

Republic of Serbia
COMMISSION FOR STATE AID CONTROL

R E P O R T

ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2013

October 2014

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1. INTRODUCTION

State aid control in the Republic of Serbia was introduced by the adoption of the Law on State aid Control (“*Official Gazette of the RS*”, no. 51/09 – hereinafter referred to as “the Law”), the Regulation on Rules for State Aid Granting (“*Official Gazette of the RS*”, nos. 13/10, 100/11, 91/12, 37/13 and 97/13 – hereinafter referred to as “the Regulation”) and the Regulation on Rules and Procedure for State aid Notification (“*Official Gazette of the RS*”, no. 13/10).

Pursuant to Article 6 of the Law and Article 43 paragraph 1 of the Law on Government (“*Official Gazette of the RS*”, nos. 55/05, 71/05 – *corrigendum*, 101/07 and 65/08), the Government adopted the Decision on the Establishment of the Commission for State Aid Control on December 29th, 2009 (“*Official Gazette of the RS*”, no. 112/09), stipulating that the Commission is mandated to control state aid in the Republic of Serbia.

The Rules of Procedure of the Commission for State Aid Control govern the procedures and other issues relevant to the work of the Commission for State Aid Control.

In 2013, the Commission for State Aid Control (hereinafter referred to as “the Commission”) held 20 sessions in which it adopted 135 acts that come within its competence, out of which:

- 61 decisions – the Commission decided whether the State aid was allowed in 53 cases (out of which 22 notifications were considered in *ex ante* control, while in the procedure of *ex post* control it considered 31 cases of granted state aid);

- 49 conclusions, out of which *ex post* control was initiated in 34 cases in order to establish whether State aid was allowed (the Commission initiated 2 cases of *ex post* control based on its own information or information obtained from other sources);

- 2 conclusions in which state aid grantors were ordered to adjust to the rules for granting state aid and

- 25 official letters were answered to upon the request for giving the opinion on issues that come within the competence of the Commission.

There is still a great number of State aid notifications that the Commission decides upon in the procedure of *ex post* control.

If the Commission, pursuant to Article 18 paragraph 3 of the Law, within *ex post* control, determines that state aid was granted contrary to the rules for state aid granting, the Commission is authorised to order the recovery of granted state aid increased by default interest prescribed by law, from the day of using such aid until the date of recovering the used amount.

It is necessary to raise awareness of state aid grantors and promote the obligation to notify state aid in the procedure of *ex ante* control in order to decrease number of cases when the Commission, within the *ex post* control, has to decide whether granted state aid is allowed.

Within the meaning of Article 23 paragraph 1 of the Law, the ministry in charge of finance is in charge of preparing a draft annual report on granted state aid in the Republic of Serbia, according to data provided by state aid grantors. The report is submitted to the Government by the Commission for State Aid Control. Moreover, in accordance with Article 73 paragraph 5 of the Stabilisation and Association Agreement (the Law confirming the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Serbia, of the other part (“*Official Gazette of the RS – International Agreements*”, no. 83/08 – hereinafter referred to as “the SAA”)) and Article 38 paragraph 5 of the Interim Agreement (the Law confirming the Interim Agreement on trade and trade-related matters between the European Community, of the one part, and the

Republic of Serbia, of the other part (“*Official Gazette of the RS – International Agreements*“, no. 83/08 – hereinafter referred to as “the Interim Agreement”), the Republic of Serbia assumed the responsibility for regularly submitting annual reports on granted state aid to competent institutions of the European Union, following the methodology and data presentation which is contained in the State Aid Scoreboard of the European Commission, in order to ensure transparency of state aid granting.

The Rulebook on Methodology for Drafting Annual Report on State aid Granted (“*Official Gazette of the RS*“, no. 3/11 – hereinafter referred to as “the Rulebook”) regulates the following: methodology for drafting annual report on granted state aid, deadline within which state aid grantors submit data on granted state aid to the ministry responsible for finance and deadline within which the Commission submits the annual report to the Government.

The Annual Report on State Aid Granted in the Republic of Serbia in 2013 (hereinafter referred to as “the 2013 Report”) is the tenth consecutive annual report that the Republic of Serbia has made until now (the first was drafted for 2003/2004 period). However, it is the fourth comprehensive, because it contains data on state aid granted by the local self-governmental units and it is completely drafted in accordance with EU methodology.

State aid granted by the ministry in charge of agriculture, fishery and forestry is presented only in the section of total granted aid, since the provisions of this Law do not apply to agricultural and fishery products (Article 1 paragraph 2 of the Law).

1.1. State aid control

State aid control, which is granted to individual enterprises or to a group of enterprises, protects free market competition and it prevents other market participants, which are not state aid beneficiaries, to be in a less favourable position in the market. In this way, fair microeconomic environment is created and it fosters economic growth, new investments, employment growth and overall social welfare.

1.1.1. Defining state aid concepts (Article 2 of the Law)

State aid is any actual or potential public expenditure or realised decrease in public revenue that confers to State aid beneficiary a more favourable market position in respect to the competitors and as a result causes or threatens to cause distortion of the market competition (Article 2 point 1 of the Law).

State aid grantor is the Republic of Serbia, the autonomous province and local self-governmental units, through their competent bodies, and any legal person managing and/or having disposal over public funds and allocating state aid in any form whatsoever (Article 2 point 2 of the Law).

State aid beneficiary is any legal or natural person that, in their business operations concerning production and/or trade of goods and/or providing of services in the market, use state aid in any form whatsoever (Article 2 point 3 of the Law).

1.1.2. State aid criteria

In order to consider a certain measure state aid, the following four criteria have to be cumulatively fulfilled:

- 1) state aid is granted from public resources (transfer of public (state) resources),
- 2) state aid is granted on a selective basis (selectivity),

- 3) state aid beneficiary or beneficiaries gain a more favourable position compared to other competitors in the market (economic advantage) and
- 4) state aid distorts or threatens to distort competition in the market .

Transfer of state resources

When granting state aid, resources are transferred from state, province or local government budgets. However, state resources also include government funds administered by the state through private or public institutions. Furthermore, there are those controlled by the state, if their funds come from the government budget, or if those funds have discretionary right to decide how to use collected resources. Therefore, the rules on state aid granting do not only apply to the state, i.e. to the Republic, autonomous province and local self-governmental units, but also to all bodies that have public authority and all institutions under state control, that is, those bodies assigned by the state to grant state aid.

Besides public expenditures (direct grants) and potential public expenditures (guarantees), state aid is also considered to be a realised decrease in public revenue (reduction of or exemption from paying taxes and compulsory social insurance taxes).

Selectivity

Selectivity is what differentiates state aid from general measures of economic policy, which are applied to all enterprises and sectors in one state, such as general fiscal measures, general decrease of tax or interest rates and similar.

Thus, in order to consider a measure state aid it has to be selective, that is, it has to put certain enterprises, production of certain goods or providing certain services in a more favourable position in respect to competitors.

With regard to state aid schemes, the selectivity criterion is fulfilled if a state aid scheme is only applied to some production activities and/or goods turnover and/or services in the market, or if a state aid scheme is only applied to one part of state territory (and this is the case with all regional state aid schemes).

Economic advantage

State aid enables its beneficiary, i.e. an enterprise, to gain a more favourable position in the market with regard to its competitors, which it would not gain from its current business operations if it had not used state aid.

Besides granting state aid in the form of direct grants, soft loans, tax incentives, issuing guarantees and similar, state aid also exists in cases when: an enterprise buys or rents publicly owned land at less than the market price, an enterprise sells land to the state at a price which is higher than the market price, an enterprise enjoys privileged access to infrastructure without paying a fee or an enterprise obtains risk capital from the state on terms that are more favourable than it would obtain from a private investor.

Effect on competition in the market

State aid must have a real or potential effect on competition and trade, because state aid granting distorts or threatens to distort market competition. It is enough to prove that a state aid beneficiary is involved in an economic activity and that it operates in a market, while the “nature” of a beneficiary is not relevant, so even a non-profit organisation can engage in economic activities, i.e. it can be a state aid beneficiary.

1.1.3. Allowed State aid (Article 4 of the Law)

State aid can be allowed when:

- 1) it has a social character and when it is granted to individual consumers, provided that such aid is granted without discrimination related to the origin of goods and products concerned;
- 2) it is granted to eliminate the damage caused by natural disasters or other exceptional occurrences.

1.1.4. State aid that may be considered to be allowed (Article 5 of the Law)

State aid may be considered to be allowed when granted:

- 1) to promote the economic development of areas of the Republic of Serbia where the standard of living is extremely low or where there is serious unemployment,
- 2) to remedy a serious disturbance in the economy of the Republic of Serbia or to promote the execution of an important project for the Republic of Serbia,
- 3) to facilitate the development of certain economic activities or certain economic areas in the Republic of Serbia, where such aid does not adversely affect or threaten to affect market competition,
- 4) to promote protection and preservation of cultural heritage.

1.1.5. State aid scheme and individual state aid (Article 12 of the Law)

State aid scheme is a set of all acts constituting the legal grounds for granting state aid to beneficiaries which are not previously designated (known), and drafts and/or proposals of regulations which will constitute the legal grounds for state aid granting after their adoption to beneficiaries which are not previously designated (known).

Individual state aid is the state aid granted:

- 1) based on state aid grantor's act, which is not based on a state aid scheme, to the previously designated beneficiary, or
- 2) based on state aid scheme.

1.2. Methodology for drafting the report on granted state aid

Annual report on granted state aid is the overall presentation of total state aid granted in the Republic of Serbia during one year, drafted based on data collected from state aid grantors.

1.2.1. Data collection on granted state aid

Article 3 of the Rulebook stipulates that state aid grantors are obliged to submit all data prescribed for drafting the annual report, i.e. data on granted state aid, to the ministry in charge of finance in the form of the prescribed Table of granted state aid.

Concerning the fact that provisions of the Law do not apply to agricultural and fishery products (Article 1 paragraph 2 of the Law), the ministry in charge of agriculture, fishery and forestry only submits data on total amounts of state aid.

The Table of granted state aid contains data on state aid grantors and beneficiaries, beneficiary sector (business activity), registration number of the Commission's decision, legal

grounds for state aid granting, type, amount, state aid instrument, financial source, duration, as well as purpose of state aid.

Data on granted *de minimis* aid is submitted within the Table of total *de minimis* aid granted.

1.2.2. Methodology for presenting granted state aid

Article 4 of the Rulebook states that State aid is recorded, depending on the objectives and amounts of granted state aid, according to the following categories/types:

1) Regional state aid:

- 1.1. regional investment state aid,
- 1.2. regional state aid for newly founded small enterprises,
- 1.3. regional operating state aid.

2) Horizontal state aid:

- 1.1. State aid for small and medium enterprises,
- 1.2. State aid for rescue and restructuring enterprises in difficulty,
- 1.3. State aid for employment,
- 1.4. State aid for environmental protection,
- 1.5. State aid for research, development and innovation,
- 1.6. State aid for training,
- 1.7. State aid in the form of risk capital,
- 1.8. State aid to the cultural sector.

3) Sectoral state aid:

- 1.1. State aid in the steel production sector,
- 1.2. State aid in the coal extraction sector,
- 1.3. State aid in the transport sector.

4) *De minimis* aid.

1.2.3. State aid instruments

According to Article 5 of the Rulebook, the following state aid instruments are prescribed:

- 1) direct grants,
- 2) interest subsidies,
- 3) soft loans,
- 4) tax incentives,
 - 4.1. tax allowances,
 - 4.2. tax credit,
 - 4.3. tax write-off,
 - 4.4. tax exemption,
 - 4.5. other tax incentives,
- 5) reduction of compulsory social insurance tax,
- 6) capital investments/risk capital investments,
- 7) debt write-off,

- 8) guarantees (including information on loan and other financial transactions covered by the guarantees, insurance and premium payments information),
- 9) short-term insurance of export loans,
- 10) sale of publicly owned immovable property,
- 11) other instruments.

1.3. Structure of 2013 Report

The 2013 Report consists of five chapters.

Basic state aid concepts are explained in the first (introductory) part, as well as the methodology for drafting the report on granted state aid.

In Chapter 2, granted state aid is presented in the following way:

- within Section 2.1. state aid in the Republic of Serbia is presented in relation to basic macroeconomic indicators, such as the share of state aid in gross domestic product, the share of state aid in public expenditures, state aid per employee, as well as state aid per capita;

- within Section 2.2. total state aid granted in the Republic of Serbia in 2011, 2012 and 2013 is presented by types of state aid.

In Chapter 3, granted State aid in industry and service sector is presented by individual state aid types.

Chapter 4 presents granted state aid according to state aid instruments, which include direct grants, tax incentives, soft loans and guarantees.

Chapter 5 discusses *de minimis* aid that is monitored independently of other state aid types and it is not presented in total amount of granted state aid, because it does not effect competition and trade in the market.

1.4. Summary of 2013 Report

The 2013 Report is drafted in accordance with the Law, the Regulation and the Rulebook.

It presents the analytical summary of state aid granted in 2013. Comparative data are given in order to have a comprehensive summary and trends monitoring for both 2011 and 2012.

The Report is based on data collected from the state aid grantors (ministries, Tax Administration, National Employment Service, Development Fund of the Republic of Serbia, Serbia Investment and Export Promotion Agency (SIEPA), Government of Autonomous Province of Vojvodina and local self-governmental units) and it was drafted in accordance with the Rulebook, which sums the reporting classifications and regulations.

In the Republic of Serbia in 2013 the total amount of State aid granted amounted to RSD 81,451 million, i.e. EUR 720.0 million¹, which is by 7% less in comparison to total state aid granted in 2012 (RSD 88,009 million or EUR 778.0 million), that is, by 1% less in comparison with the same parameter for 2011 (RSD 82,447 million, i.e. EUR 808.6 million). In comparison with the amounts stated in euros, granted state aid in 2013 is even 11% lower than in 2011.

The share of state aid in the gross domestic product (hereinafter referred to as “the GDP”) is 2.25% in 2013, while in 2011 and 2012 it was 2.60%.

¹ Average Euro exchange rate in 2013 was RSD 113.1369; Source: National Bank of Serbia

The 2013 report contains the data about state aid in certain sectors, that is, in the sector of agriculture, hunting, forestry and fishery (hereinafter referred to as “the agriculture sector”) and aid to the sector of industry and services. The state aid granted to the agriculture sector was not separately analyzed, but it was presented in the total amount, while the aid to the industry and services sector was divided into the following categories:

- horizontal state aid,
- sectoral state aid,
- regional state aid.

The agriculture sector in 2013 was granted absolute state aid amount of **RSD 26,251 million or EUR 232.1 million**, which in comparison to 2012 presents an increase of 4%, and compared to 2011, it is a rise of 55%. The share of this state aid in the total state aid granted in 2013 was 32.2%, while in 2012 and 2011 it was 28.6% and 20.5% respectively. State aid granted by the ministry in charge of agriculture, fishery and forestry is presented in total amount of state aid granted, considering a fact that the provisions of the Law do not refer to agricultural and fishery products (Article 1 paragraph 2 of the Law).

Absolute state aid amount granted to the industry and services sector in 2013 was **RSD 55,200 million or EUR 487.9 million**, which presents a decrease of 12% and 16% respectively, when compared to 2012 and 2011. The share of this state aid in the total state aid granted in 2013 was 67.8%, while in 2012 and 2011 it was 71.4% and 79.5% respectively.

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2013

2.1. State aid in the Republic of Serbia in relation to the basic macroeconomic indicators

Table 1

Indicator	Unit of measure	2011	2012	2013	Indexes	
					13/11	13/12
State aid	In RSD million	82,447	88,009	81,451	99	93
State aid	In EUR million	808.6	778.0	720.0	89	93
GDP ¹	In RSD million	3,175,000	3,386,200	3,618,220	-	-
GDP	In EUR million	31,143	29,933	31,981	-	-
State aid in GDP	in %	2.60	2.60	2.25	87	87
Public expenditures	In RSD million	1,462,720	1,625,300	1,649,075	-	-
Public expenditures	In EUR million	14,347	14,367	14,576	-	-
State aid in public expenditures	in %	5.64	5.41	4.94	88	91
Employees	number	1,746,000	1,727,000	1,715,000	-	-
State aid per employee	RSD	47,221	50,961	47,493	101	93
State aid per employee	EUR	463	450	420	91	93
Population ²	number	7,306,000	7,121,000	7,146,759	-	-
State aid per capita	RSD	11,285	12,154	11,397	101	92
State aid per capita	EUR	114	107	101	91	92

Total state aid granted in the Republic of Serbia in 2013 amounted to RSD 81,451 million, which is less than total state aid granted in 2012 and 2011, by 7% and 1% respectively.

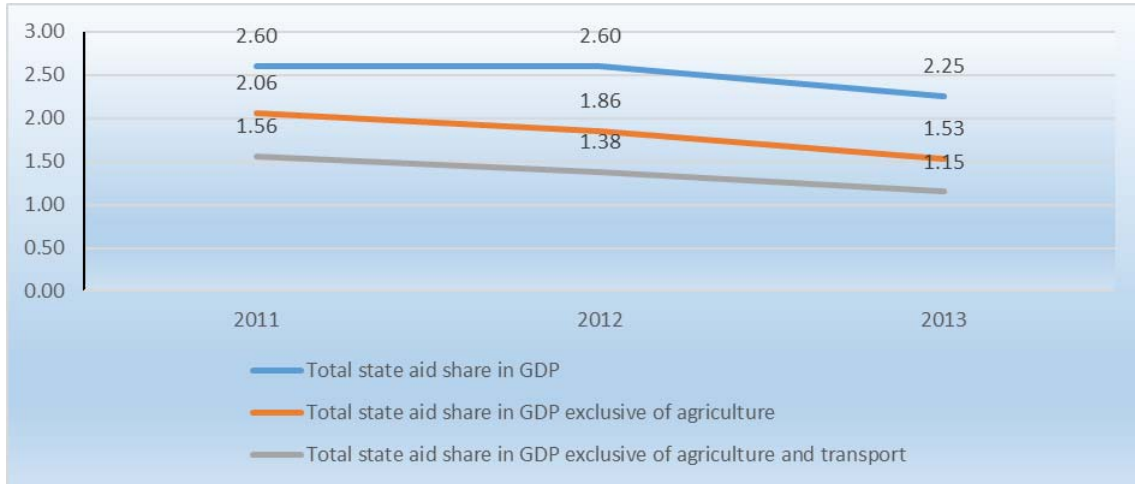
The share of state aid in the GDP in 2013 amounted to 2.25%. In 2012 and 2011 it amounted to 2.60%.

¹ Data for basic macroeconomic indicators for 2013 are taken from website of the Ministry of Finance <http://www.mfin.gov.rs/pages/article.php?id=7161>

² Statistical Office of the Republic of Serbia

The trends of total state aid share in GDP in 2011 - 2013 period

Graph 1



The trends of the total state aid share in the GDP in the Republic of Serbia in 2013 shows slight decrease in comparison to 2012 and 2011.

2.2. Total state aid granted in the Republic of Serbia in 2011, 2012, and 2013 per state aid types

Table 2

No.	Type	2011			2012			2013		
		In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%
	Agriculture	16,888	165.6	20.5	25,158	222.4	28.6	26,251	232.1	32.2
	Industry and services	65,559	643.0	79.5	62,851	555.6	71.4	55,200	487.9	67.8
I	Horizontal state aid	13,442	131.8	16.3	12,021	106.3	13.6	4,767	42.1	5.9
1	Research and development	83	0.8	0.1	9.0	0.1	0.0	7.0	0.1	0.0
2	Training	2.0	0.0	0.0	4.1	0.0	0.0	8.0	0.1	0.0
3	Employment	468	4.6	0.6	2,511	22.2	2.9	2,351	20.7	2.9
4	SME ¹	1.0	0.0	0.0	107.8	0.9	0.1	101	0.9	0.1
5	Environmental protection	2,923	28.7	3.5	15.3	0.1	0.0	0.0	0.0	0.0
6	Culture	144	1.4	0.2	28.1	0.3	0.0	771	6.8	0.9
7	Rescue and restructuring	5,228	51.3	6.3	8,696	77.0	9.9	1,529	13.5	1.9
8	Other types ²	4,593	45.1	5.6	650	5.7	0.7	0.0	0.0	0.0
II	Sectoral state aid	18,260	179.1	22.1	19,317	170.7	22.0	17,943	158.6	22.0
1	Mining	2,219	21.8	2.6	3,236	28.6	3.7	4,300	38.0	5.3
2	Transport	16,041	157.3	19.4	16,081	142.1	18.3	13,643	120.6	16.7
III	Regional state aid	33,857	332.1	41.1	31,513	278.6	35.8	32,490	287.2	39.9
TOTAL		82,447	808.6	100.0	88,009	778.0	100.0	81,451	720.0	100.0

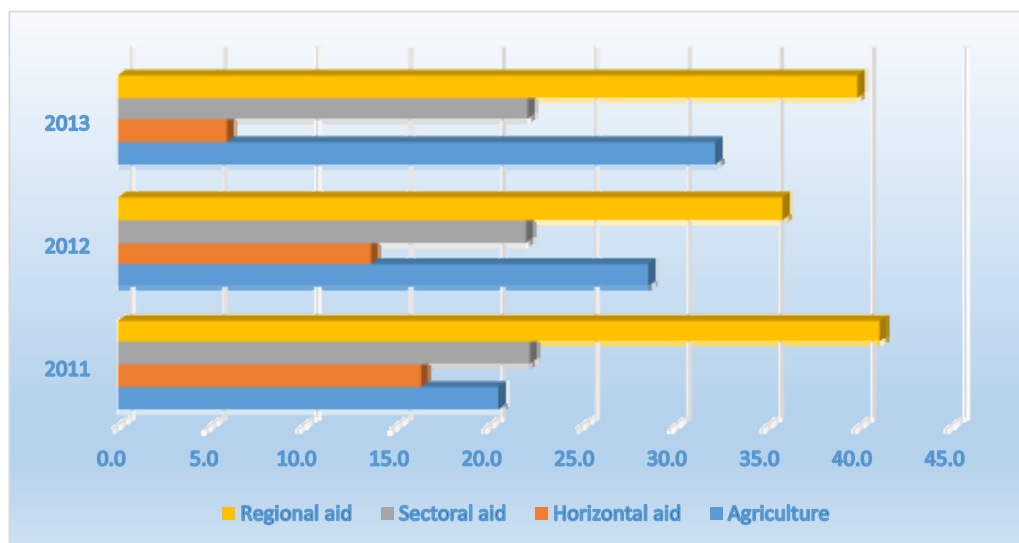
State aid granted to the agriculture sector in 2013 amounted to RSD 26,251 million, which makes a share of 32.2% in total state aid granted. State aid granted to the industry and services sector amounted to RSD 55,200 million and it makes a share of 67.8% of total state aid granted.

¹ SME – small and medium enterprises

² Other types – state aid granted to alleviate negative consequences of the global economic crisis

Structure of total State aid in the Republic of Serbia in 2011, 2012 and 2013

Graph 2



Horizontal state aid had a share of 5.9% in the total state aid granted in 2013 and it amounted to RSD 4,767 million. However, it had a share of 13.6% in 2012 and it amounted to RSD 12,021 million and in 2011 that share was 16.3%, and it amounted to RSD 13,442 million.

Sectoral state aid amounted to RSD 17,943 million in 2013 and made up a share of 22% in total state aid. In previous reporting periods (2012 and 2011) larger amounts were granted – RSD 19,317 million and RSD 18,260 million respectively. The share of sectoral state aid in total state aid was the same when compared to 2012 and 2011 when it amounted to 22%.

Regional state aid amounted to RSD 32,490 million in 2013, with the share of 39.9%. Granted regional state aid is higher in 2013 when compared to 2012, when it amounted to RSD 31,531 million, and it had a share of 35.8%. Regional state aid in 2013 is lower when compared to 2011, when it amounted to RSD 33,857 million and had a share of 41.1% in the total state aid.

**State aid in 2011 – 2013 period
(agriculture and transport excluded)**

Table 3

Indicator	Unit of measure	2011	2012	2013
State aid	In RSD mil.	49,518	46,770	41,557
State aid	In EUR mil.	485.7	413.4	367.3
GDP	In RSD mil.	3,175,000	3,386,200	3,618,220
GDP	In EUR mil.	31,143	29,933	31,981
State aid in GDP	in %	1.6	1.4	1.1

The state aid granted to the economy sector in 2013 (agriculture and transport sector excluded) was RSD 41,557 million in absolute amount and it had a share of 1.1% in the GDP.

3. INDUSTRY AND SERVICES

3.1. State aid types

Pursuant to the methodology of the European Union, state aid granted to the industry and services sector, according to the primary aims of granting, is divided into the following types:

- horizontal state aid,
- sectoral state aid and
- regional state aid.

Horizontal State aid is earmarked for a greater number of beneficiaries who are not known in advance and it far less distorts market competition than sectoral state aid. Positive effects of this state aid type are manifold, therefore it is considered to be less selective than sectoral state aid.

Sectoral state aid is assigned to undertakings in certain business activities, i.e. sectors. This category is far more selective in comparison with horizontal state aid and accordingly, it distorts or threatens to distort competition in the market to a greater extent. Due to the given reasons, the European Commission applies special rules for granting state aid to more sensitive sectors, such as steel, coal, synthetic fibres and transport.

Regional state aid is granted with an aim of promoting the economic development of undeveloped and less developed regions/areas, primarily those where the standard of living is extremely low, or in areas with high unemployment rate.

According to Article 73(7)(a) of the SAA (Article 38(7)(a) of the Interim Agreement), the Republic of Serbia will assess each state aid it grants in the first five years after the day of coming into force of this Agreement, but taking into consideration the fact that the Republic of Serbia will be regarded as an area identical to those areas described in Article 87(3)(a) of the EC Treaty (now Article 107(3)(a) of the Treaty on the Functioning of the European Union), that is, as undeveloped area.

**State aid in the 2011 – 2013 period
(agriculture excluded)**

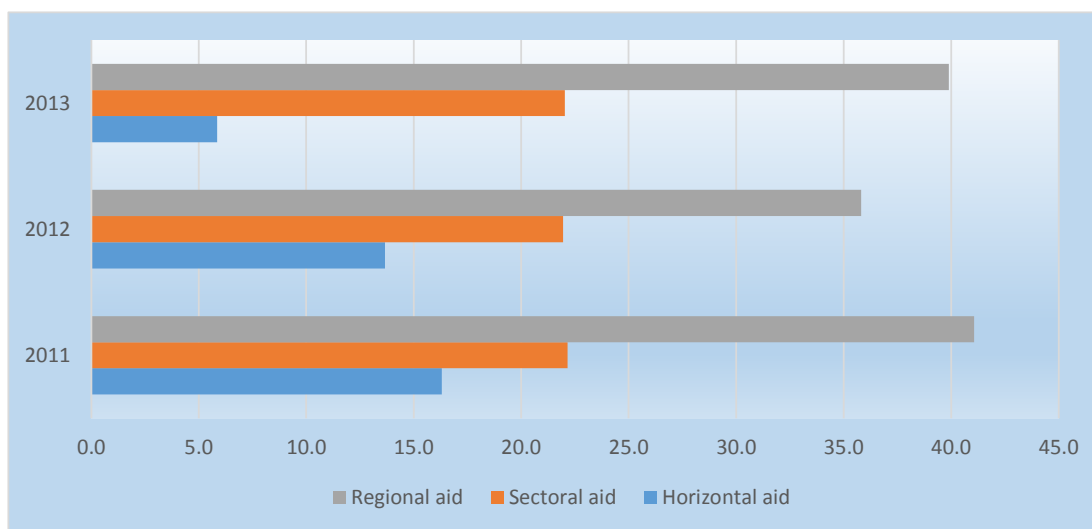
Table 4

Indicator	Unit of measure	2011	2012	2013
State aid	In RSD mil.	65,559	62,851	55,200
State aid	In EUR mil.	643.0	555.6	487.9
GDP	In RSD mil.	3,175,000	3,386,200	3,618,220
GDP	In EUR mil.	31,143	29,933	31,981
State aid in GDP	in %	2.1	1.9	1.5

The state aid amount granted to the sector of industry and services in 2013 was 12% and 16% lower than in 2012 and 2011, respectively. The granted state aid for the industry and services sector in 2013 had a share of 1.5% in the GDP, which is less when compared to 2012 and 2011, when the share of state aid in the GDP was 1.9% and 2.1% respectively.

Summary of share of certain state aid types in state aid granted in the Republic of Serbia in 2011, 2012 and 2013 (agriculture excluded)

Graph 3



In comparison with 2012, the regional state aid increased slightly and when compared to 2011 it slightly decreased and there is a mild decrease in sectoral state aid when compared to both 2012 and 2011.

3.1.1. Horizontal state aid

Structure of horizontal state aid in the Republic of Serbia in 2011, 2012 and 2013

Table 5
in RSD million

Horizontal state aid type	2011	2012	2013	Index 13/11	Index 13/12
Research and development	83	9	7	8.4	77
Training	2	4.1	8	-	195.1
Employment	468	2,511	2,351	-	93.6
SME	1	107.8	101	-	93.7
Environmental protection	2,923	15.3	0.0	-	-
Culture	144	28.1	771	-	-
Rescue and restructuring ¹	5,228	8,696	1,529	29.2	17.6
Other ²	4,593	650	0	-	-
Total	13,442	12,021	4,767	35.5	39.6

According to data presented in Table 5, horizontal state aid decreased by 60.4% in the absolute amount in 2013 when compared to 2012, and in comparison with 2011, it decreased by 64.5%. Great differences, both in the total amount of horizontal state aid and its structure primarily stem from the decrease in state aid granting in general. In previous reports, this state aid type consisted of the funds, which were, through the “Transition Fund”, allocated for solving legal-employment status of the employees who were surplus in the enterprises. The future status for these enterprises is clearly defined by the acts based on the Programme for solving the employees surplus in the process of rationalisation, restructuring and preparing for the privatisation.

¹ In the past reports, this state aid type comprised of the funds which were, through “Transition Fund”, allocated for settling legal employment status of the employees made redundant in the undertakings, whose future status was clearly defined by relevant acts on the basis of the Programme for solving the issue of redundancies in the process of rationalisation, restructuring and preparation for privatisation.

Funds allocated through “Transition Fund” include general social insurance system and they are allocated for direct payment of compensation (severance pay) and early retirement pay for the employee which were made redundant. The funds for these purposes in 2013 amounted to RSD 526,098,550.00.

Other important amount not included in this Report refers to tax write-off of undertakings in the process of privatisation and restructuring, according to Article 115 of the Law on Tax Procedure and Tax Administration (“*Official Gazette of the RS*”, no. 80/02, 84/02 – *corrigendum*, 23/03 – *corrigendum*, 70/03, 55/04, 61/05, 85/05 – other law, 62/06 – other law, 61/07, 20/09, 72/09 – other law, 53/10, 101/11, 2/12 – *corrigendum*, 93/12, 47/13, 108/13, 68/14).

According to the data submitted by the Tax Administration in 2013, tax debt was written-off for 550 undertakings in the privatisation and restructuring process, as follows: RSD 21,208,365.00 of principal due for payment until December 31st, 2010 and December 31st, 2011, as well as matured interest on public revenues in the amount of RSD 18,831,643,169.00. The previously stated refers to the claims for the costs of collection of money due, fines for tax offences and the costs of tax proceedings.

In comparison to the previous year, tax liabilities write-off structure was different, due to the fact that over 99% of write-off refers to interest rates. Having in mind that these are undertakings in the process of privatisation and restructuring, without economic activity and which are not present at the market. Moreover, Article 6 of the Law on Privatisation (“*Official Gazette of the RS*”, no. 83/14) stipulates that the socially-owned capital of the undertaking subject to the privatization process has to be privatized not later than on December 31st.

² Other – state aid granted to alleviate negative consequences of the global economic crisis

Share of types of horizontal state aid in total amount of horizontal state aid granted in the Republic of Serbia in 2011, 2012 and 2013

**Table 6
in RSD million**

Horizontal state aid type	2011		2012		2013	
	Amount	In %	Amount	In %	Amount	In %
Research and development	83	0.6	9	0.1	7.0	0.1
Training	2	0.0	4.1	0.0	8.0	0.2
Employment	468	3.5	2,511	20.9	2,351	49.3
SME	1	0.0	107.8	0.9	101	2.1
Environmental protection	2,923	21.7	15.3	0.1	0.0	0.0
Culture	144	1.1	28.1	0.2	771	16.2
Rescue and restructuring	5,228	38.9	8,696	72.3	1,529	32.0
Other ¹	4,593	34.2	650	5.4	0.0	0.0
Total	13,442	100%	12,021	100%	4,767	100%

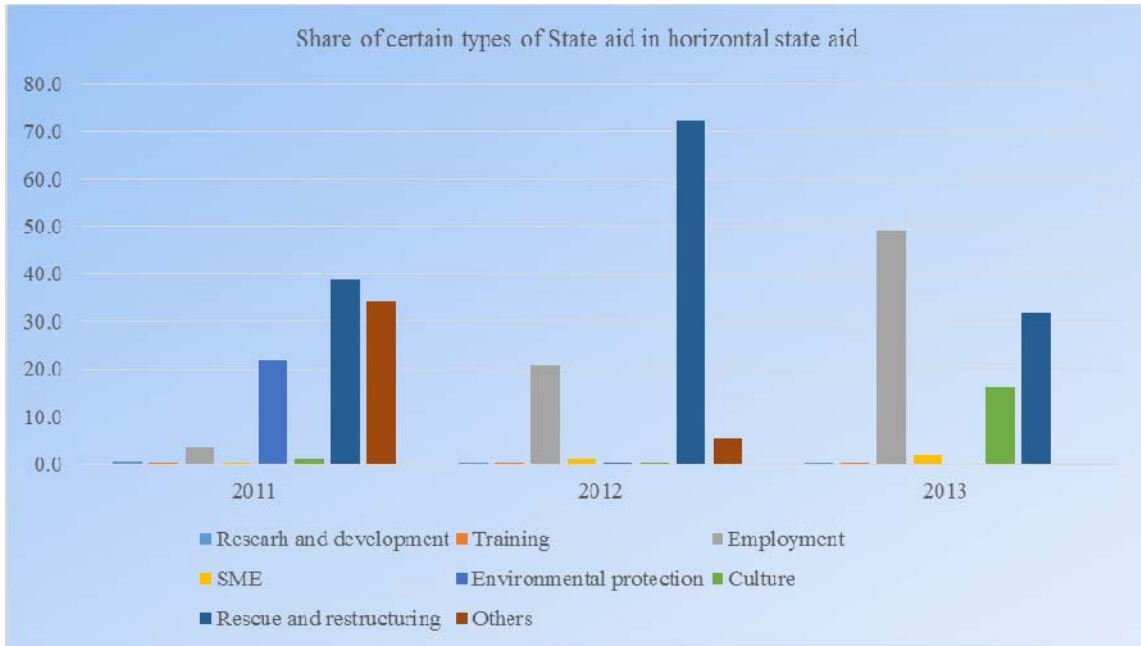
The European Commission has recommended that Member States should intensify their efforts to reduce the general levels of state aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing horizontal objectives, such as employment, regional development, environmental protection, training, research and development.

State aid granted for rescue and restructuring of enterprises is RSD 1,529 million and accounts to 32.1% of total horizontal state aid granted in 2013. This represents lower share than in 2012, when it amounted to RSD 8,696 million and accounted for 72.3% of total granted horizontal state aid. In order to adequately assess if the recommended EU directives have been followed, it is necessary to encompass regional state aid together with horizontal state aid, particularly due to the fact that, according to Article 73(7)(a) of the SAA (Article 38(7)(a) of the Interim Agreement), the Republic of Serbia is considered to be an underdeveloped region. The total amount of the above mentioned state aid types in 2013 was RSD 37,257 million, whereas state aid for rescue and restructuring had a share of 4.1% and aid the incentivizing of objectives, marked as significant for the development and recommended by the European Commission, had a share of 95.9%.

¹ Other – state aid granted to alleviate negative consequences of the global economic crisis

Structure of horizontal state aid in 2011, 2012 and 2013

Graph 4



Horizontal State aid per state aid instrument in 2013

Table 7
in RSD million

Horizontal state aid type	Grants	In %	Tax incentives	In %	Soft loans	In %	Total
Research and development	7	0.1	0.0	0.0	0.0	0.0	7
Training	8	0.2	0.0	0.0	0.0	0.0	8
Employment	889	18.6	1,462	30.7	0.0	0.0	2,351
SME	59.5	1.3	0.0	0.0	41.5	0.9	101
Environmental protection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescue and restructuring	0.0	0.0	0.0	0.0	1,529	32.0	1,529
Culture	771	16.2	0.0	0.0	0.0	0.0	771
Total	1,735	36.4	1,462	30.7	1,571	32.9	4,767

Horizontal state aid was mostly granted in the form of grants – 36.4%, tax incentives – 30.7% and soft loans – 32.9%.

3.1.2. Sectoral state aid

Sectoral State aid in the Republic of Serbia in 2011, 2012 and 2013

Table 8
in RSD million

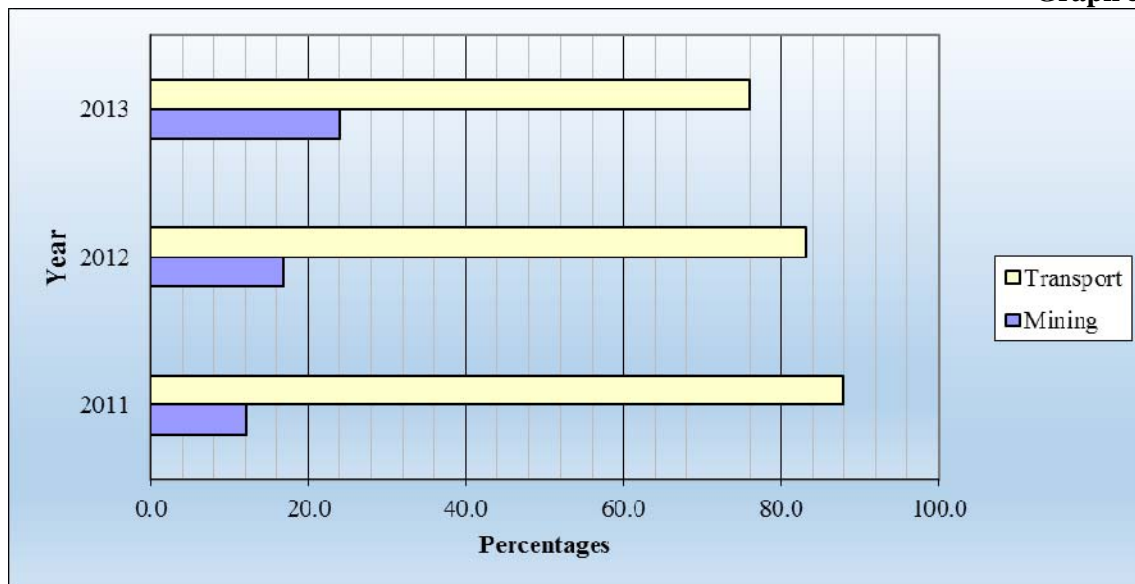
Sector	2011	2012	2013	Index 13/11	Index 13/12
Mining	2,219	3,236	4,300	194	133
Transport	16,041	16,081	13,643	85	85
Total	18,260	19,317	17,943	98	93

The absolute amount of sectoral state aid granted in 2013 was 2% and 7% lower than in 2011 and 2012, respectively.

The 2013 Report includes only those sectors that are marked as specific (mining and transport) in EU regulations.

Structure of sectoral state aid in the Republic of Serbia in 2011, 2012 and 2013

Graph 5



The biggest share in sectoral state aid had state aid granted to the transport sector (the same situation as in the two previous reporting years, only to the railway transport, that is, the beneficiary joint-stock company “Serbian Railways”). State aid for the mentioned sector in 2013 amounted to 76% of the total sectoral state aid.

3.1.3. Regional state aid

Regional state aid is granted with the aim of supporting less developed and undeveloped regions and it is directed to the alleviation of structural problems and uneven development. This state aid type includes the measures that promote economic activity in order to decrease economic, natural, social, demographic and other differences in these regions.

Regional state aid in the Republic of Serbia in 2011, 2012 and 2013

Table 9
in RSD million

Indicator	2011	2012	2013	Index 13/11	Index 13/12
State aid (agriculture excluded)	65,559	62,851	55,200	84	88
Regional state aid	33,857	31,513	32,490	96	103
% of share of regional state aid	51.6	50.1	58.9	-	-

Regional state aid in 2013 amounted to RSD 33,490 million and it was realised through the following state aid instruments: direct grants – RSD 5,891 million, tax incentives – RSD 24,854 million and soft loans granted through the Development Fund of the Republic of Serbia – RSD 1,744 million.

4. STATE AID INSTRUMENTS

Granted state aid confers a more favourable market position to a state aid beneficiary in respect to competitors. State aid is granted from public resources and, depending on state aid instruments, it can be any actual or potential public expenditure or realised decrease in public revenue (Article 2 point 1) of the Law).

State aid in the Republic of Serbia in 2012 was granted by the following instruments:

- direct grants,
- tax incentives (tax credit, termination of tax debt, tax write-off),
- loans – soft loans.

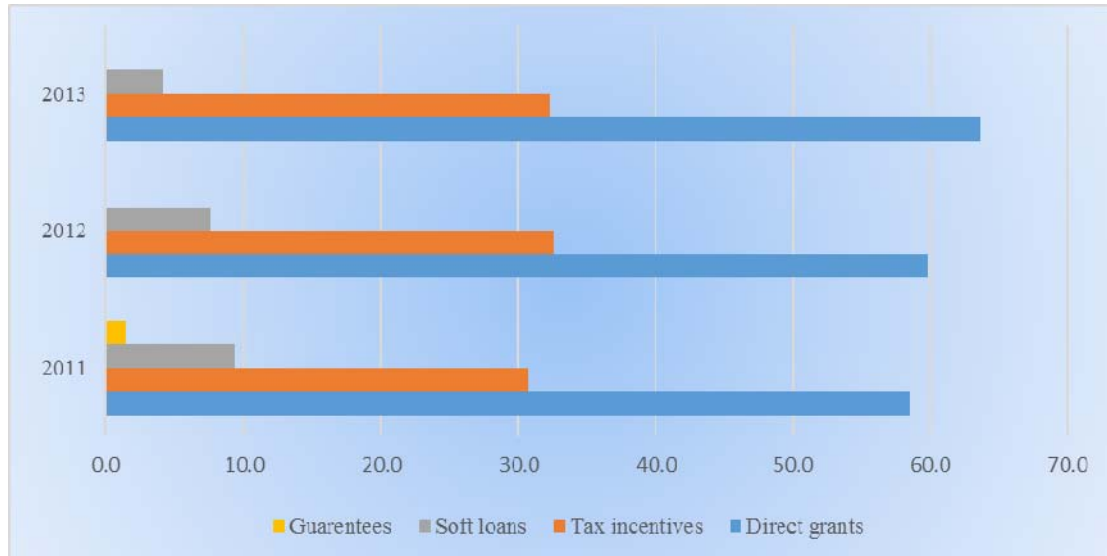
Total state aid granted in the Republic of Serbia in 2011, 2012 and 2013 per state aid instrument (agriculture included)

Table 10
in RSD million

Grant instrument	2011.	in	2012	in	2013	in	Indices	
		%		%		%	13/11	13/12
Direct grants	48,212	58.5	52,571	59.8	51,820	63.6	107	98
Tax incentives	25,296	30.7	28,660	32.6	26,316	32.3	104	92
Soft loans	7,742	9.4	6,678	7.6	3,315	4.1	43	50
Guarantees	1,198	1.4	0.0	0.0	0.0	0.0	-	-
Total	82,447	100	88,009	100	81,451	100	99	93

Structure of state aid instruments in the Republic of Serbia in 2011, 2012 and 2013

Graph 6



Direct grants and tax incentives are the instruments through which 63.6% of State aid was granted in 2013, 59.8% in 2012 and 58.5% in 2011.

The amount of net State aid on the grounds of allowed soft loans was RSD 3,315 million in 2013 and RSD 6,678 million in 2012.

4.1 Total state aid granted in the Republic of Serbia in 2013 per state aid instrument

Table 11
in RSD million

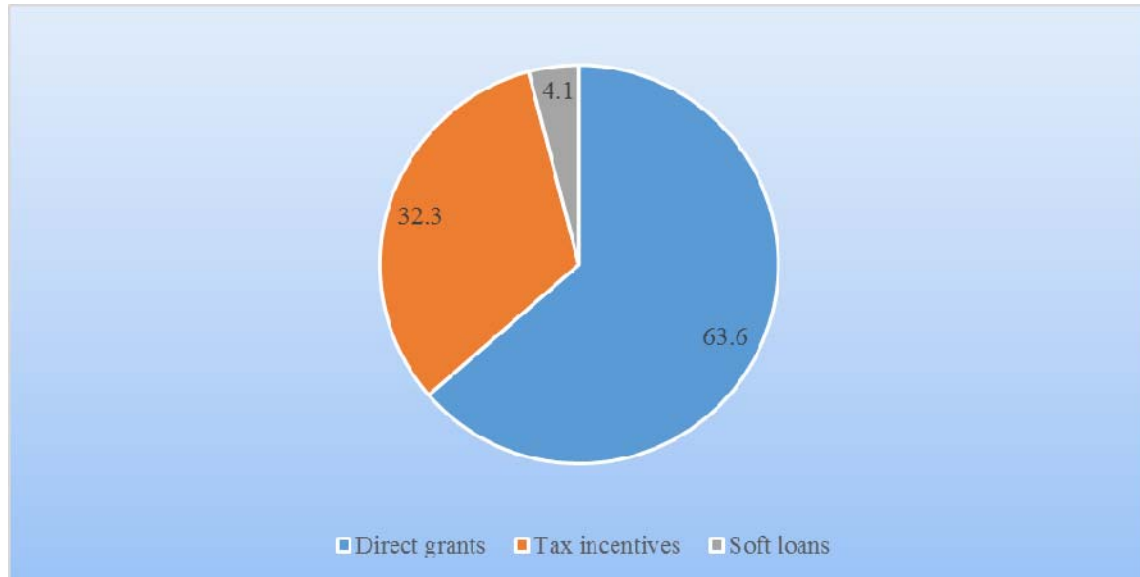
State aid type	STATE AID INSTRUMENTS				
	Direct grants	Tax incentives	Soft loans	Guarantees	Total
A. Agriculture	26,251	0.0	0.0	0.0	26,251
B. Industry and services	25,569	26,316	3,315	0.0	55,200
1. Horizontal state aid	1,735	1,462	1,571	0.0	4,767
Research and development	7.0	0.0	0.0	0.0	7.0
Training	8.0	0.0	0.0	0.0	8.0
Employment	889	1,462	0.0	0.0	2,351
SMEs	59.5	0.0	41.5	0.0	101
Environmental protection	0.0	0.0	0.0	0.0	0.0
Rescue and restructuring	0.0	0.0	1,529	0.0	1,529
Culture	771	0.0	0.0	0.0	771
Other	0.0	0.0	0.0	0.0	0.0
2. Sectoral state aid	17,943	0.0	0.0	0.0	17,493
Mining	4,300	0.0	0.0	0.0	4,300
Transport	13,643	0.0	0.0	0.0	13,643
3. Regional state aid	5,891	24,854	1,744	0.0	32,490
Total (A+B)	51,820	26,316	3,315	0.0	81,451

Sectoral state aid (agriculture, mining and transport) was mostly granted through direct grants in 2013.

Horizontal and regional objectives are financed through direct instruments (direct grants) and indirect instruments for state aid granting (tax incentives).

Structure of state aid instruments in the Republic of Serbia in 2013

Graph 7



4.2. Direct grants

The most common state aid instrument in 2013 were direct grants with the share of 63.6% in total state aid granted and the majority of this aid was realised in sectoral state aid (agriculture, mining and transport).

4.3. Tax incentives

Tax incentives as the state aid instrument in 2013 in the Republic of Serbia had a share of 32.3%.

For the purposes of this report, the term "tax incentive" includes the following:

- tax incentives approved pursuant to the Corporate Income Tax Law¹
- tax incentives approved pursuant to the Individual Income Tax Law² through the reduction of individual income tax on the grounds of investing into fixed assets.

On the above grounds, tax incentives in 2013 amounted to the total of RSD 26,316 million.

¹ "Official Gazette of the RS", nos. 25/01, 80/02, 80/02 – other law, 43/03, 84/04, 18/10, 101/1, 119/12, 47/13 and 108/13

² "Official Gazette of the RS", nos. 24/01, 80/02, 80/02 – other law, 135/04, 62/06, 65/06 – corrigendum, 31/09, 44/09, 18/10, 50/11, 91/11 – decision of the Constitutional Court, 93/12, 114/12 – decision of the Constitutional Court, 8/13, 7/13, 48/13 – corrigendum, 108/13 and 57/14

4.4. Soft loans

Soft loans accounted for 4.1% in total state aid granted in 2013. With regard to the loans under more favourable conditions than the ones in the banking capital market, the amount of state aid presents a positive effect of a more favourable interest rate at which these loans were approved, compared to reference (average)¹ interest rate in the banking capital market, calculated by conform method for the credit period.

The amount of approved loans in 2013 was RSD 3,315 million and there is a decrease of 50.4% in comparison to 2012, when the amount of RSD 6,678 million was granted.

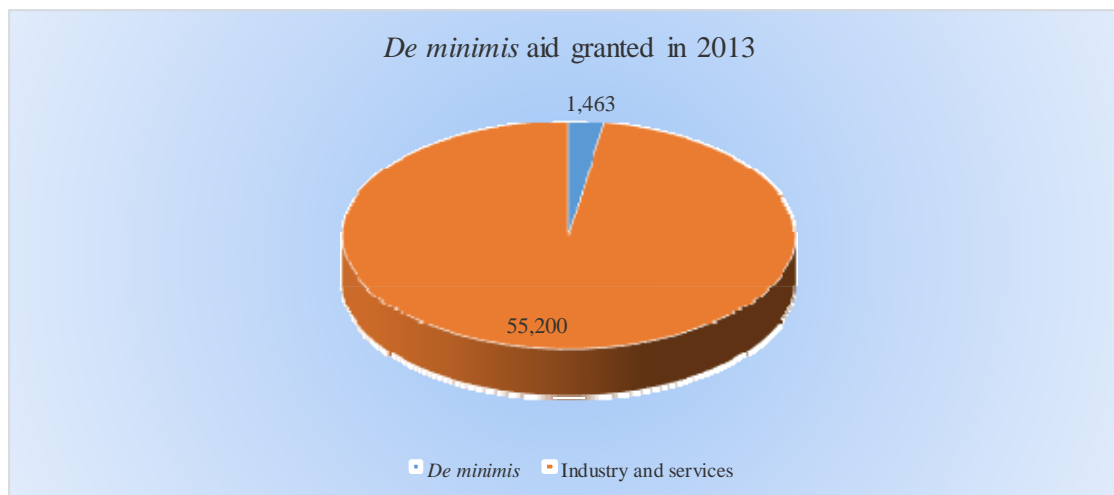
¹ The reference rate in 2013 was 13.71%

5. THE STATE AID OF SMALL VALUE (*de minimis* aid)

State aid of small value (*de minimis* aid) is monitored independently of other state aids and it is not shown in the total amount of the granted state aid. In accordance with the rules prescribed by the Regulation, this state aid type is granted when it is not possible to grant regional, horizontal and sectoral state aid. *De minimis* aid can be granted regardless of a purpose, but it cannot be granted for: coal mining; the procurement of road freight vehicles for undertakings which perform services of freight transport; export incentives and for establishing and functioning of distribution network or for other current expenditures in connection with exporting activities; giving preference to domestic products over imported ones, as well as to undertakings in difficulty. Furthermore, *de minimis* aid can be granted to an individual undertaking at the amount of up to EUR 200,000 in dinar equivalent, and in the sector of road transport at the amount of EUR 100,000 in dinar equivalent, in any given period during three consecutive fiscal years.

Relation between state aid of small value and state aid granted to the industry and services sector in 2013

Graph 8



State aid of small value granted in 2013 (*de minimis* aid) amounted to RSD 1,463 million, out of which RSD 1,021 million was granted from the republic level, and RSD 401 million from the level of the province and RSD 41 million from the level of self-governmental units. Compared to 2012, granted *de minimis* aid in 2013 decreased by 45%, when it amounted to RSD 2,650 million. The decreasing trend of granting *de minimis* aid should be continued, given the fact that this state aid type brings the least positive effects, because there are minimal rules for its granting and beneficiary's liability is also minimal.