

**Date of decision: 30.7.2009**

**Class: UP/I 430-01/2009-02/003**

**Case: MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP - Operating aid scheme for maintaining of competitiveness of the textile industry, leather industry and leather products industry for 2009**

**Type of case: State aid (scheme)**

**Type of decision: Decision on authorisation (Compatible aid)**

At the proposal of the Ministry of the Economy, Labour and Entrepreneurship, the Agency approved by a decision grants for a partial coverage of interest rate on loans and grants for the provision of working capital up to the amount of EUR 500,000 on the basis of the Temporary Framework, as well as regional aid under the Initial investments and modernisation subsidy scheme under the proposed Operating aid scheme for maintaining of competitiveness of the textile industry, leather industry and leather products industry for 2009 (hereinafter: the Operating aid scheme).

The Agency appraised the Operating aid scheme as compatible with the State Aid Act and specified the conditions and terms that need to be adhered to for its implementation, according to which the Ministry of the Economy, Labour and Entrepreneurship has the obligation to submit to the Agency the Implementation report for the Interest subsidy scheme for loans and Working capital subsidy scheme until 31 December 2009.

The Operating aid scheme provides the measures for elimination of serious disturbances in the economy that were a consequence of the economic and financial crisis, especially in terms of its adverse effects on textile, apparel and leather industries. This measure ensures the undertakings a more favourable financing of current business operations, particularly in the period of prolongation of payments for sold goods, decreasing orders on the domestic and foreign market, thus compensating for the serious drop in credit operations of commercial banks. The Operating aid scheme is aimed at setting up of a better current liquidity, long-term financial balance of undertakings, increased stability and operational performance, maintaining competitiveness and preserving employment.

The interest subsidy scheme provides for interest subsidy for loans agreed with commercial banks from 1 January 2009 onwards, and also for loans agreed with commercial banks after 1 July 2008, if under those credit arrangements interests were increased by credit providers, provided that such an increase in interest rate was a consequence of the economic and financial crisis.

The loans have to be used exclusively for investment into fixed assets (machinery and equipment), financing of working capital (financing of production) or for financing of intangible assets (patents, licences, non-patented technical know-how etc.). The interest subsidy may amount up to 3 percentage points on loans agreed from 1 January 2009, whereas for loans agreed from 1 July 2008 subsidy will be provided for the difference between the contractual and subsequently increased interest rate by the commercial bank.

This measure will be used for loans approved by commercial banks until the day of the public call for proposals for awarding of subject funds and interest accrued with maturity by 31 December 2012, and will be calculated on the basis of the loan agreement and repayment plan,

in keeping with point 4.4.2 of the Temporary Framework. Aid intensity per individual undertaking may not exceed the amount of EUR 500,000 in Kuna countervalue.

The Working capital subsidy scheme is intended for maintaining of business operations of undertakings and preserving the current employment level.

The Working capital subsidy scheme is implemented on the basis of the calculation of the required working capital, based on stocks of raw material and other materials, stocks of work in progress, stocks of finished products, receivables and individual phases of the production cycle. The amount of the necessary working capital is proved by contracts on orders, letter of intent or similar documents for the sale of goods by using technological standards that determine attachment of funds in individual phases of a technological cycle. Aid intensity per individual undertaking may not exceed the amount of EUR 500,000 in Kuna countervalue, in accordance with point 4.2.2 of the Temporary Framework.

Eligible aid beneficiaries are small, medium-sized and large enterprises with their place of establishment in the territory of the Republic of Croatia whose core activity for which they are registered is production listed under NACE code 13-Textile production, 14-Apparel production and 15-Leather and related products production, in accordance with the Decision on the National Classification of Economic Activities for 2007<sup>1</sup>.

Subject funds may not be granted to firms in difficulty in accordance with points 9 to 11 of the Decision on the publication of rules on state aid for rescue and restructuring of firms in difficulty, undertakings under bankruptcy, undertakings under liquidation procedure, undertakings with unsettled liabilities regarding state institutions or employees, and undertakings which have been ordered recovery of aid or which are undergoing the recovery procedure. However, the scheme only applies to firms which were not in difficulty on 1 July 2008, while it can be used to award aid to firms that have entered into difficulty as a result of the global financial and economic crises.

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<sup>1</sup> OG 58/2007