

Response of the Confederation of Polish Employers to the Consultation document: State aid action plan – Less and better targeted state aid: a roadmap for state aid reform 2005 – 2009

1. The modified State Aid Policy In the context of the Lisbon Strategy on the matter of economic and employment growth.

After Poland has joined the European Union, the regulations on granting state aid have changed. The European law prohibits state aid for entrepreneurs, with some exceptions however. Up till May 2004 state aid was only granted on the base of the state law. After joining the EU we also have to abide to the common regulations in the field. However, even up to this day the state forms of aid are not corresponding with the European law in the field. For example the lack of a law providing support for investments with key importance to the economy and lack of law providing support for innovation. The featured State Aid Action Plan is to introduce additional changes, which as expected, will straighten up the European State Aid system.

The Confederation of Polish Employers supports in principle the concept of the plan. Well guided state aid in our opinion should be perceived as an investment; which should result in the future with the increase in employment and increased innovation of the European economy.

Drastic interference with the rules of the free market leads to the decline of the principles of competition. Excessive and inadequately directed state aid sooner or later will turn out to be an effort to artificially sustain unprofitable enterprises. At the same time this process will weaken the competitive position of the businesses which do not receive such aid. Such enterprises then will in reality be burdened with the costs of state aid thus becoming victims of poor state aid management.

2. Aid priorities

The Communication of the Commission in particular focuses on the need of redirecting state aid to horizontal aims such as research, development, and investment in human resources. With properly directed state aid there is a possibility

of stimulating the development of sectors with distinctive significance to the economy, e.g. the development of new technologies and academic research. Innovative sectors are significant in the context of the assumptions made in the Lisbon Strategy. An appropriate stimulus is required in order to catch up with the development of this sector.

Lack of access to funds and the need of long-term freezing of funds are the key reasons why Polish enterprises do not invest in R&D. State aid in the form of credit guarantees, supporting high-risk funds, can become an important impulse for investment in the field. At the same time we wish to emphasise that gaining such aid should be linked with the slightest possible bureaucratic burden (refer to point 3).

It is essential to stimulate the growth of small and medium enterprises, especially these directed on research and development. New member states still have a big growth potential and it is them, that can bring economic revival of Europe. Although pursuance to a balanced development of Europe will not be possible without properly directed aid for underdeveloped regions.

The Confederation of Polish Employers is critical of the far going marginalization of significance of large enterprises. There is a big group of companies with a large potential, which with proper aid have a chance to make investments of strategic importance for Europe. Furthermore, owing to the fact that large enterprises can endure potential economic crises, they constitute a guarantee of economic stability. Results of research done by the Ministry of Economy & Labour show that an average enterprise of the SMEs sector usually has two employees and survives on the market for an average of two years. That is why in our country aiding simultaneously small and medium as well as large enterprises is extremely important.

Changes in the state aid system should include the particulars of individual economies of the member states. Polish economic liberty is just 15 years old. The practices of the centrally planned economy have lead to a certain degree of "disability" of Polish entrepreneurs. In the face of the economic changes after the year '89 these enterprises could not deal with competition even though in reality they had huge potential for development, which they were not able to exploit. What such enterprises need is thorough restructuring and reform that require large funding, which may surpass the financial capabilities of the given enterprises. The reform process, which Poland is trying to deal with now and which the member states of the

original 15 tackled in the past , was supported by the state which was one of the key factors that influenced the success of the reforms.

If the new State Aid Action Plan is to bring factual improvement of how the whole European system functions it should take into account these economic-historical differences. In our opinion state aid can contribute to the betterment of the the social-economic cohesion of Europe. Regions, which are underprivileged due to the concentration on the waning sectors of the economy, should be allowed to be subject to state aid.

At the same time we deem social inclusion essential. We think it is justified and needed to support enterprises that employ the disabled or those particularly endangered with social exclusion.

We find paragraph 114, that speaks of high quality services provided in the general interest of the economy, crucial. State aid in sectors, that are not able to operate in accordance to market rules, is justifiable.

The Confederation of Polish Employers also supports the concept of aiding enterprises in the perspective of increasing environment protection standards. Although we think that also in this field the right to be granted aid should be guaranteed to both small and medium as well as large enterprises.

3. Modernization of Practice and State Aid procedures.

In our opinion state aid should be granted while maintaining the procedures highly transparent and unequivocal. The process should be adequately monitored both in the context of the influence the aid will have on competition as well as weather the aid is utilized in the way it was intended.

In our opinion the procedures of application for state aid should also be corrected.

It is very often the case that the excessive bureaucratic burden rather than the lack of aid programs is what influences why small and medium enterprises are unwilling to apply for state aid.

Ever since its establishment the Confederation has been agitating and working towards creating an environment friendly for developing enterprise. The Confederation works towards lowering the tax incidence and lessen the burden of non-tax charges on wages in order to allow small and medium enterprises to expand,

develop, and contribute to the growth of employment. In our opinion a guarantee of stable and favourable conditions of operation rather than direct state aid is most vital for the Polish sector of SMEs.

In our opinion care should be taken in the simplification of procedures that the granted aid is in accordance with the EU regulations; so that small and medium as well as large enterprises can be certain that the granted aid, either in the form of a guarantee or tax relief will not be taken back. We deem uncertainty as greatly unfavourable for investment.

Andrzej Malinowski

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President