

## HORIZONTAL INDUSTRIAL POLICY IN POLAND

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*ABSTRACT: The paper presents industrial policy as a part of economic policies in European Union countries with special emphasis on Polish horizontal industrial policy. The horizontal initiatives in the areas identified as critical for development of competitiveness of Polish industry are presented as well as researches on state aid values to industry in general and horizontal approach.*

*Key words: industrial policy, industry development, state aid*

*JEL codes: E61*

### **Introduction**

Industrial policy is one of the components of economic policies of each country, thus it is necessary to consider its relationships with other policies, e.g. trade policy, scientific and technology policies or regional policy, particularly in the aspect of coordination of instruments involved in these policies (K. Markowski, 1992, p. 179). H. Kazarowicz and A. Skowrońska argue that “*industrial policy is a specific framework used to encompass and coordinate a variety of measures and issues located beyond the industry itself.*” (H. Kazarowicz, A. Skowrońska, 2005, p. 20).

Industrial policy, as a selective influence of states on business units or individual branches of industry, contributes to the expected changes in production structure and it also affects sustainable economic growth. Use of instruments of industrial policies is justified by two reasons which are not contradictory to the market. Firstly, the industry plays a critical role for economic growth and the results of international competition must be toned down by the government since the industry is a part of domestic economy which is subject to competitive practices of foreign manufacturers (M. Rainelli, 1996, p.148). As an important pillar of Lisbon strategy, industrial policy originates from European Union’s striving for ensuring efficient functioning of internal market as well as for open and competitive markets worldwide and facing challenges of environmental protection. [ *Przegląd śródkresowy polityki przemysłowej Wkład w strategię UE na rzecz wzrostu gospodarczego i zatrudnienia* COM(2007) 374 <http://eur-lex.europa.eu>]

The need for implementation of recommendations for industrial policies in extended European Union results from a variety of reasons. One of them is strategic importance of EU industrial sector, which provides workplaces and contributes to generation of a property and growth in services sector. The role of manufacturing in developing of growth potential in the EU and strengthening and maintaining of leading economic and technological position of the EU is critical. [ *Wdrażanie wspólnotowego programu lisbońskiego: Ramy polityczne dla wzmocnienia przemysłu UE – w kierunku bardziej zintegrowanego podejścia do polityki przemysłowej* COM(2005) 474 <http://ec.europa.eu>] Therefore, regulatory influence on European industry is more desirable as since 2008 the crisis in global financial market started to adversely affect world economies. In previous UE member states, particularly connected with both finance and American real economy, beginnings of slowdown were observed at the turn of 2007/2008. Since mid 2008, a drop of manufacturing was observed in the EU, initially insignificant, than progressing at faster rate. [ *Wpływ kryzysu na globalnym rynku finansowym na PKB i produkcję przemysłową Unii*

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Europejskiej ze szczególnym uwzględnieniem sytuacji w polskim przemyśle przetwórczym, Departament Analiz i Prognoz Ministerstwa gospodarki, Warszawa luty 2009, <http://www.mg.gov.pl>]

Except for a necessity of EU support to manufacturing industry, industrial policy implementation is justified by a number of facts, the most important including intensification of international competition, demographic changes caused by population's ageing which will be of essential impact on industry and the drop in share in labour market and the necessity of improvement in legislation and executive frameworks which determine development of enterprises and their access to community programmes. [ Rezolucja Parlamentu Europejskiego "Wzmacnianie konkurencyjności europejskiej: skutki przemian w przemyśle na politykę i rolę MŚP" (2004/2154(INI)) <http://www.europarl.europa.eu>]

Assumptions for industrial policy in the EU were determined in Communications from the European Commission. [ *Polityka przemysłowa dla rozszerzonej Europy* (COM(2002)714), <http://eur-lex.europa.eu>; *Wspieranie przemian strukturalnych: polityka przemysłowa dla rozszerzonej Europy* (COM(2004)274), <http://eur-lex.europa.eu>; *Wdrażanie wspólnotowego programu lizbońskiego...*, *op. cit.*] Two first were focused on improvement in European infrastructure and business environment in the industry.

Current industrial policy is characterized by strong pressure on horizontal issues – common for all industrial sectors. Analysis of key horizontal problems was initiated within the framework of seven cross-sectional political initiatives involving: [ *Polska 2007 Raport o stanie gospodarki*, Ministerstwo Gospodarki, Warszawa 2007, p. 41, [www.mg.gov.pl](http://www.mg.gov.pl)]

- simplification of legislation,
- improvement in qualifications of workforces,
- research and innovation,
- competitiveness, energy and environmental protection,
- management of structural transitions,
- intellectual property, piracy and forgery,
- external aspects of competitiveness and access to the market.

In Poland, assumptions concerning horizontal aspect of industrial policy were presented in governmental document named *The Concept of Horizontal Industrial Policies in Poland*, which contains a number of postulates of enhanced competitiveness in enterprises. Detailed initiatives, common for all the sectors, were determined in eight areas of horizontal activities (Table 1).

Table no. 1

**Areas of horizontal initiatives in the area of industrial policies in Poland**

Areas of horizontal initiatives	Regulatory documents for selected areas	Instruments within the areas of initiatives
<b>R&amp;D and innovativeness</b>	<i>Directions for Increasing of Innovation of Economy for 2007-2013</i>	Within the Act of Some Forms of Support for Innovation Initiatives e.g.: <ul style="list-style-type: none"> <li>- technology credits,</li> <li>- tax reliefs for purchase of new technologies,</li> <li>- status of R&amp;D centres for private research entities,</li> <li>- public procurement.</li> </ul> Within the Operational Programme Innovative Economy, e.g.: <ul style="list-style-type: none"> <li>- co-financing of implementation of the results of R&amp;D works, new technologies, new products,</li> <li>- co-financing of consulting and investments necessary for R&amp;D initiatives,</li> <li>- co-financing of research, development works and integrated research projects,</li> </ul>

		<ul style="list-style-type: none"> <li>- improvement in competences of scientific and research workers,</li> <li>- support for innovativeness centres.</li> </ul>
<b>Information and Communication Technologies (ICT)</b>	<i>Strategy of Development of Informatization of Poland until 2013 and Perspectives of Transformation of Informational Society until 2020</i>	<p>Within the Operational Programme Innovative Economy, e.g.:</p> <ul style="list-style-type: none"> <li>- support for business-to-business (B2B) e-services</li> <li>- building cooperation electronic platforms for public services on which the services for citizens and enterprises will be possible.</li> </ul>
<b>Human Capital</b>	<i>Strategy of Development for 2007-2015</i>	<p>Within the Operational Programme Human Capital e.g.:</p> <ul style="list-style-type: none"> <li>- support for vocational trainings,</li> <li>- consulting, general and specialized trainings,</li> <li>- popularization of new forms of education (including e-learning),</li> <li>- development and modernization of the system of education,</li> <li>- increasing competences in sciences related to the industry,</li> <li>- development of lifelong learning systems,</li> <li>- promoting mobility and professional flexibility,</li> <li>- promoting knowledge transfer between the sector of the science and industry.</li> </ul>
<b>Environmental Protection – Sustainable Development</b>	<p><i>Strategy of Changes in Patterns for Production and Consumption Towards Realization of the Principles of Sustainable Development.</i></p> <p><i>Strategy of Implementation of Integrated Product Policies in Poland.</i></p> <p><i>National Plan of Actions Towards Environmental Technologies</i></p>	<ul style="list-style-type: none"> <li>- support for ecological investments,</li> <li>- rationalization of environmental resource management (e.g. adaptation of installation to the requirements of best available technologies (BAT), intensification of the process of recycling and recycling of hazardous waste, popularization of the system of environmental management),</li> <li>- support for training projects and combined information and promotion campaigns to promote ecology-oriented attitudes, application of energy- material- and water-efficient technological solutions, preferential credits.</li> </ul>
<b>Markets</b>	<i>Commercial contracts</i>	<ul style="list-style-type: none"> <li>- support for commercial contacts of entrepreneurs with foreign partners,</li> <li>- consulting and training to promote export and to research markets,</li> <li>- participation in fairs and exhibitions,</li> <li>- development of internet system for simplification of international contacts,</li> <li>- facilitation of investments in Poland,</li> <li>- support for investors through networks of service centres,</li> <li>- insurance of export credits,</li> <li>- promoting view of Poland and Polish products in international markets.</li> </ul>
<b>Protection of Industrial Property</b>	<i>Directions for Increasing of Innovation of Economy for 2007-2013</i>	<ul style="list-style-type: none"> <li>- support for use of industrial property rights and copyrights by companies,</li> <li>- support for use of industrial design for enhanced competitiveness of products in Polish enterprises.</li> </ul>
<b>Simplification and</b>	<i>The Regulatory Reform</i>	- implementation of the system of

<b>Improvement in the System of Legal Regulations</b>	<i>Programme</i>	measurement and lightening of regulatory load, - improvement in the quality of translations of specialized EU documents, - implementation of electronic platforms of services for entrepreneurs, - facilitation of economic judiciary system.
<b>Access to Capital</b>	<i>Directions for Increasing of Innovation of Economy for 2007-2013</i>	- consulting for micro-, small and medium businesses in terms of the access to sources of finance, - capital support for initial phase of development of innovative companies, - support for technological investments from the resources of the Technology Credit Fund, granting guarantees from the National Credit Guarantee Fund for security of loan repayment.

Source: own study on the basis of: *Koncepcja horyzontalnej polityki przemysłowej w Polsce*, Ministerstwo Gospodarki, Warsaw 2007, [www.mg.gov.pl](http://www.mg.gov.pl)

The horizontal initiatives in the areas identified as critical for development of competitiveness of Polish industry focus mainly on improvement in innovation and technological advances in companies, enhanced quality of human resources, and breaking legal and administrative barriers which limit economic growth.

Great emphasis on innovation results from the fact that dynamic changes in technology and organization force enterprises to take adaptation measures. Only the companies capable of implementation of innovative changes stand chances of development. On the other hand, implementation of considerable technological and organizational changes in business calls for having suitable human resources. Thus changes in education and continuous improvement in qualifications of workers becomes one of the most fundamental areas of horizontal industrial policies.

Another equally critical issue is environmental protection and sustainable development. A number of initiatives were reported, both on EU and domestic level, for creation of ecology-oriented attitudes among entrepreneurs. [ Szerzej o rozwoju inicjatyw w zakresie polityki przemysłowej na rzecz sektora ochrony środowiska w: *Komunikat dotyczący planu działania na rzecz zrównoważonej konsumpcji i produkcji oraz zrównoważonej polityki przemysłowej*, Komisja Wspólnot Europejskich, Bruksela 2008, <http://eur-lex.europa.eu>] In the context of this activity, it is of particular importance to implement Environmental Management Systems, considerably contributing to formation of co-responsibility for the environment at all the levels of organizational structure.

A precondition for being a part of global economy is also opportunity to protect industrial property in international markets (Čarnický, Š. – Fedorko, V., 2005, č. 2, p. 37-38; Kot S., 2006, p.116-122). Infringement of property rights threatens competitiveness of enterprises whereas observance of these rights is a basis for investment decision-making. However, not only legal regulations for protection of industrial property are in particular focus. Simplification and improvement of the system of legal regulations comprise another area of horizontal industrial policy, both at national and EU level.

In order to undertake development-related initiatives, it is also essential that the access to capital is improved. Small and medium businesses experience particular problems in this area; being granted a loan is a major difficulty for them. Another barrier to access to capital is formed by reduced knowledge of available instruments of support as well as lack of ability to use them. [ *Koncepcja horyzontalnej polityki przemysłowej w Polsce*, Ministerstwo Gospodarki, Warszawa 2007, [www.mg.gov.pl](http://www.mg.gov.pl)]

### Horizontal State Aid

The assumptions made for industrial policy area, concerning support for enterprises, have measurable effect on state aid granted to these entities.

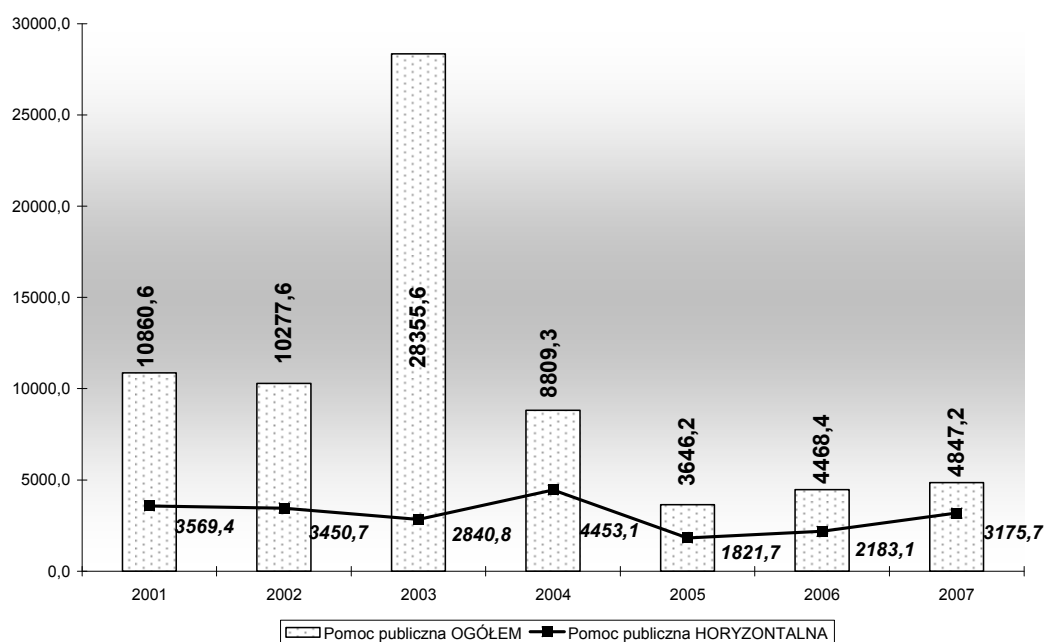
State aid is defined as any benefits for particular entrepreneurs or sector of economy by the government (J. Famielec, 2008, p. 414). The fundamental economic rationale behind state aid is market deficiency, i.e. situation where market mechanisms are not able to efficiently affect behaviour of market participants (P. Jasiński, E. Kaliszuk, E. Modzelewska – Wąchal, A. Lubbe, 2003, p. 13).

State aid is granted from public resources and, in some cases, might infringe or threaten to infringe competition through discrimination in favour of some entrepreneurs or production of particular goods, thus it generally prohibited (D. Miśasiewicz, 2004, p. 26). However, in some cases, general prohibition of state aid might be overruled due to insignificant impact on competitiveness and trade between member states or exceptional social or economic circumstances. Conditionally accepted support, i.e. based on the decisions by the European Commission was granted to three basic categories: regional aid, sector aid and horizontal aid.

Horizontal aid is a support which considers interest of the general public first, whereas benefits to individual entrepreneurs are thought to be of minor importance. This happens because horizontal aid (also referred to as general aid) is not connected with a particular sector and location of the beneficiary. This type of aid is oriented toward solving the given problem, often on the scale of the whole country.

The European Commission has distinguished the following groups of issues: research and development, small and medium businesses, environmental protection, saving and restructuring of companies being in difficult situation, employment rate (B. Jankowski, 2001, p. 30).

*The Act on the Conditions and Supervision of State Aid to Entrepreneurs* being in force in Poland clearly reflects a nature of horizontal aid granted by the European law. [ *Ustawa o warunkach dopuszczalności...*, op. cit., art. 14 ]



**Fig. no. 1 - State aid in Poland in 2001-2007 - in general and horizontal approach (million PLN)**

*Source: Own study on the basis of: Raport o pomocy publicznej w Polsce udzielonej przedsiębiorcom w latach: 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007. Urząd Ochrony Konkurencji i Konsumentów, www.uokik.gov.pl*

In 2001 – 2007 in Poland, nearly 62 billion PLN was granted to support entrepreneurs, of which horizontal aid amounted to over 16 billion PLN (25%). In first four years in the analysed period, overwhelming majority of aid was of sector nature. This was connected with a necessity to support the processes of restructuring in mining and steel and iron industry or shipbuilding industry. However, since the accession of Poland to the European Union, state aid was reoriented to horizontal goals (Tab. 2). Horizontal aid comprises dominating part of general value of help granted in most of EU member states. Half of general value of aid (ca. 50%) was aimed at such areas as development of small and medium businesses, research and development and environmental protection. The highest share of aid of horizontal type in state aid is observed in Denmark (ca. 97%) and Sweden (ca. 95%), whereas the lowest in Malta (ca. 3%). [ *Kierunki udzielania pomocy publicznej w latach 2007-2013*, Ministerstwo Gospodarki, Warszawa 2007, s. 15, www.mg.gov.pl]

Table no.2

**Horizontal state aid in Poland in 2001 – 2007 (million PLN)**

STATE AID	2001	2002	2003	2004	2005	2006	2007
<b>HORIZONTAL, including:</b>	<b>3 569.4</b>	<b>3 450.7</b>	<b>2 840.8</b>	<b>4 453.1</b>	<b>1 821.7</b>	<b>2 183.1</b>	<b>3 175.7</b>
Research and development	95.0	136.7	105.6	114.4	153.1	127.6	168.1
Environmental protection	80.4	142.2	346.0	51.2	31.3	55.5	8.1
Development of small and medium enterprises	61.9	136.6	132.9	67.5	304.5	322.6	654.8
Support to employment	106.9	228.2	295.1	537.7	1 230.3	1 440.0	2 061.4
General training	466.7	368.5	54.9	40.4	89.3	210.1	227.8
Support to saving of companies	128.4	300.6	144.9	37.9	4.6	11.3	0.0
Support to restructuring of companies	2 123.5	2 091.3	1 750.3	3 597.2	8.5	16.0	38.6
Other	506.0	46.6	11.1	6.9	0.0	0.0	16.9

*Source: own study on the basis of: Raport o pomocy publicznej w Polsce udzielonej przedsiębiorcom w latach: 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007. Urząd Ochrony Konkurencji i Konsumentów, www.uokik.gov.pl*

The highest amount of horizontal state aid was assigned for saving and restructuring of companies (44.8%). Almost the whole amount of the aid was assigned for restoring enterprises' abilities to compete in the market in 2001-2004. Horizontal aid also concerns support to small and medium businesses – stimulation of their business activity that ensures employment, improves competitiveness and abilities to operate in uniform European market (see A. Jankowska, 2005, p. 39-48). Over 1680 million PLN (7.8%) was granted to the sector of small and medium businesses in 2001-2007. Support to the companies for striving for meeting environmental requirements results, in particular, from high costs of investment projects of implementation of ecology-oriented innovations. During the investigated period, support to environmental protection amounted to nearly 715 million PLN, which comprised 4.4% of the whole horizontal aid. Another aspect of horizontal aid is support to research and development. This support focuses on financing of research and development and enhancement of innovativeness through transfer of new technologies from science to industrial areas. Support to research and development in the analysed period amounted to ca. 900 million PLN. It comprised 4.2% of horizontal aid granted in 2001-2007. Fighting

unemployment and promotion of new workplaces is main goal of social and economic policies in the European Union. Therefore, employment in Poland was assigned at the level of nearly 5.9 billion PLN (27.4%). Remaining part of horizontal aid (11.4%) was granted to e.g. trainings, casual support, rehabilitation and employment of the disabled, development of technical infrastructure, repairing damage caused by natural disasters and protection of cultural heritage.

### **Conclusions**

The activities in all the areas of horizontal industrial policy are coherent, whereas the used instruments of support are complementary to each other, forming advantageous conditions for development and expansion of companies. Competitiveness of the European Union mainly depends on industrialization, however, member states cannot forget about creation of favourable business environment.

Previous experience in the field of state aid in Poland, combined with efficient correlation of actions on a domestic scale with the practice and standards that determine state aid policies in the European Union and its member states, mobilized Polish government to determine the goals to be achieved through support and detailed methods to reach these goals. The effect of these initiatives was to form coherent support-related policies which took into consideration interests of general public first of all i.e. reorienting towards horizontal goals.

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