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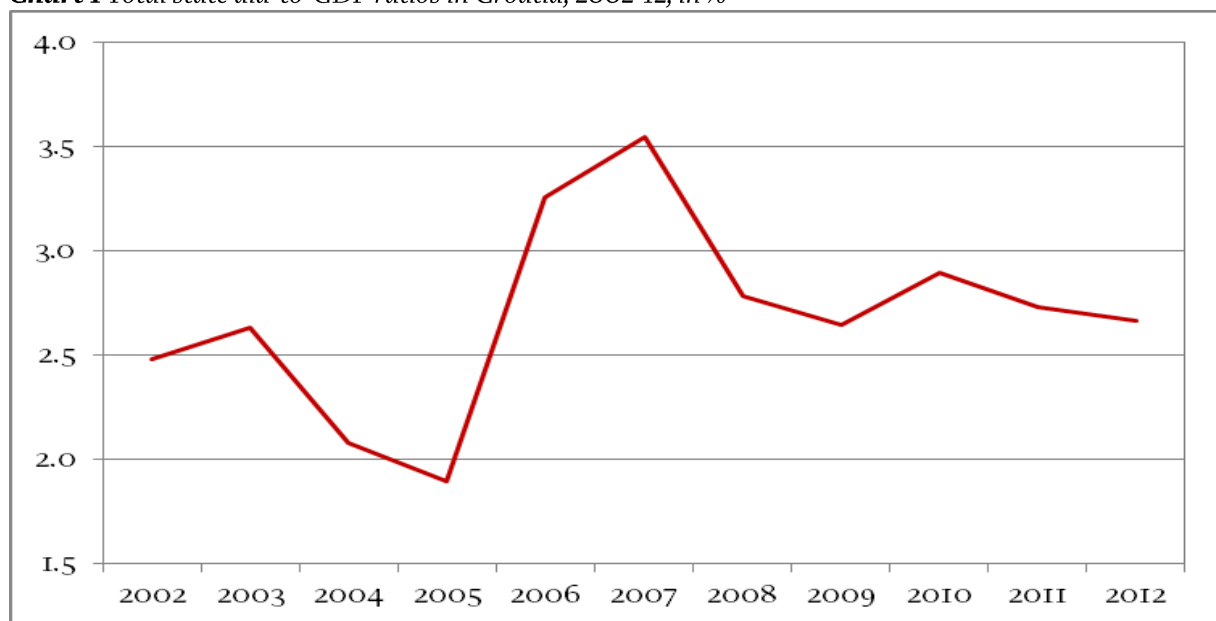
Who gets state aid in Croatia?

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The **Annual Report on State Aid for 2012¹**, prepared by the Croatian Competition Agency (AZTN), is undergoing a parliamentary procedure. According to the Report, a slight nominal decline in state aid has been observed since the beginning of the economic crisis. Nevertheless, the share of aid in GDP continues to exceed several times the shares reported in 2012 by the EU 27 Member States, and, as shown by its structure, the aid continues to be targeted on enterprises in difficulties.

In 2012, state aid provided to agricultural, industrial and service enterprises in Croatia totalled HRK 8.8 billion, HRK 231.8 million less than in 2011. However, despite the slight decline in nominal aid, its share in GDP has remained almost unchanged since the beginning of the crisis in 2008 and averaged about 2.7% of GDP. For the sake of comparison, state aid-to GDP ratios in the EU 27 were almost five times lower and stood at an average of 0.5%². This suggests that there has been no substantial change in Croatia's state aid policy and hence no turnaround in the restructuring of enterprises. Therefore, Croatia will have to make severe cuts in state aid and to redirect it from loss-making companies to new, competitive and promising undertakings.

Chart 1 Total state aid-to-GDP ratios in Croatia, 2002-12, in %



Source: Annual Report on State Aid for 2012, AZTN, September 2013.

¹ The Croatian version available.

² This ratio does not include aid to the railway sector and financial crisis aid, and stands at 2.37% for Croatia.

The need for a complete turnaround particularly arises from the unchanged structure of aid to the industrial and services sectors where the negative trend of the strong prevalence of sectoral aid continues. This type of aid accounts for almost 70% of aid to industry and services, while horizontal aid accounts for only about 30%. The EU 27 Member States allocate three times more aid for horizontal objectives, i.e. about 90% of total aid to industry and services. It is believed in the EU that it is precisely the horizontal aid that should be the engine of smart and sustainable economic growth, as it is targeted at regional development, R&D and innovation, environmental protection and the like. Being intended for all undertakings and not only the selected enterprises or sectors (in the Croatian case - primarily loss makers and declining industries), it should provide a basis for a modern industrial policy. Accordingly, the purpose of horizontal aid is to correct situations where market has failed and thus contribute to the growth and competitiveness of the economy.

In Croatia, aid has mainly been provided in the form of subsidies (72%), government guarantees (10.2%), tax relief (8.6%), soft loans (6.9%) or equity participation (2.3%). The agriculture and fisheries sector was definitely the top aid recipient, having received HRK 3.5 billion or about 40% of total aid in 2012. However, as the AZTN makes no separate analyses of aid to this sector, because its provision is subject to special rules and falls within the competence of the Ministry of Agriculture, this aid instrument will not be further discussed in this article.

Table 1 Enterprises (programmes) – the largest amounts of aid paid in 2012

SECTORAL AID		HORIZONTAL AID	
Aid receivers	million HRK	Aid programme-implementing entities/Aid receivers	million HRK
HRT	1,195.1	HBOR programmes*	644.2
HŽ Passenger Transport	590.9	Croatian Employment Service - National Employment Incentive Plan*	107.9
Brodosplit d.d.	404.3	Ministry of science, education and sports - tax relief regulated by the Law*	101.2
Jadrolinija, Mediteranska plovidba and other ship operators	375.0	Croatian Audiovisual Centre*	60.4
HŽ Cargo	372.4	Operational Wood Processing Development Programme and Furniture Production*	59.1
Croatia Airlines d.d.	248.3	Agency for Electronic Media*	20.3
Croatia Banka d.d. (recapitalisation)	200.0	Tankerska plovidba d.d. Zadar	18.0
Tourism*	71.0	Jadranplov d.d. Split	16.5
Kraljevica Shipyard	61.2	Ministry of Culture*	15.6
Institute of Immunology	43.2	Fund for Vocational Rehabilitation and Employment of Persons with Disabilities *	13.8
Dioki d.d.	37.3	Hr Telekom d.d.	4.4
AUDIO*	28.4	Ministry of Science, Education and Sports - Guidelines for the Promotion of the Innovation and Technology System*	3.6
Guarantees issued to other shipyards	23.8	Transmitters and Communications, Ltd.	2.9
Uljanik (guarantees issued)	9.8	Koksar d.o.o. Bakar	0.25
Osijek and Rijeka airports	9.0		
Tehnomont Shipyard	0.3		

Source: Annual Report on State Aid for 2012, AZTN, September 2013.

Note: Regional aid and aid provided by local government units in a total amount of HRK 471 million were targeted on a large number of small and medium-sized enterprises/programmes.

*Programmes involving several enterprises.

Which enterprises are the top recipients of state aid? Table 1 does not need any particular explanation, because it clearly points to enterprises that needed government support as the top beneficiaries of aid. Regrettably, the rescue policy was not particularly successful, because these enterprises still do not come out of trouble easily. Broken down by sector, most aid is still given to transportation, radio and TV broadcasting (HRT), shipbuilding, rescue and restructuring of enterprises in difficulties (the

Institute of Immunology, Dioki d.d. and Croatia banka, and loans granted to enterprises in difficulties by the State Property Management Agency (AUDIO)); and tourism.

The biggest individual recipient of sectoral state aid is HRT which receives aid in the form of radio and TV subscription fee used to promote public radio and TV broadcasting, which is considered to be „allowed“ state aid under the EU rules. This is a monthly fee in the amount of HRK 80, paid by all owners of radio and TV sets. The Croatian Bank for Reconstruction and Development (HBOR) is the biggest individual provider of horizontal aid, implementing programmes to support a large number of small and medium-sized enterprises.

Hence, Croatia should stop rescuing market losers and should rather use the taxpayers' money for creating environment for new industries and competitive undertakings which will spur growth and employment. The European Commission will certainly underpin these efforts, as all Member States must comply with the policies adopted at the EU level. As of 1 July 2013, most of the responsibilities relating to state aid which have previously been discharged by the AZTN will be delegated to the European Commission. Croatia has retained the right to allocate aid and implement its industrial policy in accordance with its financial capabilities and in full compliance with the EU rules. However, the control function will be exercised by the Commission, which means that, prior to its implementation, all state aid must be notified to the Commission for approval. After Croatia has joined the EU, any business entity operating within the EU will be able to request verification whether some aid granted in Croatia is compatible with the EU rules, if such entity feels threatened by this aid. While final data are still lacking, the AZTN estimates that for 2013 the share of state aid in GDP will grow to 2.98%, up 12% more than in 2012. Sectoral aid increases while horizontal aid declines, taking Croatia even further away from the average aid structure in the EU 27. This is why it is expected the coming of additional pressure from the European Commission.