

According to the data of aid providers, in 2010 state aid to tourism amounted to HRK 157.7 million, which was less by HRK 6.8 million or 4 percent in comparison with 2009, and less by HRK 13.8 million or 8 percent in comparison with 2008. The share of this state aid in the total sector-specific state aid in 2010 amounted to 3.8 percent. The share of the said state aid in the total state aid in 2010 amounted to 1.7 percent, whilst its share in GDP was 0.05 percent.

Table 29: State aid to tourism by instruments in the period 2008 – 2010

Tourism	2008		2009		2010	
	in HRK mil.	in EUR mil.	in HRK mil.	in EUR mill.	in HRK mil.	in EUR mill.
A1 grants	70.1	9.7	58.9	8.0	42.8	5.9
A2 debt write-off	0.0	0.0	3.6	0.5	0.0	0.0
C1 soft loans	8.7	1.2	9.0	1.2	0.0	0.0
D guarantees	92.7	12.8	93.0	12.7	114.9	15.8
TOTAL	171.5	23.7	164.5	22.4	157.7	21.6
share (%) in specific sectors	3.58		4.30		3.80	
share (%) in the total state aid (less agriculture and fisheries)	2.88		3.28		2.93	
share (%) in the total state aid	1.79		1.89		1.68	
share (%) of GDP	0.05		0.05		0.05	

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

State aid to tourism in 2010 was awarded in the form of guarantees and grants. Guarantees amounted to HRK 114.9 million, accounting for 73 percent, while grants amounted HRK 42.8 million, or 27 percent.

State aid in the form of grant in the amount of HRK 42.8 million was realised through a programme of the Ministry of Tourism entitled the Loan Programme for small and medium-sized businesses in tourism – Incentive for success. Beneficiaries of the state aid from this Programme

were small and medium-sized enterprises performing catering and tourist activity, for example, Mališa d.o.o. Senj, Makart 55 smještaj d.o.o. Zagreb, Eles d.o.o. Rijeka, Zadar gradnja d.o.o. Zadar, Villa Ružica d.o.o. Crikvenica, Laguna trade d.o.o. Rogoznica, Hotel Mauro d.o.o. Zagreb, Ture d.o.o. Postira, Eurodom trgovina d.o.o. Split, Hotel More d.o.o. Dubrovnik, Fos d.o.o. Fužine, Andro Internacional d.o.o. Omiš, Vrata Krke d.o.o. Šibenik and others.

In 2010 a number of issued state guarantees were invoked, in the amount of HRK 114.9 million, which pertained to loans which became due and for which state guarantees were issued. The majority of invoked guarantees pertained to loans granted on the basis of the Programme of loans for the preparation of tourist season to undertakings providing hotel accommodation services. The state had to pay for loans of a number of undertakings: Jadran d.o.o. Crikvenica, ZRC Lipik d.d. Lipik, Hoteli Živogošće, Hoteli Plat, Hoteli Podgora, Hoteli Medena, Apartmani Medena, Vis d.d. Vis, Hoteli Omišalj, Modra Špilja, Hoteli Jadran d.d. Ploče, Hum d.d., Hoteli Baška voda, Šolta HT, Industrogradnja Grupa d.d., Hoteli New d.d., PZ New Zora, Hoteli Helios, President Zadar and Slunjčica d.d.

In addition to the above state aid to tourist and catering industry, in the course of 2010, like in the previous years, the competent Ministry of Tourism also awarded state aid pursuant to the rules providing for de minimis aid, which, for reasons already mentioned, is not considered state aid within the meaning of the State Aid Act and according to the methodology are, therefore, not included into the calculation of state aid. However, on the one hand, in reality this category of state aid is also an expenditure of the State budget, and on the other, on a selective basis it is aimed at the assistance to this economic sector. In 2010 the Ministry of Tourism, in cooperation with the Ministry of Economy, Labour and Entrepreneurship, also awarded to tourism HRK 12.5 million in de minimis aid on the basis of a number of aid schemes (Incentives Programme for enhanced competitiveness of the tourist market – Promoting manifestations as a part of the tourist offer, programmes and projects for enhancement of the quality of the catering industry, the programme „Development of tourism in SMEs 2001-2003“, Programme for the development of selective forms of tourism at sea „The Blue groove (Plava brazda)“ etc.

4.4.5. Other industries

State aid to other, unmentioned industries in 2010 amounted to HRK 8.6 million, which was a reduction by HRK 50.8 million in comparison with 2009, and less by HRK 126.1 million in comparison with 2008.

Table 30: State aid to other specific sectors by instruments in the period 2008 – 2010

Other industries	2008		2009		2010	
	in HRK	in EUR	in HRK	in EUR	in HRK	in EUR
	mill.	mill.	mill.	mill.	mill.	mill.
A1 grants	133.0	18.4	6.7	0.9	0.0	0.0
C1 soft loans	1.7	0.2	1.2	0.2	0.4	0.1

D guarantees	0.0	0.0	51.5	7.0	8.2	1.1
TOTAL	134.7	18.6	59.4	8.1	8.6	1.2
share (%) in specific sectors	2.81		1.55		0.21	
share (%) in the total state aid (less agriculture and fisheries)	2.27		1.18		0.16	
share (%) in the total state aid	1.41		0.68		0.09	
share (%) of GDP	0.04		0.02		0.002	

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

In 2010 state aid to other industries was granted mostly in the form of guarantees in the amount of HRK 8.2 million, whereas an amount of HRK 0.4 million was awarded in loans under conditions more favourable than market conditions.

Undertakings awarded individual state aid to other industries in 2010 were Đuro Đaković Specijalna vozila d.d. from Slavonski Brod, which was granted a state guarantee for a loan in the amount of HRK 8.2 million issued for provision of working capital for enhancing the production dynamic to the required level and TEF – Tvornica elektroda i ferolegura d.d. Šibenik in the form of a soft loan in the amount of HRK 350,000 awarded for the closure and dismantling of the undertaking's industrial plants.

4.4.6. Rescue and restructuring

State aid for rescue and restructuring of undertakings in difficulty in 2010 amounted to HRK 27.8 million, which was an increase by HRK 24.9 million in comparison with 2009, and less by HRK 47.1 million or 63 percent in comparison with 2008. The share in the total state aid granted to specific sectors in 2010 amounted to 0.67 percent, in 2009 0.08 percent, and in 2008 to 1.56 percent.

Table 31: State aid for rescue and restructuring in the period 2008 – 2010

Rescue and restructuring	2008		2009		2010	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A2 debt write-off	4.1	0.6	0.0	0.0	0.0	0.0
B1 equity participation	34.1	4.7	0.0	0.0	0.0	0.0
C1 soft loans	25.2	3.5	2.9	0.4	17.5	2.4
D guarantees	11.5	1.6	0.0	0.0	10.3	1.4
TOTAL	74.9	10.4	2.9	0.4	27.8	3.8
share (%) in specific sectors	1.56		0.08		0.67	
share (%) in the total state aid (less agriculture and fisheries)	1.26		0.06		0.52	
share (%) in the total state aid	0.78		0.03		0.30	
share (%) of GDP	0.02		0.00		0.01	

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

In 2010 state aid for rescue and restructuring of undertakings in difficulty was awarded in the form of soft loans in the amount of HRK 17.5 million and guarantees in the amount of HRK 10.3 million.

The state aid at issue is aid awarded by the Croatian Privatisation Fund and the Agency for State Assets Management in the form of soft loans (HRK 17.5 million) to resolve the problems related to inability to pay salaries to workers of undertakings Adriachem Kaštel Sućurac, Bizovačke Toplice, Club Adriatic d.o.o., Dalmacijavino d.d., Dalmacijavino - Zadar d.o.o., HTP Korčula d.d., Slavonija MK d.d., Sušionica d.o.o. Vrpolje, Trimot Imotski, Uljanik Tesu Pula, Vinka d.d. Vinkovci, ZRC Lipik and Željezara Split d.d. Kaštel Sućurac. A common characteristic of the majority of the above undertakings is that they face difficulties in business operations which they are unable to resolve with their own resources and solutions for their survival or exit from the market are yet to be devised. The granted state aid, therefore, was not targeted to their actual and in-depth restructuring pursuant to rules that provide for granting of state aid for rescue and restructuring, but mainly to resolving of the problems of (non)payment of salaries to employees.

In 2010 state guarantees in the amount of HRK 10.3 million that had been provided for restructuring of the undertaking Varteks d.d. Varaždin were invoked.

Rules on granting state aid for rescue and restructuring²⁵

Area of application and objective of state aid

State aid for rescue and restructuring 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.

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,

²⁵ The Decision on the publication of the rules on state aid for sanaciju and restrukturiranje was published in Official Gazette No. 20/07.

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.

4.4.7. Public service broadcasting

State aid for public service broadcasting in 2010 amounted to HRK 1.182,5 million and was higher by HRK 49.4 million and HRK 114 million in comparison with 2009 and 2008, respectively. The share in the total sector-specific state aid in 2010 amounted to 28.5 percent, and in the total state aid 12.6 percent.

Table 32: State aid for public service broadcasting in the period 2008 – 2010

Public service broadcasting	2008.		2009.		2010.	
	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.	in HRK mill.	in EUR mill.
A1 grants	1,068.5	147.9	1.133.1	154.4	1,182.5	162.3
TOTAL	1,068.5	147.9	1,133.1	154,4	1,182,5	162,3
share (%) in specific sectors	22.29		29.63		28.53	
share (%) in the total state aid (less agriculture and fisheries)	17.97		22.57		22.00	
share (%) in the total state aid	11.17		13.04		12.60	
share (%) of GDP	0.31		0.34		0.35	

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

The Croatian Radio-Television is a beneficiary of state aid pursuant to the Croatian Radio-Television Act and funds provided for pursuant to the Satellite Programme for North America, whose financing comprises an allocation of HRK 3 million.

The Croatian Radio-Television Act provides for the collection of the licence fee for public service broadcasting from all owners of radio and TV receivers, in the amount 1.5 percent of the average net monthly salary of the employees in the Republic of Croatia, which in 2010 amounted to HRK 80 per month. The conditions for granting of this type of state aid for the performance of services of general interest, including the provision of public service broadcasting are regulated pursuant to the Decision on the publication of the rules on state aid for public service broadcasting (Official Gazette, No. 68/08).

Rules on granting state aid to public radio and television broadcasters²⁶

Area of application and objective of state aid

As a rule, state aid is awarded to public radio and television broadcasters for the performance

²⁶ The Decision on the publication of the rules on state aid for public radio diffusion services was published in 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).

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” (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. DE MINIMIS AID

Rules on granting de minimis aid²⁷

De minimis aid 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 providers are 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.

Table 33: De minimis aid in the period 2008 – 2010

De minimis aid	2008	2009	2010
	in HRK mill.	in HRK mill.	in HRK mill.
A1 Direct interest rate subsidies	36.6	86.9	11.5
A1 Grants	274.9	313.1	302.7
A2 Tax remission, tax relieves, exemptions and advantages	284.2	172.6	229.6
A2 Debt write-off	3.2	0.9	0.1
A2 Reductions in social security contributions, relieves and exemptions thereof	0.2	1.5	19.4
B1 Capital investments	8.0	5.3	3.3
C1 Soft loans	26.4	30.8	7.8
C1 Loans to firms in difficulty	2.1	0.2	0.0
D Guarantees	16.7	9.7	11.9
D Payments for invoked guarantees	1.1	4.3	11.9
TOTAL	653.4	625.4	598.2

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

De minimis aid (*de minimis* state aid) in 2010 amounted to HRK 598.2 million, which was by HRK 27.2 million or 4.4 percent less than in 2009 and by HRK 55.2 million or 8.5 percent less than in 2008.

²⁷ The Decision on the publication of the rules on de minimis aid was published in Official Gazette No. 45/07.

In terms of aid instruments, in 2010 the highest amount of de minimis aid with the share of 50.6 percent of the total granted state aid pertained to grants, and 38.4 percent of state aid was granted in the form of tax relieves and exemptions. The largest share (HRK 507 million or almost 85 percent) of the total granted de minimis aid was awarded by aid providers at the central government level, whereas a significantly smaller share (HRK 91.2 million or approximately 15 percent) pertains to aid providers at the local level.

De minimis aid is not considered state aid within the meaning of the State Aid Act because, given the ceiling of HRK 1.5 million (EUR 200 thousand) it is considered that it cannot affect trade between the Republic of Croatia and the EU, i.e., the EU Member States. However, since Croatian aid providers allocate significant funds for awarding de minimis aid, the Agency usually reports it in its reports. It should be noted that the amount of this state aid is not included into the total amount state aid. Also, the Agency does not supervise the conditions under which de minimis aid is granted, but aid providers are obliged to keep records on granting this type of state aid per beneficiaries and state aid amounts and submit those data to the Agency for purpose of the preparation of the Annual Report on State Aid.

On the basis of the received documentation and data, the Agency established that the following aid providers granted de minimis in 2010 de minimis aid:

- The Ministry of the Economy, Labour and Entrepreneurship in the total amount of HRK 81.1 million, specifically, through the Programme for the promotion of international competitiveness and internationalisation of the economy of the Republic of Croatia from 2009 to 2010, in the amount of HRK 27 million, under the Operating state aid scheme for sustaining the competitiveness of textile industry, leather industry and leather products for 2010 in the amount of HRK 25.6 million, pursuant to the Free Zones Act in the amount of HRK 14.1 million, Ordinance on the basic financing criteria for specific target groups (de minimis) in the amount of HRK 7 million, Operational plan for the promotion of SMEs for 2010 in the amount of HRK 6.7 million, Operating state aid scheme for industrial entities for harmonisation of technological capacities with best available techniques (BAT) with the *acquis* in the amount of HRK 500,000 and the Loan programme for the preparation of the tourist season 2010 in the amount of HRK 191,435. State aid was awarded in the form of grants in the amount of HRK 67 million and tax advantages in the amount of HRK 14.1 million;
- Pursuant to the Income Tax Act HRK 23.6 million was awarded in the form of tax advantages, while pursuant to the Act on Hilly and Mountainous Areas HRK 6.5 million was awarded, pursuant to the Act on Reconstruction and Development of the Town of Vukovar HRK 22.5 million, and pursuant to the Act on the Areas of Special State Concern HRK 178.2 million, all in the form of tax advantages;
- The Ministry of the Sea, Transport and Infrastructure granted de minimis aid in the total amount of HRK 16.9 million, 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 HRK 7.5 million was awarded, under the Programme for fuel subsidies for ship operators on national lines in the period from 2010 to 2012 in the total amount of HRK 5.5 million, whereas HRK 3.9 million was awarded under the

Programme for the construction and re-construction of the passenger and excursion fleet for the needs of the Croatian ship owners - small undertakings in the period from 2010 to 2012. The aid at issue comprised grants;

- The Ministry of Tourism awarded HRK 12.4 million in state aid under the following aid schemes: „Meet Croatia 2010“ in the amount of HRK 2.8 million, Incentives Programme for enhanced competitiveness of the tourist market – Promotion of manifestations as a part of the tourist offer in the amount of HRK 2.3 million, Programme for the promotion of rural tourism – selective forms of inland tourism „The Green groove (Zelena brazda)“ HRK 1.7 million, Programmes and projects for enhancement of the quality of the catering industry HRK 1.5 million, Programme for the development of small and medium-sized businesses in tourism from 2001 to 2003 worth HRK 1.2 million, Programme for the development of selective forms of tourism at sea „The Blue groove (Plava brazda)“ in the amount of HRK 920,000, Programme „Heritage in tourism“ HRK 654,000, Programme for promoting production of original souvenirs HRK 630,000, Tourism loans programme - Development of rural tourism HRK 389,121, Programme „Tourism without barriers“ HRK 170,000 and tourist projects for which resources were approved from the EU pre-accession funds and other international funds in the amount of HRK 60,000. State aid was awarded in the form of grants in the amount of HRK 11.1 million and direct subsidised interest in the amount of HRK 1.2 million;
- The Ministry of Culture awarded grants in the amount of HRK 2 million under the Operational promotion plan for small and medium-sized enterprises for 2010 – Programme „Entrepreneurship in culture“;
- The Ministry of Science, Education and Sport, and Business and Innovation Centre of Croatia BICRO d.o.o., awarded state aid under the Proof of concept (PoC) programme, in the form of grant in the amount of HRK 2,098,884;
- The Ministry of Family, Veterans' Affairs and Intergenerational Solidarity awarded HRK 6.8 million in grants under the Programme for training and employment of the Croatian war veterans in the period between 2008 and 2011;
- The Croatian Agency for Small Businesses awarded a total of HRK 114.3 million pursuant to the following aid schemes: Strengthening of the competitiveness of small businesses in the amount of HRK 61.6 million, Ordinance on HAMAG guarantees (de minimis aid) HRK 23.7 million, Women entrepreneurship HRK 10.5 million, Development of trades and crafts HRK 5.7 million, Entrepreneurship of the youth, beginner entrepreneurs and disabled persons 5 HRK million, Entrepreneurship support institutions HRK 4.6 million, Cooperative entrepreneurs in the amount of HRK 2.5 million and the Training programme and development of consultancy network for small businesses in the amount of HRK 610,653. State aid in the amount of HRK 114.3 million was awarded in the form of grants in the amount of HRK 90.6 million, through issued guarantees HRK 11.8 million and HRK 11.9 million in the form of invoked guarantees.

- 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 533,258 in the form of soft loans.
- The Fund for Professional Rehabilitation and Employment of Disabled Persons awarded for professional rehabilitation and employment of disabled persons awarded HRK 16.5 million in grants for professional rehabilitation and employment of disabled persons as an incentive and advantage to undertakings employing disabled persons;
- The Environmental Protection and Energy Efficiency Fund awarded HRK 13.6 million under the Environmental state aid programmes. State aid was awarded in the form of grants in the amount of HRK 8.6 million and soft loans in the amount of HRK 5 million. The purpose of the award of state aid was promoting cleaner transport, promoting the use of renewable energy sources, promoting sustainable construction, implementation of national energy 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;
- The Fund for Reconstruction and Development of the Town of Vukovar awarded under the Programme for the co-financing of economic projects in the Town of Vukovar HRK 9.7 million in grants as an incentive for faster reconstruction and development of Vukovar, which includes all economic subjects, regardless of the type of economic activity;
- The Croatian Pension Insurance Fund awarded state aid in the amount of HRK 168,700 in the form of in the form of reductions in social security contributions, relieves and exemptions thereof for workers employed with physical persons.
- Counties, municipalities and cities awarded the amount of HRK 91.2 million in de minimis aid.

As indicated in the above overview of granted de minimis aid, a large number of aid providers continued to grant de minimis aid in 2010 as well. According to the findings of the Agency, this kind of state aid is awarded for several reasons.

First of all, there are no limitations and conditions for the award of the above state aid within the meaning of objectives and purposes, except that it may not involve direct export grants, and it is mostly granted to cover operating expenses, as a kind of mostly non-repayable assistance to undertakings not expected to yield effects and results, unlike horizontal state aid, which is awarded for purpose of the fulfilment of certain objectives and are related to eligible costs of investments into those objectives (innovation, research and development, environmental protection, employment etc.). Second, de minimis aid does not require an ex-ante approval of the Agency, so aid providers are not obliged to notify the Agency of the state aid. Third, a rule on granting de minimis aid enables granting of state aid also without public competitions and criteria set in advance, and this simplifies the award procedure. In view of the above, the biggest problem with de minimis aid is the fact that total allocations in the state budget for this type of state aid are high, but individually, it finances very diverse purposes in amounts from almost

symbolic ones (several thousands of Kuna) to the ceiling of HRK 1.5 million. Therefore it is extremely difficult to control the effects of this state aid within the meaning of attained results on the market and/or specific industry it supports.

6. STATE AID IN THE REPUBLIC OF CROATIA IN COMPARISON WITH THE EUROPEAN UNION

In 2010 the European Union (EU 27)²⁸ Member States allocated 0.6 percent of GDP, or EUR 73.7 billion for state aid (without railway transport). In addition, the EU Member States set aside an additional EUR 11.8 billion for state aid whose objective is to provide support to the economy in facing the global economic and financial crisis, and with this amount the share of state aid in GDP in the EU 27 amounted to 0.09 percent.

In 2010 the financial sector in the EU received financial assistance in the amount of EUR 1,105.2 billion, which is 9 percent of the GDP of the EU 27. From the onset of the financial crisis, i.e., October 2008 until the end of 2010 this sector in the EU was granted EUR 1,608 billion, accounting for 9.8 percent of GDP of the EU 27. State aid to the financial sector was mostly provided in the form of guarantees, recapitalisation and debt write-off.

State aid in the EU has long been a part of economic and industrial policies of the Member States whereby they promote the competitiveness of their economies or, in the last several years, by awarding state aid to the financial sector they contribute to the financial and economic stability during the crisis, preventing the serious consequences that the breakdown of the financial sector would have for the economy and citizens of those Member States. The common, long-term commitment of the EU Member States, as laid out in numerous common EU documents, is assisting to sectors that bring about growth and development, with a strict control of state aid which distorts competition, does not bring about structural reforms and does not strengthen the competitiveness of Europe. The centrepiece of the common system, both in the past and today, remains the famous phrase “less and better targeted state aid”, which will resolve only eliminating market failures, with special focus on services of general economic interest, investment into research and development, information technology and a systemic commitment to regional development. Whereas, for instance, state aid for research and development and innovation in the Republic of Croatia accounts for 3 percent of the total granted state aid to the industry and services sector, in the EU this share amounted to 18 percent. Regional development in the Republic of Croatia is promoted with 6 percent of the total provided state aid to the industry and services sector, in the EU this support amounted to almost 24 percent. The EU grants 23 percent for environmental protection, and the Republic of Croatia grants only 0.5 percent of the total state aid to industry and services.

²⁸ *European Commission State aid Scoreboard 2010*, available at the web page of the European Commission http://ec.europa.eu/competition/state_aid/studies_reports/2011_autumn_en.pdf

Table 34: The Republic of Croatia and EU Member States – State aid sector industry and services (less agriculture, fisheries and transport) in 2010

	Total in EUR bill.	Share of GDP (%)
EU 27	61.0	0.50
RH	0.5	1.20
Germany	14.7	0.59
France	12.6	0.65
Spain	4.3	0.41
United Kingdom	4.1	0.24
Italy	3.3	0.21
Sweden	2.6	0.76
Poland	2.5	0.72
Austria	2.1	0.72
Denmark	2.0	0.83
Hungary	1.9	1.94
The Netherlands	1.9	0.32
Belgium	1.8	0.52
Greece	1.8	0.78
Portugal	1.5	0.90
The Czech Republic	0.9	0.65
Ireland	0.9	0.56
Finland	0.8	0.43
Slovenia	0.3	0.89
Slovakia	0.2	0.37
Romania	0.2	0.17
Cyprus	0.1	0.51
Latvia	0.1	0.40
Lithuania	0.1	0.29
Luxemburg	0.1	0.18
Malta	0.1	1.12
Estonia	0.0	0.10
Bulgaria	0.0	0.04

Source: DG Competition

Table 34 indicates that, according to absolute indicators, i.e., amounts of granted state aid, the largest aid providers are Germany and France, whereas other Member States target significantly less resources to assist the businesses. Relevant data indicate that, regardless of the size of state aid, the countries indicated above have a relatively low share of state aid in GDP, which is at the level somewhat higher than the EU average. On the other hand, smaller Member States set aside significantly lower amounts for state aid, but even such significantly lower amounts of state aid result in a relatively high share of state aid in GDP. For example, the share of state aid in the GDP of Hungary was 1.94 percent, Malta 1.12 percent, Portugal and Slovenia approximately 0.9 percent.

Table 35: The Republic of Croatia and EU – state aid to agriculture, fisheries and transport in 2010

	Total in EUR bill.	Share of GDP (%)
EU 27	12.7	0.10
RH	0.76	1.65
RH bez railway transport	0.64	1.40
France	2.79	0.14
Finland	1.29	0.71
The Netherlands	1.25	0.21
Italy	1.23	0.08
Germany	1.22	0.05
United Kingdom	0.74	0.04
Ireland	0.70	0.46
Poland	0.68	0.19
Spain	0.67	0.06
Hungary	0.34	0.34
Belgium	0.32	0.09
The Czech Republic	0.24	0.17
Sweden	0.24	0.07
Austria	0.19	0.07
Denmark	0.18	0.08
Latvia	0.10	0.54
Romania	0.10	0.08
Lithuania	0.08	0.28
Slovenia	0.08	0.21
Slovakia	0.06	0.09
Greece	0.04	0.02
Bulgaria	0.04	0.11
Cyprus	0.03	0.17
Estonia	0.03	0.19
Portugal	0.03	0.02
Malta	0.02	0.30
Luxemburg	0.02	0.05

Source: DG Competition

In case of state aid to agriculture, fisheries and transport in 2010, it can be observed that the share of this type of state aid in GDP of the EU accounted for 0.1 percent, while in the Republic of Croatia it was 1.4 percent.

However, the aid at issue is only state aid from the national budgets of the Member States (not including the railway sector), whereas particularly in the area of agriculture and transport the largest amounts of state aid are awarded from European funds, i.e., the EU budget, of which the Republic of Croatia is still not a beneficiary.

In comparison with awarding of horizontal state aid, which in 2010 accounted for 85 percent or EUR 51.9 billion in the EU, as already mentioned, the largest share is allocated for regional aid (somewhat more than 24 percent), state aid for environmental protection (approximately 24 percent), state aid for research, development and innovation (approximately 18 percent). The biggest aid providers for horizontal objectives are at the same time also the strongest EU Member States – Germany, France, Spain, which allocated as much as approximately EUR 20 billion for horizontal aid.

In the long term, observing the period from 1980 to date, state aid in the EU indicates a downward trend, with approximately 2 percent of GDP in the 1980s dropping to around 1 percent of GDP of the EU in the 1990s, while continuing to decline in the period from 2004 to 2008, reaching 0.5 percent to 0.6 percent of GDP in the EU (with the exception of the growth in 2006, when it amounted to 0.8 percent). From 2008 a mild growth of those values was recorded, and in 2010 the share in GDP of the EU was at approximately 0.6 percent.

Figures indicate that in 2010, 85 percent, or EUR 51.9 billion in state aid in the EU granted to industry and services was earmarked for horizontal objectives.

In conclusion, all available EU data also indicate that it is necessary to make changes in the system of granting of state aid in the Republic of Croatia. The understanding that state aid is a response to market failures, but primarily also a generator of development and competitiveness, should become a part of the economic and industrial policies. Irrespective of the fact that from 1 July 2013 the Annual Report on State Aid will become an integral part of a document with a similar title of the European Commission, it should be stressed that accomplishment of the above objectives requires training and discipline of aid providers in awarding of state aid, as well as the obligation of submission of state aid data to the Agency.

It should be noted that in the area of control of awarding of state aid the very objective of the creation of a common EU state aid policy and the single market of the EU is perhaps most evident. The European Commission has been, and remains, in charge of the control of their legality, control and recovery of state aid, because this prevents the so-called "subsidy race", i.e., competition as to which Member State will grant more state aid to its businesses and national champions. However, although the Commission remains responsible for decision-making on state aid in the EU, the national expertise and experience of competition authorities remains irreplaceable for the Commission to be able to successfully control state aid in all Member States, fast and in an efficient manner. This concretely pertains to maintaining of the state aid registers, monitoring of *de minimis* aid and block exemptions, collection of data, collaboration with the Commission, recording and notification of state aid to the Commission, assistance to aid providers in the preparation of state aid schemes etc. In such circumstances the task of the Agency, particularly in this and the forthcoming period, pertains to the assistance to aid providers in informing them about the rules in place in the EU (since 2005, when the SAA was signed, the Republic of Croatia has been included as well), especially the ones pertaining to block exemptions; in other words, state aid which pursuant to rules is compatible and therefore exempted from the application of the prohibition of granting state aid. Another important task of the Agency is to provide for full transparency within the meaning of maintaining of the state aid register and state aid control.

7. ASSESSMENT OF STATE AID IN 2011

The data on state aid available to the Agency, including the state aid schemes and individual state aid approved in the course of 2011, as well as state aid approved earlier, which apply over a longer time period – for instance, state aid for the performance of services of general economic interest in the transport activity – are the basis for a relatively reliable assessment of the amount and characteristics of state aid in 2011. This forecast is also supported by the data acquired by an insight into the funds earmarked for state aid under certain items of the State budget for 2011 and the current practices of aid providers. In other words, taking into consideration the said available data, it can be expected that the amount of state aid in 2011 will be in the range from HRK 8.7 to 9.5 HRK billion, which means that it will approximately remain at the 2010 level, which is presented in detail in this report. In accordance with this, and having in mind the data on the GDP trends in the previous period, in 2011 the share of state aid in GDP would remain at the level of approximately 2.6-2.8 percent.

Since in 2011, according to the findings and the data available to the Agency, significant structural reforms or changes were not implemented in the economic sectors which are the most prevalent state aid beneficiaries, and neither has the Agency received for approval state aid schemes whereby more significant amounts of state aid would be targeted towards horizontal objectives, a more significant change in the structure of state aid should not be expected. It should be reiterated that the Agency does not control granting of the aid in agriculture and fisheries, so at the moment of the preparation of this Report there is no detailed information as to whether the current trend of growth of this state aid continued in 2011 or whether its amount remained at the level of approximately HRK 4 billion. Under the presumption that the above level was retained, it can be expected that the share of state aid to agriculture and fisheries, until the EU accession and the commencement of the utilisation of state aid to agriculture and fisheries from the EU budget of the Common Agricultural Policy and other funds, will be at the level of 40-45 percent of the total granted state aid.

As already repeatedly highlighted, with respect to state aid granted to specific economic sectors, state aid in railway and maritime transport, state aid for public service broadcasting and state aid for tourism provided under aid schemes approved by the Agency or which is usually granted from the State budget, in 2011 is at the expected level of HRK 2.4 to 2.6 HRK billion. There was a significant increase in state aid to air transport and airports to the level of approximately HRK 420 million, with the largest share pertaining to state aid for rescue of Croatia Airlines, which was approved in the form of guarantees in the amount of HRK 305 million.

State aid to shipbuilding, given decreased ship orders, did not grow in 2011. Grants for large shipyards were not approved, but only and exclusively state guarantees for financing of production of new ships or for advance payments, partially also those provided for by the approved plans for restructuring large shipyards in difficulty. In 2011 there were also some

invoked state guarantees issued in previous years. Also, activities of the Agency for State Asset Management related to assistance to state-owned undertakings in difficulty, especially with respect to payment of salaries, continued in 2011 as well, so, although this Agency still does not possess either the data on the level of this state aid or the amount of invoked guarantees to specific undertakings in the area of tourism, transport etc., a significant portion of state aid targets those objectives in 2011 as well.

As regards state aid for horizontal objectives, in 2011 there were no larger increases in granting of this state aid, but in comparison with 2010 some new aid schemes were reported to the Agency, for instance, a state aid scheme for audiovisual activity for local radio and television, a state aid scheme for production of bio-fuel for transport etc.

There were no significant changes in the area of granting regional state aid, either. It is more difficult to estimate the amounts of state aid granted at the level of local and territorial (regional) self-government units and de minimis aid, although it can already be concluded, with respect to available data on budgetary funding at disposal of aid providers, that those categories of state aid did not grow in 2011. However, more reliable data on trends in the area of regional state aid, state aid at local level and de minimis aid will be known only after providers of those types of state aid submit the final data on granted and realised state aid.

Finally, it should be highlighted that the number of aid providers in 2011 did not decrease either, so state aid is still being provided at the level of the Republic of Croatia only by approximately twenty aid providers, more specifically, ministries, HBOR, various agencies and funds etc.

8. CONCLUSION

According to the indicators from the Annual Report on State Aid for 2010, in the Republic of Croatia there still prevails the inherited system of state aid that selectively support sectors in difficulty, at the expense of those generating the production of goods and services with high value added, or those for development of new forms of entrepreneurship. Without changes in such a system the Republic of Croatia cannot hope for a significant economic recovery, an increase in exports and investments, either domestic or foreign ones. However, the issue is, on the other hand, how to restructure and empower those segments of the economy, beneficiaries of sector-specific state aid without fundamental changes in their operations.

In 2010 state aid grew according to expectations. In comparison with the previous year it increased by 8 percent and amounted to HRK 9.4 billion. In terms of the state aid-to-GDP ratio, the increase at issue was from 2.6 percent – the share of state aid in 2009 – to 2.8 percent, its share in 2010. The increase in the total allocations for state aid with the simultaneous drop in employment was also supported by the increase in the amount of state aid per employee. In the observed year each employee in the Republic of Croatia set aside HRK 6,790 for state aid, which was by 13.3 percent more than in 2009.

One of the features of trends in the area of state aid in the period from 2003 to 2010 was a continual growth of state aid to agriculture and fisheries, whose share in the total granted state aid reached 42.7 percent, whereas the share of state aid to all other economic sectors – industry and services – accounted for 57.3 percent of the total granted state aid. Furthermore, since in 2010 the necessary restructuring was still not carried out in the sectors such as railways and shipbuilding, but also restructuring of a number of state-owned enterprises (enterprises in the portfolio of the Agency for State Assets Management), sector-specific aid still has a high share in the total granted state aid. Its share would be even higher if data on the total granted state aid were not inclusive of sector-specific aid for the performance of the services of general economic interest or public interest (such as state aid to public television), and also the state aid provided to undertakings in the area of maritime and air transport. Namely, this is how those types of state aid are reported by the European Commission in the reports on state aid prepared and developed for all the EU Member States.

The already mentioned low share of horizontal state aid (including regional aid and aid at the local level), both in the total granted state aid (13 percent) and in state aid granted to the industry and services sector (23 percent), is an indicator of the still insufficient engagement of the state in promoting industrial growth, especially when it comes to investment into knowledge and application of modern technological advances, innovation and environmental protection. Only such investments may contribute to the increase in export competitiveness of the Croatian industry and increase in GDP. However, particularly the existing level of the Croatian GDP is insufficient even for the existing level of the presence of state interventions into specific industrial sectors, and it does not provide for sufficient possibilities for larger investments into

those objectives. This means that the priorities should be changed, and the state aid in the future should be re-directed to the objectives promoting research-and-development and innovation projects with good market prospects, which is not possible without significant and fundamental changes.

At the same time, taking into consideration that in the last several years state aid providers have been increasingly deciding, albeit with still limited resources, to use state aid schemes, particularly those targeting employment, new investments, environmental protection, small and medium entrepreneurship, to promote growth and development of activities such as tourism, small shipbuilding, wood, metal, chemical, textile and other industries, evidently, a system of monitoring the impacts and results of those aid schemes, i.e., the granted state aid, should also be set up. In the opposite case, unless aid providers start to monitor systematically the impacts of granting state aid starting from concrete indicators, the objectives of this state aid policy will be brought into question. In other words, unless a comprehensible and transparent system of monitoring of the impacts of granted state aid is devised, it will be difficult to explain and provide a rationale for financial resources earmarked for those purposes.

In view of the above, in the course of 2012 the Agency will, starting from its experiences and acquired knowledge in this area, as well as the best practices of other countries, prepare a single guidance whereby it wishes to contribute to the defining of a procedure for a state aid impact analysis, whether for state aid granted under state aid schemes, or the one targeting individual state aid beneficiaries, thereby helping aid providers introduce a credible state aid impact assessment in their respective sectors. In this process each aid provider will have to clearly specify the objectives of a specific measure or aid scheme/programme or state aid project, the duration of the respective measure, the period in which the first impacts of the state aid measure can be expected, evaluate results in each application of the measure in case of multi-annual state aid schemes, and also exact indicators for measuring the impacts of each specific state aid will be set.