CONFEDERATION OF INDUSTRY
OF THE CZECH REPUBLIC

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Review of the Regional Aid Guidelines (RAG) 2014-2020

Together with the Czech coal regions in transition, the Confederation of Industry of the Czech Republic (SP CR) very much appreciate the initiative of European Commission to transform coal regions through the Just Transition Fund. We find of the Fund's support essential for the transition and low-carbon development of such regions, covering range of economic activities, especially those in industry and energy sector. It is crucial so that the support is much more focused on large industrial companies and their investments while avoiding strict conditions for their access to the funds, like it is currently proposed (e.g. "significantly below benchmark" condition). Furthermore, we are convinced, that the Just transition fund and the state aid rules are not completely mutually compatible.

The Treaty on the Functioning of the European Union in Article 107 in paragraph 3, point a) states that the aid is intended to "promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment in view of their structural, economic and social situation."

For now, the regions under the definition of Article 107, paragraph 3, point a), are defined in accordance with GDP relative to the EU average. However, in coal regions there is a need to focus on the transformation of the economy. **We therefore propose to introduce a new category of regions for coal regions. The coal regions should be advantaged in the same way as the regions with low GDP.**

A common problem of the Karlovy Vary, Ústí and Moravian-Silesian regions is the low rate of economic growth and lagging behind other regions of the Czech Republic. Slower growth even in times of rapid economic growth and continuing lag is a fundamental internal characteristic of these regions and at the same time a key problem that frames other partial and thematically more narrowly characterized problems.

Even the most efficient of the structurally disadvantaged / coal regions, the Moravian-Silesian Region, according to GDP per capita, is still below the Czech average, even if Prague is excluded from the average values, which in the long run represents about a quarter of GDP generated in the Czech Republic. Also the dynamics of GDP / capita growth is still below average in structurally disadvantaged / coal regions, even though the Moravian-Silesian region is close to the Czech average without Prague. Thus, structurally disadvantaged / coal regions are still lagging behind in growth.

Insufficient level of aid will not enable companies to carry out due transformation processes within these regions, which can have a significant impact on unemployment as well as further economic development.

Proposed modifications of the Regional Aid Guidelines – coal regions

Following our long-term communication with various stakeholders within the Czech coal regions we are of that opinion, that the Regional aid guidelines are inconvenient for the transformation and transition projects within these regions.

The CAPEX of the largest and the environmentally most promising transformation projects, which will be implemented mostly by the large enterprises representing main economic and social players in the regions, could reach hundreds of million euros.

Our conclusions:

- At first, the new Regional aid guidelines will be in force from the year 2022. If the enterprises are expected to prepare transformation projects, they should be familiar with the conditions for financing these projects, knowing i.a. that the intensity of the support is sufficient for enabling their implementation. This means, that the enterprises should know the state aid rules as soon as possible.
- The aid intensity for large enterprises is proposed to be 30 %. However, such intensity is, at least in case of transformational or transitional projects, insufficient and unmotivating. **The aid intensity for such projects should reach up to 80 %, so that to ensure effective and fast implementation of the measures, while not significantly endangering competitiveness of the companies, notably in sectors at most risk of carbon leakage.**
- Notification threshold EUR 22,5 million (30 % aid intensity) is also too low. This will mean, that all transformation projects should be notified. **The notification threshold should be increased at least to EUR 200 million.**
- The draft of the regional aid guidelines does not allow the support for energy and steel sector. We absolutely do not see any reason for such provision and we are strongly against it. The majority of large transformational projects will be probably implemented by energy and steel companies. Moreover, both of these sectors are of strategic priority of the EU in terms of transformation and reaching climate neutrality by 2050, while the steel sectors is the at the highest risk of carbon leakage.
- The regional investment aid is proposed to be aimed only at initial investments. However, the transformational projects will not be only of initial investments. The support is needed through the whole spectrum of activities, including investments to the transformation of the existing processes and technologies.

Paragraph 46 of the RAG's draft states: "Regional aid may also contribute the other objectives of the Union such as the Union's Digital strategy and the European Green Deal."

Paragraph 47 of the RAG's draft states: "Regional aid should support the most disadvantaged of the Union's regions. Regional aid may also contribute to the achievement of the objectives of the European Green Deal by providing support for sustainable investment and activities in those regions. This way, regional aid may contribute, through its cohesion objective, to a fair and inclusive green and digital transition."

Despite these paragraphs clearly identify interlinkages between the Regional state aid and the European Green Deal, based on the current proposal, we are afraid that the effect of the RAG could become completely counterproductive.

Proposed modifications of the Regional Aid Guidelines – mid-cap category

The definition SME covers many areas. However, in the Czech Republic and other Central and Eastern European countries, it has a significant impact on the distribution of financial support from the European Structural and Innovation Funds (ESIF). The Confederation of Industry of the Czech Republic (SP CR) considers it important to discuss the possibility of introducing a mid-cap category that would include businesses that are not economically strong, but their production is labour intensive. Especially those companies need to be supported in their transformation. Of course, support must be given to all businesses in certain topics, as large companies have a greater influence on, for example, shaping of innovation or environmental landscape, or their involvement is necessary for meeting European goals in various areas (energy, environment, circular economy, drought, innovation, etc.). We believe that projects should be assessed on the basis of quality and overall benefits, not on the size of the company.

The definition of SMEs should also bring the lowest administrative burden possible. Currently, the definition cannot adequately guarantee the status of an SME in its application and verification, which creates legal uncertainty. This is problem for both businesses and granting authorities.

Reasons for the necessary change and the support of creating a mid-cap category:

- The mid-caps category would only be based on the factor of the number of employees, while the turnover would still have to be low. That would basically cover medium-sized enterprises whose production is labour-intensive (typically an industrial company in the classic sense of the word) or do not have a high level of digitisation and automation.
- No multinationals (due to the limiting factors) would fall into the category, so the support to SMEs would not be disrupted. It would only mean that all SMEs would be actually included in the scope.
- A higher number of employees does not reflect its market power.
- Countries such as the Czech Republic and others in the CEE region have a much stronger industrial base which results in a more labour-intensive production, and these countries are disadvantaged compared to other EU countries (EU15). This goes against the general idea behind the support for SMEs.
- Financial support should be granted primarily on the basis of quality and benefits; however, current rules do not fully allow that.
- The expansion of the definition would not bring a significant increase in the number of eligible companies, but would target a neglected category of them.
- While the mid-caps would be eligible for support that is now only available for SMEs, the aid intensity could possibly equal the level of large companies, which would be lower from the percentage point of view. However, they would be eligible in those areas, where large companies would not, or would not be counted into the limit of allocation for large companies.

Apart from setting up the mid-cap category, the SP CR believes that the current definition of SMEs needs to be amended and further clarified, for the following reasons:

- The limits in the definition of small and medium-sized enterprises have not been updated for many years, so SP CR recommends updating at least with rising inflation.
- The SP CR considers discriminatory that within the Community Programmes, the SME status is proved only on the basis of a declaration of honour, while in the ESIF funds, a complex and a very

lengthy assessment must take place at the national level, which reduces the attractiveness for drawing funds for applicants with quality projects.

- The complex assessment also results in increased legal uncertainty. Often, SMEs themselves do not know whether or not they are an SME (although they objectively believe they are). Apart from that, new judgments regarding the SME status are still emerging. All that result in delays in the evaluation process of the SMEs applications, which is contradictory to the idea that granting of the support should be fast and administratively simple. In practice, the process of the evaluation of an SME status can take months.
- In the Czech Republic, the Ministry of Industry and Trade and the Office for the Protection of Competition admit that during the consultation of contested cases, even the European Commission is not able to give a clear position.
- We recommend deleting the assessment of "partner enterprises" where the applicant owns less than half of the business (25-50%), which means that he does not control this business, and only assessing the "linked enterprises" (ownership over 50%).
- It is necessary to clarify to what extent related persons (family ties), e.g. siblings, cousins and even more distant relatives will be assessed. This also relates to the assessment of the same or downstream markets where the key issue of what can be considered as relevant interconnectedness arises. We recommend keeping the group of assessed persons smaller. It is also difficult to find all family relationships, especially if the persons have a different name, address, etc.
- Currently, it is also compulsory and complicated to assess whether a related party is an entrepreneur, owner of a company or in which bodies it is active.
- The definition of an employee varies from country to country and requires recalculation. Therefore, the SME definition in the area of number of employees should refer to national rules in the Member State concerned.
- Information sharing within the EU should be improved so that granting authorities could more quickly and reliably find information about links with companies from other countries. Thanks to globalization, companies are now more internationally interconnected and foreign owners often cannot be found.