

#BSP\_Paper September 2020

## Review of the Regional Aid Guidelines (RAG)

### 1. Introduction

Business and Science Poland (BSP) welcomes the revision of the regional state aid guidelines which aims to adjust the state aid framework to the EU priorities and the changing economic situation. However, we would like to express our concern over the proposed limitation of support for large enterprises. Companies employing over 250 employees play a central role in regional and local development and their potential should therefore be recognised by the regional state aid guidelines.

BSP as an organisation represents leading entities from different sectors employing over 100 thousand employees in Poland and other EU Member States. Our members are the biggest Polish industry entities, air transport companies, a stock exchange and academia representatives.

Firstly, large enterprises are crucial employers in regional and local economies and thus constitute central regional development actors. BSP members are active throughout Poland in different areas, both urban and rural, and in many cases their branches located in smaller communities provide a significant percentage of workplaces in their areas. In a broader perspective, in four out of sixteen Polish regions employees of large enterprises constitute over 20% of the economically active population (this is the case for the following regions: Dolny Śląsk, Śląsk, Mazowsze and Wielkopolska)<sup>1</sup>. Such statistics illustrate the importance of big entities in the economic development of a region by generating employment.

Secondly, the innovative capacity of large enterprises makes them key players in regional development. State aid given to enterprises for innovation generates more employment, as well as higher profits and productivity. For example, public support for innovation has positive effect on total factors of production (TFP) in large enterprises. According to the report by World Bank, public intervention leads to 8,3% increase of TFP for large enterprises, 1,9% for medium enterprises, while for the small entities the change is negative<sup>2</sup>. Furthermore, large entities' R&D spending constitutes 67% of total R&D spending of the Polish private sector<sup>3</sup>. Finally, employees of large companies working in R&D account for 58% of B+R personnel in private sector in Poland<sup>4</sup>.

### 2. Scope of the regional state aid

In the light of the abovementioned role of large enterprises in supporting regional development, existing and proposed limitations to the scope of regional state aid for large enterprises should be revoked (in particular the paras. 14 & 15 of the guidelines). The proposed limitation already exists in current regional state aid guidelines; however, a draft of new guidelines limits the scope even further by excluding aid to large enterprises for "the diversification of existing establishments into new products or new process

<sup>1</sup> Statistics Poland, 2018. Local Data Bank: Enterprises and persons employed by size class in 2018 & Economically active population first quarter of 2018.

<sup>2</sup> World Bank, 2019. Return on Investment of Public Support to SMEs and Innovation in Poland.

<sup>3</sup> Statistics Poland, 2018. Research and experimental development in Poland in 2018.

<sup>4</sup> Ibidem.

innovations” in regions type C. Despite some of the advantages which large enterprises have over SMEs in gaining additional financing (as described in the par. 14 of the guidelines), the employment, as well as innovative potential, should make large enterprises eligible for all types of regional state aid. Limiting eligibility in the type C regions to only new activity would limit the support for existing enterprises’ innovativeness and their contribution to green and digital EU priorities.

It is also worth noting that the role of large enterprises in regional development has been recognised by the European Parliament in its *Resolution of 12 June 2013 on regional policy as a part of wider State support schemes* (2013/2104(INI)) in the context of preparation of current guidelines. The Parliament also acknowledges “their contribution to employment, the supply chains they create with SMEs, their common involvement in innovation, research and development” (par. 32).

In addition, according to par. 34 in new guidelines (par. 100 in current regional state aid guidelines), only up to 50% of the total eligible investment costs for initial investment can be dedicated to the costs of intangible assets for large enterprises. Given the central role of intangible assets for innovative processes, there should be no differentiation between SMEs and large entities in that regard.

Taking all the above into the account, we argue to remove the existing and proposed limitations for large enterprises (esp. paras. 14, 15 and 34 in draft guidelines) of regional state aid.

### Regional aid maps

Proposed regional aid map for Poland identifies two regions: Dolny Śląsk i Wielkopolska as type C. The distinction does not take into account the diverse levels of economic development within the regions. The metropolitan areas of both regions – Wrocław (Dolny Śląsk) and Poznań (Wielkopolska) have significantly higher GDP per capita than the rest of their regions, which affects the statistics of the whole NUTS 2 regions. According to Eurostat, while Wrocław and Poznań have their GDPs pc [in PPPs] above 100% of UE GDP average, majority of the remaining subregions [NUTS 3] within Dolny Śląsk and Wielkopolska do not<sup>5</sup>. Furthermore, two areas in Dolny Śląsk and Wielkopolska (Wałbrzych and Konin) have been proposed by the European Commission (in the European Semester 2020), as priority investment areas for Just Transition Fund.

Inequality in the development of individual subregions is identified as one of the main problems of regional development. According to the economic analysis commissioned by the local government of the Lower Silesian Voivodeship<sup>6</sup>, since Poland's accession to the European Union, the share of all subregions of the Lower Silesian Voivodeship, except Wrocław, in the overall GDP of the voivodeship has decreased. There are also significant changes in terms of the demographic structure of the voivodeship - the Wałbrzyski and Jelenia Góra subregions recorded a significant decrease in the number of inhabitants, with migration mainly affecting young and working-age people. The above processes can lead to creating a strong metropolitan centre while weakening the surrounding sub-regions. State aid, and in particular regional aid, aims to counteract this type of development. Limiting the possibility of reinvestment for large entrepreneurs in the entire area of the Lower Silesian Voivodeship will reduce the amount of investments in subregions with a lower degree of development, while the metropolis,

---

<sup>5</sup> Eurostat, 2016. My region: GDP per inhabitant in PPS (% of EU-28 avg.)

<sup>6</sup> Instytut Rozwoju, 2019. Analiza dotycząca propozycji delimitacji województwa dolnośląskiego

benefiting from better infrastructure and more favourable location, will continue to develop and distance from neighbouring areas even without public aid.

Therefore, limiting support for large enterprises prevents less well-off areas to benefit from a full range of state aid, and might affect their ability to benefit from new funding, as presented in the current draft of the guidelines.

### **3. Contribution to the common objectives**

The proposed assessment procedure includes weighting the positive effects of the provision of state aid (contribution to common objectives, employment increase etc.) against possible negative effects (e.g. market distortion). Large enterprises, esp. in industrial sectors, play an important role in green transformation. Therefore, when assessing regional state aid for a large entity, the contribution to Green Deal goals through the investment should be considered of special importance and given “double the weight” in the assessment process allowing to outweigh potential negative effects of support.

### ***About BSP***

*Business and Science Poland (BSP) connects the experience of leading Polish enterprises with the EU agenda. We represent the knowledge and interests of successful entities, which employ over 100 000 workers in Poland, EU and globally. We are committed to advancing the values of EU Common Market in sync with the needs to transform it responsibly and effectively.*