Project title: Changes in Industrial Competitiveness as a Factor of Integration: Identifying Challenges of the Enlarged Single European Market
Contract No.: HPSE-CT-2002-00148

Work Package 2: The Impact of Government Policy on Changes in Manufacturing Competitiveness
Work Package Leader: Iraj Hashi

Deliverable 2. Country reports on state aid and government policy in the Czech Republic, Hungary and Poland

-----------------------------------------------

Marcin Sowa


CASE, Warsaw, 15 November 2003
Contents

   1.2. Why has state aid been regulated by a single act?
   1.3. State Aid Act 2000
   1.4. State Aid Act 2002

2. State aid in Poland in the years 1996-2002: volume and structure
   2.1. Methodology of data gathering and results presentation
       - Organs granting aid
       - Forms of aid
       - Objectives and types of aid
   2.2. Statistical analysis of state aid in Poland
   2.3. State aid to the manufacturing sector

3. Efficiency of state aid

4. Conclusions

5. Legal acts in force concerning state aid granting

6. References


The concept of state aid appeared in Poland at the beginning of the nineties, although state intervention was fundamental for the centrally planned economy, which collapsed in 1989. Although the knowledge of the concept of state aid was very limited in the nineties, certainly granting of state aid was one of the elements of industrial policy carried out by the state. Statistical data for that period is very limited, but it is quite easy to point out some legal basis of aid, main beneficiaries or governmental bodies granting aid.

“In 1990-92 implementation of a stabilisation program focused on bringing inflation under control put problems connected with the restructuring of the economy on the back burner. (...) Basic progress in restructuring was expected to come on the back of privatisation of state-owned enterprises.” (Gołębiowski, 1993). Unfortunately, it appeared that privatisation was not a key for restructuring. Two directions of aid granting in Poland in the nineties can be distinguished taking into account European standards. The first was sectoral aid directed to the sensitive sectors of industry. The second was horizontal aid aimed at the restructuring.

The restructuring of coal mining started in 1993. The results of the restructuring were reduction of employment by 62.4% from 388 thousand in 1990 to 146 thousand in 2001 and a decrease in the volume of production by 30% from 147 to 102.8 million tons. The efficiency of production almost doubled. In spite of those successes general assessment of that restructuring cannot be positive due to the high costs and the fact that in 2003 Polish coal mining still faces some serious problems.

Table 1. Restructuring of coal sector (PLN thousand, prices from 2001)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>-444</td>
<td>-2218</td>
<td>-5521</td>
<td>-4867</td>
<td>-471</td>
<td>-1501</td>
<td>-2865</td>
<td>-3647</td>
<td>-5330</td>
<td>-4004</td>
<td>-1860</td>
<td>177</td>
</tr>
<tr>
<td>Cumulated liabilities</td>
<td>6928</td>
<td>9143</td>
<td>13121</td>
<td>17689</td>
<td>16560</td>
<td>15965</td>
<td>18597</td>
<td>20596</td>
<td>23899</td>
<td>22983</td>
<td>21438</td>
<td></td>
</tr>
<tr>
<td>Public support</td>
<td>10549</td>
<td>4396</td>
<td>1592</td>
<td>1147</td>
<td>1280</td>
<td>2591</td>
<td>886</td>
<td>2210</td>
<td>1792</td>
<td>2322</td>
<td>1999</td>
<td>3278</td>
</tr>
</tbody>
</table>

Source: Supreme Chamber of Control (2002 a)

Total amount of public support was about 34 billion. 75% of that amount came from state budget in form of subsidies; about 11% were debt forgiveness. Moreover, the liabilities of
coal mining sector grew to the sum of 21.5 billion. Since 2001 they reached the sum of 24.5 billion. Some part of liabilities is taxes and other public liabilities. Those should be considered as state aid as well. In 2002 net profit was negative again, what proves unsuccessful restructuring of that sector. The grounds of that failure are political issues. Coal mining was one of the most favoured sectors in the centrally planned economy. The politicians used resistance against changes among workers and managers of coal mining for their own goals. Taking into account power of labour unions, their engagement in politics, and the big number of elections in Poland in the nineties, the restructuring of coal mining missed consistency. Example can be debt “last time” write-offs, which took place few times. They were unsuccessful; the problem of debts returned after some time.

Iron and steel sector received much aid within two programmes from 1992 and 1998. As Supreme Chamber of Control concluded [2002 b] none of the goals stated in the programmes was reached – steel enterprises did not improve their economic performance. Out of 25 entities, which started restructuring in 1992, 7 were liquidated or declared insolvency. Similarly as in the coal mining case the reduction of employment from 123 thousand in 1992 to 43.5 thousand in 2002 was a relative success. The majority of reduction took place quite late, between 1999 and 2001, what of course influenced the economic performance of the sector. It is hard to estimate the total amount of public support directed at the restructuring of steel sector. According to the data from the Supreme Chamber of Control total cost of restructuring was PLN 7.5 billion.

There were also attempts of wider restructuring programmes, like the one contained in the act on financial restructuring of enterprises and banks. The aim of that programme was not only focused on restructuring of banks’ bad portfolios. It was also to speed up restructuring of the real sector thorough liquidation of enterprises with no prospects for future or through reduction of debt, which was to be accompanied by implementation of agreed restructuring programmes. There were some positive results of the programme in the real sector, “but below the original expectations of the authors of the program” (Balcerowicz and Bratkowski ,2001). As they note none of the large state owned enterprises was restructured or declared insolvent. Within the framework of the programme banks were capitalised with State Treasury bonds at the nominal value of 538 million USD, which were spent on a financial restructuring of enterprises.

In order to solve bad situation of at least some part of enterprises Industry Development Agency (IDA) was established in 1991. It was to promote industrial efficiency and assist
restructuring. IDA mainly supported enterprises thorough soft loans, credit warranties and debt to equity swap. Information concerning IDA activity in the filed of state aid granting is limited. One of the enterprises restructured by IDA was the largest tractor manufacturer Ursus. Between 1991-1996 Ursus received almost PLN 189 million and ECU 1,74 million in form of subsidies, warranties and soft loans. According to the Supreme Chamber of Control [1997] Ursus did not recover economic viability and misused some part of aid. It is one of the evidences of lack of efficient control of state aid granted in the nineties.

Moreover, it seems that the aid granting process was not co-ordinated at all. Financial support was transferred to enterprises, allowing them to operate for some time, while actual restructuring did not take place. The aid granting authorities failed to put pressure on aid beneficiaries to initiate changes. Consequently some enterprises and sectors get used to public support. For example Ursus, Polish National Railways, steel and coal sectors. There was a strong relationship between political power and access to state aid. The main recipients were large state owned or formerly state owned enterprises.

As mentioned above, majority of state aid granted in the nineties in Poland was not connected with any long-term policy. In most cases aid was a rescue for enterprises granted by the fiscal organs on ad hoc basis. Not only the Ministry of Finance, but also tax chamber had a right to make debt write-offs. Moreover, most of fiscal aid was not included in the official reports. Neneman and Sowa [2002] found that only a small percentage of enterprises’ budgetary arrears were considered as state aid.

First diagnosis of state aid in Poland covered the years 1993 and 1994 [Fornalczyk 1998]. It was based on European standards concerning types, objectives and forms of aid. The diagnosis did not include aid for privatisation, because it was treated as an element of governmental policy of transformation. Such an approach was similar to the case of aid for Eastern Landers of Germany (operation of Treuhandstalt). Additionally, the diagnosis excluded operations of the banks; compositions under the act on financial restructuring of enterprises and banks from 1993 were treated according to the private investor principle.

The first research on state aid in Poland led to the following conclusions. Identified amount of aid granted in Poland in 1994 was 80 758 066 million old Polish zlotys (PLZ). The share of aid in GDP was 3,84%. Average aid per person employed was ECU 182.
Fiscal operations (A2 and C2) constituted almost half of aid. A quarter of aid was granted in form of direct subsidies (A1). Almost 20% of aid firms received in a form of credit quarantines.

About 40% of aid was directed to the manufacturing sector. Its is worth mentioning that since two organs granting a great share of aid, i.e. the Ministry of Finance and Social Insurance Institution (ZUS), did not provide detailed information, the 40% share of the manufacturing sector is just an estimate. According to other estimations, made by the Ministry of Industry and Trade in 1993, manufacturing sector consumed 49% of aid.

The majority of aid was not granted within long term programme, but on ad hoc basis. This was a rescue, aimed at preventing bankruptcies. In some industries, e.g. coal mining, environmental protection investments and export aid were the only objectives mentioned in the schemes.

Moreover, no regional aid was identified with the exception of the restructuring aid for coal mining of Katowickie Voivodship. That was an evidence of lack of regional policy in Poland, as that Katowickie was richer than other regions of Poland.

The 1994 review of the Polish legislation from the point of view of compatibility with the European state aid standards gave the following results. 127 legal acts were reviewed, out of which 22 did not regulate state aid. 24 acts allowed granting state aid, remaining fully consistent with EU standards. 81 acts required amendments or derogations, 56 of which became a subject on negotiations with the EU. Among them there were regulations concerning special economic zones.

In 1994 special economic zones (further: SEZs) were introduced in Poland. Later on SEZs were one of the sore points in negotiations between the European Union and Poland. The act on special economic zones was passed on 24th of December 1994. Its aim was, as the official argumentation put it, “to release local initiatives for creating new types of economic activities, to improve environmental condition in the region and first of all to create jobs”.

### Table 2. Aid by forms*, 1994

<table>
<thead>
<tr>
<th></th>
<th>Group A1</th>
<th>Group A2</th>
<th>Group B</th>
<th>Group C1</th>
<th>Group C2</th>
<th>Group D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25.8</td>
<td>12.5</td>
<td>4.3</td>
<td>1.0</td>
<td>37.2</td>
<td>19.2</td>
</tr>
</tbody>
</table>

*Forms of aid are described in section 2.1

Source: Fornalczyk (1998)
Investors who would receive permit to operate in a SEZ, after meeting certain criteria, would receive a blanket exemption from the corporate income tax and local charges for a period of first ten years of their activity in the zone, and for the second ten years a 50% relief from the above mentioned taxes and charges. In 15 of the 17 SEZs almost 200 investment projects were commenced. In terms of employment SEZs were not as successful, as originally expected; only about 28 thousand jobs were created in comparison with over 160 thousand planned (Kryńska, 2000). SEZs were incompatible with the EU state aid and regional policy in the following points:

- the law did not envisage maximum ceilings of aid;
- the EU sectoral aid rules for sensitive sectors were not obeyed (especially in the motor-vehicle industry);
- export and operating aid was allowed contrary to one of the main rules of state aid admissibility;
- there was not only a threat and but also several examples of actual competition distortions.

Public debate in Poland has been dominated by an opinion that we should allow investors to hold their acquired rights simultaneously trying to meet the European Union requirements. There were a few opinions that SEZs did not achieve their goals, i.e. did not attract proper amount of investment, nor planned number jobs was created, nor they became development engines for local economies (Kryńska, 2000). However there was a lack of political will of transform SEZs into a basis of efficient regional policy, i.e. attracting investment and creating jobs also in the areas surrounding SEZs. After the amendment to the Act on special economic zones in 2001 the amount of maximum aid was reduced by 50% of investment value and export aid was prohibited. The case of SEZ makes a perfect example of strong influence of activity of different interest groups on the state aid policy.

1.2. Why has state aid been regulated by one act

The Act on the admissibility and supervising of state aid for entrepreneurs was passed on June 30, 2000 (herein under: State Aid Act 2000). It came into force on 1 January 2001, along with 12 regulations and ordinances. There were arguments of two kinds for implementing such a law: internal and external. Besides competition protection, Fornalczyk [2000] points out the following internal reasons for state aid monitoring:

- the need for budget deficit reduction,
• the need for public debt reduction,
• inflationary pressures,
• making public expenditure more transparent,
• improvement of efficiency of collection of taxes and other liabilities.

The external argument was an obligation undertaken by Poland under Europe Agreement establishing an association between The Republic of Poland, of the one part, and the European Communities and their member states, of the other part (further: Europe Agreement) in 1991:

Art. 63 1. The following are incompatible with the proper functioning of the Agreement, insofar as they may affect trade between the Community and Poland:

(...)(iii) any public aid which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods.

It is hard to judge, which of the arguments, internal or external, were more important. Certainly in order to ensure proper functioning of markets, state aid law would have to be implemented irrespective of the EU membership. However, one may regret that lack of such a law allowed to waste public funds during the transformation. That argument is particularly true for the sunset industries such as coal mining, steel sector and railways. 7 years have passed between enforcement of the Europe Agreement and the introduction of State Aid Act in 2000. That time should have been used for intensive restructuring, without taking into account stricter European standards of state intervention in the economy. Unfortunately, there was no political will for deep restructuring, most of state interventions consisted in rescue operations which shifted problems further in time. Introduction of State Aid Act forced some change.

1.3. State Aid Act 2000

State Aid Act 2000 generally prohibits State aid, however it allows for certain exemptions: 1) the so-called admissible types of aid and aid for 2) horizontal, 3) regional and 4) sectoral objectives.

1) Admissible types of aid were defined as follows:
• granted to compensate damage caused by natural disasters and other exceptional occurrences,
• having a social character for individual consumers, provided that such an aid is granted without discrimination related to the origin of the products,
• granted for the purpose of preventing or eliminating serious suprasectoral economic disturbances,
• supporting domestic entrepreneurs operating as part of a business undertaking carried out in the European interests,
• promoting culture, science and education and protecting national heritage,
• compensation for the entrepreneurs for performing “public tasks”.

2) Horizontal objectives of aid were: rescue and restructuring, research and development, employment, development of small and medium size enterprises, environmental protection, energy saving, technical infrastructure development, employment of handicapped people and training.

3) The following sectors were qualified for state aid: coal mining, automotive industry, manufacturing of synthetic fibres, steel production, shipbuilding and maritime sector. Specific conditions of aid admissibility and reporting obligations for the above listed sectors were included in separate regulations and ordinances.

4) Regional aid could finance new investment and job creation. Regulations and ordinances on regional aid contained detailed rules of aid admissibility and the maximum aid ceilings to the third level of the Nomenclature of Territorial Units for Statistics (NUTS3) (50% of investment value as a general rule, five big cities with lower ceilings).

According to the State Aid Act 2000 the President of the Office for Competition and Consumer Protection (herein under: OCCP) is in charge of state aid monitoring in Poland. The OCCP is responsible for giving opinions on intentions of aid granting, monitoring of aid usage, data gathering, preparation of reports on state aid granted, annual reporting to the Council of Ministers and assessment of efficiency and effectiveness of the aid.

*De minimis* rule was introduced: aid cases below EUR 100.000 over a period of three consecutive years was relieved from all but reporting obligations. Intent of granting aid over 1 million euro had to be notified to OCCP. And it was not clear whether OCCP should give opinion concerning aid over 100.000 and less than 1 million euro. This legislative omission was contrary to the EU standards.

The aim of legislators was to contain the abundant *acquis communautarie* concerning state aid in just 48 articles of the Act and its 12 regulations. Enforcement of the State Aid Act 2000 was difficult, due to the complexity of the matter and vagueness of some of the legal
definitions. Not a year passed when OCCP started to work on the amendments to the State Aid Act 2000.

1.4. State Aid Act 2002

The range of the required changes was so extensive that State Aid Act 2000 was replaced by a new Act on the conditions of admissibility and monitoring of aid for entrepreneurs, which was passed on July 2002 (further: State Aid Act 2002). General conditions of aid remained unchanged, some of the definitions were clarified, and all inconsistencies with EU standards removed. Main changes were as follows:

- definitions of individual aid and aid schemes were introduced; in case of aid schemes there is no requirement of giving opinion on admissibility of individual aid cases, only schemes are subject to OCCP opinions;
- new definition of entrepreneur has been introduced;
- de minimis rule has been clarified;
- definition of practice of private investor or debtor principle has been introduced;
- new definition of date of the aid granting has been introduced.

Moreover, there are 16 regulations and ordinances to the State Aid Act 2002. They concern aid admissibility in sensitive sectors, types of horizontal aid, reporting obligations, specific rules for public enterprises (see: the list of the legal acts concerning state aid at the end of the paper).

New law certainly improved aid granting and monitoring, although some vagueness stayed. There are some problems with law enforcement by the aid granting authorities, mainly fiscal organs. For example, there is a question whether a public hospital shall be treated as an entrepreneur. However such disputes happen also in the EU, where state aid legislation have been in force for years.

State Aid Act 2002 has not solved all the problems connected with state aid granting (aid monitoring and lack of aid schemes). Both issues concern organs granting aid. Probable reasons of such a situation can be unclear relations between the OCCP and those organs, and poor knowledge on state aid issues among officials in charge of aid granting. Such a situation is alarming taking into account the fact that after May 2004 the European Commission will control aid granting in Poland. In case of inconsistencies with acquis communautarie the Commission will order to return aid by its beneficiaries. That instrument, directed at beneficiaries not organs granting aid, has not been used by the OCCP.
Perspective of Poland’s membership in the EU requires further changes in the Polish state aid law. Since the introduction of State Aid Act 2000, OCCP has played the role of the quasi European Commission vis-à-vis the Polish government. After accession the European Commission will be in charge of state aid monitoring. New state aid regulation should be introduced in 2004. Probably, the OCCP will play a role of a body representing Poland in state aid cases. It will make initial examination of the drafts of aid schemes and cases of individual aid before sending them to the Commission.

2. State aid in Poland in the years 1996-2002: volume and structure

This part of the paper deals only with the years 1996-2002, because data on aid granted before 1996 was not collected.

2.1 Methodology of data collection and results presentation

This part of the paper has been prepared on the basis of seven reports on state aid granted to entrepreneurs. The Ministry of Economy prepared the reports for the years 1996 and 1997. Since 1998 the OCCP has been in charge of data collection and publishing. The methodology of data collection and aid classification has changed over years, but still the reports are the best available and the exclusive source of information concerning aid granted to the Polish enterprises.

Aid granting authorities

Data concerning state aid is delivered to the OCCP by aid granting authorities – ministers, governmental agencies and local authorities. Report on aid granted in 2002 lists the following 22 aid granting bodies in Poland:

1. Minister of Finance
2. Minister of Economy
3. Minister of Infrastructure
4. Minister of State Treasury
5. Minister of the Environment
6. Minister of Agriculture and Rural Development
7. President (Board) of the Industrial Development Agency
8. President of the Agricultural Property Agency of the State Treasury
9. Agency for Restructuring and Modernisation of Agriculture
10. President of the Agricultural Market Agency
11. President of the Polish Enterprise Development Agency
12. President of the Technology Agency
13. President of the Scientific Research Committee
14. President of the National Fund for Environmental Protection and Water Management
15. Presidents of Provincial Funds for Environmental Protection and Water Management
16. President (Supervisory Board) of the State Fund for Rehabilitation of Persons with Disabilities.
17. Council of the Fund for Employee Compensation Guarantees
18. Directors of Tax Offices and Tax Chambers
19. President of the Social Insurance Institution (ZUS)
20. Voivods
21. Starosts (powiat heads)
22. Mayors & presidents of municipalities and communes

**Forms of aid**

Structure of the yearly reports and classification of aid is based on similar reports prepared every third year by the European Commission. The reports contain data on the types of aid, classified according to the European standards into four groups. They are marked with letters A, B, C and D and with suffix 1 or 2, standing respectively for budget expenditure or for a decrease in budgetary revenues.

The respective groups include the following forms of aid:

Group A - includes mainly subsidies and tax relieves
A1 - non-refundable subsidies, subsidies to the interest rate
A2 - tax relief, forbearance from tax assessment and collection, amortisation of debt to the government budget, amortisation of debt to the state fund

Group B - equity participation
B1 - contribution to the company capital, temporary purchase of company’s shares for prospective sale
B2 - debt to equity swap

Group C - "soft credit"
C1 - preferential credits, conditional credit remittal
C2 - accelerated depreciation, deferment and spread into instalment of tax payment or tax overdue, deferment and spread into instalment of amount due to the fund

Group D1 - credit warranty and guarantees
Objectives and types of aid

The are three general objectives of state aid: sectoral (aid for specified sectors), regional (aid for enterprises operating in the specified regions), and horizontal (not related to any particular sector, or region, but aimed at achieving certain objectives). Hereunder we present the classification of aid objectives.

Sectoral aid may be granted to:
- Coal mining sector
- Maritime transport sector
- Automotive sector
- Shipbuilding sector
- Steel sector
- Synthetic fibres sector

Horizontal aid deals with:
- Employment
- Energy conservation
- Environmental protection
- Foreign investment
- Investment aid
- Operating aid
- Privatisation
- Rescue and restructuring
- Research and development
- Small and Medium-sized Enterprises
- Trade
- Training
- Other objectives
2.2. Statistical analysis of state aid in Poland

Table 3. Volume of state aid in Poland, 1996-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PLN Million</td>
<td>8355.1</td>
<td>8688.7</td>
<td>6762.3</td>
<td>9076.1</td>
<td>7712.0</td>
<td>11194.8</td>
<td>10277.6</td>
</tr>
<tr>
<td>Per person employed (EUR)</td>
<td>751.0</td>
<td>717.5</td>
<td>524.0</td>
<td>616.0</td>
<td>598.9</td>
<td>984.2*</td>
<td>260.0</td>
</tr>
<tr>
<td>% of GDP</td>
<td>2.6</td>
<td>2.3</td>
<td>1.2</td>
<td>1.5</td>
<td>1.1</td>
<td>1.5</td>
<td>1.3</td>
</tr>
</tbody>
</table>

* Per person employed in industry

Source: Office for Competition and Consumer Protection 2003

In nominal terms, volume of state aid increased in the period, however in relative terms (share of GDP) it decreased by half (see Table 3). That seems to be a good tendency, taking into account that aid generally distorts competition and the quality of aid grating in Poland is not satisfactory (issue shall be developed herein under). Taking into account volume of aid per person employed in Polish economy dramatic drop in state aid has been noticed from ECU 751 in 1996 to EUR 260 in 2003.

Table 4. Structure of state aid by forms of aid (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Group A1</td>
<td>19.3</td>
<td>20.4</td>
<td>25.7</td>
<td>32.8</td>
<td>46.0</td>
<td>25.6</td>
<td>37.8</td>
</tr>
<tr>
<td>Group A2</td>
<td>61.7</td>
<td>59.5</td>
<td>50.2</td>
<td>53.2</td>
<td>38.5</td>
<td>31.0</td>
<td>26.9</td>
</tr>
<tr>
<td>Group B1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>2.1</td>
<td>1.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Group B2</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
<td>0.5</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Group C1</td>
<td>5.6</td>
<td>9.1</td>
<td>7.8</td>
<td>7.3</td>
<td>9.6</td>
<td>15.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Group C2</td>
<td>10.2</td>
<td>8.8</td>
<td>15.0</td>
<td>0.9</td>
<td>1.8</td>
<td>5.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Group D1</td>
<td>2.6</td>
<td>1.7</td>
<td>1.0</td>
<td>3.2</td>
<td>2.6</td>
<td>16.1</td>
<td>21.8</td>
</tr>
</tbody>
</table>


Majority of aid is granted in the form of subsidies (A1)) and fiscal operations (A2) (see Table 4). That has not changed during the analysed period. The second important forms are “soft credits” (C), including also fiscal operations (C2), like deferment or spread into instalments of tax payment or tax overdue.

Operations on equity (B1 and B2) played only marginal role in total volume of aid granted. These instruments constitute about 3% of aid to the enterprises in the EU.
A growing share of credit warranty and quarantines (group D1) may be regarded as a positive tendency. Substantial increase of this instrument was noticed in 2001. Number of beneficiaries was 140 in 2000, 29 in 2001, and 53 in 2002. As the number of recipients decreased, it is obvious that values of individual aid have increased.

The Polish pattern of aid structure (dominated by fiscal instruments) differs significantly from the European one. Subsidies prevail in the EU: more than 60% of aid is transferred to enterprises in a form of subsidies (European Commission, 2003). Tax exemptions stand for 26% of aid, while soft credit for about 6%.

Better picture of aid granting structure appears after analysing the sources of aid funding.

**Graph 1. Sources of aid funding.**

![Graph 1](image)

Source: On basis of the Reports on state aid 1997-2002

Graph 1 shows what share of aid was granted directly from the budget and how much was financed by reducing budgetary revenues. With an exception of the year 2000, when expenditure constituted almost half of aid, the domination of budget revenue reduction can be easily seen. Such a situation, along with the fact, that most of aid instruments are connected with fiscal instruments requires some more comments.

Neneman and Sowa [2002] found five reasons why fiscal instruments dominate structure of aid granted in Polish economy.

Ideology. During the period of the so-called planned economy, subsidies were extremely common. The subsidies were directed to products, rather than producers, and therefore one can hardly classify them as state aid. One of the key elements of the shift to market economy was the liberalisation of prices, and in the consequence of the new price structures the “demand” for subsidies weakened. Governments are rather reluctant to use subsidies, as this
is to some extent treated as a communist instrument. An argument concerning ideology does not directly justify such high share of tax expenditure in total amount of state aid, but describes the reasons of aversion to alternative instruments, i.e. budgetary expenditure.

Pressure. The main beneficiaries of aid are large, state owned enterprises, in which strong resistance against restructuring and privatisation exists. In case of financial distress and without a will to restructure (threat of reductions of employment) they apply short term rescue solutions. Having no access to credit stop paying their liabilities. Since the internal sources credit are limited and the workers wages have to be paid, enterprises stop paying taxes and budgetary liabilities. State, aware of the threat of social costs of bankruptcy of such a large enterprise, allows such situations to happen.

Convenience. From the legal and bureaucratic point of view it is easier and faster to transmit the aid through taxes than trough any other instrument. From the point of view of costs of transfer, tax expenditure seems to be cheaper than budgetary expenditures.

Lack of transparency. It is relatively easy to sum up total value of all subsides granted to an enterprise, sector or region. In case of tax instruments it requires special methodology and practice to assess it correctly even for a single firm.

Flexibility and volume. The total amount of aid is given in the Budget Law and although there is plenty of room for a manoeuvre in allocation of aid to specific funds, the upper limit cannot be exceeded. The Budget Law has no provision regarding the amount of tax concessions, therefore policymakers may use their discretionary power and grant quite substantial aid to certain enterprises, which is of great importance taking into account strong power of labour unions in Poland.

Graphs 2 and 3 below present data on aid objectives. In the previous years no data concerning agriculture were gathered. In order to facilitate comparisons only years 2001 and 2002 are presented.
Graph 2. Structure of aid by objectives, 2002.

Graph 3. Structure of aid by objectives, 2001

Graph 2 above presents the objectives of granted aid in 2002. Most of aid (33%) is of horizontal character. 18% of aid goes to the sensitive sectors, while 5% through regional aid channels. Beneficiaries representing agricultural sector consume 17% of aid. 27% of aid goes for other objectives like compensation for performing public tasks (see Table 3). Taking into account changes between 2001 and 2002, a share of regional objectives increased (from 0,4% to 4,6%), and a share of sectoral ones decreased by 7 percentage points. A share of horizontal objectives stays at the same similar level, while agricultural decreases from 21,9% to over 17%.

Such aid structure is different from the European pattern, where about a quarter of aid is regional, and almost a half is horizontal. The reason of such a difference is a post transition
character of the Polish economy, where support to sensitive sectors is more required than in the EU. The European restructuring programmes have already been implemented, and the size of sectoral aid decreases. Another explanation can be power of pressure groups from sensitive sectors. As it concerns regional aid Poland has not worked out co-ordinated regional policy.

Substantial decrease in sectoral aid over the years can be seen in Poland as well. However, the methodology of data collection may distort the image. One may suspect that some aid directed to sensitive sectors can be included statistically to horizontal objectives.

Detailed destinations of aid are presented in Table 5 below. Over 90% of sectoral aid is consumed by coal mining sector. The dominating group in horizontal objectives (almost 70%) is the rescue and restructuring aid that distorts competition. At the same time the aid for growth creating objectives of economic policy, such as research development and development of small and medium enterprises, play a marginal role. That can be a proof that state aid policy in Poland actually is very passive.
Table 5. Aid by objectives in 2001 and 2002

<table>
<thead>
<tr>
<th>Aid title</th>
<th>2001</th>
<th>2002</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in PLN Million</td>
<td>%</td>
<td>in PLN Million</td>
</tr>
<tr>
<td>1. Horizontal aid, of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Research &amp; development</td>
<td>95.0</td>
<td>0.85%</td>
<td>136.7</td>
</tr>
<tr>
<td>1.2 Environmental protection</td>
<td>80.4</td>
<td>0.72%</td>
<td>142.2</td>
</tr>
<tr>
<td>1.3 Small and medium size enterprises</td>
<td>61.9</td>
<td>0.56%</td>
<td>136.6</td>
</tr>
<tr>
<td>1.4 Energy saving</td>
<td>7.7</td>
<td>0.07%</td>
<td>7.8</td>
</tr>
<tr>
<td>1.5 Employment</td>
<td>106.9</td>
<td>0.96%</td>
<td>228.2</td>
</tr>
<tr>
<td>1.6 Training</td>
<td>466.7</td>
<td>4.19%</td>
<td>368.5</td>
</tr>
<tr>
<td>1.7 Restructuring</td>
<td>2123.5</td>
<td>19.05%</td>
<td>2091.3</td>
</tr>
<tr>
<td>1.8 Rescue aid</td>
<td>128.4</td>
<td>1.15%</td>
<td>300.6</td>
</tr>
<tr>
<td>1.9 Employment of handicapped and rehabilitation</td>
<td>198.0</td>
<td>1.78%</td>
<td>-</td>
</tr>
<tr>
<td>1.10 Infrastructure development</td>
<td>233.6</td>
<td>2.10%</td>
<td>10.4</td>
</tr>
<tr>
<td>1.11 Other</td>
<td>67.3</td>
<td>0.60%</td>
<td>28.4</td>
</tr>
<tr>
<td>2. Sectoral aid, of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Steel sector</td>
<td>26.7</td>
<td>0.00%</td>
<td>5.3</td>
</tr>
<tr>
<td>2.2 Ship building</td>
<td>9.3</td>
<td>0.24%</td>
<td>101.8</td>
</tr>
<tr>
<td>2.3 Coal mining</td>
<td>2649.2</td>
<td>0.08%</td>
<td>1712.9</td>
</tr>
<tr>
<td>2.4 Synthetic fibres</td>
<td>0.2</td>
<td>23.76%</td>
<td>0.1</td>
</tr>
<tr>
<td>2.5 Automotive industry</td>
<td>6.6</td>
<td>0.00%</td>
<td>15.2</td>
</tr>
<tr>
<td>2.6 Marine transport</td>
<td>8.3</td>
<td>0.06%</td>
<td>0.1</td>
</tr>
<tr>
<td>3. Regional aid</td>
<td>382.4</td>
<td>0.07%</td>
<td>469.6</td>
</tr>
<tr>
<td>4. Agriculture</td>
<td>2383.9</td>
<td>3.43%</td>
<td>1766.9</td>
</tr>
<tr>
<td>5. Other titles of aid*</td>
<td>2112.0</td>
<td>21.38%</td>
<td>2706.0</td>
</tr>
</tbody>
</table>


* That category mainly includes aid granted to compensate damage caused by natural disasters and other exceptional occurrences, and aid compensating participation in the completion of public tasks.
Table 6. Aid by granting organs 2002.

<table>
<thead>
<tr>
<th>Institution</th>
<th>in PLN Million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>2100.7</td>
<td>20.4%</td>
</tr>
<tr>
<td>Ministry of Economy</td>
<td>987.6</td>
<td>9.6%</td>
</tr>
<tr>
<td>Ministry of Infrastructure</td>
<td>292.1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Ministry of Agriculture and Rural Development</td>
<td>234.4</td>
<td>2.3%</td>
</tr>
<tr>
<td>Ministry of State Treasury</td>
<td>59.5</td>
<td>0.6%</td>
</tr>
<tr>
<td>Ministry of Environment</td>
<td>602.5</td>
<td>5.9%</td>
</tr>
<tr>
<td>Ministry of Science</td>
<td>108.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>National Fund for Environment Protection and Water Management</td>
<td>42.6</td>
<td>0.4%</td>
</tr>
<tr>
<td>Provincial Funds for Environmental Protection and Water Management</td>
<td>65.6</td>
<td>0.6%</td>
</tr>
<tr>
<td>State Fund for Rehabilitation of Persons with Disabilities</td>
<td>378.9</td>
<td>3.7%</td>
</tr>
<tr>
<td>Social Insurance Institution (ZUS)</td>
<td>80.9</td>
<td>0.8%</td>
</tr>
<tr>
<td>Agricultural Property Agency of State Treasury</td>
<td>220.3</td>
<td>2.1%</td>
</tr>
<tr>
<td>Agency for Restructuring and Modernisation of Agriculture</td>
<td>1241.6</td>
<td>12.1%</td>
</tr>
<tr>
<td>Agricultural Market Agency</td>
<td>633.3</td>
<td>6.2%</td>
</tr>
<tr>
<td>Industrial Development Agency</td>
<td>103.5</td>
<td>1.0%</td>
</tr>
<tr>
<td>Polish Enterprise Development Agency</td>
<td>61.0</td>
<td>0.6%</td>
</tr>
<tr>
<td>Tax Offices and Tax Chambers</td>
<td>2199.3</td>
<td>21.4%</td>
</tr>
<tr>
<td>Voivods</td>
<td>124.0</td>
<td>1.2%</td>
</tr>
<tr>
<td>Starosts (powiat heads)</td>
<td>220.9</td>
<td>2.1%</td>
</tr>
<tr>
<td>Mayors &amp; Presidents of municipalities and communes</td>
<td>521.0</td>
<td>5.1%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10277.7</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Office for Competition and Consumer Protection  2003

Table 6 shows that tax offices and chambers grant most of the aid. Together with the Ministry of Finance fiscal authorities allocate over 40% of total aid in Poland. The second biggest aid donor is the Agency for Restructuring and Modernisation of Agriculture (12%). Only 8.4% of aid was granted by local authorities (voivodships, powiats, and communes).

Source: Office for Competition and Consumer Protection 2003

Graph 4 shows that 50% of aid goes to large enterprises. The Polish National Railways are still the largest beneficiary of aid (about 20% of total aid). As the positive tendency we observe a growing share of small and medium-size enterprises receiving state support (in 2001 they received 10%, in 2000 and 7%). 24% of aid is used by recipients whose size has not been recognised and this is alarming. Such situation is also surprising taking into account, that state aid law was enforced two years before the Report on aid in 2002 was drafted.
Finally, let us present the regional structure of state aid. It should be noticed here that there is a difference between regional objectives of aid and regional designation of aid. Regional aid goes to enterprises located in underdeveloped regions or suffering serious social and economic problems. Its aim is to attract investment and to create jobs in particular regions. Regional designation of aid shows in which region beneficiaries of all kinds of aid (including sectoral, regional and horizontal objectives) are located.

In 2002 more than a quarter of the total aid is directed to enterprises in Mazowieckie Voivodship, and 21% is transferred to Śląskie Voivodship. Dominance of those regions can be explained by location of headquarters of largest single aid beneficiary in Mazowieckie Voivodship (National Polish Railways), and location of coal mines in Śląskie Voivodship. The other regions received no more than 4.9% of aid each. It is therefore evident, that the majority of aid is directed to rich regions, with lower unemployment and better technical infrastructure. Such a situation is not only inconsistent with state aid rules, but in the longer
period increases the disparities in the regional development. Unfortunately the OCCP Reports do not provide data on regional distribution of regional aid.

Although distribution of 23.3% of aid has not been known in 2002, there is an improvement in data collection – in 2000 over 60% of aid could not be allocated to any particular region.

2.3. State aid to the manufacturing sector

Data on state aid by sectors (including manufacturing) collected by the OCCP is very scary; overall amounts were presented only in the report on aid granted in 2002. Precise data on aid destination for the previous years is available only in case of subsidies, and horizontal objectives in 2000.

Table 8. State aid by sectors, 2002

<table>
<thead>
<tr>
<th>PKD number</th>
<th>Section name</th>
<th>Aid in PLN million</th>
<th>Share in total aid</th>
<th>Number of recipients</th>
<th>Aid per capita (PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Manufacturing of food and beverages</td>
<td>343.0</td>
<td>2.85%</td>
<td>11 004</td>
<td>64.1</td>
</tr>
<tr>
<td>35</td>
<td>Manufacturing of transport equipment</td>
<td>292.0</td>
<td>2.42%</td>
<td>329</td>
<td>31.2</td>
</tr>
<tr>
<td>36</td>
<td>Manufacturing of furniture</td>
<td>144.6</td>
<td>1.20%</td>
<td>3 896</td>
<td>97.4</td>
</tr>
<tr>
<td>34</td>
<td>Automotive industry</td>
<td>130.1</td>
<td>1.08%</td>
<td>774</td>
<td>37.1</td>
</tr>
<tr>
<td>18</td>
<td>Manufacturing of apparel and furriery</td>
<td>126.0</td>
<td>1.05%</td>
<td>4 516</td>
<td>168.1</td>
</tr>
<tr>
<td>28</td>
<td>Manufacturing of metal products</td>
<td>124.6</td>
<td>1.03%</td>
<td>3 234</td>
<td>27.9</td>
</tr>
<tr>
<td></td>
<td>Total manufacturing</td>
<td>1160.3</td>
<td>9.63%</td>
<td>23753</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Transport</td>
<td>2 414.8</td>
<td>20.05%</td>
<td>2 627</td>
<td>919.2</td>
</tr>
<tr>
<td>01-05</td>
<td>Agriculture</td>
<td>1 766.9</td>
<td>14.67%</td>
<td>578 000</td>
<td>3 366.2</td>
</tr>
<tr>
<td>10</td>
<td>Mining</td>
<td>1 599.3</td>
<td>13.28%</td>
<td>291 5</td>
<td>495.9</td>
</tr>
<tr>
<td>74</td>
<td>Other services</td>
<td>395.9</td>
<td>3.29%</td>
<td>6 174</td>
<td>858.1</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale trade</td>
<td>244.0</td>
<td>2.03%</td>
<td>8 635</td>
<td>887.5</td>
</tr>
<tr>
<td>52</td>
<td>Retail trade</td>
<td>166.5</td>
<td>1.38%</td>
<td>16 365</td>
<td>28.3</td>
</tr>
<tr>
<td>85</td>
<td>Health protection and social care</td>
<td>161.2</td>
<td>1.34%</td>
<td>1 655</td>
<td>10.2</td>
</tr>
<tr>
<td>45</td>
<td>Construction</td>
<td>120.6</td>
<td>1.00%</td>
<td>7 809</td>
<td>38.5</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>4015.0</td>
<td>33.33%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 8 above presents volume of aid granted to individual sections of the Polish economy. Unfortunately, the methodology of data collection does not make it possible to have a clear picture of state aid structure in Poland. About 33% of aid has not been assigned to any sector (item “Others” in Table 8). One may presume that some part of it may stand for manufacturing industry; however since it is hard to make a reasonable assumption, this will not be a subject of an analysis. Specified manufacturing sectors received 9.63% of aid in 2002.

Most of state aid goes to transport, agriculture and mining (20%, 15% and 13% accordingly). Out of the specified manufacturing sections, the largest volume of aid is directed to food and beverages manufacturing (3%), and transport equipment production (2.4%). Furniture, automotive industry, clothing and metal products stand for 1-2% of the total aid.

The largest aid per capita aid goes to coal mining and agriculture, about PLN 5.5 and 3.4 thousand respectively. “Per capita” term probably regards number of persons employed in the section, unfortunately the report does not specify it. High aid per capita is observed in transport, wholesale trade and other services (858 and 919 PLN). Other sections receive much less aid.

For the year 2000 the breakdown of horizontal objectives in accordance with the Polish Classification of Activities (PKD) has been presented in the report.
Table 9. Horizontal aid by sections, 2000

<table>
<thead>
<tr>
<th>PKD number</th>
<th>Section name</th>
<th>Aid in PLN million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Manufacturing of chemicals, chemical products and synthetic fibres</td>
<td>18.11</td>
<td>1.17%</td>
</tr>
<tr>
<td>27</td>
<td>Manufacturing of basic metals</td>
<td>32.14</td>
<td>2.07%</td>
</tr>
<tr>
<td>28</td>
<td>Manufacturing of metal products</td>
<td>9.54</td>
<td>0.62%</td>
</tr>
<tr>
<td>29</td>
<td>Manufacturing of machinery and equipment n.e.c.</td>
<td>23.77</td>
<td>1.53%</td>
</tr>
<tr>
<td>31</td>
<td>Manufacturing of electrical machinery and equipment n.e.c.</td>
<td>8.19</td>
<td>0.53%</td>
</tr>
<tr>
<td>34</td>
<td>Manufacturing of motor vehicles</td>
<td>3.71</td>
<td>0.24%</td>
</tr>
<tr>
<td>35</td>
<td>Manufacturing of transport equipment</td>
<td>11.41</td>
<td>0.74%</td>
</tr>
<tr>
<td></td>
<td>Total manufacturing:</td>
<td>106.87</td>
<td>6.90%</td>
</tr>
<tr>
<td>10</td>
<td>Hard coal mining</td>
<td>12.30</td>
<td>0.79%</td>
</tr>
<tr>
<td>14</td>
<td>Other mining and quarrying</td>
<td>14.38</td>
<td>0.93%</td>
</tr>
<tr>
<td>45</td>
<td>Construction</td>
<td>30.02</td>
<td>1.94%</td>
</tr>
<tr>
<td>60</td>
<td>Transport</td>
<td>504.42</td>
<td>32.56%</td>
</tr>
<tr>
<td>-</td>
<td>Other sections or not classified</td>
<td>881.04</td>
<td>56.88%</td>
</tr>
</tbody>
</table>


More than half of horizontal aid in 2000 was not classified to any section. About 30% of aid was granted to transport state enterprise (National Railways). Manufacturing of basic metals and construction received about 2% of aid. The remaining the sections received less than 2% of horizontal aid. The specified sectors received 6.9% of horizontal aid.

A closer look at aid granted to manufacturing sector is possible in case of subsidies (aid form A1). It is worth to notice here, that A1 is the only group of aid for which detailed destination of aid to particular sectors can be found in the reports. That is a strong argument for transparency of the subsidies.
Table 10. Subsidies to sections of manufacturing in 2000-2002

<table>
<thead>
<tr>
<th>Section</th>
<th>Volume (PLN million)</th>
<th>Share in total subsidies granted to economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing of fabrics</td>
<td>4.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Manufacturing of chemicals, chemical products and synthetic fibres</td>
<td>18.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Manufacturing of basic metals</td>
<td>53.4</td>
<td>40.5</td>
</tr>
<tr>
<td>Manufacturing of metal products</td>
<td>9.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Manufacturing of machinery and equipment n.e.c.</td>
<td>23.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Manufacturing of radio, TV and communication equipment</td>
<td>8.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Manufacturing of motor vehicles</td>
<td>3.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Manufacturing of other transport equipment</td>
<td>11.4</td>
<td>10.3</td>
</tr>
<tr>
<td>Total</td>
<td>132.3</td>
<td>116.3</td>
</tr>
</tbody>
</table>

Source: On basis of the Reports on state aid in 2000-2002

In 2000 manufacturing industry received 3.7% of the total amount of subsidies. In the two following years its share was increasing annually by 0.5 percentage points annually. However, it is hard to say how aid for manufacturing sector is used.

3. Efficiency of state aid

One of the general rules of aid granting, worked out by the EU Member States, is the transparency rule. It says that the amounts of aid granted to recipients should be publicly known, as well as the way of aid use. Although the reports on state aid till 2000 presented data on number of recipients, quotas, forms and objectives of aid, they did not provide any information on how the aid had been used. Instruments introduced in state aid law, such as reporting obligations, obligation to publish data on aid, allow to monitor state aid. State Aid Act 2002 imposed an obligation for the Council of Ministers to examine state aid efficiency and effectiveness.

There must have been some rationale and analyses concerning cost of state aid and its efficiency. However they were never available to the public, besides some very limited data provided by the Supreme Chamber of Control. After the introduction of State Aid Act 2002 there are two ordinances of the Council of Ministers concerning aid efficiency and
effectiveness from 3rd February 2003. First one describes the methodology of examination, the second points out the areas, where efficiency and effectiveness should be assessed. The aid granting authorities must fill the forms sheets concerning the use of aid - thus they can categorise the aid as: 1) efficient and effective, 2) efficient and ineffective, or 3) inefficient and ineffective.

The Council of Ministers determines the areas of the examination. At this moment those are:
- aid granted on the basis of Fiscal ordinance;
- aid aimed at support of investment (Act on the financial support of investment);
- restructuring aid for steel industry;
- aid for enterprises employing disabled persons.

Introduction of such legal instrument suggests that the quality of examination of efficiency and effectiveness of aid should have improved much. However the results of that examination included in 2002 State Aid Report are somehow surprising.

The OCCP received data on aid efficiency and effectiveness from the following aid donors: directors of tax offices, fiscal organs of local authorities, Ministry of Economy, State Fund for Rehabilitation of Persons with Disabilities, National Environment Protection Fund and Social Insurance Institution. The OCCP received only 18 form-sheets concerning 99 cases of aid granting, totally amounting to 64 PLN million of aid (0,6% of total aid). That is only a margin of the total aid – such a shortage in reporting does not allow to make general conclusions concerning the aid use. Moreover, the OCCP does not have a power to force organs granting aid to improve the quality of aid examination.

Another problem is a quality of data received – it says a lot about a low level of understanding of state aid law. Data received from the Ministry of Finance contains categories of aid not included in the ordinance of the Council of Ministers. That additional category is “aid inefficient and effective”. The table presents the results of aid efficiency and effectiveness examination.

<table>
<thead>
<tr>
<th>Type of aid</th>
<th>Number of cases</th>
<th>Value of aid (PLN million)</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient and effective</td>
<td>48</td>
<td>50.6</td>
<td>79%</td>
</tr>
<tr>
<td>Efficient and ineffective</td>
<td>4</td>
<td>8.9</td>
<td>14%</td>
</tr>
<tr>
<td>Inefficient and ineffective</td>
<td>18</td>
<td>2.8</td>
<td>4%</td>
</tr>
<tr>
<td>Inefficient and effective</td>
<td>29</td>
<td>1.6</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>63.9</td>
<td>100%</td>
</tr>
</tbody>
</table>


As it is pointed out in the Report, the results of efficiency and aid examination can only show a tendency, not a general view, due to the limited scope of the collected data. Many forms and objectives of aid were not subject to examination, and only few organs replied.

Out of 99 cases only half (48) was efficient and effective. The situation is better, when the values of aid are taken into account; almost 80% of aid was found to be correctly used. The best results have been found in cases of aid for employment of disabled persons. 100% of such aid was efficient and effective, according to the information sent by the Fund for Rehabilitation of Persons with Disabilities. The worst situation was in the steel sector. 9 out of 12 cases were found ineffective and inefficient (more than 90% in value terms).

The question arises if the examination of aid efficiency and effectiveness is reliable at all. Only 99 cases of aid were investigated; taking into account the total number of aid recipients outside agriculture (105,000) the scope of the assessment is limited. Moreover, the quality of data cannot be satisfactory. The aid granting authorities evaluate aid efficiency, and it may be against their interests to give negative assessment. Another problem is the range of actual aid granted to enterprises, which is reported to the OCCP. It does not have a legal power to execute the delivery of information on granted aid from organs granting aid.

The Supreme Chamber of Control made an audit of aid in the second half of 2000 and first quarter of 2001. The audit concerned aid granted in form of subsidies and soft credits. The results of the control pointed out that there were cases of incorrectly granted aid. Aid was used for aims other than originally declared, some enterprises used the aid ineffectively, and others applied for ineligible amounts. The worst news in the Supreme Chamber report is the lack of aid monitoring by the aid granting authorities.

An interesting conclusion of the report is that in certain cases amount of aid granted to enterprises was too small to achieve originally planned results. The control also showed that
payment of every third loan was delayed, what was caused by the difficult economic situation of the creditors. Final conclusion of the report is that the received aid did not influence financial condition of its beneficiaries.

It is relatively easy to apply state aid rules in case of such instruments as subsidies or guarantees. Fiscal instruments of aid granting are more complex. If there is a decision of Tax Office, or an enterprise gets a tax relief on basis of general rule, such operation is classified as aid and is notified to the OCCP. What happens if a firm does not pay its taxes? Can such situation be regarded as aid? What are its consequences?

In order to answer the above questions, it is required first of all to check if the non-payment of public liabilities meets criteria of the state aid definition. It does, because we deal with the conferring of financial benefits by reducing firm’s liabilities to the state budget, which may threaten to distort competition. Majority of overdue public liabilities comes from large, state owned enterprises in certain sectors, such as coal mining, steel. Only large enterprises having strong political power can avoid bankruptcy without paying their debts.

Neneman and Sowa [2002] introduced the classification of forced and planned state aid. Forced state aid results from the soft budget constraints, treated as a heritage of the centrally planned economy. According to the results of their study the main source of aid in Poland are soft budget constraints and only about 20% of fiscal aid was officially reported in 2000. The result of such situation is relaxing the fiscal discipline and consequently the distortion of competition. Moreover, in such situation, the opportunities of financing the progressive goals of economic policy, such as support for small and medium enterprises or research and development, are limited.

4. Conclusions

State aid law has been in force in Poland for almost three years; aid grating has been monitored since 1996. The scope of relevant data allows to formulate general conclusions concerning the state aid policy in Poland in the last decade.

Overall amounts of aid granted to Polish enterprises dropped significantly between 1994 and 2002. The share of aid in GDP was almost 4% in 1994, while in 2002 it was only 1,2%. That tendency can be regarded as positive, taking into account low efficiency of aid granting. Moreover, if we assume that the methodology of data collection has improved over the research period, i.e. the amounts of aid at the beginning of the research period were underestimated, the drop in overall amounts of aid granted to the Polish economy was
significant. That for sure has had a positive impact on competition, because of competition distorting character of aid.

One of the characteristics of state aid granting in Poland is its channel of distribution. Most of aid is transferred to enterprises by reducing their budgetary liabilities, which leads to the reduction of budgetary revenues. Between 1997 and 2002 only about 40% of aid was granted as direct budgetary expenditures. Such a situation has the following consequences. First of all, the transparency of aid is low. It is much easier to sum up all items classified ex ante as a budgetary support for enterprises, than to calculate ex post budgetary losses caused by the reduced revenues. Secondly, the decisive power concerning great bunch of aid, lays on the side of beneficiaries, and not governmental organs in charge of aid. Enterprises simply do not pay their state liabilities, expecting that eventually those arrears would be classified as aid (concept of forced state aid vs. planned one). State does not have full control over the amount of granted aid. This is particularly true for enterprises having strong political power. This causes a “moral hazard” - an incentive for other firms to expect such a support from the state.

The question arises if the grounds for state support in Poland are of political or economic character. Unfortunately the answer, based on statistics provided by the OCCP and press publications, is that political pressure dominates economic justification. According to the statistics, half of beneficiaries of aid are large enterprises, not to mention that the size of ¼ of recipients is unknown. Polish National Railways remain the main beneficiary of aid in Poland, consuming 20% of aid. Still, sectoral objectives, focused on restructuring of the sunset sectors, amount for almost 20% of aid. For example 28 enterprises from the coal mining sector received 16% of aid in 2002. The positive tendency is that the share of sectoral objectives has been constantly decreasing over the researched period. Certainly, this was an effect of the new state aid law, which limited the field of manoeuvre of officials lobbied by various groups of interest, e.g. employees of steel and coal mining sectors.

Another important issue concerning aid in Poland is quality of data collected by the monitoring authorities (the Ministry of Economy for 1996 and 1997 and the OCCP since 1998). Firstly, it seems that a great share of actual support granted to enterprises in form of non-payment of fiscal liabilities, has never been noted in any report. From the point of view of the budget discipline and competition protection this is a bad news. Secondly, there are some serious gaps in the statistics concerning the granted aid. Lack of data concerning the size of beneficiaries, may not be crucial for the assessment of the state aid policy. The problem is that it is not clear which sectors of industry benefit from the aid, or where are the
recipients of aid located. The latter tackles a very important issue of regional distribution of aid.

Regional objectives of aid has plaid a marginal role in Poland; in 2002 only 4% of aid was aimed at new investment and job creation in the supported areas. At the same time a quarter of state aid granted in the EU Member States goes to regional objectives. Regional aid objectives appeared in the reports on state aid for the first time in 1998. In order to provide stable development of the country, aid should be distributed to enterprises located in the regions with high unemployment and low standard of living. For Poland this is not a case. Most aid is directed to rich regions, which do not require so much support as the poorer ones. That concerns Mazowieckie and Śląskie Voivodships mostly. The effect is that regions characterised by better social and economic indicators develop faster with public support, leaving those underdeveloped behind. That should be a warning signal before EU accession. After that, the Polish regional state aid will be supported by the European Funds. That will not be possible without a good regional policy.

Lack of consistent policy is observed not only in the case of the regional objectives. It applies to the horizontal and sectoral aid as well. For example most of horizontal aid is aimed at rescue and restructuring. That could be justified at the beginning of the transformation but not now, just before Poland’s accession to the EU. The amounts of aid spent in Poland for such horizontal objectives as development of small and medium sized enterprises, research and development, or energy saving and environmental protection, are much smaller than in the EU Member States. That may have negative influence on competitive position of Polish enterprises on the European Market.

Most of the aid granted in Poland is of individual character, i.e. not included in the state aid schemes. This increases the cost of aid granting and monitoring. The situation has slightly changed since the introduction of legal acts playing the role of aid schemes. For example, the amended Act on special economic zones or the Act on financial support for investment issued in 2001. The latter was expected to be a good incentive for attracting investment and counteracting unemployment through subsidising large investment projects. Unfortunately, according to the Report on state aid granted in 2002, it is hard to assess the results of introduction of that instrument. This indicates that the aid granting bodies may experience some difficulties.

The correlation between granting aid at a minimum cost and the state aid objectives depends not only on the quality of the state aid law but also on the performance of the monitoring
authority, i.e. the OCCP. Another essential factor is the quality of performance of organs granting aid. Knowledge concerning state aid among officials is still not satisfactory, but it definitely is much better now than it was at the time of enforcing the State Aid Law 2002. The OCCP does not have enough power to force the aid granting bodies to perform their control functions. That is one of the reasons why aid efficiency and effectiveness is so hard to assess.

Also the quality of legal acts has improved. Let’s take an example of the two acts on financial restructuring of enterprises. The Act on Financial Restructuring of Enterprises & Banks issued in 1994 failed to enforce the full assessment of the results of financial restructuring of firms; aid granted to enterprises was often used as a rescue helping to survive, but it did not eliminate the reasons for the distress. Similar legal instrument was enforced in 2002. However the Act on Restructuring of Certain Public Liabilities included requirements that firms had to meet in order to receive aid. One of the requirements was to present a restructuring programme. It should include the diagnosis of the distressed financial condition of aid beneficiary and the restructuring path, which should not only cover financial aspects, but also issues such as production, marketing or management.
5. Legal acts in force concerning state aid granting

Act of 24 of December 1994 on special economic zones, with later amendments
Act of 27 July 2002 on the conditions for admissibility and supervising of state aid for entrepreneurs
Ordinance of the Council of Ministers dated 15 October 2002 on the detailed method of calculating the amount of State aid granted in different forms
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of ad hoc aid and restructuring aid
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in the coal-mining sector
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in synthetic fibre sector
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in the maritime transport sector
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in the motor sector
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid for research and development
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of regional aid for firms
Regulation of the Council of Ministers of 10 December 2002 r. on the matter of admitting state aid to be assigned for environmental protection
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in the steel sector
Ordinance of the Council of Ministers dated 15 October 2002 on the admissibility of State aid in the shipbuilding sector
Regulation of the Council of Ministers of 12 November 2002 on the matter of the detailed criteria for awarding state aid to certain types of benefits to the favour of the entrepreneur
Regulation of the Council of Ministers of 12 November 2002 on the matter of reports allowing for the supervision of state aid for entrepreneurs and reports on the arrears of entrepreneurs in the payment of public funds
Regulation of the Council of Ministers of 12 November 2002 on the matter of information and reports of state-owned enterprises taking advantage of state aid.
Regulation of the Council of Ministers of 12 November 2002 on the matter of the specimen information form on state aid obtained by the entrepreneur
Regulation of the Council of Ministers of 10 December 2002 on the detailed scope of information submitted to the supervisory authority in order to issue an opinion on the planned state aid
Ordinance of the Council of Ministers of 3 February 2003 on the matter of state aid efficiency and effectiveness examination
Ordinance of the Council of Ministers of 3 February 2003 on the matter of state aid subject to examination of efficiency and effectiveness examination
Ordinance of the Council of Ministers of 29 April 2003 on the matter of reporting by the entrepreneurs using state aid
Ordinance of the Council of Ministers of 20 February 2002 on the matter of the way of publishing and the range of the publication concerning aid schemes
6. References


European Commission [2003], “State Aid Scoreboard, spring 2003 update”, Brussels

Fornalczyk A. [1998], “Pomoc publiczna dla przedsiębiorstw w Unii Europejskiej i w Polsce” (State aid to entrepreneurs in EU and Poland), ed. by A. Fornalczyk, Office of Commission for European Integration, Warsaw

Fornalczyk A. [2000], “State Aid Monitoring in Poland – premises and rules, What are the reasons for state aid monitoring?”, PHARE ACE P97-8179-R, mimeo

Gołębiowski J.W. [1993], “Transforming the Polish Economy”, Warsaw School of Economics, Warsaw

Kryńska E. [2000], “Polskie specjalne strefy ekonomiczne” (Polish Special Economic Zones), Warsaw

Ministry of Economy [1997], “Report on the state aid in Poland granted to economic entities in 1996”, Warsaw

Ministry of Economy [1998], “Report on the state aid in Poland granted to economic entities in 1997”, Warsaw


Neneman J., Sowa M.[2001], “Miękki budżet” (Soft Budget), Rzeczpospolita (daily paper), 24 November

Office for Competition and Consumer Protection [2002], “Report on the state aid in Poland granted to economic entities in 2001”, Warsaw

Office for Competition and Consumer Protection [2002], “Report on the state aid in Poland granted to economic entities in 2000”, Warsaw

Office for Competition and Consumer Protection [2003], “Report on the state aid in Poland granted to economic entities in 2002”, Warsaw

Office for Competition and Consumer Protection [1999], “Report on the state aid in Poland granted to economic entities in 1998”, Warsaw
Office for Competition and Consumer Protection [2000], “Report on the state aid in Poland granted to economic entities in 1999”, Warsaw

Supreme Chamber of Control [2001], “Informacja o wynikach kontroli wykorzystania wybranych form pomocy publicznej przez państwowe podmioty gospodarcze” (Report on the results of audit of state aid usage by state owned enterprises) (116/2001), Warsaw

Supreme Chamber of Control [1998], “Informacja o wynikach kontroli gospodarki finansowej Agencji Rozwoju Przemysłu S.A.” (Report on the results of audit on economic performance of Industrial Development Agency) (217/1997), Warsaw


Supreme Chamber of Control [2002 b], “Informacja o wynikach kontroli restrukturyzacji i przekształceń własnościowych w hutnictwie żelaza i stali” (Report on the results of audit on restructuring and ownership changes of iron and steel sector) 169/2002, Warsaw