

## Horizontal aid in the European Union

### Abstract

*The paper discusses the question how the horizontal approach to industrial policy adopted by the European Commission is reflected by shifts in trends of state aid allocation in the EU member states (reorientation from sectoral to horizontal objectives).*

*The first part of the paper presents the arguments in favour of horizontal state aid related to the concept of so-called market failure. The second part deals with the EU industrial policy programmes that have been implemented since the beginning of the 1990's.*

*The third part describes the trends in state aid allocation in the EU member states. The conclusion drawn from the observations presented in this part of paper is that the share of horizontal aid in total aid is high and systematically increases.*

### 1. Introduction

The paper analyses the state aid directed to all entrepreneurs (regardless of an industrial sector) that is called horizontal state aid. The aid of this kind is general in its character – it aims to solve economic problems by modernisation or by supporting the economic growth (Wysokińska, Witkowska 2004, p. 145). It is usually granted for the following objectives: environmental protection, the development of small and medium-sized enterprises, training, employment, promotion of research and development. The regional aid (earmarked for less developed local or EU regions) can be also included in the scope of aid for

horizontal objectives. The basis of these two categories of state aid (horizontal and regional) is the horizontal allocation of public measures (there is no differentiation between the sectors). However, aid for rescue and restructuring, though formally in the European Commission guidelines described as a type of horizontal aid, from the economic point of view should be excluded from this category.

The arguments supporting granting state aid can be easily justified by the so-called concept of market failures. State aid for horizontal objectives is usually considered to be better suited to address market failures and thus it is less distortive to competition than sectoral aid (*State Aid Scoreboard – Autumn 2007 update*, p. 22). Presenting the arguments in favour of horizontal state aid that result from market failures has been the starting point for the observations presented in this paper.

The research hypothesis that was formulated was based on the following observations: since the beginning of the 1990's the EU industrial policy has been progressively directed towards horizontal objectives, which in turn has been reflected in redirecting state aid allocation in the EU member states (from sectoral to horizontal objectives). What must be emphasized here is the fact that the commitment to change state aid allocation was included in the Lisbon Agenda in 2000 (in the Action Programme for Growth and Jobs).

## **2. The economic analysis of horizontal state aid**

The rationale for granting horizontal state aid can be easily explained by the following market failures: the monopolisation processes of the economy (namely imperfect competition) and existence of externalities (both negative and positive ones).

The common effects of monopolistic activities (in comparison to perfect competition) are: production decrease, higher prices and transfer of wealth from consumers to producers (Baldwin 1999, p. 10). However, it can be assumed that the agreements distorting the rules of free competition as well as the fact that enterprises often abuse its dominant market position also distort the effective allocation of resources and diminish consumer wealth (*Globalization of Industry. Overview and Reports*). According to M. Sharp in the contemporary, globalised economy the greatest threat for competition is the emergence of overnational oligopolies (Sharp 1997, p. 103). Such enterprises can easily transfer resources and profits within the framework of horizontal and vertical structures and simultaneously they can take advantage of their power to create

market barriers. The counterweight to such monopolistic and oligopolistic structures are small and medium-sized enterprises, thus providing them with state aid is thoroughly justifiable.

Externalities occur when a price of a product does not cover the real costs of its production or consumption that the society has to bear (Baldwin 1999, p. 11). We can distinguish negative and positive externalities (Milewski 1998, p. 58) – negative ones occur when economic entities impose on other entities or the whole society some effects or costs of their activity, whereas the positive ones occur when these entities benefit from the results of the others' activity without bearing any costs. In the advent of such externalities market allocation of resources becomes ineffective. J. Stiglitz (Stiglitz 2004, p. 96) puts it in the following way: „As individuals do not bear full costs of negative externalities they create, the scope of their activity is huge, and contrary, as individuals do not benefit fully from their activity accompanied by some positive externalities, their activity will not be sufficiently developed. A. Wojtyna emphasizes strongly that if an economic entity is to be encouraged to calculate all the costs and benefits resulting from the externalities they create it will not be possible without the state intervention (Wojtyna 1990, p. 43). A classic example of a negative externality is the pollution of the environment that accompanies the production or consumption of certain goods. One of the ways to address this problem is subsidizing expenses incurred by private companies for environmental protection (Stiglitz 2004, p. 268) (i.e. state aid earmarked for environmental protection). According to Stiglitz such a solution to the problem of externalities in the field of environmental effects is the one based on market mechanism and he opposes it to direct regulation (administrative rules and regulations that aim to curb directly the scope of negative externalities) (Stiglitz 2004, p. 246). S. Martin and P. Valbonesi (Martin 2000, pp. 191–192) point to some weaknesses of subsidies (not only in the field of environmental protection but in general addressing problems of externalities), resulting from imperfect information available to government agencies. Subsidies awarded to companies which are earmarked for environmental protection, if not properly controlled, may be used to cover operational costs, and thus „artificially” lower production costs and improve the competitiveness of subsidized companies at the costs of their competitors.

As an example of a positive externality we can mention research and development activity conducted by enterprises. S. Martin and P. Valbonesi (Martin 2000, p. 192) claim that the market system leads to „underinvesting” in R&D, resulting from its high costs and risk, which in turn can be a justification for the need of public support in the field of innovation (e.g. in the form of subsidies). The main problem that innovators face is stopping innovativeness

(being the effect of research and development activities), on which they base their competitive advantage and thanks to which they are protected against being taken over by competitors. A company creating new technology always tries to protect it from publicizing and being used by other producers as long as possible to make the largest possible profits from its innovativeness (Górniewicz 2006, p. 120). However, it is very difficult because the effects of research and development activities can be considered the public good<sup>4</sup>. It is thus inevitable that this knowledge will be used by numerous imitators who do not bear any costs of R&D but use the results of the activities conducted by other firms. Moreover, when an imitator uses a certain idea, the profits of innovator substantially decrease. The conflict between the public knowledge and the level of profits of innovator-enterprise is called a problem of appropriability (Oziewicz 1998, p. 78). The risk of losing innovator's profits undoubtedly discourages the research and development activities, so the state support is to encourage companies to undertake them. Moreover, among all market failures mentioned in the economic literature externalities related to research and development are the most acceptable argument in favour of state aid (Navarro 2003, p. 3).

Another worth mentioning positive externality is the activity of companies creating human capital (Witkowska 2001, p. 104). As J. Witkowska (Witkowska 2001, p. 104) emphasizes, this is done by preparing employees to new responsibilities of greater difficulty through the permanent process of improving their qualifications. One of the most popular form to achieve that are trainings. However, employee migration between companies results in the situation that some companies have well-qualified staff without incurring any costs. The existence of this type of externality can again discourage companies from investing in human capital through a training scheme – as they do not get all the benefits related to this activity, they do it on a small scale. State aid for training can only partly compensate for the lack of earnings for enabling other companies to take advantage of qualifications acquired by migrating employees.

The notion often mentioned in the economic literature is so-called macroeconomic market failures – N. Acocella (Acocella 2002, p.154) defines them as the failures related to the instability of market economies. It is e.g. unemployment, which justifies state aid addressing employment issues. From the point of view of the society unemployment means economic cost in the form of lost production – connected with inefficient usage of labour force and as a result the actual level production is much lower than a potential one. As N. Acocella

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<sup>4</sup> The existence of public goods is also considered a market failure. J. Stiglitz points out that market imperfections are not independent of one another. That is why public goods are considered an extreme case of externalities.

puts it: „existence of such costs and non-economic costs of unemployment justifies the commitment to attain full-scale employment undertaken by the governments of countries with market economy in the post-war period” (Acocella 2002, p.157).

Another symptom of market failure is the tendency to create big disparities of income distribution in the society. As A. Wojtyna (Wojtyna 1990, p. 44) points out: „Free market forces can contribute to optimal allocation of production factors, but at the same time they may lead to the polarization of income”. Unequal distribution of income can be then observed not only in a given society but on a regional scale. Subsequently, disproportions in spatial development of a given country are a sound argument in favour of regional state aid (Pietrzyk 2002, p. 16).

### **3. EU industrial policy**

Horizontal state aid is strictly connected with the concept of the so-called horizontal industrial policy. There is no single and coherent definition of industrial policy. By this notion N. Acocella (Acocella 2005, p. 186) understands the policy whose aim is modification of industrial structure and subsequently the improved effectiveness of allocation of production factors. The bottom line here is not only the change of sectoral structure of industry but also the other changes observed in this structure (e.g. changes in technology). In the Polish economic literature a similar definition is presented by W. Jakóbk (Jakóbk 2000, p. 75) – according to him industrial policy is a deliberate commitment undertaken by the government to create a general or selective production structure.

In the economic literature the division into sectoral and horizontal policy is very common (Cowling 1999, p. 18). Sectoral industrial policy (called also classical industrial policy) has a selective character, it is applied to selected companies or industries according to two criteria: a) „picking winners” i.e. industries or activities showing good prospects for development, b) „backing losers” i.e. enterprises or industries that encounter difficulties.

The bottom line of horizontal industrial policy is, on the other hand, affecting the performance of all industries and creating competitive conditions for functioning companies. This policy concentrates on such fields as research and development, education, training, eco-development and economic infrastructure (Jakóbk 2000, p. 75). Some authors describe horizontal policy in a broader sense, including in this category also the policy applied to specific

regions (regional policy) or to companies of certain size (small and medium-sized enterprises) (Federico, Foreman-Peck 1999, pp. 3–5).

In the economic literature it is firmly stated that in the era of globalization the role of traditional industrial policy is diminished (Zorska 2001, p. 30; Dunning 2001, p. 337). A. Zorska claims that: „It is strongly influenced by strong uncertainty of market tendencies, strong competition among „global players” (i.e. transnational corporations), huge expenses for R&D, high capital intensiveness and investment risk, advanced level of technology in many areas” (Zorska 2001, p. 30). Moreover, in the conditions of increasing liberalization of international trade such a policy becomes more and more difficult to implement, hindering the protection of industry against international competition at the initial stage of development. The factor of great impact on trade liberalisation was the GATT Uruguay Round (1986–1994) – it introduced not only substantial reductions in import duties on industrial goods but, what was even of greater importance, limits on granted subsidies (instruments characteristic for sectoral industrial policy)<sup>5</sup>. In the times of high mobility of production factors (which, in fact, is the essence of globalization) the role of the state in creating suitable conditions for industry location becomes increasingly important (Dunning 2001, p. 337). The actions undertaken by the state should concentrate on raising qualifications of labour force, developing new technologies and their diffusion, improving infrastructure and economic environment. These activities are the basis of horizontal industrial policy because their aim is to affect the performance of the whole industry, not only its selected sectors.

The reorientation of industrial policy model (from sectoral to horizontal) together with a progressive globalization process can be easily observed in developed states as well those undergoing the process of system transformation.

Horizontal approach to industrial policy is illustrated by the EU programmes whose aim was to support competitiveness of the European industry that have been implemented since the 1990's.

The impulse for developing a new EU approach to industrial policy were the preparations for the second phase of integration – a decision about creating a single European market in 1993. During this process special guidelines on industrial policy were drawn up – the Commission's communication from 1990 *Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach*, COM (90)556. According to J. Pelkmans (Pelkmans 1997, p. 237) a formal approval of this communication means the Community's withdrawal from selective industrial policy, as it did not encourage granting

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<sup>5</sup> On the GATT Uruguay Round see *Polska w WTO*, IkiCHZ, Warszawa 1998.

active aid to certain industrial sectors, it only stressed the need for actions towards improving competitiveness of the whole industry.

In 1993 the European Commission presented the White Paper on growth, competitiveness and employment (*White Paper on growth...*). The main thrust of this document was the development of small and medium-sized enterprises, infrastructure and technology (environmentally-friendly in particular). The strategy “An industrial competitiveness policy for the European Union” (*An industrial competitiveness policy for the European Union*) accepted in 1994 developed the approach presented in the communication from 1990 stressing the need for promotion of non-material investments (i.e. research and development, education, training) as well as the support for industrial cooperation.

The reorientation of industrial policy in the EU was influenced by the communication prepared by the Commission in 1997 „Agenda 2000. For a stronger and wider Union” (*Agenda 2000. For a stronger and wider Union*) that presented a coherent vision of the European Union at the beginning of 21st century and defined the most important challenges for the EU – enlargement, battle against unemployment in the EU, development of new information technologies, globalization processes. The priority of „Agenda 2000...” was to create conditions for sustainable economic development and employment growth (through the development of single market, small and medium-sized enterprises, further development of trans-European networks, environmental protection); promotion of knowledge, scientific research, technologies; modernization of employment systems; promotion of economic and social coherence.

In spite of the fact that sectoral activities become less important in the EU, the current structure of the economy, especially in new member states makes it impossible to eliminate sectoral aid completely. In the communication presented by the Commission in December 2002 *Industrial Policy in an Enlarged Europe* the authors emphasised the need for complementation of horizontal approach with sectoral activities, the basis of which should be monitoring sectors and consultation with all involved parties, aiming to apply the most suitable combination of available policy tools (Taraszkiewicz 2004, p. 29). Similarly to previous communications its priority issues were also the activities of industrial policy oriented horizontally: promotion of research and development, small and medium-sized enterprises (entrepreneurship in general), simplification of administrative and legal environment in which companies have to function. Sectoral approach was reflected in special initiatives, directed to the following industries: shipbuilding, chemical, aviation, biotechnology and telecommunication.

In the era of globalization and increasing international competition the European Commission presented in 2005 a new, more integrated approach for industrial policy whose aim was to create better framework conditions for European manufacturing industry in the coming years (*Implementing the Community Lisbon Programme...*). New industrial policy in the EU, apart from the initiatives directed to certain sectors (pharmaceuticals, chemical, defense, space exploration, machinery, biotechnology and information and communication technologies) included seven new cross-sector initiatives.

The Commission proposed the following cross-sector initiatives:

- Protection of intellectual property rights;
- Creating High-Level Group on Competitiveness, Energy and the Environment;
- External aspects of competitiveness and market access;
- Improving sectoral skills;
- Managing structural change in manufacturing;
- An integrated European approach to industrial research and innovation;
- New legislative simplification programme.

In 2007 the European Commission adopted the communication „Mid-term review of industrial policy. A contribution to the EU’s Growth and Jobs Strategy” that set out the directions for industrial policy for years 2007–2009 (*Przegląd śródkresowy polityki przemysłowej...*). The approach presented in the document generally maintains the horizontal approach presented in the previous communications, it is only complemented by some sectoral actions. The document pursues further implementation of horizontal and sectoral initiatives set out in the Communication from 2005. It enumerates the following horizontal initiatives:

- Simplifying and improving the regulatory environment and reducing the administrative burden on enterprises (it still remains top priority in the industrial policy programmes proposed by the European Commission).
- The lead market initiative whose aim is to contribute to unlocking market potential for innovative products and services by lifting obstacles that hinder the development of new markets. The instruments include e.g. intellectual property protection and the availability of venture capital..
- The use of standards which not only facilitate the access to markets for innovative products, services and technologies but also act as mechanisms for sharing knowledge.
- The initiative concerning collaborative networks, such as innovation poles and research-driven industrial clusters.



- A new initiative on so-called sustainable industrial policy (the concept combining the industrial development with the development low carbon and energy efficient technologies, products and services).
- An initiative on access to natural resources and raw materials (aiming to improve the resource efficiency and opening up the EU market for renewable raw materials)
- The maintenance of the initiative set out in the industrial policy programme from 2005 concerning the improvement of the access to external markets (through multilateral and bilateral trade agreements).
- The development of the initiative concerning structural changes in industry in response to the challenges of globalisation and technological advances.
- The industry/services initiative that will conduct a detailed screening and competitiveness analysis of the service sectors and their impact on industrial competitiveness.

The analysed programme, apart from horizontal initiatives, envisages to undertake two new initiatives in the food processing and electronics sector, as well as further development of initiatives in pharmaceuticals, defense and space exploration industry.

Having analysed the official programmes supporting competitiveness in the EU it can be stated that the EU industrial policy since the beginning of the 1990's has been directed horizontally, which in turn is reflected in the shift of state aid allocation.

#### **4. Trends in state aid allocation in the European Union**

The analysis presented in this paper was prepared on the basis of the reports published by the European Commission „State Aid Scoreboard”, which are a complex source of information on state aid granted in the member states. The prevailing part of the aid granted to enterprises was earmarked for horizontal objectives – on average it accounted for 85% of total aid (*State Aid Scoreboard...*). Three sectors were excluded from this analysis: agriculture, fisheries and transport as they are under block exemptions regulations. The greatest part of aid available for horizontal objectives in 2006 (above 90%) was granted by the following countries: Belgium, the Czech Republic, Estonia, Greece, France, Italy, Cyprus, Lithuania, Latvia, Luxemburg, the Netherlands, Slovakia, Finland, Sweden, the United Kingdom (see table 1).

In case of the Czech Republic, Estonia, Lithuania, Latvia, Luxembourg the whole amount of state aid was granted for horizontal aid, which means that in these countries sectoral aid was not granted at all. Having assessed the trends in state aid allocation it must be noted that the distribution of state aid into two categories (horizontal and sectoral) is relatively stipulative. As E. Kaliszuk puts it: „This distribution is stipulative because some sectors can receive some horizontal aid, and sectoral aid can be granted for horizontal objectives, e.g. supporting small and medium-sized enterprises or aid for employment schemes (Kaliszuk 2001, p. 191). The choice of a type of aid is made after establishing the major objective it is earmarked for, not the enterprise that receives it.

Among the other countries (in which horizontal aid accounted for 70%–90% of total aid) we can mention Germany, Spain, Ireland, Poland and Slovenia. The smallest part of available aid was granted for horizontal objectives by Hungary (52%), Austria (51%), Portugal (14%) and Malta (7%).

The data presented above confirm the fact that horizontal objectives account for a considerable proportion of state aid in the majority of member states. The biggest amount of this aid in the EU-25 was earmarked for environmental protection (29% of total aid in 2006) – this is the area promoted strongly by the Nordic countries, Germany, the Netherlands and the United Kingdom. Among other horizontal objectives a large proportion of aid was granted by the states of the EU-25 for regional development (19% of total aid), especially in new member states and the Mediterranean countries (76% of total aid in Slovakia, 67% in Lithuania, 65% in Greece, 44% in the Czech Republic and 29% in Spain).

However, it must be noted that in 2006 only 14% of state aid in the EU-25 was earmarked for research and development, which is an area of great importance in the context of realization of the Lisbon Agenda. Karpińska-Mizielińska and T. Smuga claim that: „investments in R&D is a crucial factor to strengthen the competitiveness of the EU economy, which has to be able to compete successfully with the American and Asian economy” (Karpińska-Mizielińska 2006, p. 30). The highest share of R&D aid in total aid was noted in Luxembourg (29%), Estonia (28%), Finland and the Czech Republic (27%), France (23%), the Netherlands (21%), Belgium (20%) and Italy (19%). Poland is one of the states with the lowest share of aid for R&D in total aid. (3% of total aid).

Generally speaking, the share of aid earmarked for R&D in relation to GDP in the member states differed significantly (*State Aid Scoreboard...*, p. 28). In five of them in 2006 this amount exceeded an average indicator for the EU (0.06% of GDP): the Czech Republic (0.14% of GDP), Finland (0.10 % of GDP), France (0.09% of GDP), Germany (0.08% of GDP) and in Hungary

**Table 1. State aid for horizontal objectives as % of total aid, 2006**

	Horizontal Objectives <sup>1</sup>								Sectoral aid <sup>2</sup>
	Total of Horizontal Objectives	Environment	Regional development	Research and development	SME	Training	Employment aid	Other horizontal objectives	
UE-25	85	29	19	14	11	1	7	4	15
UE-10	78	2	34	9	9	3	17	4	22
Belgium	98	20	18	20	31	3	3	3	2
Czech Republic	100	3	44	27	18	2	6	-	0
Denmark	96	34	0	7	0	0	51	3	4
Germany	85	50	19	11	3	0	0	1	15
Estonia	100	4	19	28	8	7	3	32	0
Ireland	80	1	25	14	16	3	7	15	20
Greece	90	6	65	2	8	-	5	5	10
Spain	72	5	29	15	9	1	4	9	28
France	97	1	19	23	26	1	19	8	3
Italy	96	3	21	19	33	6	7	6	4
Cyprus	96	0	9	5	18	12	-	51	4
Latvia	100	8	67	-	23	1	-	0	0
Lithuania	100	18	30	11	30	6	5	-	0
Luxembourg	100	6	16	29	33	-	-	16	0
Hungary	52	2	25	7	4	1	6	7	48
Malta	7	-	-	0	1	3	-	3	93
Netherlands	97	68	2	21	1	0	1	5	3
Austria	51	20	7	10	12	0	1	1	49
Poland	85	1	33	3	7	4	37	0	15
Portugal	14	0	3	0	5	3	3	0	86
Slovenia	88	3	31	13	20	1	11	8	12
Slovakia	95	0	76	2	10	4	1	1	5
Finland	97	36	12	27	6	0	7	7	3
Sweden	99	86	5	4	0	-	0	4	1
United Kingdom	90	35	19	18	5	4	1	8	10

no aid granted;

<sup>1</sup> including aid for regional objectives;

<sup>2</sup> including aid for rescue and restructuring.

Source: (*State Aid Scoreboard...*, p. 24).

(0.07% of GDP). The countries with the lowest level in this area are Malta (0.00% of GDP), Portugal (0.00% of GDP), Poland (0.01% of GDP) and Slovakia (0.01% of GDP).

The other objectives of horizontal aid were less supported by the EU:

- Aid for employment on average accounted for 7% of total aid in the EU-25. It is different in the European countries – a relatively high proportion was granted by Germany (51% of total state aid) and Poland (37%).
- The share of aid for training amounted to 1% of total state aid. The highest share in this area was noted in Cyprus (12%).
- Aid earmarked for other objectives accounted for 4% of total aid (this category includes e.g. aid for trade, internalization, culture).

Looking at the analysis presented above it can be concluded that there are significant disparities among member states as far as the distribution of horizontal state aid is concerned. This can be explained by the disparities in the priorities of economic policy, reflecting different needs of member states e.g. the restructurisation of the economy (Karpińska-Mizielińska 2005, p. 78).

According to the Lisbon Agenda objectives and the commitments undertaken at the European Councils (the summits in Stockholm and Barcelona) the EU member states gradually redirect state aid towards horizontal objectives (in 2005 it accounted for 83% of total aid, whereas in 2004 for 76%) (*Report. State Aid Scoreboard...*, p. 19). This trend can be observed in the whole EU including all new member states, even though their level of state aid was much lower in comparison to the „old” member states. The share of horizontal objectives in the EU-10 increased by 36 percentage points between 2001–2003 and 2004–2006, whereas in the EU-25 by 17 percentage points, which means that the level of increase in horizontal objectives for the EU-10 is much bigger than for the EU-15 (see table 2).

The upward trend in state aid allocation in the EU-25 was almost exclusively the result of a significant increase in aid granted for environment (in the analysed period it increased by 11.6 percentage points). The share of other horizontal categories such as employment (increased by 2.6 percentage points) and research and development (increased by 1.7 percentage point) was much lower. No changes were observed in the share of aid in the remaining categories of horizontal objectives (regional development, aid for SMEs and training).

**Table. 2 Trend in share of primary objectives in total aid between 2001–2003 and 2004–2006 as percentage point difference**

	Horizontal Objectives <sup>1</sup>								Sectoral aid <sup>2</sup>
	Total of Horizontal Objectives	Environment	Regional Development	Research and development	SME	Training	Employment aid	Other horizontal objectives	
UE-25	17.0	11.6	-0.2	1.7	0.0	0.4	2.6	1.0	-17.1
UE-10	36.0	-0.4	18.7	4.5	2.5	0.1	7.5	3.2	-36.7
Belgium	-0.7	9.5	-19.9	1.2	11.9	2.7	-6.6	0.5	0.7
Czech Republic	78.2	3.4	41.2	21.8	9.8	0.3	1.6	-	-83.0
Denmark	-2.4	-6.8	-0.2	0.4	-0.3	-2.6	6.6	0.5	2.4
Germany	20.4	19.3	-0.6	1.2	-0.3	0.2	0.1	0.6	-20.4
Estonia	5.5	-6.4	-11.8	8.3	0.6	2.9	1.3	10.6	-0.8
Ireland	26.2	0.9	3.3	4.8	9.8	0.2	-0.8	8.0	-26.2
Greece	2.2	4.5	-19.7	2.4	4.5	-	7.7	2.8	-2.2
Spain	14.3	2.8	6.3	5.9	1.0	-2.6	-0.7	1.6	-14.3
France	10.1	-1.4	1.6	-0.5	-2.6	-0.1	12.5	0.7	-10.1
Italy	0.3	0.4	-7.3	4.2	-4.6	3.7	4.8	-1.0	-0.3
Cyprus	28.5	0.2	0.5	2.7	0.2	4.4	-	20.5	-28.5
Latvia	51.7	2.8	37.2	-	13.6	0.4	-	-2.2	-51.2
Lithuania	73.6	10.6	31.5	6.5	19.4	2.6	3.9	-1.0	-73.6
Luxembourg	0.0	4.1	-25.2	11.5	9.2	-	-	0.3	0.0
Hungary	7.1	-2.4	3.4	2.2	-3.3	0.1	-1.0	8.1	-7.1
Malta	0.9	-	-	0.0	0.3	1.2	-	-0.6	-0.9
Netherlands	1.5	17.5	-5.9	-4.8	-1.5	0.0	0.4	-4.3	-1.5
Austria	-21.8	8.4	-8.0	-22.7	4.9	-2.3	-1.9	-0.1	21.8
Poland	30.8	-1.0	12.5	1.3	3.0	-1.0	15.7	0.4	-30.8
Portugal	-3.2	0.0	-2.0	0.5	-3.5	2.5	-0.6	0.0	3.2
Slovenia	10.3	-10.3	15.3	-2.3	3.4	-0.4	-0.5	5.1	-11.5
Slovakia	14.3	0.0	10.6	-1.8	3.1	2.5	0.4	-0.6	-14.3
Finland	0.2	8.7	-0.3	-6.1	-2.7	0.0	0.3	0.2	-0.2
Sweden	-0.4	27.8	-3.9	-8.4	-2.4	-1.0	0.1	-12.7	-12.7
United Kingdom	5.3	5.1	0.4	-4.3	-3.1	3.2	0.4	3.6	3.6

no aid granted;

<sup>1</sup> including aid for regional objectives;

<sup>2</sup> including aid for rescue and restructuring.

Source: (*State Aid Scoreboard...*, p. 24).

The clear positive trend in redirecting state aid was observed in the majority of member states, in 7 countries it increased more than the EU-25 average: the Czech Republic (+78,2 points), Lithuania (+73,5 points), Latvia (+51,7 points), Poland (+30,8 points) and Cyprus (+28 points). This remarkable increase can mainly be explained by an increase in regional aid (the Czech Republic, Latvia, Lithuania, Poland), employment aid (Poland), aid to SMEs (Lithuania, Latvia) and aid for R&D (the Czech Republic). A much lower share of horizontal aid in total aid was noted only in Austria (-21 points, which can be explained by restructuring aid granted in 2007 to BAWAG (*Report. State Aid Scoreboard...*, p. 23).

## 5. Conclusion

Having analysed the EU industrial policy programmes implemented since the beginning of the 1990's of the previous century it can be stated that the European Union concentrates mainly on the following areas: promotion of research and development, small and medium-sized enterprises, qualifications, employment, environmental protection, supporting infrastructure and eliminating administrative barriers for companies. All these actions prove that the EU industrial policy is directed horizontally. The Community takes responsibility for creating a friendly economic environment for the companies to function, but it is the companies themselves that are responsible for creating their competitive advantages. However, the horizontal trend in industrial policy does not exclude sectoral actions. The guidelines of industrial policy programmes stress the need for complementation of horizontal initiatives with sectoral ones.

The EU approach to industrial policy is confirmed by a high share of total aid earmarked for horizontal objectives in the whole European Union and respectively in individual member states. However, it must be noted that in new member states the share of aid for horizontal objectives is below the EU-25 level, which can be explained by the structural deformation of these countries. The relatively highest share of aid for horizontal objectives in the EU-25 is directed at environment and subsequently regional development and research and development.

Together with the shift in the industrial policy model in the EU (from sectoral to horizontal approach) the share of horizontal objectives gradually increases (it is the result of a significant increase in aid for environment and subsequently, employment aid and research and development aid) this trend is

visible not only the European Union as the whole, but also in new member states.

In spite of the fact that some general trends of state allocation can be observed, it must be noted that individual member states differ significantly in the directions of horizontal state aid, which can be justified by their different economic needs.

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