



**REPUBLIC OF CROATIA**

**CROATIAN COMPETITION AGENCY**

**ANNUAL REPORT**

**on State Aid for 2007**

**(English summary)**

**November 2008**

## CONTENTS

1. INTRODUCTION	3
2. STATE AID IN 2007	5
2.1. Categories of state aid	9
2.2. State aid instruments	10
2.2.1. <i>State guarantees</i>	14
3. AGRICULTURE AND FISHERIES	16
4. INDUSTRY AND SERVICES	18
4.1. HORIZONTAL AID	19
4.1.1. <i>Research and development and innovation</i>	20
4.1.2. <i>Environmental protection and energy saving</i>	21
4.1.3. <i>Employment</i>	22
4.1.4. <i>Small and medium-sized enterprises</i>	23
4.1.5. <i>Training</i>	25
4.1.6. <i>Culture</i>	26
4.2. SECTOR-SPECIFIC AID	26
4.2.1. <i>Steel industry</i>	28
4.2.2. <i>Shipbuilding</i>	30
4.2.3. <i>Land, maritime and air transport</i>	32
4.2.4. <i>Tourism</i>	34
4.2.5. <i>Other industries</i>	35
4.2.6. <i>Rescue and restructuring</i>	35
5. REGIONAL AID	37
6. STATE AID AT LOCAL AND REGIONAL LEVEL	38
7. DE MINIMIS AID	39
8. CROATIA COMPARED TO EU	41
9. Appendix 1 <i>Aid instruments</i>	44
10. Appendix 2 <i>Aid categories</i>	47

## 1. INTRODUCTION

Croatian Competition Agency (CCA) submits the annual report on State aid for the preceding year to the Croatian Parliament within the meaning of Article 20 of the State Aid Act (OG 140/05). This is the fifth annual report on state aid since the first State Aid Act entered into force in 2003.

This annual report provides for an analytical overview of state aid granted in 2007. It also includes the revised data for 2005 and 2006 in order to ensure better comparison of the amounts of aid granted in the previous periods. The methodology used was that used by the European Commission in the State aid Scoreboard.

Although agriculture and fisheries are excluded from the application of the State Aid Act and as such together with some other sectors, such as food and tobacco manufacturing, beverages industry or fish processing, do not fall under the jurisdiction of the CCA, for the purpose of transparency and comprehensiveness this annual report nevertheless includes the data received from the competent ministry and provides an overview of state aid in the above mentioned sectors.

Hence, besides the total state aid granted and that granted to particular sectors in the report period the CCA Annual Report on State Aid for 2007<sup>1</sup> also gives an overview of aid to horizontal objectives. The annual report thus serves as an analytical tool in the monitoring of state aid granted in compliance with certain strategic objectives and as a useful indicator of effectiveness of certain sectors finding the balance between the received aid and the realized economic growth. This also enables the comparison of the level of state aid granted in Croatia with the data on the Community level and at the same time at the level of certain reference EU Member States.

The total state aid in Croatia in 2007 has risen by 13 % in comparison with 2006, whereas in 2006 this total state aid level had been 56 % higher than in 2005. At the same time, in 2007 the share of aid to GDP indicates an upward trend of 3.3 % whereas in 2006 it was 3.2 %. The upward trend is shown both relative to aid per employee as well as to aid per capita. The total aid less aid to agriculture and fisheries has risen in 2007 by 6.8 % compared with the data from 2006. However, this increase in total aid is significantly lower than the one recorded in 2006 which then had been 83 %. Hence, in the three-year period it is evident that measured by different parameters the upward trend in the level of total state aid granted has slowed down.

Nevertheless, a still high share of aid to GDP and the structure of aid which remains unchanged and where aid to specific sectors still outweighs aid to horizontal objectives reveals a necessity of structural adjustments and a shift away from aid to individual sectors or companies towards horizontal objectives.

Given the recorded rise in sector specific aid in the total amount of state aid granted the downward trend in the share of state aid to horizontal objectives is evident in the past three-year period.

---

<sup>1</sup> This is an English summary of the CCA Annual Report on State Aid for 2007 which is in its full version in Croatian available on the CCA web site: [http://www.aztn.hr/izvjesce\\_o\\_r.htm](http://www.aztn.hr/izvjesce_o_r.htm)

The share of aid to horizontal objectives in the total amount of state aid granted to industry and services amounts to 14.3 %, whereas the high share of sector specific aid amounts to a relatively high 74 %.

Regional aid indicates a slight but stable upward shift which may be considered a positive trend.

The prevailing aid instruments in 2006 and 2007 remain grants and state guarantees followed by tax exemptions.

The Croatian Competition Agency which is in the Republic of Croatia entrusted with a specific task of promoting competition culture endeavours to cooperate and provide expert assistance to all aid providers in the state aid policy making. State aid advocacy including permanent training of all aid providers and the entire business community remains in the focus of the CCA activities. The relevant EU subordinate legislation is constantly subject to revisions and changes which with the view to increasing its availability has in the last two years been translated and published in Croatian in the Official Gazette.

As a part of an effective competition regime state aid control remains important not only to ensure a level playing field for all undertakings in the market but also to increase competitiveness and attract domestic and foreign investment. The redirection of state aid to horizontal objectives and increased accessibility of aid for a greater number of undertakings, especially in respect of state aid for research and development and innovation (R&D&I), environmental protection, employment, regional development, contributes to economic and regional growth and raising competitiveness of the strategic industries. Conversely, selective state aid to particular undertakings, particularly those which are considered firms in difficulty involving rescue and restructuring aid and subject to individual compatibility assessment of the CCA, should become more an exception to the rule, a "one time, last time" injection with the view to establishing a long-term viability of a particular undertaking on the market.

The EU state aid policy is comprised under the well known term of "less and better targeted aid" which eliminates the market failures and which is particularly implemented in the area of services of general economic interest (SGEI), R&D&I, information technology and regional development, represents a major prerequisite of a well-functioning Community market in future.

In the forthcoming period, the most important task in the state aid area is to improve the economic rationale of structural reforms and other policies which will be decisive in the selection of economic goals which are to be attained through state intervention. Such behaviour in the implementation of a sound state aid policy will bring Croatia closer to the state aid regimes applicable in the EU Member States and increase its competitiveness on the global scale.

In the accession period the CCA remains the authority in charge of state aid, particularly relating to the enforcement of state aid rules and monitoring of state aid awards. The Government of the Republic of Croatia, the ministries, funds, local administration units and other aid providers, on the other hand, must create and implement the state aid policy of the country. The analyses and data contained in the annual reports of the CCA

are the means of indicating the efficiency and effectiveness of the work of all mentioned competent authorities involved.

## 2. STATE AID IN 2007

State aid granted in Croatia in 2007 amounted to HRK 8.947,4 million, which is 13 % more than in 2006. The share of total state aid in GDP in 2007 amounted to 3.3 %, which is 2.8 % more than in the previous year.

State aid per employee in 2007 amounts to HRK 5.898,5, which is an increase of 9.5 % compared to 2006 when aid per employee amounted to 5.388,6 HRK. The rise of per capita state aid was from 1.797,7 HRK in 2006 to HRK 2.033,5 in 2007, which is an increase of 13 %.

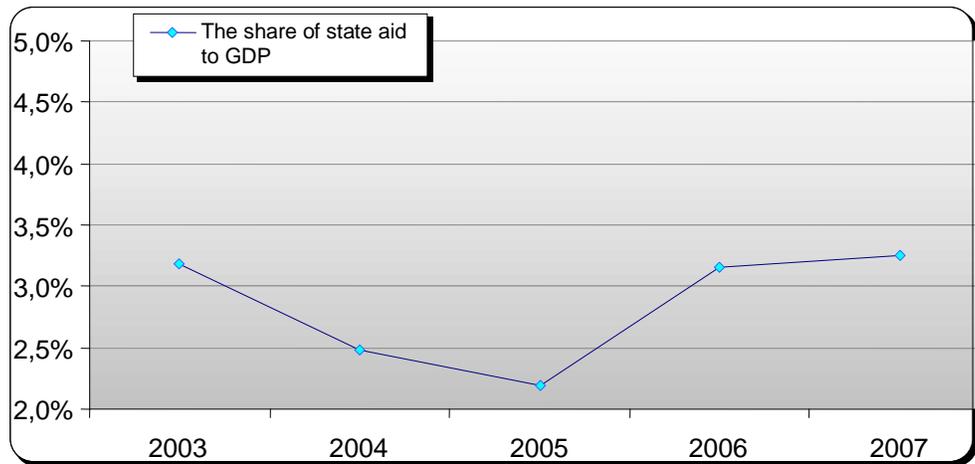
**Table 1:** Total state aid granted 2005 - 2007

	Measure	2005	2006	2007	Indices	
					2006/2005	2007/2006
State aid	mil HRK	5.057,4	7.909,8	8.947,4	156	113
State aid	mil EUR	683,4	1.080,2	1.219,7	158	113
GDP	mil HRK	231.348,8	250.590,4	275.078,2	108	110
GDP	mil EUR	31.263,2	34.220,3	37.496,9	109	110
Government expenditure	mil HRK	89.686,3	97.858,4	111.998,4	109	114
Government expenditure	mil EUR	12.119,7	13.363,4	15.266,9	110	114
Employees	number	1.420.574,0	1.467.876,0	1.516.909,0	103	103
State aid share in GDP	%	2,19	3,16	3,25	144	103
State aid per employee	HRK	3.560,1	5.388,6	5.898,5	151	109
State aid per employee	EUR	481,1	735,9	804,0	153	109
State aid share in government expenditure	%	5,64	8,08	7,99	143	99
Per capita state aid	HRK	1.149,4	1.797,7	2.033,5	156	113
Per capita state aid	EUR	155,3	245,5	277,2	158	113

Source: Croatian Bureau of Statistics, Ministry of Finance (statistical survey of budgetary expenditure);  
Data processed in CCA.

The increase of the total state aid in 2007 compared to 2006 has been due to significant rise of aid for agriculture and fisheries, rescue aid awarded to shipyards, aid to transport sector (Croatian Railways), aid to the steel sector (within the privatization process of Željezara Split d.d. and Valjaonica cijevi Sisak d.o.o.) steel works and rescue and restructuring aid etc.

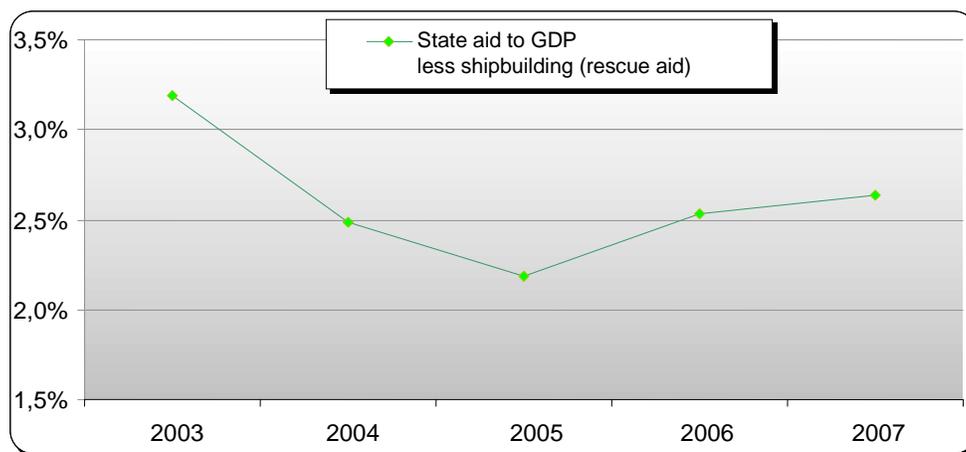
**Picture 1: The share of total state aid to GDP 2003 – 2007**



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

Picture 1 shows that the significant increase in the absolute level of state aid started in 2006 due to the growth of state aid granted to the shipbuilding industry, first through the rescue aid package in 2006 when the shipyards in difficulty had been granted rescue aid in the total amount of 4.2 billion HRK state guarantees, whereas 1.55 billion HRK hereof had been invoked state guarantees by the end of 2006. In 2007 HRK 1.7 billion were invoked state guarantees. This had appreciably contributed to the growth of the absolute level of state aid in 2006. Without the rescue aid granted to shipyards in 2006 the total amount of state aid would have reached 6.357,8 million HRK, whereas the share of state aid to GDP would have amounted to 2.5 % instead of the recorded 3.2 %. In 2007, without rescue aid to shipyards the total amount of state aid would have been 7.246,5 million HRK and the share of state aid to GDP would have been 2.6 % instead of the recorded 3.3 %.

**Picture 2: The share of state aid to GDP 2003 – 2007  
(less rescue aid to shipyards in 2006 and 2007)**



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

If Picture 1 which indicates the trend of the share of aid to GDP in the period from 2003 to 2007 is compared with Picture 2 which indicates the trend in the share of aid to GDP in the same period but less rescue aid to shipyards, starting from 2005 an upward trend in total state aid is evident, notwithstanding the aid granted for rescuing of shipyards. These indicators provide an indication of a constant upward trend in state aid in the three-year period from 2005 to 2007. In other words, it is clear that this increasing trend has not only been influenced on the account of aid for the shipbuilding sector but also through other state aid, particularly in the transport sector, agriculture and fisheries.

Taking into account the fact that the State Aid Act does not apply to state aid to agriculture and fisheries and the fact that the majority of state aid to transport sector relates to compensation costs in carrying out services of general economic interest, the analyses and tables used in this annual report indicate the amounts of state aid less agriculture and fisheries and transport and less state aid to railways which is in compliance with the EU practice.

**Table 2:** State aid from 2005 – 2007 (less agriculture, fisheries and transport)

	Measure	2005	2006	2007
Amount of state aid	mil HRK	2.517,7	3.979,6	4.330,1
Amount of state aid	mil EUR	340,2	543,5	590,3
GDP	mil HRK	231.348,8	250.590,4	275.078,2
GDP	mil EUR	31.263,2	34.220,3	37.496,9
State aid share in GDP	%	1,09	1,59	1,57

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

State aid in 2007 less agriculture and fisheries and transport amounted to 4.330,1 million HRK which is 8.8 % more than in 2006 when the same state aid amounted to 3.979,6 million HRK and 72 % more than in 2005 when state aid amounted to 2.517,7 million HRK.

The railway sector in the Republic of Croatia indicates the same specificity as in the EU, since state aid to a public activity is always directly related to the liberalization process of the services in the railway industry. Given their special status, state aid granted to railways is for the purposes of certain analyses excluded from the total state aid.

**Table 3:** Total state aid from 2005 – 2007  
(including agriculture and fisheries, less railways)

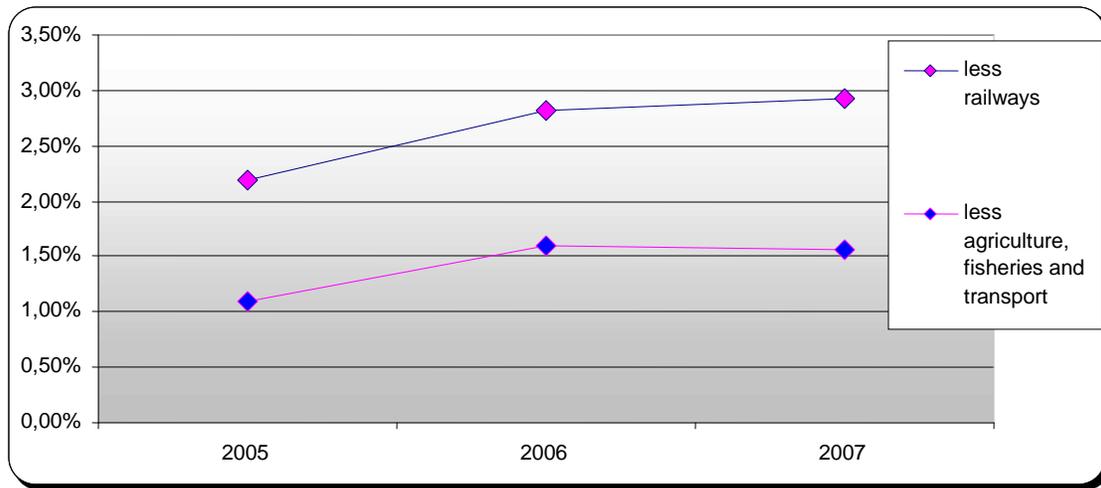
	Measure	2005	2006	2007
Amount of state aid	mil HRK	5.057,4	7.037,2	8.041,6
Amount of state aid	mil EUR	683,4	961,0	1.096,2
GDP	mil HRK	207.028,0	229.031,0	250.590,0
GDP	mil EUR	27.976,6	31.276,2	34.158,9
State aid share in GDP	%	2,44	3,07	3,21

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

In 2007 state aid to railways amounted to 905.8 million HRK.

Picture 3 indicates both figures relating to the share of state aid to GDP less agriculture and fisheries and transport and excluding only railways.

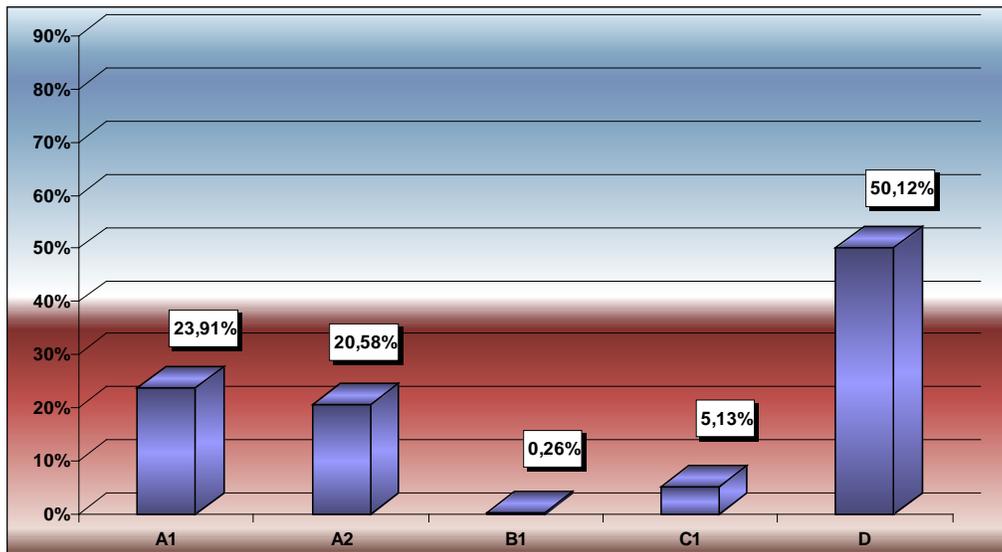
**Picture 3:** Share of state aid to GDP from 2005 – 2007



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

State aid (less agriculture and fisheries and transport) has been granted in 2007 through different aid instruments. Picture 4 shows that the most represented aid instruments have been state guarantees (50.1 %) and grants (23.9 %) followed by tax exemptions (20.6 %), whereas 5.4 % of the used aid instruments were soft loans and equity participation.

**Picture 4:** State aid by instruments in 2007  
(less agriculture, fisheries and transport)



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

## 2.1. Categories of state aid

State aid is basically divided into the following categories of aid:

- horizontal aid (aid for R&D&I, aid for environmental protection and energy saving, aid for small and medium-sized enterprises (SMEs), aid for employment etc.),
- sector-specific aid which is exclusively aimed at fostering development of selected sectors, such as the transport sector, steel industry, shipbuilding etc.,
- regional aid which promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment.

**Table 4:** State aid amounts specified by aid categories 2005 - 2007

Category	2005			2006			2007		
	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)
1. <i>Agriculture and fisheries</i>	2.124,7	287,1	42,01	2.535,5	346,2	32,06	3.210,2	437,6	35,88
2. <i>Industry and services</i>	2.932,7	396,3	57,99	5.374,3	733,9	67,94	5.737,3	782,1	64,12
<i>Horizontal objectives</i>	833,6	112,6	16,48	929,8	127,0	11,75	822,2	112,1	9,19
Research and development and innovation	129,3	17,5	2,56	138,8	19,0	1,76	160,9	21,9	1,80
Environmental protection and energy saving	6,9	0,9	0,14	23,9	3,3	0,30	20,8	2,8	0,23
SMEs	44,5	6,0	0,88	241,2	32,9	3,05	42,2	5,8	0,47
Training	75,1	10,1	1,48	101,2	13,8	1,28	182,7	24,9	2,04
Employment	267,7	36,2	5,29	334,5	45,7	4,23	360,1	49,1	4,02
Culture	75,1	10,1	1,48	90,2	12,3	1,14	55,4	7,6	0,62
Other objectives	235,0	31,8	4,65	0,0	0,0	0,00	0,0	0,0	0,00
<i>Specific sectors</i>	1.814,4	245,2	35,88	4.029,6	550,3	50,94	4.240,1	578,0	47,39
Steel industry	16,5	2,2	0,33	1,0	0,1	0,01	196,3	26,8	2,19
Transport	415,0	56,1	8,21	1.394,6	190,5	17,63	1.407,1	191,8	15,73
Shipbuilding	642,8	86,9	12,71	2.198,7	300,3	27,80	2.306,6	314,4	25,78
Tourism	182,0	24,6	3,60	261,0	35,6	3,30	178,4	24,3	1,99
Other sectors	56,2	7,6	1,11	166,2	22,7	2,10	40,4	5,5	0,45
Rescue and restructuring	501,9	67,8	9,92	8,1	1,1	0,10	111,2	15,2	1,24
<i>Regional aid</i>	149,8	20,2	2,96	282,0	38,5	3,57	480,2	65,5	5,37
<i>Aid at local level</i>	134,9	18,2	2,67	132,8	18,1	1,68	194,8	26,6	2,18
<b>TOTAL</b>	<b>5.057,4</b>	<b>683,4</b>	<b>100,00</b>	<b>7.909,8</b>	<b>1.080,2</b>	<b>100,00</b>	<b>8.947,4</b>	<b>1.219,7</b>	<b>100,00</b>

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

As indicated in Table 4, the highest share of state aid from 2005 – 2007 has been attributed to sector-specific aid, particularly aid to agriculture and fisheries and shipbuilding and transport industry. The aid granted to these sectors increased in 2007 by HRK 1.037,6 million compared with 2006, or by HRK 3.741,4 million compared with 2005. Sector-specific aid holds also the highest share in total state aid with some 51 % share in 2006 and 47 % in 2007.

At the same time, the data indicating the levels of aid to horizontal objectives which in the preceding period amount from HRK 820 to HRK 930 million annually, point towards

no significant changing trends as to their levels. Taking everything into account, the downward trend in the share of aid to horizontal objectives shows that in 2007 the share of aid to horizontal objectives as % of total aid was 9.2 %, in 2006 11.8 % and in 2005 16.5 %. However, regional aid shows a positive trend – it increases both in the absolute amounts and relative indicators. In 2005 regional aid amounted to HRK 150 million, in 2006 HRK 282 million and in 2007 HRK 480 million. The share of regional aid as % of total aid in 2007 was 5.4 %.

Given the fact that state aid towards horizontal objectives affects competition appreciably less than other categories of aid, it is necessary also for Croatia in the view to raising competitiveness and achieving a well balanced regional development must continue to redirect aid towards horizontal and regional objectives. At the same time the level of sector-specific aid must be reduced taking into account its anticompetitive effects and its generally unappreciable contribution to overall economic development.

## **2.2. State aid instruments**

State aid is awarded through various aid instruments, such as<sup>2</sup>:

- A1 – grants
- A2 – tax exemptions, debt write offs and reduction in social security contributions
- B1 – equity participation
- C1 – soft loans
- D – guarantees

The most represented aid instruments in Croatia are traditionally grants and state guarantees. In the area of agriculture and fisheries the most represented are grants, whereas sector specific aid is usually awarded through state guarantees. State guarantees play a major part in the shipbuilding sector given that the financing of this sector would be almost impossible without guarantees. It must be noted here that tax exemptions as an aid instrument indicate an increasing trend or in other words, their share has been growing and it is expected that this positive trend will continue taking into account a number of aid schemes which provide for tax advantages for certain activities of undertakings (such as R&D&I, new investment, training etc) and particular laws which regulate aid intensities and aid instruments in particular areas or industries.<sup>3</sup>

---

<sup>2</sup> Annex I gives a list of aid instruments and respective aid element calculations.

<sup>3</sup> Investment Promotion Act (OG 138/2006), Act on the Amendments to the Free Zones Act (OG 85/08), Act on the Amendments to the Act on Reconstruction and Development of the Town of Vukovar (OG 80/08), Act on Amendments to the Act on Hilly and Mountainous Areas (OG 80/08), Act on Areas of Special State Concern (OG 86/08), Scientific Activity and Higher Education Act (OG 46/07), Act on State Aid for Education and Training (OG 134/07).

**Table 5: State aid amounts specified by aid instruments in 2005 (in mil HRK)**

Category		A1	A2	B1	C1	D	Total
1.	<i>Agriculture and fisheries</i>	1.992,1	0,0	0,0	0,0	132,6	2.124,7
2.	<i>Industry and services</i>	1.458,1	920,2	44,7	28,4	481,3	2.932,7
	<i>Horizontal objectives</i>	367,2	466,4	0,0	0,0	0,0	833,6
	Research and development and innovation	4,8	124,6	0,0	0,0	0,0	129,3
	Environmental protection and energy saving	6,9	0,0	0,0	0,0	0,0	6,9
	SMEs	44,5	0,0	0,0	0,0	0,0	44,5
	Training	1,0	74,1	0,0	0,0	0,0	75,1
	Employment	0,0	267,7	0,0	0,0	0,0	267,7
	Culture	75,1	0,0	0,0	0,0	0,0	75,1
	Other objectives	235,0	0,0	0,0	0,0	0,0	235,0
	<i>Specific sectors</i>	<b>953,9</b>	<b>317,4</b>	<b>44,7</b>	<b>20,9</b>	<b>477,5</b>	<b>1.814,4</b>
	Steel industry	0,0	0,0	0,0	0,9	15,6	16,5
	Transport	372,8	0,0	17,8	0,0	24,4	415,0
	Shipbuilding	431,2	0,0	3,1	0,0	208,5	642,8
	Tourism	88,1	0,0	2,1	0,0	91,8	182,0
	Other sectors	24,7	0,0	11,5	20,0	0,0	56,2
	Rescue and restructuring	37,0	317,4	10,3	0,0	137,2	501,9
	<i>Regional aid</i>	<b>14,0</b>	<b>135,7</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>149,8</b>
	<i>Aid at local level</i>	<b>123,0</b>	<b>0,7</b>	<b>0,0</b>	<b>7,4</b>	<b>3,8</b>	<b>134,9</b>
	<b>TOTAL</b>	<b>3.450,2</b>	<b>920,2</b>	<b>44,7</b>	<b>28,4</b>	<b>613,9</b>	<b>5.057,4</b>

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

Table 5 shows that in 2005 the major share of some 68 % of total aid was awarded through grants throughout the aid categories and sectors (agriculture and fisheries, transport and shipbuilding). Grants were followed by tax exemptions with some 18 % share and state guarantees with 12 %.

**Table 6:** State aid amounts specified by aid instruments in 2006 (in mil HRK)

Category		A1	A2	B1	C1	D	Total
1.	<i>Agriculture and fisheries</i>	2.448,2	0,0	0,0	0,0	87,3	2.535,5
2.	<i>Industry and services</i>	1.970,9	723,2	403,5	203,1	2.073,6	5.374,3
	<i>Horizontal objectives</i>	301,9	456,6	0,0	166,2	5,0	929,8
	Research and development and innovation	17,3	121,5	0,0	0,0	0,0	138,8
	Environmental protection and energy saving	19,6	0,0	0,0	4,3	0,0	23,9
	SMEs	74,2	0,0	0,0	162,0	5,0	241,2
	Training	1,9	99,3	0,0	0,0	0,0	101,2
	Employment	98,6	235,9	0,0	0,0	0,0	334,5
	Culture	90,2	0,0	0,0	0,0	0,0	90,2
	Other objectives	0,0	0,0	0,0	0,0	0,0	0,0
	<i>Specific sectors</i>	1.517,6	6,0	403,5	33,9	2.068,6	4.029,6
	Steel industry	0,0	0,0	0,0	1,0	0,0	1,0
	Transport	893,3	0,0	403,5	0,0	97,9	1.394,6
	Shipbuilding	484,7	0,0	0,0	0,0	1.714,0	2.198,7
	Tourism	102,1	0,0	0,0	29,9	129,0	261,0
	Other sectors	37,5	0,0	0,0	3,1	125,6	166,2
	Rescue and restructuring	0,0	6,0	0,0	0,0	2,1	8,1
	<i>Regional aid</i>	18,5	260,6	0,0	2,9	0,0	282,0
	<i>Aid at local level</i>	132,8	0,0	0,0	0,0	0,0	132,8
<b>TOTAL</b>		<b>4.419,1</b>	<b>723,2</b>	<b>403,5</b>	<b>203,1</b>	<b>2.160,9</b>	<b>7.909,8</b>

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

In 2006 grants were awarded in the amount of some HRK 4.4 billion or their share in total aid instruments was 55 %. 2006 at the same time indicates a rise in state guarantees amounting to HRK 2.2 billion or 27 % in total aid instruments. The major part of grants was awarded to agriculture, fisheries, shipbuilding and transport, whereas state guarantees were usually contained in the awards to shipbuilding and tourism.

Similarly as in the EU, the biggest beneficiaries of tax exemptions are undertakings which benefit from horizontal aid, such as aid for employment, R&D&I and regional investment aid.

**Table 7: State aid amounts specified by aid instruments in 2007 (in mil HRK)**

Category		A1	A2	B1	C1	D	Total
1.	<i>Agriculture and fisheries</i>	3.152,5	0,0	12,3	0,0	45,3	3.210,2
2.	<i>Industry and services</i>	2.028,8	891,3	424,8	222,2	2.170,1	5.737,3
	<i>Horizontal objectives</i>	378,8	391,2	0,0	44,0	8,3	822,2
	Research and development and innovation	4,9	156,0	0,0	0,0	0,0	160,9
	Environmental protection and energy saving	18,4	0,0	0,0	2,3	0,0	20,8
	SMEs	0,6	0,0	0,0	41,6	0,0	42,2
	Training	127,4	55,4	0,0	0,0	0,0	182,7
	Employment	172,1	179,8	0,0	0,0	8,3	360,1
	Culture	55,4	0,0	0,0	0,0	0,0	55,4
	Other objectives	0,0	0,0	0,0	0,0	0,0	0,0
	<i>Specific sectors</i>	1.480,0	196,3	417,7	0,0	2.146,2	4.240,1
	Steel industry	0,0	196,3	0,0	0,0	0,0	196,3
	Transport	993,6	0,0	413,5	0,0	0,0	1.407,1
	Shipbuilding	386,1	0,0	0,0	0,0	1.920,5	2.306,6
	Tourism	56,3	0,0	0,0	0,0	122,1	178,4
	Other sectors	40,4	0,0	0,0	0,0	0,0	40,4
	Rescue and restructuring	3,5	0,0	4,2	0,0	103,5	111,2
	<i>Regional aid</i>	0,0	301,9	0,0	178,2	0,0	480,2
	<i>Aid at local level</i>	170,1	1,9	7,1	0,0	15,7	194,8
<b>TOTAL</b>		<b>5.181,3</b>	<b>891,3</b>	<b>437,1</b>	<b>222,2</b>	<b>2.215,5</b>	<b>8.947,4</b>

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

2007 indicated the upward trend of grants both in absolute and relative amounts and their share in total state aid amounted to 58 % which mostly covered the agricultural sector and fisheries (61 %), transport (19 %) and shipbuilding (7.5 %). The absolute amounts in state guarantees remained at the same level as in 2006, whereas their share in total aid decreased and amounted to 25 %. At the same time tax exemptions recorded an upward trend, particularly concerning the regional investment aid, aid for employment, R&D&I. State aid in the form of debt write offs was recorded in the restructuring process of the steel sector.

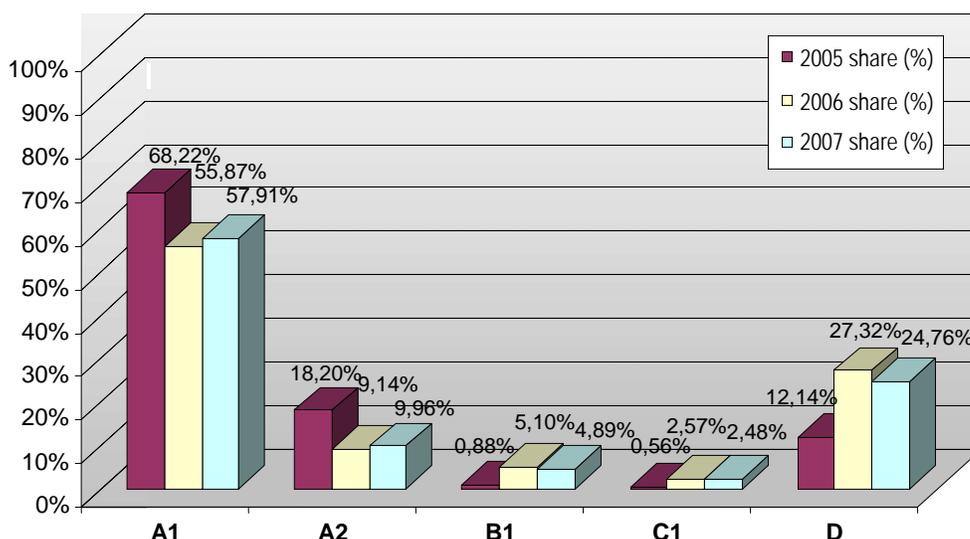
**Table 8: State aid amounts specified by aid instruments from 2005 – 2007 (including agriculture and fisheries)**

	2005			2006			2007		
	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)
A1	3.450,2	466,2	68,22	4.419,1	603,5	55,87	5.181,3	706,3	57,91
A2	920,2	124,4	18,20	723,2	98,8	9,14	891,3	121,5	9,96
B1	44,7	6,0	0,88	403,5	55,1	5,10	437,1	59,6	4,89
C1	28,4	3,8	0,56	203,1	27,7	2,57	222,2	30,3	2,48
D	613,9	83,0	12,14	2.160,9	295,1	27,32	2.215,5	302,0	24,76
	5.057,4	683,4	100,00	7.909,8	1.080,2	100,00	8.947,4	1.219,7	100,00

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

In the total amount of state aid (including agriculture and fisheries) in the three-year period, grants held the biggest share, followed by state guarantees and tax exemptions. Equity participation and soft loans in the reported period amounted between 1 % and 5 %.

**Picture 5:** Total state aid by aid instruments from 2005 – 2007



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

State guarantees issued in 2007 indicated a 39 % increase compared with 2006, but it is necessary to note here that not all issued state guarantees contain state aid.

### 2.2.1. State guarantees

State guarantees are considered specific aid instruments which within the meaning of the state aid rules do not generally constitute state aid. The CCA considers in the assessment of every particular case that the fulfilment of all the following conditions ensures that an individual state guarantee does not constitute State aid: (a) the borrower is not in financial difficulty; (b) the borrower would in principle be able to obtain a loan on market conditions from the financial markets without any intervention by the State; (c) the guarantee is linked to a specific financial transaction, is for a fixed maximum amount, does not cover more than 80 % of the outstanding loan or other financial obligation and is not open-ended; (d) the market price for the guarantee is paid (which reflects, amongst others, the amount and duration of the guarantee, the security given by the borrower, the borrower's financial position, the sector of activity and the prospects, the rates of default, and other economic conditions).<sup>4</sup>

Failure to comply with any one of the above conditions does not mean that such guarantee or guarantee scheme is automatically regarded as state aid. The guarantee

<sup>4</sup> Decision on the publication of the rules on state aid in the form of guarantees (OG 13/08).

will be considered to constitute state aid only in the event it is invoked or where it is given to cover the loan granted to a firm in difficulty. In all other cases, the aid element in the guarantee will be assessed on the basis of the set calculation methods and in line with the Ordinance on the form and content of the notification and the method of data collecting and keeping the state aid register (OG 11/05). A detailed assessment of the aid element in the given state guarantees is provided in the particular sections of this annual report covering state aid to the steel sector, shipbuilding and restructuring aid.

**Table 9:** State guarantees from 2005 - 2007 (in mil HRK)

No.	Description	2005	2006	2007
1.	Total guarantees issued	7.168,09	10.871,85	15.122,26
2.	Issued state guarantees which are not state aid	2.767,45	6.176,74	10.284,94
3.	Issued state guarantees containing aid elements (1-2)	4.400,64	4.695,10	4.837,32
4.	Amount of aid involved in issued state guarantees containing aid elements (in the row 3)	235,53	1.764,18	1.920,51
5.	Invoked guarantees	374,53	391,75	279,25
6.	Other guarantees (local etc.)	3,84	5,00	15,72
7.	Total state aid contained in state guarantees (4+5+6)	613,90	2.160,94	2.215,47

Source: Ministry of Finance; data processed in CCA

Table 9 shows the total of granted or issued state guarantees in the Republic of Croatia in 2005, 2006 and 2007 (1) and the aid elements of these guarantees (4-7). State guarantees which do not constitute aid are also shown (2), and they have been given predominantly for infrastructure (construction and maintenance of motorways and roads, railway infrastructure, gas pipelines, coastal infrastructure), state guarantees of the Croatian HEP (electricity, gas, heat), Zagreb Hospital and Clinic Centre), state guarantees for a public institution Paklenica National Park and state guarantees to undertakings which do not satisfy the exemption criteria and as such do not constitute state aid. The latter amount to HRK 4.8 billion in 2007 and the cash grant equivalent of the state guarantees concerned amounts to HRK 1.9 million.

The risk of default was 8.5 % in 2005, 8.3 % in 2006, 5.8 % in 2007 calculated as a share of invoked guarantees in total of issued state guarantees containing an aid element for each particular year.

**Table 10:** Default risk in the period from 2005 – 2007 (in mil HRK)

No.	Description	2005	2006	2007
1.	Issued state guarantees containing aid elements	4.400,64	4.695,10	4.837,32
2.	Invoked guarantees	374,53	391,75	279,25
3.	Risk rate (2/1)	8,51%	8,34%	5,77%

Source: Ministry of Finance; data processed in CCA

This carrying of a risk by the state should normally be remunerated by an appropriate premium. The risk factor or the probability of default is especially important for premiums paid for state guarantees.<sup>5</sup>

<sup>5</sup> Pursuant to the Act on the Execution of the State Budget (OG 137/06) the premium was set at 0.5 % of the granted state guarantee.

### 3. AGRICULTURE AND FISHERIES

Within the meaning of the State Aid Act, the provisions of the State Aid Act and the relevant subordinate legislation do not apply to state aid to agriculture and fisheries and as such state aid concerned does not fall under the competence of the CCA. However, state aid to agriculture and fisheries has been included in this annual report in the sense of awards granted within the report period, in accordance with the data received from the Ministry of Agriculture, Fisheries and Rural Development, the Ministry of Regional Development, Forestry and Water Management, Ministry of Finance and data on the execution of the state budget.

State aid to agriculture and fisheries amounted to 3,210.2 million HRK in 2007 which is a rise of 26.6 % compared with 2006, 51.1 % more than in 2005. In 2007 the amount of state aid to agriculture increased by more than HRK 1.1 billion compared to 2005.

**Table 11:** Total state aid and share of aid to agriculture and fisheries from 2005 –2007

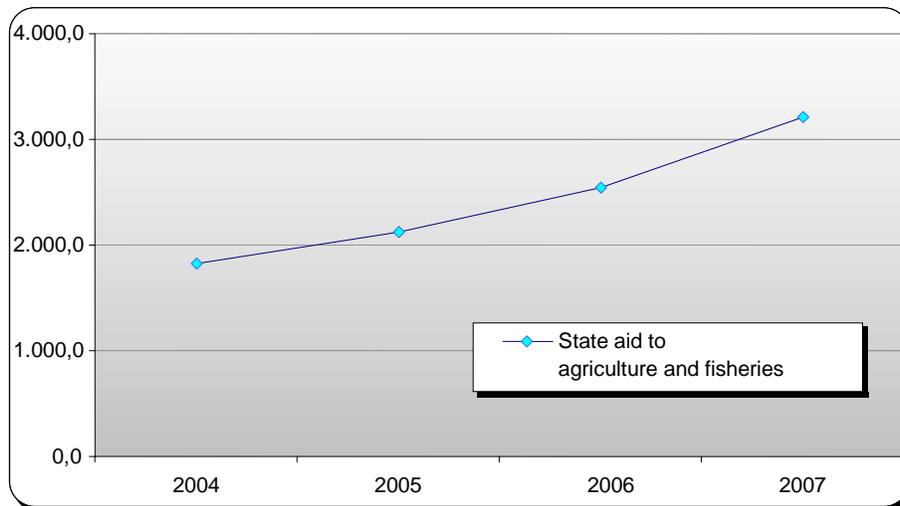
Agriculture and fisheries	2005		2006		2007		Index	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR	2006/2005	2007/2006
Aid to agriculture and fisheries	2.124,7	287,1	2.535,5	346,2	3.210,2	437,6	151,1	126,6
Total state aid	5.057,4	683,4	7.909,8	1.080,2	8.947,4	1.219,7	176,9	113,1
share (%) in total state aid	42,01		32,06		35,88		85,4	111,9
share (%) in GDP	0,92		1,01		1,17		127,1	115,3

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

In 2007 the share of state aid to agriculture and fisheries in total state aid amounted to 35.9 %, in 2006 32.1 %, whereas in 2005 this share was 42 %. Although the nominal amount of state aid to agriculture and fisheries actually rose in 2007, the relative drop of the share concerned is a result of considerable growth of state aid to industry and services. At the same time the share of state aid to agriculture and fisheries to GDP increased from 0.92 % in 2005 to some 1.2 % in 2007.

In accordance with the data received from the Ministry of Agriculture, Fisheries and Rural Development and the Ministry of Regional Development, Forestry and Water Management the most significant aid instrument in this area was direct subsidies at to certain lower extent state guarantees. Though, it must be noted that the undertakings active in the agriculture sector, which includes food and beverages industry, as well as the undertakings in the fisheries sector, receive state aid in the form of tax exemptions regulated by separate laws, such as the Act on Special State Concern, the Investment Promotion Act etc. which are not included in the above breakdowns.

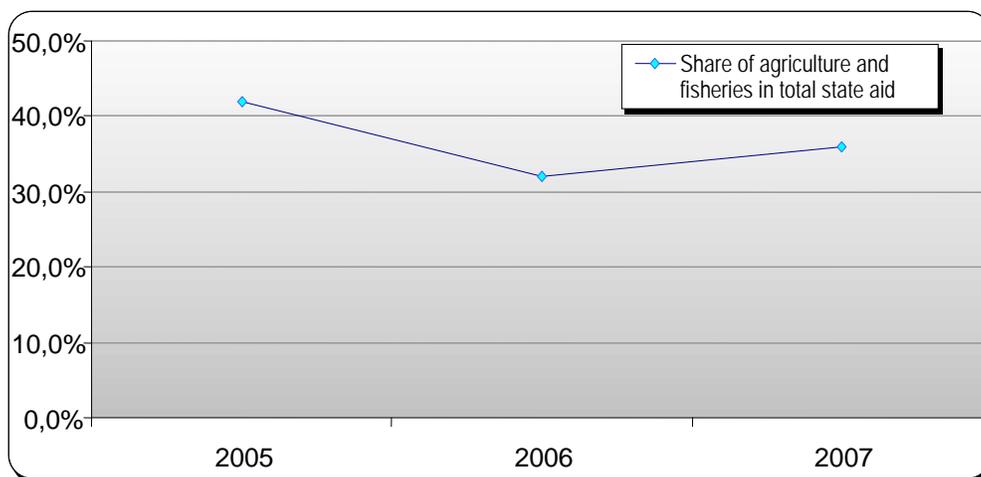
**Picture 6:** Total state aid to agriculture and fisheries from 2004 – 2007 (in mil HRK)



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

As indicated in Picture 6 state aid to agriculture and fisheries indicate a continuous upward trend whereas its share to GDP varies depending on the amounts of state aid awarded to other sectors, such as transport and shipbuilding (Picture 7).

**Picture 7:** Share of aid to agriculture and fisheries in total state aid from 2005 – 2007



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

#### 4. INDUSTRY AND SERVICES

In 2007 state aid granted to industry and services amounted to HRK 5.737,2 million, which is 6.3 % higher than in 2006, and 95.6 % increase compared with 2005. A significant share, some 74 % thereof is sector-specific aid, particularly aid to transport and shipbuilding, steel sector, tourism etc.

In spite of a significant growth of sector-specific aid in 2006 and 2007, the same period indicates at the same time an upward trend in regional aid. Regional receives a favourable treatment due to its contribution to a balanced sustainable economic development of a country as a whole. Regional aid has mainly been awarded pursuant to the Investment Promotion Act, the Free Zones Act, the Act on Areas of Special State Concern and the Act on Hilly and Mountainous Areas.

Notwithstanding the 2007 fall in aid towards horizontal objectives, both relative to its level and share, it must be noted that this cannot be regarded but a statistical fall of this aid category. Namely, in 2007 the limit of de minimis aid has been raised to EUR 200,000 in three fiscal years whereas that this category of aid is concerned to be at least distortive of competition. Due to these minimum distortive effects of de minimis aid on trade between Croatia and the EU this category of aid has not been statistically processed but it has been presented in a separate part of this annual report. As an example, certain aid schemes for innovation, for SMEs or for environmental protection, have been designed by aid providers as exclusively de minimis aid. Thus, even though these amounts of aid have been earmarked for certain objectives they are do not, in line with the EU methodology used here, constitute state aid and as such are neither added to the total state aid nor have they been included in the total amounts of aid per aid category.

Aid awarded by regional and local self-government units shows a steady upward trend. However, given that the local administration also awards de minimis state aid, for the above stated reasons it is clear that the total level of this locally reported aid must have been higher than the recorded HRK 195 million notified to the Agency in 2007.

**Table 12:** State aid from 2005 – 2007 (less agriculture and fisheries)

Category	2005			2006			2007		
	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)	mil HRK	mil EUR	share (%)
<i>Industry and services</i>	2.932,7	396,3	100,00	5.374,3	733,9	100,00	5.737,2	782,1	100,00
<i>Horizontal objectives</i>	833,6	112,6	28,42	929,8	127,0	17,30	822,2	112,1	14,33
<i>Specific sectors</i>	1.814,4	245,2	61,87	4.029,6	550,3	74,98	4.240,1	578,0	73,90
<i>Regional state aid</i>	149,8	20,2	5,11	282,0	38,5	5,25	480,2	65,5	8,37
<i>State aid at local level</i>	134,9	18,2	4,60	132,8	18,1	2,47	194,8	26,6	3,40

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

#### 4.1. HORIZONTAL AID

State aid towards horizontal objectives is aimed at tackling certain problems which may arise in any undertaking, industry and region. In order to solve the problems concerned, usually a market failure, the market and the undertakings concerned may receive support from the state. Under certain criteria these are categories of aid such as aid for research and development and innovation, aid for environmental protection and energy saving, aid for SMEs, risk capital, employment, and training. Although specific in its nature, aid to culture is also considered horizontal aid.

As indicated in Table 13 in 2007 state aid to horizontal objectives amounted to HRK 822.2 million, which is a fall of 11.6 % compared with the previous year. If de minimis aid (which based on the reported data from some aid providers were granted to horizontal objectives, such as innovation, environmental protection, SMEs) had been included in the stated amount of aid the total horizontal aid in the Republic of Croatia would have reached a level of some HRK 900 million. However, given the fact that de minimis aid does not constitute state aid in the sense of the State Aid Act due to its negligible effect on competition and trade, it would be methodologically wrong to include it in the total state aid, in spite of its advantageous effect and the fact that it is allocated from the state resources.

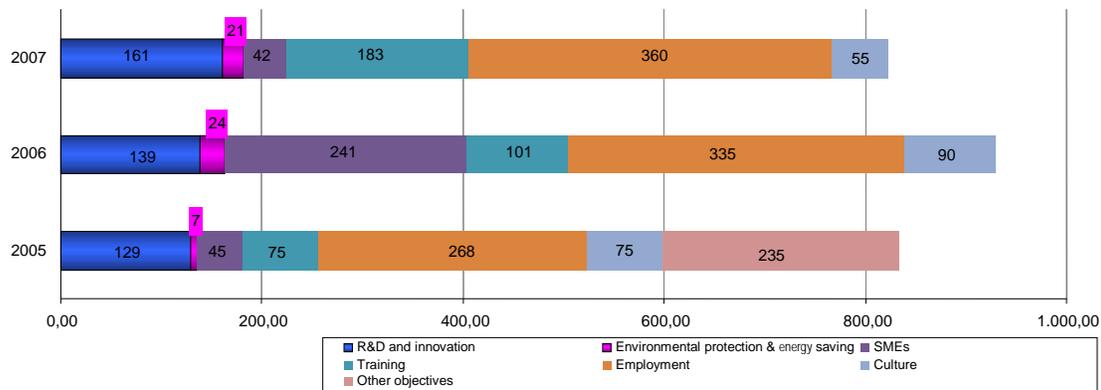
The structure of horizontal aid shows that in 2007 the most represented form was aid to employment with 43.8 % or HRK 360.2 million in the total horizontal aid, followed by training aid with 22.2 %, aid for R&D&I with 19.6 %, aid for cultural objectives with 6.7 %, aid for SMEs with 5.2 %, aid for environmental protection and energy saving with 2.5 %.

**Table 13:** Horizontal aid in the Republic of Croatia from 2005 - 2007

Horizontal aid	2005			2006			2007		
	mil HRK	mil EUR	share in GDP (%)	mil HRK	mil EUR	share in GDP (%)	mil HRK	mil EUR	share in GDP (%)
R&D and innovation	129,3	17,5	0,06	138,8	19,0	0,06	160,9	21,9	0,06
Environmental protection and energy saving	6,9	0,9	0,00	23,9	3,3	0,01	20,8	2,8	0,01
SMEs	44,5	6,0	0,02	241,2	32,9	0,10	42,2	5,8	0,02
Training	75,1	10,1	0,03	101,2	13,8	0,04	182,7	24,9	0,07
Employment	267,7	36,2	0,12	334,5	45,7	0,13	360,2	49,1	0,13
Culture	75,1	10,1	0,03	90,2	12,3	0,04	55,4	7,6	0,02
Other objectives	235,0	31,8	0,10	0,0	0,0	0,00	0,0	0,0	0,00
<b>TOTAL</b>	<b>833,6</b>	<b>112,6</b>	<b>0,36</b>	<b>929,8</b>	<b>127,0</b>	<b>0,37</b>	<b>822,2</b>	<b>112,1</b>	<b>0,30</b>

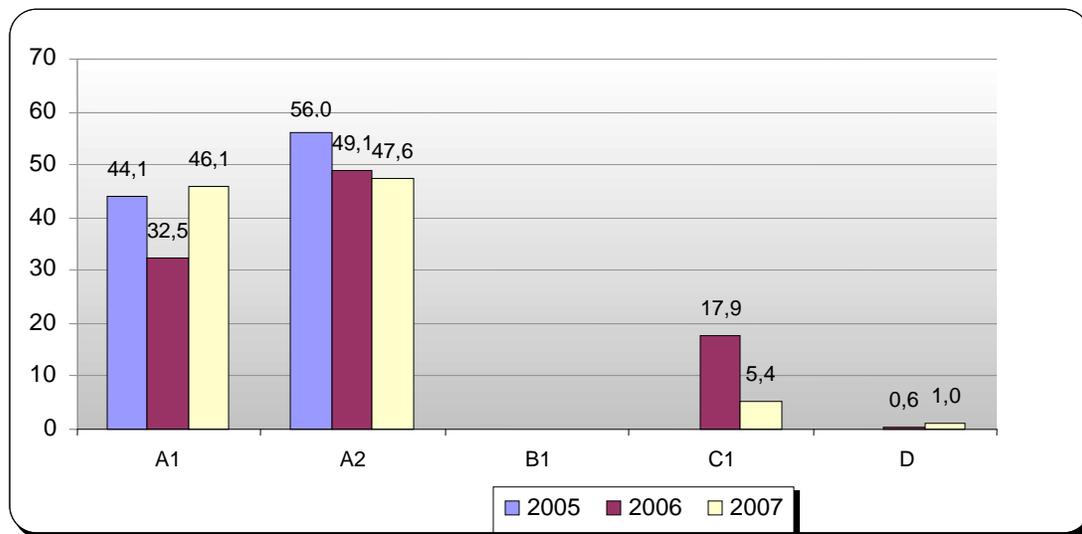
Source: Ministry of Finance, other state aid providers; data processed in CCA

**Picture 8: Horizontal aid from 2005 - 2007 (in mil HRK)**



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

**Picture 9: Share of horizontal aid by aid instruments from 2005 – 2007 (%)**



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

The most represented aid instruments relating to state aid towards horizontal objectives in 2007 have been tax exemptions (47.6 %) and grants (46.1 %).

#### 4.1.1. Research and development and innovation

State aid for R&D&I is granted in line with the Decision on the publication of the rules on state aid for research and development and innovation (OG 84/07). This category of aid shows an upward trend since 2005 which is the result of raising awareness between the aid providers on the importance of this aid category for economic growth. In 2007 HRK 160.9 million aid was earmarked for R&D&I, which is 16 % more than in 2006 when HRK 138.8 million were awarded to the same objective, 24 % more than in 2005 when HRK

129.3 million were granted. A growing trend in this aid category may also be detected as a rise of its share the total state aid to horizontal objectives which in 2007 amounted to some 20 %.<sup>6</sup> Aid for R&D&I was generally awarded in the form of tax exemptions.

**Table 14:** State aid for research and development and innovation from 2005 – 2007

R&D and innovation	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	4,8	0,0	17,3	2,4	4,9	0,7
A2 tax exemptions	124,6	16,8	121,5	16,6	156,0	21,3
<b>TOTAL</b>	<b>129,3</b>	<b>16,8</b>	<b>138,8</b>	<b>19,0</b>	<b>160,9</b>	<b>21,9</b>
share (%) in horizontal objectives	15,51		14,93		19,57	
share (%) in total state aid (less agriculture and fisheries)	4,41		2,58		2,80	
share (%) in total state aid	2,56		1,76		1,80	
share (%) in GDP	0,06		0,06		0,06	

Source: Ministry of Finance; data processed in CCA

During 2007 the Act on the Amendments to the Scientific Activity and Higher Education Act (OG 46/07) entered into force and thereby expanded the system under which tax exemptions are granted in the cases of investment in research and development projects in line with the relevant state aid rules. This will create more favourable conditions for investment in R&D&I projects.

#### 4.1.2. Environmental protection and energy saving

In line with the Decision on the publication of rules on state aid for environmental protection and energy saving (OG 98/07) state aid for environmental protection and energy conservation is aimed at any action designed to remedy or prevent damage to our physical surroundings or natural resources, or to encourage the efficient use of these resources and to adapt to the binding ecological standards.

In accordance with the data available to the CCA in 2007 state aid for environmental protection and energy saving amounted to HRK 20.8 million (less de minimis aid which amounted to some HRK 16 million), whereas in 2006 this amount was HRK 23.9 million and in 2005 HRK 6.9 million.

<sup>6</sup> The Ministry of Science, Education and Sports awarded in 2007 de minimis aid in the form of grants amounting to HRK 2.3 million in line with the Guidelines for the promotion of innovation and the technology TEST system.

**Table 15:** State aid for environmental protection and energy saving from 2005 – 2007

Environmental protection and energy saving	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	6,9	0,9	19,6	2,7	18,4	2,5
C1 soft loans	0,0	0,0	4,3	0,0	2,3	0,3
<b>TOTAL</b>	<b>6,9</b>	<b>0,9</b>	<b>23,9</b>	<b>2,7</b>	<b>20,8</b>	<b>2,8</b>
share (%) in horizontal objectives	0,83		2,57		2,52	
share (%) in total state aid (less agriculture and fisheries)	0,23		0,44		0,36	
share (%) in total state aid	0,14		0,30		0,23	
share (%) in GDP	0,003		0,010		0,008	

Source: Ministry of Finance; data processed in CCA

The majority of aid in this category was awarded by the Environmental Protection and Energy Saving Fund.

The submitted documentation and the data available to the CCA show that in 2007 the Environmental Protection and Energy Saving Fund awarded state aid in compliance with its strategy statement. The aid so awarded amounted to HRK 12.7 million in the form of subsidized interest rate loans granted to undertakings for environmental protection (cleaner production, recycling and hazardous waste disposal). In addition, in 2007 the above mentioned aid provider also granted de minimis aid worth HRK 15.9 million in accordance with the valid de minimis aid scheme (soft loans and subsidized interest rates).

For energy saving the Ministry of the Economy, Labour and Entrepreneurship awarded in 2007 grants amounting to HRK 5.7 million on the basis of the State aid measures for development and manufacturing of the equipment for the use of renewable energy.

In 2007 the Croatian Bank for Reconstruction and Development awarded HRK 2.3 million of state aid on the basis of the Ordinance on general conditions for financing of particular target groups through favourable loans for energy saving.

#### 4.1.3. Employment

Pursuant to state aid rules in this area state aid for employment may be granted for job creation or job maintenance.

In 2007 HRK 360.1 million state aid for employment was granted, which is 7.7 % more than in 2006 when aid for employment amounted to HRK 334.5 million which was 34.5 % more than in 2005. In 2006 and 2007 the prevailing aid instrument in this category of aid were tax advantages and grants, occasionally also state guarantees. The share of employment aid in the total aid to horizontal objectives has constantly been growing, in 2005 employment aid held a 32 % share whereas in 2007 it was some 44 %.

**Table 16:** State aid for employment from 2005 - 2007

Employment	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	0,0	0,0	98,6	13,5	172,1	23,5
A2 tax exemptions	267,7	36,2	235,9	32,2	179,8	24,5
D1 guarantees	0,0	0,0	0,0	0,0	8,3	1,1
<b>TOTAL</b>	<b>267,7</b>	<b>36,2</b>	<b>334,5</b>	<b>45,7</b>	<b>360,1</b>	<b>49,1</b>
share (%) in horizontal objectives	32,12		35,97		43,80	
share (%) in total state aid (less agriculture and fisheries)	9,13		6,22		6,28	
share (%) in total state aid	5,29		4,23		4,02	
share (%) in GDP	0,12		0,13		0,13	

Source: Ministry of Finance; data processed in CCA

In 2007 aid for employment in the form of tax exemptions was granted in the total amount of HRK 179.8 million. The majority of these tax exemptions were granted in line with the Investment Promotion Act (HRK 156.6 million) and for disabled persons (HRK 23.2 million).

The Fund for Professional Rehabilitation and Employment of Disabled Persons awarded state aid for employment in the form of grants worth HRK 30.1 million within the meaning of the Decision on eligibility criteria for employment incentives for disabled persons. Within the meaning of the Annual Plan for the Promotion of Employment for 2007 state aid was awarded by the Ministry of the Economy, Labour and Entrepreneurship in the amount of HRK 142 million. Ministry of Finance awarded in 2007 aid earmarked for employment in the form of state guarantees in the amount of HRK 8.3 million.

The Ministry of Family Affairs, War Veterans and Intergenerational Solidarity awarded HRK 7.1 million for employment and training of the Croatian veterans. However, the aid scheme in question provides for de minimis aid which has consequently not been included in Table 16 indicating the levels of employment aid.

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

State aid to SMEs is earmarked for initial investment, consultancy and other services and participation in fairs and exhibitions. The purpose of state aid to SMEs is to promote and encourage small and medium-sized business start-ups and to facilitate investment. Therefore the state aid rules in this particular area are much more flexible than the relevant rules applicable to large firms.

In 2007 SMEs received HRK 42.2 million state aid, in 2006 this amount was HRK 241.2 million, in 2005 HRK 44.5 million. Again, de minimis aid in the approximate extra amount of HRK 100 million was awarded to the same objective in 2007. The major aid providers of aid to SMEs were the Ministry of the Economy, Labour and Entrepreneurship, the Croatian Agency for Small Entrepreneurship and the Croatian Bank for Reconstruction and Development. In the above aid schemes worth HRK 100 million additional aid

granted by the local and regional administration units, who have traditionally been supporting SMEs must be calculated.

Whereas in 2005 the most represented aid instrument were grants, in 2006 and 2007 soft loans took the lead.

**Table 17:** State aid to SMEs from 2005 - 2007

SMEs	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	44,5	6,0	74,2	10,1	0,6	0,1
C1 soft loans	0,0	0,0	162,0	0,0	41,6	5,7
D1 guarantees	0,0	0,0	5,0	0,0	0,0	0,0
<b>TOTAL</b>	<b>44,5</b>	<b>6,0</b>	<b>241,2</b>	<b>10,1</b>	<b>42,2</b>	<b>5,8</b>
share (%) in horizontal objectives	5,34		25,94		5,14	
share (%) in total state aid (less agriculture and fisheries)	1,52		4,49		0,74	
share (%) in total state aid	0,88		3,05		0,47	
share (%) in GDP	0,02		0,10		0,02	

Source: Ministry of Finance; data processed in CCA

The greatest aid provider in the area of state aid for SMEs in the form of soft loans in 2007 was the Croatian Bank for Reconstruction and Development in line with the Ordinance on the basic financing criteria for target groups. By contrast, in 2006 the greatest aid provider in the same area in the form of soft loans and grants was the Development and Employment Fund which awarded aid on the basis of the Criteria for financing of Development Programmes. The list of aid providers in 2006 continued with the Croatian Bank for Reconstruction and Development which mostly subsidized interest rates and granted soft loans in line with the previously mentioned Ordinance and the Act on the Croatian Bank for Reconstruction and Development. The Croatian Agency for Small Entrepreneurship awarded state aid for SMEs predominantly in the form of state guarantees in compliance with the aid schemes *New Entrepreneur, Growth and Development, Area of Special State Concern*.

The significant downward trend of aid for SMEs in 2007 compared with the figures recorded in 2006 is the result of the fact that the Development and Employment Fund failed to submit to the Agency the necessary data for 2007 in time.

In 2006 Development and Employment Fund awarded a total amount of HRK 151.5 million in the form of grants and soft loans to SMEs. The data on HRK 600,000 grants which had been awarded by the Fund concerned pursuant to the Financing criteria for development programmes were taken from the State Budget of the Republic of Croatia.

The Croatian Agency for Small Entrepreneurship awarded de minimis aid for the promotion of SMEs on the basis of its Ordinance on the guarantees programme. At the same time the Ministry of the Economy, Labour and Entrepreneurship increased de

minimis aid granted in this area in comparison to 2006. The aid for SMEs was awarded on the basis of the Operating plan for the promotion of SMEs.<sup>7</sup>

#### 4.1.5. Training

Training aid is earmarked for tuition in the form of specific training and general training of employees.

In 2007 training aid was awarded in the amount of HRK 182.7 million which is 80 % more than in 2006 when this amount was HRK 101.2 million, or 143 % more than in 2005. The major aid instruments in 2007 were grants and tax exemptions.

**Table 18:** Training aid from 2005 - 2007

Training	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	1,0	0,1	1,9	0,3	127,4	17,4
A2 tax exemptions	74,1	10,0	99,3	13,6	55,4	7,5
<b>TOTAL</b>	<b>75,1</b>	<b>10,1</b>	<b>101,2</b>	<b>13,8</b>	<b>182,7</b>	<b>24,9</b>
share (%) in horizontal objectives	9,00		10,89		22,22	
share (%) in total state aid (less agriculture and fisheries)	2,56		1,88		3,18	
share (%) in total state aid	1,48		1,28		2,04	
share (%) in GDP	0,03		0,04		0,07	

Source: Ministry of Finance; data processed in CCA

Croatian Employment Service awarded on the basis of the Annual Programme for the Promotion of Employment for 2007 HRK 127.4 million training aid in the form of grants, whereas in 2006 HRK 1.9 million grants had been awarded in compliance with the same aid scheme.

Taking into account that in 2007 the Act on State Aid for Education and Training (OG 109/07, 134/07) was adopted by the Croatian Parliament, it can be realistically assumed that an upward trend of aid to further education and training can be expected. The growth of the share of training aid in the total amount of horizontal aid will follow after a 22 % level has been recorded in 2007.

<sup>7</sup> The mentioned de minimis aid awarded by the Croatian Agency for Small Entrepreneurship and the Ministry of the Economy, Labour and Entrepreneurship has not been included in Table 17. In compliance with the EU methodology such breakdowns do not include de minimis aid. However, the relevant amounts have been indicated in Chapter 7 of this annual report.

#### 4.1.6. Culture

State aid to promote culture and heritage preservation involves cultural support schemes which are aimed at preserving national heritage and promoting culture.

In 2007 the total of HRK 55.4 million of state aid to promote culture and heritage preservation was awarded. This is 38.6 % less than in 2006 when HRK 90.2 million had been granted. To the knowledge of the Agency the aid in question has been granted almost exclusively in the form of grants.

**Table 19:** State aid to promote culture from 2005 - 2007

Culture	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	75,1	10,1	90,2	12,3	55,4	7,6
D1 guarantees	0,0	0,0	0,0	0,0	0,0	0,0
<b>TOTAL</b>	<b>75,1</b>	<b>10,1</b>	<b>90,2</b>	<b>12,3</b>	<b>55,4</b>	<b>7,6</b>
share (%) in horizontal objectives	9,01		9,70		6,74	
share (%) in total state aid (less agriculture and fisheries)	2,56		1,68		0,97	
share (%) in total state aid	1,48		1,14		0,62	
share (%) in GDP	0,03		0,04		0,02	

Source: Ministry of Finance; data processed in CCA

The aid provider in the area of culture is the Ministry of Culture which has awarded state aid in compliance with the Act on Financing of Public Needs in Culture, the Programme for the Financing of Publishers in 2007 (for book publishing, magazines, literal events) and the Film Financing Programme for 2007.

#### 4.2. SECTOR-SPECIFIC AID

In line with the state aid rules which have been brought in compliance with the EC acquis, separate state aid rules apply in specific sectors, such as steel industry, railways, maritime, in-land waterway and air transport sector and shipbuilding.

In terms of the rules on state aid the tourism industry is not covered by any specific set of rules. However, given the importance of the tourism industry for the Croatian economy as a whole for the purpose of this annual report tourism has been dedicated a separate section.

In 2007 a significant upward trend concerning sector-specific aid continued. The aid level in question reached over HRK 4.2 billion, which is an increase of 5.2 % compared with 2006. The highest share of sector-specific aid in 2007 was that in the shipbuilding sector (54.4%), followed by the transport sector (33.2 %).

**Table 20:** Sector-specific aid from 2005 – 2007

Specific sectors	2005			2006			2007		
	mil HRK	mil EUR	share in GDP (%)	mil HRK	mil EUR	share in GDP (%)	mil HRK	mil EUR	share in GDP (%)
Steel production	16,5	2,2	0,01	1,0	0,1	0,00	196,3	26,8	0,07
Transport	415,0	56,1	0,18	1.394,6	190,5	0,56	1.407,1	191,8	0,51
Shipbuilding	642,8	86,9	0,28	2.198,7	300,3	0,88	2.306,6	314,4	0,84
Tourism	182,0	24,6	0,08	261,0	35,6	0,10	178,4	24,3	0,06
Other sectors	56,2	7,6	0,02	166,2	22,7	0,07	40,4	5,5	0,01
Rescue and restructuring	501,9	67,8	0,22	8,1	1,1	0,00	111,2	15,2	0,04
<b>Total</b>	<b>1.814,4</b>	<b>245,2</b>	<b>0,78</b>	<b>4.029,6</b>	<b>550,3</b>	<b>1,61</b>	<b>4.240,1</b>	<b>578,0</b>	<b>1,54</b>

Source: Ministry of Finance; data processed in CCA

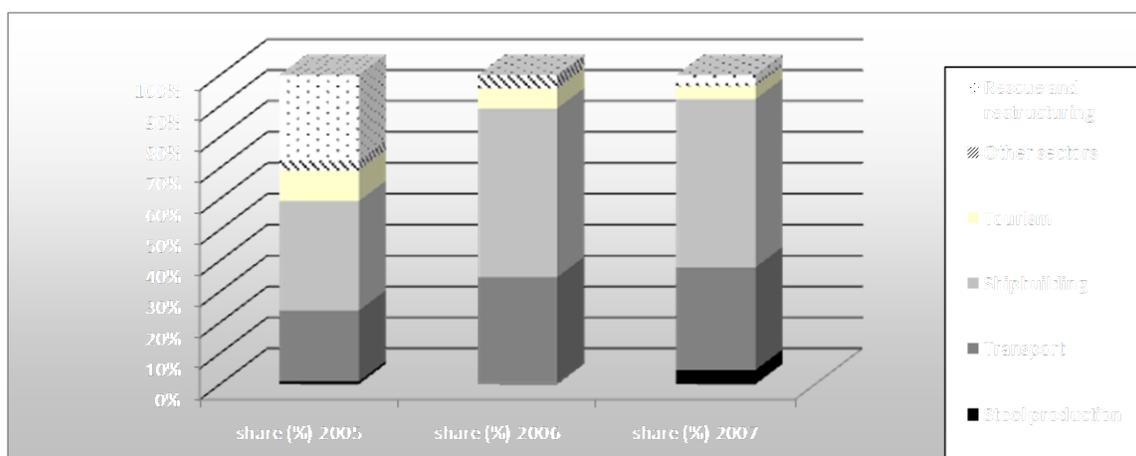
In the period from 2005 to 2007 an upward trend of state aid to shipbuilding is evident. In 2005 state aid which was granted in the sector concerned amounted to HRK 642.8 million, whereas it soared to the amount of HRK 2.198,7 billion in 2006. In 2007 state aid to shipbuilding amounted to HRK 2.306,6 million.

This significant upward trend is linked with the rescue and restructuring aid granted to the Croatian shipyards. The liquidity support in the form of loan guarantees was approved under the rescue aid which was meant to support the shipyards in difficulty confronted with an important deterioration of their financial situation. It was a temporary support which did not exceed six months. During the prescribed period the shipyards were to work out restructuring plans, which, provided they restore the long-term viability and profitability of the companies concerned, would have served as a basis for restructuring aid.

State aid in question had been based on the resolutions of the Government of the Republic of Croatia from 2000 and 2002 which provided for state aid to shipyards as long as they are privatized.<sup>8</sup>

<sup>8</sup> On 21 September 2000 the Government of the Republic of Croatia passed the Resolution on state guarantees granted for financing of ships the construction of which is planned in the period lasting until the full privatization of individual shipyards (Class: 310-14/00-01/01, Reg.no.: 5030120-32. On 22 August 2002 the Government of the Republic of Croatia passed the Resolution by which, among others, it determines that it will subsidize the construction of Croatian ships (assumption of debt, write off, state guarantees).

**Picture 10: Sector-specific aid granted from 2005 - 2007 (%)**



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

#### **4.2.1. Steel industry**

State aid to the steel industry is subject to Protocol 2 on steel products of the Stabilization and Association Agreement (SAA which provides for the conditions under which rescue and restructuring aid may be granted to the steel sector.

In the sense of the above mentioned, the Republic of Croatia could authorise rescue and restructuring aid for the steel industry until 1 March 2007 which is generally prohibited in the EU Member States.

The rescue and restructuring process in the steel industry started on 1 December 2005 when the Government of the Republic of Croatia adopted the Decision on the establishment of the Commission for the Drafting of the proposed National Restructuring Programme for the Steel Industry which was adopted by the Croatian Government on 28 February 2007.

The restructuring of the Croatian steelworks was carried out through privatization. The privatization process started at the end of 2006 and was completed by mid 2007. In July 2007 a share purchase agreement on the transfer of business shares of Valjaonica cijevi Sisak was concluded. Pursuant to the contract concerned the company Commercial Metals International AG Baar Switzerland (CMI) became the sole owner of the company which remains in business under the name CMC Sisak d.o.o. (CMC Ltd Sisak). In August 2007 a sale purchase agreement on transfer of Željezara Split d.d. shares was signed between the Croatian Privatisation Fund and the undertaking Złomrex S.A., Poraj, Poland.

**Table 21:** State aid to the steel sector from 2005 – 2007

Steel production	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A2 debt write-off	0,0	0,0	0,0	0,0	196,3	26,8
C1 soft loans	0,9	0,1	1,0	0,1	0,0	0,0
D guarantees	15,6	2,1	0,0	0,0	0,0	0,0
<b>TOTAL</b>	<b>16,5</b>	<b>2,2</b>	<b>1,0</b>	<b>0,1</b>	<b>196,3</b>	<b>26,8</b>
share (%) in specific sectors	0,91		0,02		4,63	
share (%) in total state aid (less agriculture and fisheries)	0,56		0,02		3,42	
share (%) in total state aid	0,33		0,01		2,19	
share (%) in GDP	0,007		0,000		0,071	

Source: Ministry of Finance; data processed in CCA

According to the data available to the CCA state aid to the steel sector in 2005, 2006 and 2007 was mainly granted in the form of write offs, state guarantees and soft loans. In 2005 the undertakings in question had been authorised state guarantees in the amount of HRK 15.6 million and soft loans in the amount of HRK 0.9 million, while in 2006 soft loans amounted to HRK 1 million. In 2007 the granted write offs amounted to HRK 196.3 million. The latter written off amount recorded as state aid for 2007 actually refers to liabilities from the restructuring process.

In 2008 the Agency established the total amount of state aid granted to the undertakings Željezara Split d.d. and CMC Sisak d.o.o. in the period from 2002 to 2007. In line with the valid calculation method the amount of state aid contained in state guarantees issued in the steel sector in 2005 amounted to HRK 15.58 million for both undertakings. HRK 9.11 million were allocated to undertaking Željezara Split d.d., whereas HRK 6.47 million were awarded to the undertaking Valjaonica cijevi Sisak d.o.o.

**Table 22:** State guarantees to the steel sector from 2005 – 2007  
(in mil HRK)

No.	Description	2005	2006	2007
1.	Total state guarantees issued to steel manufacturing sector	236,94	0,00	0,00
2.	Aid contained in guarantees issued to steel manufacturing sector	15,58	0,00	0,00

Source: Ministry of Finance; data processed in CCA

#### 4.2.2. Shipbuilding

Aid to shipbuilding in 2007 amounted to HRK 2,306.6 million. In 2006 aid to shipbuilding was granted in the amount of HRK 2,198.7 million, whereas in 2005 this aid amounted to HRK 642.8 million. Thus, the data indicate that the level of aid to shipbuilding in 2007 was 258.8 % higher than the amount which had been granted in 2005. This is due to the rescue and restructuring process which started in the second half of 2006. On the other hand, the methodology used in 2005 had not included all state aid contained in state guarantees as explained in section 2.2.1 of this annual report.

**Table 23:** State aid to shipbuilding by aid instruments from 2005 - 2007

Shipbuilding	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	431,2	58,3	484,7	66,2	386,1	52,6
B equity participation	3,1	0,4	0,0	0,0	0,0	0,0
D guarantees	208,5	28,2	1.714,0	234,1	1.920,5	261,8
<b>TOTAL</b>	<b>642,8</b>	<b>86,9</b>	<b>2.198,7</b>	<b>300,3</b>	<b>2.306,6</b>	<b>314,4</b>
share (%) in specific sectors	35,43		54,56		54,40	
share (%) in total state aid (less agriculture and fisheries)	21,92		40,91		40,20	
share (%) in total state aid	12,71		27,80		25,78	
share (%) in GDP	0,28		0,88		0,84	

Source: Ministry of Finance; data processed in CCA

In 2007 and 2006 aid was awarded to the shipbuilding sector mainly in the form of grants and state guarantees. In 2007 the aid to shipbuilding per employee in the industry sector in the Republic of Croatia was HRK 1,520.2 which is a 1.5 % increase in comparison with 2006 when the same indicators amounted to HRK 1,497.9, and a 236 % increase compared with the year 2005 when it amounted to HRK 452.5.

Construction financing guarantees are released for the purpose of ship construction, until the moment of delivery of the ship. Table 24 shows overall end-financing and construction financing guarantees granted in the shipbuilding sector in the period from 2005 – 2007.

**Table 24:** End-financing and construction-financing state guarantees issued to the shipbuilding sector from 2005 – 2007 in HRK

State guarantees issued to the shipbuilding sector:	2005	2006	2007
End-financing	629.794.110,28	2.978.982.931,35	4.704.164.739,68
Construction-financing	3.458.314.523,61	1.465.282.505,70	133.156.727,31
<b>Total</b>	<b>4.088.108.633,89</b>	<b>4.444.265.437,05</b>	<b>4.837.321.466,99</b>

Source: <http://www.nn.hr/sluzbeni-list/sluzbeni/index.asp>; data processed in CCA

A recorded slump in construction-financing guarantees in 2007 was due to the methodological changes in the processing of the data concerned by the Ministry of

Finance. In other words, the end-financing and construction-financing guarantees had been separately indicated in 2005 and 2006, whereas in 2007 these levels have been included under one item of state guarantees not taking into account the difference between the end-financing or construction-financing guarantees, besides from the amount of HRK 133.2 million relating to the construction-financing guarantees given to the undertaking Brodosplit – Brodogradilište specijalnih objekata d.o.o.

The rescuing and restructuring of the Croatian shipyards started in the second half of 2006 when the CCA authorised rescue aid proposed by the Ministry of the Economy, Labour and Entrepreneurship (besides from the undertaking Brodosplit – Brodogradilište specijalnih objekata d.o.o which was granted rescue aid in January 2007.

The CCA authorised rescue aid in the form of state guarantees covering loans and advance payments for four shipyards in the amount of HRK 4.2 billion on 21 September 2006. Out of the above mentioned total sum some HRK 1.7 billion was granted to Brodosplit Brodogradilište d.o.o., HRK 625 million to Brodotrogir d.d., some HRK 1.7 billion to 3. Maj brodogradilište d.d. and HRK 221 million to Brodogradilište Kraljevica d.d.

On 18 January 2007 the CCA additionally authorised rescue aid to Brodosplit Brodogradilište specijalnih objekata d.o.o. in the form of state guarantees covering the loans in the amount of HRK 140 million.

Out of the total amount of authorised rescue aid to shipyards in 2006 the Ministry of Finance has taken decisions on state guarantees covering state aid in the amount of HRK 1,552 million, whereas in 2007 the amount contained in state guarantees was HRK 1,701 million.

Given that the shipyards covered by state guarantees are considered firms in difficulty the full amount of state guarantee constitutes state aid.

Table 25 shows the total amount of state aid contained in state guarantees for shipbuilding in the period from 2005 to 2007.

**Table 25:** State guarantees to shipbuilding from 2005 - 2007  
(in mil HRK)

No.	Description	2005	2006	2007
1.	Total state guarantees issued for shipbuilding	4.088,11	4.444,27	4.837,32
2.	<b>State guarantees issued for rescuing the shipyards</b>	<b>0,00</b>	<b>1.552,04</b>	<b>1.700,96</b>
3.	State guarantees issued for shipbuilding not including guarantees for rescuing the shipyards (1-2)	4.088,11	2.892,22	3.136,36
4.	Aid contained in issued state guarantees not including rescue guarantees (in the row 3)	208,49	161,96	219,55
5.	<b>Total state aid contained in state guarantees for shipbuilding (2+4)</b>	<b>208,49</b>	<b>1.714,01</b>	<b>1.920,51</b>

Source: Ministry of Finance; data processed in CCA

In the case of state guarantees to cover loans for the construction of ships the aid element is calculated as the difference between the valid interest rate and the interest rate actually paid by the shipyard in question to the commercial bank on the basis of the loan granted and covered by state guarantee.

The construction-financing guarantees for advance payments, where interest rate has not been calculated, aid element constitutes the interest rate in its entirety.

State guarantees have not been regarded to constitute state aid in the 100 % thereof on the account of the fact that in the period from 2005 to 2007 these state guarantees have not been invoked.

Thus, aid element in the end-financing and construction-financing guarantees amounted to approximately 5.1 % in 2005, 5.6 % in 2006 and 7 % in 2007 with respect to the total indebtedness covered by state guarantee (Table 25).

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

In 2007 the transport sector received state aid in the amount of HRK 1,407.1 million (less state guarantees), which is 8.5 % more than in 2006 or 259.8 % more than in 2005. The highest share of aid to the transport sector in 2007 was awarded to railways.

**Table 26:** State aid to the transport sector from 2005 – 2007

Transport	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
Rail transport	0,0	0,0	822,4	112,3	905,8	123,5
Land transport (road and river)	3,5	0,5	0,0	0,0	0,0	0,0
Maritime transport	387,1	52,3	418,4	57,1	431,4	58,8
Air transport	0,0	0,0	56,0	7,6	70,0	9,5
<b>TOTAL</b>	<b>390,6</b>	<b>52,8</b>	<b>1.296,8</b>	<b>177,1</b>	<b>1.407,1</b>	<b>191,8</b>
Guarantees	24,4	3,3	97,9	13,4	0,0	0,0
<b>TOTAL</b>	<b>415,0</b>	<b>56,1</b>	<b>1.394,6</b>	<b>190,5</b>	<b>1.407,1</b>	<b>191,8</b>
share (%) in specific sectors	22,87		34,61		33,19	
share (%) in total state aid (less agriculture and fisheries)	14,15		25,95		24,53	
share (%) in total state aid	8,21		17,63		15,73	
share (%) in GDP	0,18		0,56		0,51	

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

It must be noted that the recorded significant increase in aid to transport is partly due to the new methodology used in the calculation of aid pursuant to the new regulations in the area of railways. Namely, until 2006 resources allocated to Hrvatske željeznice d.o.o. (Croatian Railways) had not constituted state aid within the meaning of the Railway Act then in effect given that Hrvatske željeznice had been the sole undertaking who had been entrusted to provide services of passenger rail transport and transportation of goods by rail in the Republic of Croatia. In other words, until the new Railway Act was adopted in 2003 (OG 123/03, 194/03 and 30/04) there had been no competition in this area. The application of the new Railway Act which started on 1 January 2006 and of the Act on Dissociation of the Company HŽ – Hrvatske željeznice d.o.o. (OG 153/05) opened up the possibility of liberalization of rail transport and entry of new competitors. Thus, taking into account the liberalization of this market state aid granted to one operator after 1 January 2006, in this case to Hrvatske željeznice, constitute state aid

within the meaning of the State Aid Act. At the same time, investments from the state budget made for railway infrastructure operation and railway maintenance do not constitute state aid but a public infrastructure that is deemed to fulfil a public need, used by everybody on the same conditions.

Aid to railways amounted to HRK 905.8 million which were granted in the form of grants and capital injections for the promotion of railway, passenger and combined transport and upgrading of railways.

Aid to maritime transport consisted mainly of grants.

Aid to air transport amounted in 2007 to HRK 70 million in the form of grants given to the undertaking Croatia Airlines d.d. for setting-off of operating losses resulting from the maintenance of services on specific routes connecting the Zagreb airport and other airports in Croatia within the meaning of the Regional convergence programme for the period from 2007 – 2011.

In 2007 the competent ministry granted state aid for inland waterway transport within the meaning of the Inland-waterway transport programme. However, given the fact that the programme concerned includes exclusively de minimis aid, which does not constitute state aid within the meaning of the State Aid Act, this aid measure has not been included in the breakdown relating to the transport sector. Following the new methodology this measure has nevertheless been included in Chapter 8.

**Table 27:** State aid to transport sector by aid instruments 2005 – 2007 (in mil HRK)

	2005	2006	2007
A1 grants	372,8	893,3	993,6
B equity participation	17,8	403,5	413,5
C1 soft loans	0,0	0,0	0,0
D guarantees	24,4	97,9	0,0
<b>Total</b>	<b>415,0</b>	<b>1.394,7</b>	<b>1.407,1</b>

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

As shown in Table 27, the most popular aid instrument in the transport sector in 2007 was direct grants – 70.6 % of the total state aid granted to this sector.

The majority of aid in this sector has been awarded in the form of aid granted for discharging of the services of general economic interest. In line with Article 4, paragraph 3, item e) of the State Aid Act, the Agency may grant aid to undertakings which are in accordance with special rules entrusted with the operation of services of general economic interest or granted special rights to perform tasks assigned to them in the public interest, where in the case of absence of such aid these persons would be obstructed in the performance of the particular tasks assigned to them and provided that the aid in question exclusively covers the compensation for the performance and implementation of the tasks concerned.

#### 4.2.4. Tourism

State aid to tourism industry in the period from 2005 – 2007 was granted by the former Ministry of the Sea, Tourism, Transport and Development, now Ministry of Tourism, in line with a number of aid schemes aimed at different target groups in this sector. The most popular of the programmes has been the Loan programme for small family businesses in tourism – Incentive for Success.

In 2007 tourism received HRK 178.4 million aid which is 31.7 % less than in the previous year. However, the actual decrease was also due to the fact that a number of aid schemes relevant for this sector involved de minimis aid which constitute a separate part of this annual report, aid for SMEs and aid for environmental protection. If these figures are put together, a total of HRK 181 million was awarded to tourism in 2007.

Tourism mainly received state aid in the form of state guarantees in the amount of HRK 122.1 million, which account for 68.4 % of the total aid to tourism. In 2007 the Ministry of the Sea, Tourism, Transport and Development also granted interest subsidies received directly by the recipients in the amount of HRK 56.3 million under the Loan programme for small family businesses in tourism – Incentive for Success.

**Table 28:** State aid to tourism by aid instruments 2005 – 2007

Tourism	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	88,1	11,9	102,1	13,9	56,3	7,7
B equity participation	2,1	0,3	0,0	0,0	0,0	0,0
C1 soft loans	0,0	0,0	29,9	4,1	0,0	0,0
D guarantees	91,8	12,4	129,0	17,6	122,1	16,6
<b>TOTAL</b>	<b>182,0</b>	<b>24,6</b>	<b>261,0</b>	<b>35,6</b>	<b>178,4</b>	<b>24,3</b>
share (%) in specific sectors	10,03		6,48		4,21	
share (%) in total state aid (less agriculture and fisheries)	6,21		4,86		3,11	
share (%) in total state aid	3,60		3,30		1,99	
share (%) in GDP	0,08		0,10		0,06	

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

In line with the data on de minimis aid indicated in Chapter 8 of this annual report, in 2007 the Ministry of the Sea, Tourism, Transport and Development also awarded de minimis aid under the aid schemes aimed at protection and reconstruction of the national heritage in the disadvantaged areas and its inclusion in the tourist offer, promotion of competitiveness of certain activities in tourism and of underdeveloped areas and encouraging the production of traditional souvenirs.

#### 4.2.5. Other industries

Other than the above mentioned sector-specific aid in 2007 state aid was also granted for the promotion of exports, financing of the development and improvement of the textile and leather processing industry.

Total state aid in this category has been reduced in 2007 compared with 2006 by some 75.7 % and they amounted to HRK 40.4 million.

Aid to other industries in 2007 was awarded exclusively in the form of grants.

**Table 29:** State aid to other sectors by aid instruments from 2005 - 2007

Other activities	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	24,7	3,3	37,5	5,1	40,4	5,5
B equity participation	11,5	1,6	0,0	0,0	0,0	0,0
C1 soft loans	20,0	2,7	3,1	0,4	0,0	0,0
D guarantees	0,0	0,0	125,6	17,1	0,0	0,0
<b>TOTAL</b>	<b>56,2</b>	<b>7,6</b>	<b>166,2</b>	<b>5,5</b>	<b>40,4</b>	<b>5,5</b>
share (%) in specific sectors	3,10		4,12		0,95	
share (%) in total state aid (less agriculture and fisheries)	1,92		3,09		0,71	
share (%) in total state aid	1,11		2,10		0,45	
share (%) in GDP	0,02		0,07		0,01	

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

#### 4.2.6. Rescue and restructuring

Within the meaning of the Decision on the publication of the rules on state aid for rescuing and restructuring (OG 20/2007), state aid for rescuing and restructuring may be granted under certain conditions to firms in difficulty.

In 2007 restructuring aid has been awarded in the amount of HRK 111.2 million.<sup>9</sup> In 2006 the amount of aid for rescue and restructuring was HRK 8.1 million. In 2005 the amount of aid for the same purpose was HRK 501.9 million.

In 2005 rescue and restructuring aid was granted in the form of state guarantees, grants, debt write-offs and capital injections. In 2006 the most popular aid instruments were debt write-offs and state guarantees, whereas in 2007 grants, capital injections and state guarantees.

<sup>9</sup> Rescue and restructuring aid here is calculated less rescue and restructuring aid to shipbuilding and less restructuring aid in the steel sector.

**Table 30: State aid for rescuing and restructuring from 2005 – 2007**

Rescue and restructuring	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	37,0	5,0	0,0	0,0	3,5	0,5
A2 debt write-off	317,4	0,0	6,0	0,0	0,0	0,0
B equity participation	10,3	1,4	0,0	0,0	4,2	0,6
D guarantees	137,2	18,5	2,1	0,3	103,5	14,1
<b>TOTAL</b>	<b>501,9</b>	<b>24,9</b>	<b>8,1</b>	<b>0,3</b>	<b>111,2</b>	<b>15,2</b>
share (%) in specific sectors	27,66		0,20		2,62	
share (%) in total state aid (less agriculture and fisheries)	17,11		0,15		1,94	
share (%) in total state aid	9,92		0,10		1,24	
share (%) in GDP	0,22		0,00		0,04	

Source: Ministry of Finance; data processed in CCA

**Table 31: State guarantees for rescue and restructuring from 2005 - 2007 (less shipbuilding and steel) (in mil HRK)**

No.	Description	2005	2006	2007
1.	Total state guarantees issued for rescuing and restructuring	75,59	0,00	0,00
2.	Aid contained in state guarantees issued for rescuing and restructuring	11,46	0,00	0,00
3.	Invoked state guarantees for rescuing and restructuring	125,69	2,11	103,51
4.	Total state aid contained in guarantees for rescuing and restructuring (2+3)	137,15	2,11	103,51

Source: Ministry of Finance; data processed in CCA

In 2005 a state guarantee worth HRK 75.6 million was issued for the restructuring of TLM d.o.o. – the firm in difficulty, state aid contained in the state guarantee amounted to HRK 11.5 million.

The remaining state guarantees for rescuing and restructuring are invoked guarantees which constitute state aid in their full amount. In 2007 invoked state guarantees for rescuing and restructuring amounted to HRK 103.5 million, given to undertakings such as TLM d.d., Elcon d.d., Drišplast d.d., Razvitak d.d. Ilok, Croatia Pumpe d.d. and others performing different activities (such as aluminium industry, automotive parts industry, polymer manufacturing, brick and tiles production, pumps and compressors etc.).<sup>10</sup>

<sup>10</sup> Besides from the state guarantees concerned the undertaking Elcon d.d. received in 2007 also a grant of HRK 3.5 million for restructuring, Drišplast d.d. received HRK 40,000 under the Annual employment programme for 2007. In March 2008 Razvitak d.d. was authorised restructuring aid through debt write-offs, soft loans and equity participation, in the total amount of some HRK 23 million. The authorisation of state aid to undertakings TLM d.d. and Elcon d.d. are still pending.

## 5. REGIONAL AID

Regional aid in 2007 amounted to a total of HRK 480.2 million. Tax advantages and tax relieves have been awarded in the areas of special state concern in the amount of HRK 192.8 million, the hilly and mountainous regions received HRK 15.3 million, the town of Vukovar received HRK 36.7 million, whereas free zone users have been eligible for HRK 57.2 million. Regional aid in question has been awarded within the meaning of the Free Zones Act (OG 44/96, 92/05 and 85/08), Investment Promotion Act (OG 73/00, 138/06), Act on Hilly and Mountainous Areas (OG 12/02, 117/03, 42/05, 90/05 and 80/08), Act on Areas of Special State Concern (26/03, 42/05, 90/05 and 86/08) and Act on Reconstruction and Development of the Town of Vukovar (OG 44/01, 90/05 and 80/08).<sup>11</sup>

At the same time, the Croatian Bank for Reconstruction and Development awarded in 2007 regional aid in the form of soft loans in the amount of HRK 178.2 million on the basis of the following aid schemes: Loan Programme for the Promotion of the Development of Small and Medium-Sized Entrepreneurship (direct loans), Loan Programme for the Development of the Economy, Loan Programme for Young Small Entrepreneurs Start-ups.

There is a significant upward trend in the regional state aid award in the period from 2005 - 2007. In 2007 regional state aid grew by 70.3 % in comparison with the preceding year. At the same time it can be observed that their share in the total state aid increased from a 3 % share in 2005 to 3.6 % in 2006 and finally to 5.4 % in 2007. In the following years even more intensive growth of regional aid is foreseen, particularly after the adoption of the Investment Promotion Act and the regional aid map.

**Table 32:** Regional state aid from 2005 - 2007

Regional aid	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
Regional aid	149,8	20,2	282,0	38,5	480,2	65,5
share (%) in total state aid (less agriculture and fisheries)	5,11		5,25		8,37	
share (%) in total state aid	2,96		3,57		5,37	
share (%) in GDP	0,06		0,11		0,17	

Source: Ministry of Finance - Tax Administration; data processed in CCA

Aid instruments in this area in the three-year report period have remained grants, tax advantages and soft loans, where tax advantages indicate an upward trend throughout the three-year period.

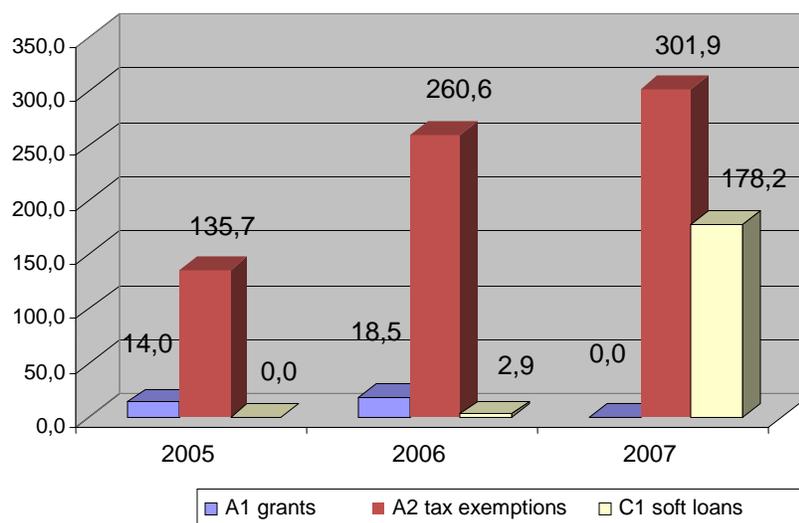
<sup>11</sup> Decision of the Government of the Republic of Croatia on the regional aid map entered into force on 7 May 2008, OG 52/2008. In line with the National Classification of Territorial Units for Statistics the whole territory of Croatia is divided in three NUTS II geographical units: Northwest Croatia, Central and East (Panonian) Croatia and Adriatic coast Croatia. The maximum aid intensity permissible in Northwest Croatia is 40 %, whereas in both Central and East (Panonian) Croatia and Adriatic cost Croatia the aid ceiling is 50 %.

**Table 33:** Regional state aid in the Republic of Croatia by aid instruments from 2005 - 2007 (in mil HRK)

Instrument	2005	2006	2007	Index 06/05	Index 07/05	Index 07/06
A1 grants	14,0	18,5	0,0	131,93	0,00	0,00
A2 tax exemptions	135,7	260,6	301,9	191,98	222,47	115,88
C1 soft loans	0,0	2,9	178,2	0,00	0,00	6.093,19
<b>TOTAL</b>	<b>149,8</b>	<b>282,0</b>	<b>480,2</b>	<b>188,26</b>	<b>320,53</b>	<b>170,26</b>

Source: Ministry of Finance - Tax Administration; data processed in CCA

**Picture 11:** Regional state aid by aid instruments from 2005 - 2007 (in mil HRK)



Source: Ministry of Finance - Tax Administration; data processed in CCA

In line with the relevant EU rules on regional aid the Croatian legislative framework provides for regional aid which is particularly aimed at economically underdeveloped areas of the Republic of Croatia where the standard of living is abnormally low or where there is serious underemployment.

## 6. STATE AID AT LOCAL AND REGIONAL LEVEL

Data on state aid granted by local and regional self-government units indicate that a total aid in 2007 amounted to HRK 194.8 million HRK. However, the data available to the Agency do not reflect the real state of affairs in the area of state aid at the level of local administrations. State aid in this area remains underreported, a number of local aid providers fail to communicate to the Agency data on state aid granted. The Agency's request for data submittal was in 2007 answered all (20) counties, the City of Zagreb, 94 out of 127 cities and towns and 309 of a total of 429 municipalities.

At the local level aid is mainly granted in the area of transport, culture and SMEs. The City of Zagreb subsidized the railways, the undertaking Hrvatske željeznice d.o.o. was

awarded HRK 79 million, whereas other cities and towns also subsidised the transport sector.

**Table 34:** State aid awarded at local and regional level by aid instruments from 2005 - 2007

Aid at local level	2005		2006		2007	
	mil HRK	mil EUR	mil HRK	mil EUR	mil HRK	mil EUR
A1 grants	123,0	16,6	132,8	18,1	170,1	23,2
A2 tax exemptions	0,7	0,1	0,0	0,0	1,9	0,3
B equity participation	0,0	0,0	0,0	0,0	7,1	1,0
C1 soft loans	7,4	1,0	0,0	0,0	0,0	0,0
D guarantees	3,8	0,5	0,0	0,0	15,7	2,1
<b>TOTAL</b>	<b>134,9</b>	<b>18,2</b>	<b>132,8</b>	<b>18,1</b>	<b>194,8</b>	<b>26,6</b>
share (%) in total state aid (less agriculture and fisheries)	4,60		2,47		3,40	
share (%) in total state aid	2,67		1,68		2,18	
share (%) in GDP	0,06		0,05		0,07	

Source: Ministry of Finance - Tax Administration; data processed in CCA

It has been mentioned before in this annual report that local and regional administrations also award de minimis aid which constitutes a significant share in the total aid granted by these aid providers.

However, financing of the public transport in the form of compensations which the City of Zagreb and other cities and towns in the Republic of Croatia allocate to the public transport is not included in the total aid granted by the local and regional self-government units. Such is for example the financing of Zagrebački holding d.o.o. – Zagrebački električni tramvaj (ZET) which does not constitute state aid within the meaning of the State Aid Act on the basis of the exclusive entrustment of the discharge of the service of general interest to the undertaking concerned. Given that the market in local public transport has not been liberalized and there are no competitors in the market concerned the compensation received by ZET does not constitute state aid under the stipulated criteria.

## 7. DE MINIMIS AID

In line with the Decision on the publication of the rules on de minimis aid (OG 45/07) de minimis aid is deemed state aid granted to any one beneficiary which may not exceed HRK 1.5 million over any period of three years (or HRK 750,000 in the transport sector).

In 2007 de minimis aid amounted to a total of HRK 250.2 million the majority of which was awarded in the form of grants. 41.2 % of that total was de minimis aid at the local and regional level whereas 58.8 % was de minimis aid at the central level under various aid schemes.

As mentioned earlier in this annual report, for the sake of methodological reasons data on de minimis aid are presented separately and are not included in the data on total aid granted in 2007.

**Table 35: De minimis aid granted in 2007**

De minimis aid	2007	2007
	mil HRK	mil EUR
A1 – direct interest rate subsidies	9,0	1,2
A1 – grants	117,3	16,0
A2 – debt write-off	1,2	0,2
C1 – soft loans	12,1	1,6
D – guarantees	6,2	0,8
D – invoked guarantees payments	1,2	0,2
Aid at local level	103,2	14,1
<b>Total aid of small value</b>	<b>250,2</b>	<b>34,1</b>

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

Pursuant to the data and documentation received by the CCA the following aid providers granted de minimis aid in 2007:

- Environmental Protection and Energy Saving Fund which awarded state aid in compliance with the Programme on de minimis aid for environmental protection. The Fund awarded HRK 15.9 million in the form of grants and soft loans and subsidized interest rates;
- The Croatian Pension Insurance Fund awarded de minimis aid in the amount of HRK 618,969 in the form of debt write-offs and relief from social security contributions within the meaning of Article 14 of the Act on Due Payments of Outstanding Taxes, Tariffs, Contributions and State Guarantees (OG 117/01, 95/02, 19/03).
- The Ministry of Family Affairs, War Veterans and Intergenerational Solidarity awarded HRK 7.1 million grants for training and employment of the Croatian veterans;
- The Croatian Agency for Small Entrepreneurship awarded aid in the amount of a total HRK 13.3 million in the form of grants, state guarantees, payments of invoked guarantees and debt write-offs in line with the following aid schemes: Entrepreneurship for Target Groups Programme (HRK 3.6 million), Centres for Entrepreneurship and Regional Development Agencies (HRK 1.7 million), Consultancy Networks and Small Enterprise Development (HRK 21,000) and the Ordinance on guarantees issued by the Croatian Agency for Small Businesses (HRK 7.9 million) ;
- The Croatian Bank for Reconstruction and Development awarded aid in the form soft loans and a debt write-off in the amount of HRK 2 million under the Ordinance on the criteria for financing of particular target groups;
- The Ministry of the Sea, Tourism, Transport and Development awarded a total of HRK 22.6 million in the form of grants. HRK 20.02 million of that sum was allocated to transport, whereas HRK 2.58 million was earmarked for tourism in accordance with the Financing project for building and reconstruction of passenger and excursion ships for the needs of the Croatian ship owners – small enterprises in the maritime transport sector in the amount of HRK 1.5 million. Further HRK 6.06 million was awarded under the Programme on fuel subsidies for ship operators on national lines. Under the Programme for the promotion of protection and reconstruction of the cultural heritage in the underdeveloped

- areas and its inclusion in the tourist offer HRK 930,000 were awarded, additional HRK 870,000 under the Programme for the promotion of competitiveness of certain activities in tourism and of underdeveloped areas and encouraging the production of traditional souvenirs. Under the Programme for the promotion of inland waterway transport HRK 780,000 of de minimis aid was granted. In line with the Regulation on the eligibility criteria for incentives granted to employers on islands for job maintenance and job creation de minimis aid was granted in the total amount of HRK 11.63 million;
- The Ministry of the Economy, Labour and Entrepreneurship awarded an amount of some HRK 80 million in the form of grants to SMEs under the Programme for the promotion of SMEs for 2007;
  - The Reconstruction and Development Fund of the Town of Vukovar awarded HRK 3.2 million in the form of grants and subsidised interest rates in line with the Co-financing programme of entrepreneurial project in the Town of Vukovar.
  - The Ministry of Science, Education and Sports subsidized HRK 2.3 million in line with the Guidelines for the promotion of innovation and the technology TEST system;
  - Counties, municipalities and towns subsidized the amount of HRK 103.2 million.

## **8. CROATIA COMPARED TO EU**

Taking into account that EU scoreboards on state aid exclude aid to agriculture and fisheries and to the transport sector, for the purpose of this report the same method has been used to enable the comparison of the Croatian data with the relevant EU indicators.

Table 36 and the following text provide a comparative insight into the levels of state aid in the EU and its Member States and Croatia.

The comparison has been made using the relevant EU from the State Aid Scoreboard autumn 2007 update)<sup>12</sup>.

---

<sup>12</sup> [http://ec.europa.eu/competition/state\\_aid/studies\\_reports/2007\\_autumn\\_en.pdf](http://ec.europa.eu/competition/state_aid/studies_reports/2007_autumn_en.pdf)

**Table 36:** State aid in Croatia compared with EU Member States in 2006

	2006				
	Total State aid less railways		Total State aid less agriculture, fisheries and transport		
	bill EUR	share in GDP (%)	bill EUR	share in GDP (%)	share of horizontal and regional aid (%) <sup>13</sup>
Croatia 2005	0,7	2,44	0,3	1,09	39
Croatia 2006	1,0	3,07	0,5	1,59	30
Croatia 2007	1,1	3,21	0,6	1,57	30
EU - 25	66,7	0,58	47,9	0,42	85
EU - 27			48,7	0,42	
EU Old Member States (15)	61,1	0,56	44,7	0,41	
EU New Member States (10)	5,6	0,91	3,2	0,52	78
EU New Member States (12)			3,8	0,51	
Belgium	1,2	0,39	0,9	0,28	98
Czech Republic	0,8	0,66	0,6	0,51	100
Denmark	1,3	0,59	1,0	0,46	96
Germany	20,2	0,87	16,0	0,69	85
Estonia	0,1	0,41	0,0	0,08	100
Ireland	1,0	0,57	0,5	0,28	80
Greece	0,6	0,26	0,3	0,15	90
Spain	4,9	0,50	3,9	0,39	72
France	10,4	0,58	7,4	0,41	97
Italy	5,5	0,37	3,8	0,26	96
Cyprus	0,1	0,76	0,1	0,48	96
Latvia	0,3	1,80	0,0	0,15	100
Lithuania	0,1	0,54	0,1	0,23	100
Luxembourg	0,1	0,32	0,0	0,13	100
Hungary	1,4	1,57	0,8	0,93	52
Malta	0,1	2,29	0,1	1,77	7
Netherlands	1,9	0,35	1,3	0,24	97
Austria	2,3	0,90	1,6	0,60	51
Poland	2,3	0,85	1,2	0,45	85
Portugal	1,5	0,93	1,4	0,91	14
Slovenia	0,3	0,83	0,1	0,48	88
Slovakia	0,2	0,51	0,2	0,45	95
Finland	2,6	1,53	0,6	0,35	97
Sweden	3,5	1,15	2,9	0,94	99
United Kingdom	4,2	0,22	3,1	0,16	90
Bulgaria			0,0	0,12	
Romania			0,5	0,56	

Source: DG Competition

<sup>13</sup> The share of horizontal and regional aid in the total aid less aid to agriculture, fisheries and transport in the Republic of Croatia for 2005, 2006 and 2007 also includes aid granted by local and regional administration units. However, this local aid hardly affects the figures given that only 1 % thereof has been granted towards horizontal objectives whereas the remaining amount has been awarded to the transport sector. De minimis aid granted by local and regional authorities has not been included in the table concerned.

The data indicated in Table 36 show the absolute amounts of state aid granted in Croatia compared to the relevant data of EU Member States, where Croatia awards state aid at the level comparable to that of Finland, Ireland and Czech Republic (particularly when aid to the transport sector and agriculture and fisheries is excluded). Nevertheless, the share of aid to GDP of the Republic of Croatia appreciably exceeds the shares reported in the EU Member States (besides Malta). There is also an important difference in the structure of aid. The relevant data show that the prevailing share of sector-specific aid in the total state aid is observable, apart from Croatia, only in Malta and Portugal.

In EU-25 the highest level of state aid is that of Germany where it makes 30 % of the total state aid granted in the EU. The share of aid to GDP in Germany is also relatively high and amounts to 0.9 % which is higher even from the EU average. The highest shares of state aid in the GDP are held by Latvia (1.8 %), Finland (1.5 %), Hungary (1.6 %) and Sweden, 1.2 %. On the other hand, there are MSs with exceptionally low shares of aid to GDP (less than 0.4 %), such as Belgium, Greece, Italy, Luxemburg, Netherlands and Great Britain.

Almost two thirds of the EU Member States reacted positively on the European Council initiative for less and better targeted aid. State aid towards horizontal objectives makes meanwhile more than 90 % of their state aid, whereas the most significant increase has been reported in the area of incentives in the form of tax relieves earmarked for environmental protection and energy saving. These aid measures make for as much as 29 % of total aid granted (less agriculture and fisheries and transport). State aid to other horizontal objectives is distributed as follows: research and development aid holds a share of 14 % in the total aid, 19 % is allocated to regional development, 11 % to SMEs, employment aid holds 7 % and training aid 1 %.

The EU state aid scoreboard shows that in the area of sector-specific aid in 2006 aid to the industry and services sector amounted to 65 %, aid to agriculture and fisheries held a 24 % share, the coal sector 5 %, the transport sector (less railways) 3 % whereas 1 % was allocated to other non-industry sectors. Member States which award 80 % and more state aid to industry and services are Denmark, Portugal, Slovak Republic, and Sweden. Latvia, Finland and Estonia allocate 60 % or more of total state aid to agriculture and fisheries. In the coal sector relatively high shares of state aid are held by Spain (22 %), Germany (11 %) and Poland (7 %).

## 9. Appendix 1 *Aid instruments*

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

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

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

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

### **B – Equity participation**

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

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

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

### **D – Guarantees**

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

does not cover more than 80% of the financial obligation and the market price for the guarantee is paid. All the above listed criteria must be cumulatively met as to ensure that a state guarantee does not constitute state aid.

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

### Methods of assessing the aid element

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

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

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

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

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

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

## 10. Appendix 2 Aid categories

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

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

		Regional investment aid for investment in upgrading or modernising existing yards, with the objective of improving the productivity of existing installations
	Tourism	All aid types
	Financial services	All aid types
	Other sectors	All aid types
REGIONAL RULES		
	Areas A	
		Initial tangible and intangible investments
		New employment
		Reimbursement of operating costs in exceptional cases
	Areas B	
		Initial tangible and intangible investments
		New employment

**Aid level:**

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