



## Contribution from Moravian-Silesian Region to the General Block Exemption Regulation, Regulation (EU) No 651/2014

### Introduction

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." At present, the regions under the definition of Article 107, paragraph 3, point a), are defined in accordance with GDP relative to the EU average. In coal regions, there is a need to focus on the transformation of the economy, and we therefore propose to introduce a new category of regions for coal regions. The coal regions should be advantaged by higher level of aid for certain categories of aid to be the transformation successful.

In the Moravian-Silesian Region, 40% of GDP is made up of industry. In 2018, large industrial enterprises based in the Moravian-Silesian Region employed 108,000 persons (which is 18% of the total number of 588.7 thousand employed persons). A total of 234 large industrial enterprises (with 100 or more employees) are located in the MS region. Of these, 219 are large enterprises (with 100 or more employees) in the manufacturing sector. In 2018, these companies employed 96.1 thousand persons. The coal industry now employs 11.7 thousand persons. A total of 194.7 thousand people is employed in the manufacturing industry and in the mining sector (which is 33% of the total number of 588.7 thousand employed persons). At the same time, it is estimated that due to the closure of coal mines, 30,000 people have left the region in recent years.

<https://www.czso.cz/csu/czso/9-trh-prace-h5ghseufql>

<https://www.czso.cz/csu/xt/prumysl-v-moravskoslezskem-kraji-v-roce-2018>

Given the structure of employment in the Moravian-Silesian Region, where 33% of employees are employed in the manufacturing industry and in the mining sector, we believe that the region needs support in the form of higher intensity within the GBER. Insufficient level of aid will not be an incentive for companies to carry out transformation processes, which can have a significant impact on unemployment in the Moravian-Silesian Region. (The steel industry, which is dependent on coal, employs about 14.4 thousand people in the Moravian-Silesian Region - Liberty Ostrava 6.3 thousand, Třinecké železářny 7.1 thousand, Vítkovice Steel 1 thousand; Energy industry, which is also dependent on coal, employs about 1.2 thousand people in the Moravian-Silesian Region - Dětmarovice Power Plant 200 employees, Veolia Energie Ostrava 1 thousand. Besides focusing on maintaining employment it is also necessary to focus on energy stability of the region - electricity, heat.)

### Proposed modifications of the GBER

#### Art. 13

- **Proposed modification:** To enable the support for the energy production and distribution sector and energy infrastructure in the framework of regional aid.

Comment: In the context of the transition to a carbon-free economy, regional investment aid must also cover energy production, distribution and infrastructure using non-coal energy sources in order to support the development of low-emission and zero-emission energy solutions in coal regions. The aid should cover both electricity and heat.



#### Art. 14

- **Proposed modification:** To increase the basic aid intensity by another 15% for coal regions.

Comment: The current level of aid is not an incentive for large companies to carry out major investment transformation projects. In the coal regions, large enterprises (they are the driving force of the economy), which are also the largest employers in these regions, make a significant contribution to GDP creation. Without their support, the transformation of the economy is practically impossible at all. Without some form of active involvement of large companies in coal regions in cooperation with the regional management (regional authorities in coal regions), without any motivation of these often absolutely crucial players in the regions, regional governments will not have a chance to fundamentally to move with the transformation of "coal regions" in accordance with all transformation plans (currently key documents such as the Green Deal, industrial policy, etc.).

**Proposal for a new area of support:** Regional investment aid for large mining and steel companies in coal regions

Comment: Regional governments will not have a chance to carry out the transformation of "coal regions" in accordance with all transformation plans without some form of active involvement of large companies in coal regions and its motivation. The cooperation between the regional management (regional authorities in coal regions) and this crucial players in the regions is necessary. The support would only apply to companies operating in "coal regions in transition" - involved in the EU / EC Platform CRIT (Coal Regions in Transition). The support would also only apply in regions that have a clear transformation strategy approved at regional and national level, a strategy that is linked to the national strategy for the transformation of coal regions (RESTART).

The support could be linked to the obligation of mining and steel companies to engage in active cooperation with the management of the coal region (regional authority) and the obligation to coordinate old tasks related to the termination of mining in mining sites with the obligation to consult these "previous tasks and obligations of companies" with the intentions of the Regional Authorities in connection with the transformation of the coal region. Without financial support, however, it is not possible to get these companies to actively engage in cooperation with regional authorities. Companies need to be offered clear benefits for them to get involved.

#### Art. 17

- **Proposed modification:** To increase the basic aid intensity by another 5% for coal regions.

Comment: SMEs will need to buy new digital technologies, invest in robotics or automation related to transformation process to be competitive in the transition to new industries.

#### Art. 18

- **Proposed modification:** To increase the basic aid intensity by another 15% for coal regions.

Comment: SMEs will have to deal with new technologies, new legislation related to the transformation of the economy. SMEs do not have the human capacity to be able to study everything new on their own.

#### Art. 26

- **Proposed modification:** To increase the basic aid intensity by another 15% for coal regions.



Comment: R&D is currently the subject of increased interest in coal regions, but R&D carries high risks, costs have a long payback period and regions face little willingness by companies to invest in new research infrastructure. However, if the economy is to be transformed, it is important to develop research and development. It will be important for companies to introduce new research methods, for which they will need to innovate their research infrastructure. The aim is, among other things, to support private research institutions that will focus on commercial research and development and consultancy.

Art. 28

- **Proposed modification:** The aid is currently intended only for SMEs. Aid should also be extended to large enterprises in coal regions.

Comment: Even large companies in coal regions will have to increase their innovation and patent development. At the same time, large companies should be allowed to involve highly qualified staff from other organizations, such as universities.

According the current GBER academic staff is not encouraged to work in large companies and participate in major research projects. If a company needs to bear the costs on a highly qualified researcher, then research can become economically inefficient.

Art. 31, Art. 32

- **Proposed modification:** To change the definition of a disadvantaged worker. We propose that as a disadvantaged worker should be considered worker, who has worked in the coal industry for the last 3 years.

Comment: If the economy is to be transformed, then workers currently working in the coal and related industries will have to move to new sectors of the economy. This will mean increased costs for companies in recruiting and training such workers.

A pilot project was implemented in the Moravian-Silesian Region, in which employees leaving the mining industry were retrain as IT workers. However, if companies re-train workers who previously worked in the coal industry, then it will mean increased costs for them. In order to employees leaving the coal industry not to be endangered by unemployment, it is necessary to support companies in retraining and employing such workers.

Art. 36

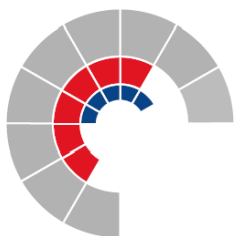
- **Proposed modification:** To increase the basic aid intensity by another 15% for coal regions.

Comment: If large companies are to be motivated to take measures to increase environmental protection, then intensive support is needed. The current intensity of 40% is not sufficiently motivating for companies to introduce stricter measures to increase environmental protection than is required by legislation. In addition, if companies have additional costs associated with the transformation of the economy, it will be a priority for them to maintain production, where they will invest as a priority, rather than incurring costs for environmental protection.

Art. 37

- **Proposed modification:** To increase the basic aid intensity by another 15% for coal regions.

Comment: If large companies are to be motivated to take measures to increase environmental protection, then intensive support is needed. The current intensity of 5% and 10%, respectively, is not



motivating for companies to introduce environmental protection measures before the standard imposes them. In addition, if they have the additional costs associated with the transformation of the economy, their priority will be to maintain production, where they will invest as a priority, rather than incurring costs for environmental protection.

Art. 47

- **Proposed modification:** To enable the support also for the recycling and re-use of waste produced by households and other entities (not only businesses), but also the recycling of own waste. Furthermore, to enable the investment aid for recycling, which is equal to the current state and the usual procedure.

Comment: If more waste is to be recycled, then companies need to be motivated to set up new waste recycling plants. In order to increase the share of recyclable waste, it is necessary to support companies primarily to set up new waste recycling plants, where the use of existing technologies should be enough, not to support companies only if they introduce better procedures.

Art. 48

- **Proposed modification:** We propose to apply a fixed aid intensity of 50% in the coal regions instead of financing the difference between the eligible costs and the operating profit of the investment.

Comment: Enterprises will have to change their energy infrastructure when switching to new energy sources.

### **Proposals of a new areas of support**

#### Aid for alternative fuels

Notification threshold limit: EUR 10 million

Intensity of the aid: max. 30%

The eligible costs: The purchase of alternative fuel vehicles and the construction of alternative fuel infrastructure.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.

Comment: OP EIC announced a call for the purchase of electric vehicles. The number of submitted applications was half over the amount than the call allocation. The interest of companies in purchasing vehicles on alternative fuels is significant. The aid was granted to companies under the de minimis regulation. However, if a company has exhausted the de minimis limit, it cannot apply for this aid.

#### Aid for breakthrough production technologies leading to a zero-carbon steel production process

Notification threshold limit: EUR 50 million

Intensity of the aid: max. 30%

The eligible costs: The purchase and installation of breakthrough production technologies leading to a zero-carbon steel production process.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.



Comment: If the transformation of the carbon-free steel production should be successful, the support of the companies is necessary. If this support is to be effective and flexible, then it would be appropriate to include this support in the new Regulation. The companies will not be motivated to introduce carbon-free steel production without the aid.

#### Aid for the revitalization of the brownfields

Notification threshold limit: EUR 150 million

Intensity of the aid: max. 35%

The eligible costs: The investment aid for the revitalization of brownfields, which will be used for economic activities after the revitalization.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.

Comment: Currently it is possible to invest in the revitalization of brownfields under the regional investment aid, which is 25% for large enterprises, 35% for medium-sized enterprises and 45% for small enterprises. However, especially for large companies, this aid intensity for the revitalization of brownfields is un motivating. It is much more advantageous for enterprises to build new capacity on a cabbage field (which also takes up agricultural land), instead of investing in existing brownfields. It would help the Moravian-Silesian Region, which now has 166 brownfields in the register, if the revitalization of brownfields would be supported in the new Regulation.

Companies are building new plants on cabbage fields, instead of using existing brownfields to build and develop their activities. In addition, the owners of brownfields in coal regions are usually large companies, for which the regional investment aid of 25% for the revitalization of brownfields is completely insufficient and un motivating.

#### Aid for the water management

Notification threshold limit: EUR 50 million

Intensity of the aid: max. 35%

The eligible costs: The investment aid for the installation of equipment and measures that will lead to rainwater harvesting and efficient water management in the companies.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.

Comment: In the current period of drought and climate change, it is also necessary to focus on efficient water management. For companies, however, this means costs that are economically inefficient, so without support they are not motivated to implement measures for efficient water management. It is economically inefficient for large companies with large production halls to invest in water efficiency measures.

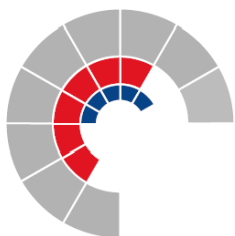
#### Aid for the construction of infrastructure for housing in the after-mining areas

Notification threshold limit: EUR 150 million

Intensity of the aid: max. 35%

The eligible costs: The investment aid for construction of engineering networks and construction of new apartments for developers in the area after mining.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.



Comment: The revitalization of the after-mining areas should also include the construction of new flats. If the revitalization of the territory is to be effective, the territory must also be inhabited by residents who will permanently live here and use the services of the territory and bring new life to the territory. The area is relatively large and the costs of the construction of the infrastructure will be higher than in the areas where the infrastructure already exists. Furthermore, when building flats in mined areas, it is necessary to use more modern construction technologies (the subsoil can still work and cause, for example, cracks in the walls).

#### Aid to reduce the hygienic burden on the population

Notification threshold limit: EUR 150 million

Intensity of the aid: max. 35%

The eligible costs: The investment aid to reduce noise, light smog and odors from enterprises.

Increased support for coal regions: To increase the basic aid intensity by another 15% for coal regions.

Comment: Traditional industrial enterprises deal not only with the emissions they produce, but also the production of noise, odors and light smog. If the transformation of the economy should be complete, then these negative side effects of production also need to be focused on. Residents living near to industrial plants often suffer from excessive noise, odors and light smog from production. Enterprises are not willing to invest in reducing this burden, because in terms of production efficiency, it does not bring them any benefits.

#### Aid for land reclamation and revitalization for mining companies

Notification threshold limit: EUR 150 million

Intensity of the aid: max. 50%

The eligible costs: The investment aid for activities leading to the reclamation and revitalization of the after-mining areas

Comment: The reclamation and revitalization of the after-mining areas is also the part of the transformation of the economy. These areas are owned mainly by large mining companies. It is necessary to support these companies in order these companies start the reclamation as soon as possible and to the greatest extent possible. Large companies have set up commitment plans in line with the termination of mining activities in the mining areas, usually in the form of tasks by the national government. Large companies need to be supported in order to start these activities as soon as possible.

#### Aid for rolling stocks consistent with the European Green Deal

The eligible costs: The investment aid for purchase of new rolling stock equipped with battery, hydrogen unit or hybrid technology

Comment: The beneficiaries should be all railway undertakings to buy new rolling stock that helps to boost railway sector in a green way and contributes to deployment of an alternative fuels in rail sector. In our view, GBER should be aligned with the European Green Deal by covering those projects that positively contribute to the environment and climate change. Hence, we believe that the scope of the pre-notification exemption should be limited to aid for new rolling stock equipped with battery, hydrogen unit or hybrid technology.



## **ANNEX I - SME DEFINITION**

- **Proposed modification:** Not to consider undertakings owned by public bodies as large enterprises and to classify undertakings owned by public bodies according to the number of employees and of the turnover and/or annual balance sheet.

Art. 3 defines: Except in the cases set out in paragraph 2, second subparagraph, an enterprise cannot be considered an SM if 25 % or more of the capital or voting rights are directly or indirectly controlled, jointly or individually, by one or more public bodies.

If public authorities operate on the market this rule disadvantages undertakings owned by public authorities. Example: Support under the Art. 14 for Regional investment aid would be 45% for small undertaking owned by private investor. For undertaking of the same size (the same number employees, the same turnover and/or annual balance sheet) but owned by the public authority would be 25%. Although they operate in the same market.

Other comments to the SMEs definition which cause a significant legal uncertainty on the part of the entity which provides the aid and on the part of the applicants/beneficiaries:

### 1. Links through natural persons

a) The definition of so-called joint action is problematic. According to the current practice in decisions, family links are sufficient to establish joint action. But a closer specification is missing. Even at the expense of a possible circumvention of the definition, it would be suitable to set out exhaustively the links and relationships that establish joint action. The current definition makes no difference in the level and nature of family relationships, e.g. whether joint action occurs in the case of spouses who are in divorce proceedings, brothers who are in a property lawsuit or in the case of distant cousins.

b) The links through natural persons are closely linked to the issue of the same or adjacent markets because a link through a natural person may occur only if the enterprises linked that way operate in such markets. The assessment of relevant and adjacent markets is a separate and very complicated discipline. In a practical application of the SME definition it is not possible to conduct several months long proceedings on assessing the markets in the case of a specific aid applicant. Therefore, specifying conditions should be laid down for when the markets (for the purpose of applying the SME definition) should be considered the same/adjacent. A higher legal certainty in this area would surely override the negative impacts through the possible circumvention of the definition and by reducing the administrative burden.

### 2. A complicated access to the necessary data, mainly on foreign entities

a) The SME definition includes a definition of an employee, which differs from legislations in the various Member States. The use of national data then requires a certain conversion, which increases administrative costs. Here, the SME definition in terms of the number of employees could refer to national legislation in the relevant Member State. So that both the applicant and the aid provider could use the already existing reporting and consider such data relevant.

b) The number of employees, turnover and balance sheet total concerning foreign entities are very difficult to track down and verify. Globalisation has advanced since the SME definition was coined in 2003. Companies have branches and representative offices across the world. If the SME status is to be reliably verified, the inspector must work with documents e.g. from India, the United States, Saudi Arabia etc. It is practically impossible to know about all the kinds of foreign reporting. In this area, we





suggest confirming the standpoint from the StateAidWiki portal that data on entities outside the Member State do not have to be verified by the aid provider. Nevertheless, it would still be suitable to identify at least the complete structure of the group. Only the threshold values of foreign entities would not have to be verified. Such data would be the responsibility of the applicants based on a declaration provided by them.

c) Considering the establishment of a European register, or at least data sharing within the EU. At present, a discussion is underway in the Czech Republic on limiting the access to some data in the Commercial Register due to protection of entrepreneurs (the controversial issues include stating the place of residence of the partners/managers). In terms of access to data it is certainly undesirable for at least the state administration entities to have their access to the collection of documents limited in any way. The current free access to the collection of documents in the Commercial Register is rather a positive exception within the EU.

d) Considering the exclusion of a partner enterprise and continuing to take into account, in calculating the number of employees and financial values, only the linked enterprises within the meaning of Art. 3 par. 3 of the SME Definition. (substantial simplification).

### 3. Non-uniformity of the concepts used

a) At present, there are in fact four possible concepts of a group. One of them is the SME definition. The second is the definition of a single undertaking according to Commission Regulation 1407/2013 on de minimis aid. The third is the definition of a group for the purpose of defining an undertaking in difficulty (it is abstracted from partners according to the SME definition). The fourth concept are the accounting rules for consolidation. In an extreme case, one applicant in its grant project must view its group from all of these viewpoints and the scope of the group differs in each of the cases. That fact causes significant uncertainty and administrative burden. It would be suitable and desirable to unify or at least reduce the number of those concepts.