



Innovative installation manufacturing ultra-clean monochloroacetic acid

**Quick appraisal of major
application**

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European Commission DG REGIO

**Quick appraisal of major Project
application:**

23 April 2013

***Innowacyjna instalacja produkcji ultra
czystego kwasu monochlorooctowego
(U-P MCCA)***

N° CCI [2012PL161PR045]

***Innovative installation manufacturing
ultra-clean monochloroacetic acid***

Quick Appraisal carried out under Framework contract N°CCI 2009CE160AT090 for the provision of technical assistance services for the preparation, appraisal, monitoring, and closure of projects receiving assistance from the ERDF, Cohesion Fund and IPA, and for the audit of these projects by the European Court of Auditors (ECA) - Lot 3: industry, energy, ICT and knowledge economy investments

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1 *Project overview*

Project application “Innovative installation manufacturing ultra-clean monochloroacetic acid” (“Project”) was submitted by the company PCC P4 Sp. z o. o. (“PCC P4” or “Beneficiary”).

According to the information presented in the application dossier, the company PCC P4 sp. z o. o. was registered in 2010 as a special purpose vehicle. PCC P4 is owned (100% shares) by MCAA SE, ultimately owned by Duisburg based company – PCC SE. The company does not fulfil the criteria of an SME company. The production will be performed with technology provided by the Capital Group, in which PCC SE is the main entity, in cooperation with research and development entities. PCC P4 will poses human resources and technical know-how enabling an efficient Project execution.

The main aim of the Project is to build new chemical production facility. The Beneficiary assumes the construction of an innovative installation manufacturing ultra-clean monochloroacetic acid (“U-P MCAA”) with the capacity of 42,000 tons per year, adjacent facilities and the creation of an R&D department.

The Project is the result of many years of R&D, which aimed mainly to finding a technology capable to enter a new market in terms of production monochloroacetic acid with the highest degree of cleanliness. The Beneficiary considers it a niche with low but sustainable growth. Recipients of the output are located throughout the world. Indeed, the product does not require further processing after its production and it be transported worldwide.

The investment will be located in Poland, in an industrial site of Brzeg Dolny, Powiat Wołowski, Lower Silesia Region, where other chemical companies are based. The maximum aid intensity for Lower Silesia is 40%.

The beneficiary envisages an implementation period starting from July 2011 to August 2015.

According to the application dossier total cost of the Project is estimated at 272,447,600.10 PLN (EUR 68,573,053.81). During the implementation (in 2011-2015) PCC P4 is going to finance Project by three resources: own resources, loan from PCC SE and the Operational Programme Innovative Economy 2007-2013 (the amount of EUR 16,862,225.35 including EUR 14,332,892.40 EU contribution and EUR 2,529,33.95 national public finance).

The project is in line with the Operational Programme Innovative Economy 2007-2013, 4th Priority Axis “Investments in innovative projects”. The Project is coherent with the priority axis’s main goal, i.e. the development of the Polish economy on the basis of innovative establishments, as well as with measure 4.5 *Support for investment of high importance to the economy*. The Project meets the requirement of improving the competitiveness and raising the level of economy innovation by supporting companies engaged in manufacturing and service performing high-value and generating a large number of jobs, investments of high innovative potential.

2 Appraisal approach

The main objective of the “Quick Appraisals” of major projects applying for the European Union (“EU”) co-financing is to verify quickly how properly these projects have been prepared and whether the applications submitted to the European Commission (“EC”) are compliant with the requirements established in the relevant regulations governing the use of EU funds.

“Quick Appraisals” are performed through desk-based analysis and assessment of the Project application dossiers. The appraisal approach is based on the following criteria:

- the completeness of the application documentation submitted to the EC, based on the set of requirement set in the relevant EU and local regulations;
- the quality of the application submitted and of the Project itself, based on an in-depth analysis of the Project application dossier; among other things this quality assessment should verify the compliance of the application with relevant regulatory requirements, guidance established by the EC and by local authorities.

Based on that assessment, the “Quick Appraisal” Report is prepared to help the EC assess the quality of the received application dossier and also value of the major Project considered, its consistency with the priorities and objectives of the Operational Programme, its contribution to achieve these priorities and objectives, and its consistency with other EU policies and priorities. Based on the “Quick Appraisal” Report the EC should be able to verify whether:

- the Project objectives are well defined and the Project is technically sound;
- the Project is worth co-financing;
- the public contribution is justified;
- the Project is consistent with other EU policies.

If applicable, the “Quick Appraisal” Report suggests possible improvements to the application dossier or the Project itself.

3 Completeness assessment

The completeness assessment consists of checking whether the information provided in the Project application dossier match the requirements set by the EC. The outcome of this assessment is presented in the completeness assessment checklist in Appendix 1.

Overall, the application dossier for the co-financing by the EU of the project: “Innovative installation manufacturing ultra-clean monochloroacetic acid” submitted by PCC P4 is complete.

3.1 Addresses and references

Addresses and references apply to points A.1 and A.2 of the Request for co-financing. The information provided is complete.

Section A of consists of addresses and references of:

- authority responsible for the application that is the Ministry of Regional Development in Poland, Managing Department for Competitiveness and Innovation Programmes and Organisation represented by Ms. Iwona Wendel, Undersecretary of State, and
- organisation responsible for Project implementation (Beneficiary) that is PCC P4 sp. z o. o. represented by Ms. Marta Kowalewska.

3.2 Project presentation

Project presentation applies to points B.1, B.2, B.3, B.4 and B.5 of the Request for co-financing. The information provided in this section is complete.

The project description in section B4 provides details on:

1. Project: nature of the project, location, subjective scope, objectives and companies’ needs related to Project implementation, expected results of the investment, regional impact;
2. technical description of a production investment: details on tasks, performance of tasks, a company, investments’ goals, technologies of the production and equipment, product description.

Project goals are in section B5 which provides details on:

1. Existing infrastructure and Project influence: current regional situation, expected Project contribution: increase in level of innovation, increase in R&D expenses, small and medium enterprises cooperation, technology transfer stimulation, unemployment decrease in a region, expansion of employment best practices in a region, influence of an environmental protection, positive impact on the economy.
2. Regional Programme input: the Operational Programme – Innovative Economy (“OPIE”) for the period 2007-2013, priority axis 4 Investments in innovative undertakings, measure 4.5 Support for investment of considerable importance to the economy.

3.3 Project feasibility

Project feasibility applies to the point C of the Request for co-financing. The information provided in this section is partly complete.

This part provides a summary of the main conclusions of the feasibility study conducted. The main results of the analysis are focused on: market, demand and capacity considerations. Alternative technical solutions are described in detail in the chapter 5 of the Feasibility Study. There is no summary of the alternative technical solutions analysis in the application.

3.4 Timetable

Timetable applies to points D.1 and D.2 of the Request for co-financing. Information provided in this section is complete but some discrepancies emerged (for details see section 4.3 below).

The timetable is presented in section D.1 and provides details on the beginning and completion dates of main Project stages which are specified in the Gantt Chart (attachment no. "8.+PCC+wykres+Gantt"). Again, this part is complete but has some discrepancies (for details see section 4.3 below).

Project maturity is addressed in section D.2. This section provides details considering: technical, administrative and financial process preparation as well as the Project's state of works. This part is complete.

3.5 Cost-Benefit Analysis

Sections E.1, E.2 and E.3 of the request for co-financing refer to the project Cost–Benefit Analysis. Information provided in this section is complete.

In section E1 "Financial analysis" there is a short description of the methodology and specific assumptions made. All main elements and parameters used in the CBA for the financial analysis are presented together with the main results analysis.

In section E.2. "Socio-economic analysis" the Beneficiary provides a short description of methodology (key assumptions made in valuing costs and benefits) and the main findings of the socio-economic analysis. It also gives details on the main economic costs and benefits identified in the analysis together with values assigned to them. The Beneficiary filled in all sections on main indicators of the economic analysis, employment effects of project, and identified the main non-quantifiable / non valuable benefits and costs.

In section E.3. "Risk and sensitivity analysis" the Beneficiary shortly described its methodology and summarised results of the sensitivity analysis and risk analysis.

3.6 Analysis of environmental impact

Analysis of environmental impact applies to points F1, F2, F3, F4, F5 and F6 of the Request for co-financing. Information provided in this section is relatively complete.

Environmental Impact Assessment (EIA) was conducted in accordance to the national and EU law requirements.

Basically, the compliance with the procedure, formal and substantive duties of administrative bodies is confirmed. Environmental decision was issued and consulted by the appropriate authorities in the appropriate terms with the proper time for public involvement.

Additional comments to the documentation of the EIA process:

- Missing information in the part F of the application form (see 3.11. Annexes)
- The Non-technical Summary (NTS) of the EIA report is too brief and written in technical language. However, since the EIA administrative procedure with the public involvement is completed, and was carried out correctly, there is no need to rewrite the NTS.

The documentation present is consistent and clear. After the addition of the missing information, the application can be accepted.

3.7 Justification for the public contribution

Justification for the public contribution is presented in points G.1 and G.2 of the application. The information provided in this section is complete.

The Project involves State Aid and the EU's assistance will be essential to implement the project. Section G.2 presents reference to article 8 of the Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty. Due to the EU contribution the Project will benefit from the material increase in the project scope and increase of the total amount spent by the beneficiary on the Project (so called "incentive effect").

According to the description in the Application, eligible costs include also costs for the construction of a pilot installation/ line which will be a part of the R&D department. As a general rule such installations are not granted under regional aid but according to rules for aid for R&D and innovation (see article 30 Commission Regulations No 800/2008). The real aim of usage of this asset should be clarified in details to finally assess the eligibility of it.

In addition, point 2.5.2 of the Feasibility Study (page 19) says that the pilot line will be put in use for the subcontractor (Siemens AG) which will provide R&D works using it and only after finalizing this phase the pilot line will be moved to the location of the granted investment. Such approach is against rules stipulating that only expenditure incurred on the purchase of the asset, which will be permanently installed in the project, is eligible for co-financing in full value (see: National guidance for eligibility of expenditures under OP IE) as well as maintenance of the results of the investment. The Beneficiary will need to proof that co-financing will not be used for non-eligible expenditures.

As regards eligibility of costs there is one more issue which should be clarified with the Beneficiary. Namely, in point B.5.1 of the Application is written that in the budget, besides the costs of the pilot line, there are also costs of tests (R&D works). As it is not clear if those costs are treated as eligible this issue should be explained by the Beneficiary.

3.8 Financing plan

Financing plan is described in points H.1, H.2 and H.3 of the Request for co-financing. The information provided in this section is complete.

The decision amount and other financial information in the section H are coherent with the rules regarding the co-financing rate of the priority axis.

In section H.1. "Cost breakdown" the Company provides details on: the total Project costs, ineligible and eligible costs. Beneficiary does not present non-eligible costs (except VAT). The reason is not explained in the application, but can be accepted, as the application covers only the construction of new facilities and the

installation of new machines – for which the SPV is created. Other costs that could possibly be non-eligible are incurred by the mother company.

In section H.2. “Total planned resources and planned contribution from the Funds” there is the UE contribution calculation, sources of co-financing, expenditure already certified. All fields are completed.

In section H.3. “Annual financing plan of Union contribution” the programme commitment is planned for 2013.

The accuracy of the exchange rate should be verified with the Beneficiary as the Application uses the same exchange rate applied in the feasibility study (point. 2.4) which is 3,9731.

3.9 Compatibility with EU policies and Law

Compatibility with EU Policies and Law is discussed in points I.1, I.2, I.3, I.4 and I.5 of the Request for co-financing. The information provided in this section is complete.

In section I.1. the Beneficiary states that he is not applying for other EU financing sources to support this Project.

In section I.2. the Beneficiary states that the Project is not subject to a legal procedure for non-compliance with EU legislation.

In section I.3. publicity measures are detailed.

In section I.4. the Beneficiary states that JASPERS technical assistance has not contributed to any part of the preparation of this project.

In section I.5. the Beneficiary states that the benefiting undertaking has not previously been, and it is not currently the subject of a procedure to recover Union assistance following the transfer of a productive activity within a Member State or toward another Member State.

In section B4 (c) “Purposes of the Investment” the Beneficiary gives information on the compatibility with the Euro Chlor recommendations (www.eurochlor.org). The information is relevant to the project.

3.10 Endorsement of competent national authority

Endorsement of competent national authority is reported in the point J of the Request for co-financing. The information provided in this section is complete.

The application is provided with a signature of Mr Marcin Łata, Department Director in the Ministry of Regional Development with specified date of 13.02.2013.

3.11 Annexes

The following list of Annexes is attached to the application.

Name of an annex (original wording)	Translation
2_PCC+wniosek+plus+skan+ostatniej+strony	2_PCC_ grant application + a scan of a last page
3_natura+2000	3_ nature 2000
4_procedura+srodowiskowa	4_ environmental procedure
5.+streszczenie+roos	5_ summary of the EIA report
6.+PCC+studium+wykonalności	6_PCC_ feasibility study
7.+PCC+model+finansowo-ekonomiczny	7_PCC_ financial-economic model
8.+PCC+wykres+Gantta	8_PCC_ Gantt Chart
9.+listy+popierajace: Starostwo, Urząd Miejski	9_ letters of recommendations: Starosty, City Office
10.+opinie+o+innowacyjności: IPO, ZUT, za zgodność	10_ opinions about an innovation: IPO, ZUT, conformity to the original
11.+listy+intencyjne+PCC-MSP	11_ letters of intent + PCC-SME
13.+transfer+wiedzy_listy+intencyjne	13_ Knowledge transfer_ letters of intent
financial tables SFC2007	financial tables SFC2007

Additional comments and lack of documents:

- The proof of building permission (issued on 14.11.2011 according to the information in the part D.2.2. and 3.1.2. of the application) is missing - in the form of the copy of document or a link to the relevant notice of appropriate authority (Starosta Powiatu Wołowskiego).

4 Quality assessment

This section of the “Quick appraisal” aims to evaluate the quality of key elements of the application dossier submitted to the EC. It also includes a check of compliance with the relevant regulatory requirements and its alignment with the relevant guidance established by the EC. The outcome is presented in the quality assessment checklist (Appendix 2). The following elements need to be outlined:

4.1 Context and Project objectives

The Project objectives are clearly defined. The social, institutional and economic contexts of the Project are clearly described in the following sections:

- B.4.1 – General description of the project;
- B.5.1 – Existing infrastructure and influence of the project;
- C. – Main conclusions of the Feasibility Study;
- D.2.1- Technical (feasibility studies, etc.);
- D.2.2- Administrative (authorisations, EIA, land purchase, etc.);
- D.2.3- Financial (commitment decisions in respect of national public expenditure, loans requested or granted, etc. - give references)
- E.2 .1– Short description of the methodology and main conclusions of economic and social analysis;
- E.2 .2– Main data referring to costs and potential economic benefits;
- E.3.2 - Sensitivity analysis;
- F.1 - Impact on the environment.

The key specific objectives of the OPIE and priority axis 4 are to support investments of a high innovative potential generating a large number of jobs. In the application the Beneficiary declares to create **151 new jobs** exceeding by one post the minimum level of 150 jobs set by the *Ordinance of the Ministers of Economy of 8 May 2009 on granting financial aid for investments of high importance to the economy under Operational Programme Innovative Economy 2007-2013*. Based on the information presented by the Beneficiary 19 of the 151 jobs to be created may be classified as high quality jobs (including 3 specialists working in the R&D unit). The beneficiary plans to create a R&D centre within the project and develop wide cooperation with scientific institutions; however the beneficiary hasn't given proof that those 3 specialists are enough to manage the whole process.

The Beneficiary has just met the criteria of creating 150 jobs, thus it will not slightly influence the rise of employment.

The socio-economic effects of the Project have been considered in the context of the region and the sector concerned. The investment would impact the regional economy through creation inter alia through the transfer of new and innovative manufacturing technologies to the region. The investment of PCC P4 is proved to be highly innovative according to the opinion of the Institute of Industrial Organic Chemistry (IPO) and West Pomeranian University of Technology (ZUT) in Poland (attached to the application).

- IPO Innovation opinion (attachment no. 10.+opinie+o+innowacyjnosci_ IPO) was drawn up for the demand of the PCC P4. IPO is the R&D unit not associated with the beneficiary. The opinion is provided with a signature of Ms. Urszula Wyrzykowska, IPO Director and with specified date of 26.10.2010.
- ZUT Innovation opinion (attachment no. 10.+opinie+o+innowacyjnosci_ZUT) was drawn up for the demand of the PCC P4. ZUT is a university not associated with the beneficiary. The opinion is provided with a signature of Mr. Marcin Bartkowiak, PhD from ZUT and approved by Mr Professor Ryszard Kaleńczuk, Education Prorector of the ZUT and with specified date of 27.10.2010.

The Beneficiary also declares that the Project has the potential to create spill-overs and foster the creation of cluster in the region but this is not backed by any evidence.

It is also said in the application that the Project is of strategic importance for the European Union. Nowadays, the monochloroacetic acid market is shared by only two producers. In 2005 they were punished by the European Commission for the cartel practices. According to the information presented by PCC P4, supporting a new solid manufacturer to enter into the European market will probably reduce the risk of business trends leading to monopolistic market..

4.2 Project identification

The most relevant parameters are correctly identified and defined with appropriate quantified indicators which will allow an effective monitoring of the Project progress. The applicant also correctly considers the indirect effects for the Project like job creation, knowledge transfer and environmental effects.

According to the information presented in the application dossier (in Section B.5.1.e), the Project will have a positive impact on the region because of the creation of at least 151 direct jobs. In addition, in section E.2.4. PCC P4 specifies that the wider impact on subcontractors and sub-supplier will create 505 indirect jobs. Beneficiary provides there that all new workplaces will be permanent jobs, created during an implementation phase (2011-2015) and retained for the minimum period of 5 years.

Beneficiary also declares that the new jobs post listed (direct and indirect) will be created before the end of the implementation phase.

4.3 Project timetable and maturity

Project timetable applies to point D.1 and Project maturity applies to point D.2 of the application dossier. Project timetable presents the main activities within the Project in a simple way by mean of a table.

There are discrepancies between the Timetable in the Application and the schedule presented in Gantt Chart ("GC") (in appendix 8). Additional comments refer to the point D.1:

The Timetable is not completely in line with the schedule Gantt Chart considering:

- start and completion dates of the Investment Process Stage (start date: 2012.05.14 in the GC and 2012.07.01 in the Application; completion date: 2015.08.21 in the GC and 2015.08.31 in the Application). However these discrepancies are of minor nature (2 month's delay in construction stage) and don't influence financial model, as the data in financial model are presented on annual basis.
- completion date of the Operational Stage (2015.09.01 in the GC and 2026.08.31 in the Application). GC ends in year of 2015 while the Financial Model covers the whole operational period until 2026.

4.4 Feasibility and options analysis

The Project's Feasibility has been sufficiently described, including the basis of the technology and its innovative aspects. PCC P4 is going to implement an innovative installation manufacturing ultra-clean monochloroacetic acid. Feasibility Study was conducted properly and resulted in the analysis of the market, demand and capacity considerations.

The demand analysis are well explained. According to the information provided in the Application (section C.1.1) the demand analysis presents a general monochloroacetic acid market characteristics, a target market of the company's products, a target markets analyses considering the market segmentation dimension, a geographic dimension, the European market, other markets and demand forecast for the company's products. The analysis is reliable and supports the revenue estimates of the financial analysis.

The Feasibility Study presents identification of a product, context analyses, the demand and supply for products, alternative opportunities, feasibility analyses, financial analyses, socio-economic costs and benefits analyses, risk and environment analyses. The review of alternative solutions is presented in chapter 5 of the Feasibility Study focusing on alternative technical solutions identification, and detailed description of the chosen technical option. The chosen technology seems to be appropriate to increase the Beneficiary's competitiveness and enhance its market position.

The documentation provided does not give a clear information/ explanation with regard to the project's consistency with **EU competition policy and regulations**. The main argumentation in this scope is presented in the market analysis, when it is explained that currently the market of high pure and ultra pure monochloroacetic acid is divided between two players operating in 3 facilities.

Regional aid can only play an effective role if used in moderation and proportionately and when it is concentrated on the most disadvantaged regions of the European Union. The value of the aid should not exceed the permissible aid ceilings and the advantages of the aid in terms of the development of a less favoured region must outweigh the resulting distortions of competition.

As regards the project the EU contribution is not exceeding the maximum state aid allowed and the project is positive in the respect of economic costs and benefits. The positive link between the project and regional development is sufficiently justified. It can be stated that the aid granted is necessary to provide an incentive effect for the investment on defined scope and that the benefits of the aid measure outweigh the resulting potential distortion of competition.

The incentive effect was described, however we were provided only with brief description and some conclusions (point G.2, nothing additional in the feasibility study).

Following the Company's explanation, the project meets the following criteria:

- material increase in the size of the project/activity due to the aid
- a material increase in the total amount spent by the beneficiary on the project/activity due to the aid;

The Beneficiary declares that without the grant it would realize a project with the value of only 25% of the presented project, not implementing innovative technology solutions and with a limited scope excluding R&D activity even if 75% of the financing sources have already been identified.

The answer given by the Beneficiary on Community assistance is:

- NO – as regards acceleration implementation of the project,
- YES – confirming that the grant will be essential to implementation of the project.

As an additional confirmation, the Beneficiary claims that it waited with the project commencement until the grant agreement is concluded i.e. April 2012.

4.5 Financial analysis

In order to assess the project's financial analysis, the financial model as well as the Request for co-financing and Feasibility Study were examined according to CBA guide. Financial model was presented in two versions: in PLN and EUR. Model in PLN was examined thoroughly, but the consistency between the two models was checked and it was established that the EUR model corresponds with the PLN and the principal key values are accurate in both models. .

We were not able to identify calculation of "business as usual" scenario in the financial model and the Beneficiary does not justify the exception from the requirements on financial model construction given by section 7.5.8 of the Guidance on selected issues concerning investment projects, including revenue-generating projects" by the Ministry of Regional Development. The only reference to "business as usual" scenario is a description given by the Beneficiary in section G.2 of the Application (reducing capital expenditures to PLN 50 million in case of not receiving EU contribution), but this description is not reflected in the financial model.

We can state that, the financial model of the investment itself was prepared well, and despite some small irregularities, seems to be consistent. There is a circular reference warning in the sheet containing sensitivity analysis, but it is not significant and does not influence the results of calculation.

The results of the financial analysis are presented in section E.1.3 of the application. The discount rate of 8% was used for calculations in compliance with "Guidance on selected issues concerning investment projects, including revenue-generating projects" (Guidelines of Ministry of Regional Development, MRR/H/14(1) 09/2007, Article 7.4, point 1d), where it is stated that 8% discount rate should be used in calculations based on nominal prices. The total investment cost in the application form amounts EUR 68,573,053.81, total of which are eligible costs. The applicant requests grant accounting for 30% of the eligible costs (excluding VAT) (i.e. EUR 16,862,226.35 including EU co-financing and state budget contribution) to be spent on installations and machines /equipment necessary for the production process.

The Project is subject to additional State Aid. As a consequence the amount of EUR 2,529,333.95 accounts for state budget (15% of the investment eligible costs). PCC P4 requested EUR 14,332,892.40 to be co-financed from ERDF (85% of the investment eligible costs).

With EU assistance the Project's net present value (NPV) is positive and amounts EUR 3,975,376 with the rate of return (FRR) equal to 9.9%. Without EU assistance the Project's net present value (NPV) is negative and amounts to EUR -334,457.57 with the rate of return (FRR) equal to 7.9%. No calculation mistakes were identified, however the calculation methodology for FNPV(C) and FNPV(K) are not in line with "Guidance on selected issues concerning investment projects, including revenue-generating projects" (Guidelines of Ministry of Regional Development, MRR/H/14(1) 09/2007) without giving justification in the application. FNPV(C) calculated according to the guidelines gives the amount of EUR 14,108 thousand, about 80 thousand less than presented by the Beneficiary, while FNPV(K) calculated according to the guidelines amounts to EUR 3,922 thousand, about 53 thousand less than presented by the Beneficiary.

4.6 Economic analysis

Economic analysis has been prepared in accordance with the EC guide to cost-benefit analysis of investment projects. The main economic performance indicators have been calculated. The economic analysis illustrates a positive impact on the development of the area: ENPV: EUR 23,051,639.62; ERR: 11.3%.

Overall the economic analysis methodology is appropriate and enables the Beneficiary to confirm that the quantifiable economic benefits significantly exceed the costs for the project. The approaches used such as the reduction of unemployment benefit paid or the monetization of reduced emissions have been correctly implemented.

The applicant also adequately covers with a qualitative description the non-quantifiable benefits such as direct and indirect employment growth in the region and positive impact on state budget caused by improved

revenues of enterprises, etc. Economic analysis covers also the costs connected with additional pollution generated by newly build facility.

4.7 Risk assessment

Risk and sensitivity analysis is covered in the section E.3 of the application dossier. Risk assessment is complete, but we identified some inconsistency on Project feasibility.

According to the information presented (section E.3.1) the risk and sensitivity methodology was carried out in accordance with the CBA guide and methodology. In point B.4.2 d of the Application that the Beneficiary mentions that the project has a high level of risk of realization. This kind of risk is not defined in the Application or Feasibility Study and is not clearly emerge from the quantitative risk analysis and the probability distributions. Indeed, such distributions provide triangular probability distributions with extremes of -20% and +20% which is actually a pattern typical of non risky projects. We would have expected the existence more negative scenarios and with a higher probability of occurrence

In the sub-section E.3.2 the sensitivity analysis is presented in a table by an estimated effect on results of financial and economic performance indexes by changes of +/- 1% and +/- 20% of crucial and critical variables.

The crucial variables there were identified as those for which the probability degree was estimated at least as a “medium”. The Beneficiary explores the following four variables: the CAPEX change, in sales prices, in raw materials purchase prices and in transportation prices. Other variables, including the subsidy (treated as a reduction of the subsidy amount) were identified by the Beneficiary as little importance and little probability.

Moreover, in accordance to the CBA guide, in the financial model some values were calculated (excluding those estimated values where NPV is zero) also the following values: FNPV(C), FNPV(C), FNPV(K), ENPV.

In spite of what was written above the sensitivity analysis was not prepared in an exhaustive manner. The correct approach would be to do this sensitivity test on all the variables to identify a limited number of critical variables for the quantitative risk analysis. In financial model the critical variables are predefined – therefore the sensitivity analysis covers only above mentioned four variables.

In the sub-section E.3.3. the qualitative risk analysis is focused on the following risk factors: supply, demand, competition, raw materials prices change, final product quality, delays in completion of an investment, CAPEX, environment.

In addition the Monte Carlo Analysis was carried out. As it was assumed in the sensitivity analysis the Beneficiary conduct for the Monte Carlo Analysis the same following key four variables: CAPEX change, sales prices change, raw materials purchase prices and transportation prices change.

The risk and the sensitivity analysis results are clearly summarised in tables and graphs and properly commented.

4.8 Consistency with EU policies and law

According to the information presented in the application (section B.5.2.), PCC P4 contributes to the achievement of results defined for the Operational Programme Innovative Economy 2007-2013 (“IEOP”), priority axis IV: 4.5 “Support for investments of high importance to the economy”.

However, there is no direct reference in the application dossier to measures 4.5.1 or 4.5.2. It can be concluded from the Project description in the application dossier that the Project fits to the requirements of measure 4.5.1 “Support for investments in the production sector”.

According to the point no. 368 of the IEOP expected results of “the implementation of the priority axis 4. will contribute to intensification of application of new and modern solutions in the area of products (goods and services), processes (also technological processes), marketing and organisation (logistical and IT in the area of management and distribution). In the first place, the following results are expected:

- a) growth in the level of new investments in enterprises,
- b) growth in the number of innovative enterprises,
- c) growth in expenditure on R&D in enterprises,
- d) growth in the number of enterprises that use environmental technologies or received the support for development of eco-products,
- e) growth in the number of newly created permanent workplaces.”

There is one inconsistency defined, that is the beneficiary declares development of R&D activity and even describes some example R&D projects which will be carried as a result of the investment project. However in the table with indicators (point B.5.2 of the Application,) , the value of the R&D project which will be realized is “0”.

Analysing the detailed goals of the undertaking, the Beneficiary puts forward the similarities with the strategic objectives of the IEOP mentioned above. Moreover PCC P4 presents the following monitoring indicators for the priority axis:

- a) creation of one new investment in enterprise;
- b) creation of one innovative enterprise;
- c) creation of a R&D division covering 3 workplaces in the enterprise;
- d) receiving support for the development of eco-friendly products
- e) 151 of newly created permanent workplaces

The PCC P4 investment is also consistent with the *Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation)*.

With reference to expiry period products and results of the Project in the period of at least 5 years the Project is compliant with provision with the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

On the national level the *Ordinance of the Ministers of Economy of 8 May 2009 on granting financial aid for investments of high importance to the economy under Operational Programme Innovative Economy 2007-2013* was implemented (“Ordinance”).

According to the wording of the article 8.2 of the Ordinance an investment is considered of high importance to the economy under the Sub-measure 4.5.1 – innovative investments in the production sector when it fulfils the following conditions:

- a) the eligible costs [...] exceed PLN 160 million,
- b) number of new jobs created in relation to implementing the investment is not smaller than 150,
- c) the technological solution purchased or implemented under the new investment has been applied worldwide for no longer than 3 years, or the value of worldwide sales of the products or services manufactured on the basis of this technology does not exceed 15% of the value of worldwide sales in the branch represented by these products or services, which is specified according to the three-digit codes included in the provisions concerning the classification of activity.

Based on the PCC P4 information the Project is consistent with above criteria by:

- a) the eligible costs of PLN 272 million,
- b) planning to employ 151 people,

c) 15% in Poland, 77 % in EU, 6% out of EU.

On the regional level, according to the information presented in the application, the Project is consistent with the *Development Strategy of the Lower Silesia Region to 2020* as well as with the *Innovation Strategy of the Lower Silesia Region*. There is a detailed reference to the regional strategies in section 3.3.2 of the Feasibility Study.

5 Overall Project appraisal

5.1 Are the Project objectives well defined and is the Project technically sound?

The Project objectives are clearly defined. Operational and technical aspects are well presented in the application dossier, feasibility study and attachments, with a clear path and analysis to all technical, environmental and social, regional development targets, including supporting the job creation and R&D target. The selection of the proposed technical solutions was justified within the feasibility study and market potential analysis taking into account future demand and international competition issues.

The innovative features of PCC P4 investment is proven by the opinion of the Institute of Industrial Organic Chemistry (IPO) and West Pomeranian University of Technology (ZUT).

More over the Beneficiary presented letters of intent of SME cooperation and on research and development cooperation with potential knowledge transfer (relevant Letters of intent are attached to the application).

There are few issues which we believe are not crucial but should be clarified with the beneficiary before making final assessment:

1. Lack of some products and results indicators

In the documentation provided only the fulfilment of objectives of the Operational Programme Innovative Economy was indicated. However, no means of measuring the attainment of objectives is indicated.

The description of the project should include more measurable products and results indicators e.g. innovation-related indicators, number of R&D projects which will be provided (now is “zero” value in point B.5.2 of the Application).

2. Certainty of the feasibility of the project

The investment project is based on R&D results provided by the holding group before implementation of the project. The beneficiary plans to develop further R&D activities as additional effect of the project. However, in is not clearly stipulated if the success of planned R&D works (point B.5.1 of the application) will determine the implementation of the granted project or not. If so, would become clear that the granted project has a high risk because of realisation uncertainty. This is also stated by beneficiary (point B.4.2 d of the Application) who says that the project has a high level of risk of realization without defining such kind of risk.

5.2 Is the Project worth co-financing?

The Project proves to bring important socio-economic benefits if implemented. All important effects of the Project have been considered in the context of the region and sector concerned. Moreover, the Project contributes to the goals of the EU regional policy. It all makes the Project valuable and worth co-financing. The Project will:

- transfer the new and innovative manufacturing technologies to the region and implement the new production technology (ultra-clean monochloroacetic acid production);
- help research and development entities to develop (they have arranged a cooperation R&D institutions and they have their own);
- increase employment (151 people) including 19 high qualified jobs (as regards R&D there will be 3 new workplaces created);

- enable to establish a cooperation with new suppliers and subcontractors and will have a positive impact on the economic development of these entities (SMEs);
- increase the diffusion of knowledge (letters of intent signed);

The project contributes to the goals of EU regional policy through implementing an innovative manufacturing technology and creating jobs while being consistent with major EU policies. Therefore, we believe that the project is worth receiving EU assistance, as proved by the positive ERR: 11.3% of the economic analysis.

5.3 Is the public contribution justified?

The financial net present value of the Project without the contribution of EU funds (FNPV/C) is negative and amounts to EUR -334,458, while the contribution of EU funds helps project's financial net present value (FNPV/K) reach positive number amounts to EUR 3,975,376. This means that the expected socio-economic benefits would not be delivered to the region without a public support. The Beneficiary declares in the application that the investment would be reduced without EU contribution – the level of capital expenditures will be lower by 75%, the innovation will not be implemented and R&D unit will not be established.

According to the information in section G.1 of the application the Beneficiary received aid in the amount of 16,862,226.35 EUR under X656/2009 block-exempted scheme (Regulation of the Minister of Economy of 8 May 2009 on the granting of financial aid to investments of high significance for the economy as part of the OPIE 2007-2013).

It is worth mentioning that the Project is a result of many years of R&D, which aimed mainly to finding a technology capable to enter a new market in terms of production monochloroacetic acid with the highest degree of cleanliness resulting in a positive environmental effects (support of eco-friendly products development). Moreover, it is said in the application that the Project has a strategic importance to the European Union, because allowing PCC P4 to enter into the European market will probably prevent the market monopoly trends (nowadays the monochloroacetic acid market is shared by only two producers).

5.4 Is the Project consistent with other EU policies?

The Project is consistent with EU policies and law on sustainable development, protection and improvement of environment and with other EU policies. The compliance with EU competition policy and regulations is addressed in the application dossier and in the feasibility study.

6 Recommendations

6.1 Recommendations for the organisation responsible for Project implementation

Overall, the application submitted by PCC P4 for its productive investment considering an “*Innovative installation manufacturing ultra-clean monochloroacetic acid*” CCI No [2012PL161PR045] is technically sound, well documented and well prepared.

However, the Beneficiary should be asked to consider the following amendments of the application:

- a) improving financial analysis by adding calculation of “business as usual” scenario in the financial model and applying financial model construction requested by the guidelines in section 7.5.8 of the “Guidance on selected issues concerning investment projects, including revenue-generating projects” by the Ministry of Regional Development;
- b) correcting FNPV(C) and FNPV(K) calculation ensuring compliance of calculation with guidelines implemented by the Ministry of Regional Development i.e. “Guidance on selected issues concerning investment projects, including revenue-generating projects” (No MRR/H/14(1) 09/2007)
- c) confirming that the time horizon of 15 years adopted for CBA analysis was correct and justified (time horizon for Project in manufacturing sector according to EC CBA guide is ca 10 years);
- d) confirming the correctness of the exchange rate used in the financial model calculations
- e) clarification of the real aim of the pilot installation/ line which will be a part of R&D department in order to finally assess the eligibility of its construction cost
- f) confirming whether costs of projects and services of tests (R&D works) are not treated as eligible cost
- g) clarification of the information in the point 2.5.2 of the Feasibility Study (page 19) regarding the use of the pilot line by the subcontractor (Siemens AG) which will provide R&D works using it and only after finalizing this phase the pilot line will be moved to the location of the granted investment
- h) clarification of an inconsistency between declaration of R&D activity development and “zero” value of R&D projects in the table with indicators in point B.5.2 of the Application
- i) clarification on the certainty of the feasibility of the project with reference to the Beneficiary’s declaration of in point B.4.2 d of the Application on a high level of risk of Project realization and not addressing the issue of this kind of risk in the Application or Feasibility Study
- j) including more measurable products and results indicators e.g. innovation-related indicators, number of R&D projects which will be provided
- k) adding evidence of the building permission - in the form of the copy of document or a link to the relevant notice of appropriate authority (Starosta Powiatu Wołowskiego)
- l) writing in less specialised terminology the non-technical summary of the EIA report, so that it could be understood by non-environmental experts;
- m) ensuring that the attached Gantt Chart is consistent with timetable presented in the application (or make relevant comment justifying discrepancies).

6.2 Recommendations for the European Commission

The Project carries measurable and meaningful benefits in implementing advanced manufacturing processes, increasing industrial production and creation of jobs. The Project seems to be feasible, sustainable and economically and socially reasonable.

Even though the issue of the Commission's support for large companies might be disputable in some cases, this Project contributes to the achievement of the priorities set up by the Operational Programme *Innovative Economy 2007–2013* and meets the eligibility criteria.

The Project will have positive impact on the development of regional and national economy by implementing large new investment and enhancing the competitive position of the plant located in Brzeg Dolny. The Project carries potential benefits for the region – including cooperation with SMEs, R&D entities, decreased negative environmental impact as well as exchange of know-how and best practices. ERDF assistance is crucial for Project implementation and according to the information presented in the application without such support Project financial ratios would be worsened. Overall, we formulate only one reserve concerning the provision of the EU assistance in support of the implementation of this project. The Beneficiary needs to provide assurance that the difficulties linked to the project realisation will not represent a risk for the use of public funds in regard of its expected benefits. In other words evidence should be given that the project will be implemented with an acceptable level of risk and the delivery of socio-economic benefits has a sufficient degree of confidence.

Once received from the Beneficiary also the other clarifications, the Commission can consider proceeding with a final Project approval.

7 Appendix: Quick Appraisal Checklists

7.1 Appendix 1: Completeness assessment checklist

APPLICATION SECTION	ASSESSMENT	COMMENTS/REFERENCES
7.1.1. ADDRESSES AND REFERENCES		
a) Authority responsible for the application	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section A.1 of the application dossier
b) Organisation responsible for Project implementation	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section A.2 of the application dossier
7.1.2. PROJECT PRESENTATION		
a) Title of Project / Project phase	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section B.1 of the application dossier
b) Categorisation of Project activity	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section B.2 of the application dossier
c) Compatibility and coherence with the Operational Programme	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section B.3 of the application dossier
d) Project description	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section B.4 of the application dossier
e) Project objectives (and location)	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section B.5 of the application dossier
7.1.3. PROJET FEASIBILITY		
a) Demand analysis	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section C.1 of the application dossier.
b) Options considered	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section C.1 of the application dossier.
c) Summary of feasibility studies conclusions	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section C.1 of the application dossier.
d) Capacity considerations	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section C.1 of the application dossier.
7.1.4 TIMETABLE		
a) Project timetable	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section D.1 of the application dossier.
b) Project maturity	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section D.2 of the application dossier.
7.1.5. COST-BENEFIT ANALYSIS		
a) Financial analysis	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section E.1 of the application dossier.
b) Socio-economic analysis	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section E.2 of the application dossier.
c) Risk and sensitivity analysis	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section E.3 of the application dossier.

7.1.6. ANALYSIS OF ENVIRONMENTAL IMPACT

a) Contribution to/respect of environmental sustainability	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.1 of the application dossier
b) Consultation of environmental authorities	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.2 of the application dossier
c) Environmental Impact Assessment	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.3 of the application dossier
d) Assessment of effects on NATURA 2000/sites of nature conservation importance	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.4 of the application dossier
e) Additional environmental integration measures	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.5 of the application dossier
f) Cost of measures taken for correcting negative environmental impacts	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section F.6 of the application dossier
g) Consistency with sectoral / integrated plan and programme (in case of projects in the areas of water, waste water and solid waste).	Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	Project not related to the areas of water, waste water and solid waste.

7.1.7. JUSTIFICATION FOR THE PUBLIC CONTRIBUTION

a) Competition	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section G.1 of the application dossier
b) Impact of EU assistance on Project implementation	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section G.2 of the application dossier

7.1.8. FINANCING PLAN

a) Cost breakdown	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section H.1 of the application dossier. Beneficiary does not present non-eligible costs (except VAT). It is not justified in the application, but can be accepted, as all investment costs incurred by the SPV created for the project are connected only with construction of new facility and installation of new machines.
b) Total planned resources and planned contribution from EU funds	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section H.2 of the application dossier.
c) Annual financing plan of EU contribution	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section H.3 of the application dossier.

7.1.9. COMPATIBILITY WITH EU POLICIES AND LAW

a) Other EU financing sources	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section I.1 of the application dossier
b) IFI financing	Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	N/A since not applying for IPA funds
c) Existence of legal procedure for non-compliance with EU legislation	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section I.2 of the application dossier
d) Publicity measures	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/>	Section I3 of the application dossier
e) Involvement of JASPERS in Project preparation	Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	Section I.4 of the application dossier
f) Public procurement	Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/>	The issue of public procurement is not addressed by in the application (lack of information of procurement procedures used

<p>g) Previous history of the recovery of assistance</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>by the Beneficiary to select contractors). Section I,5 of the application dossier</p>
<p>7.1.10. ENDORSEMENT OF COMPETENT NATIONAL AUTHORITY</p>		
<p>a) Signed endorsement</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Section J of the application dossier</p>
<p>7.1.11. ANNEXES</p>		
<p>a) Declaration by authority responsible for monitoring Natura 2000 sites/sites of nature conservation importance</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Nature 2000 authority certificate</p>
<p>b) Cost-Benefit Analysis</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>PCC P4's financial model</p>
<p>c) Technical sheets</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Summary of the EIA report</p>
<p>d) Feasibility study (summary)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>PCC P4's feasibility study</p>
<p>e) EIA non technical summary</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Summary of the EIA report</p>
<p>f) Copies of relevant decisions permits & other documents</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Documentation of the EIA procedure</p>
<p>g) Maps</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>none</p>
<p>h) Others (please provide detail)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Gantt Chart, Letters of intent</p>

7.2 Appendix 2: Quality assessment checklist

ASSESSMENT QUESTIONS	ASSESSMENT	COMMENTS/REFERENCES
<p>7.2.1. CONTEXT AND PROJECT OBJECTIVES</p>		
<p>a) The social, institutional and economic contexts of the Project are clearly described</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Descriptions are clear and sufficient.</p>
<p>b) The Project objectives are clearly defined</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Clear definition of project objectives</p>
<p>c) The expected Project benefits are identified and clearly defined in terms of socio-economic indicators</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>The measurable indicators are defined and verifiable on the product and result level.</p>
<p>d) The foreseen socio-economic benefits are likely to be attainable with the implementation of the project</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>e) All the most important socio-economic effects of the Project have been considered in the context of the region, sector or country concerned</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>f) The Project is coherent with the EU objectives of the Funds? (Art. 3 and Art. 4 Reg. 1083/2006 for the ERDF and CF, Art. 1 and Art. 2 Reg. 1084/2006 for the CF; Art. 1 and Art. 2 Reg. 1085/2006 for the IPA)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>The project is coherent with the EU objectives of the Funds stipulated in Art. 3 and 4 of the Regulation 1083/2006.</p>
<p>g) The Project is coherent with the overarching national strategy and priorities defined in the national strategic reference frameworks and the operational programmes (Art. 27 and Art. 37 Reg. 1083/2006 for the ERDF and CF, Art. 12 Reg. 1080/2006 for the ERDF)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>The project is coherent with the priorities defined and described in Operational Programme Innovative Economy. It fulfills following priorities:</p>

<p>h) The means of measuring the attainment of objectives is indicated, and their relationship, if any, with the targets of the Operational Programmes is defined.</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	<ul style="list-style-type: none"> • Increase of enterprises innovativeness, • Increase of the competitiveness of Polish science and the role of science in economic growth as well as increase of the expenditures for R&D activity • Increase of the market shares of products of Polish economy on the international market, • Creation of sustainable and good jobs • Increase of utilization of information and communication technologies in the economy <p>It is also coherent with the regional (Lower Silesian) development and innovation strategies.</p> <p>In provided documentation only the fulfillment of objectives of the OP IE was indicated, which is positive and presented in satisfied form.</p> <p>In provided documentation the project's objectives were identified and described however no means of measuring the attainment of objectives is indicated.</p> <p>The description of the project should include more measurable products and results indicators e.g. innovation-related indicators, number of R&D projects which will be provided (now is 0 in point B.5.2 of the Application).</p>
<p>7.2.2. PROJECT IDENTIFICATION</p>		
<p>a) The Project constitute a clearly identified self-sufficient unit of analysis</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>b) The Project is defined with appropriate quantified indicators</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>c) The project's concept, outputs and capacity increase to the baseline are meaningful</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>d) The indirect effects of the Project been properly considered (or excluded if appropriate shadow prices are used)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>e) The network effects of the Project have been considered</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>f) The economic welfare calculation is based on a consideration of costs and benefits for all potentially</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>

affected parties		
7.2.3. PROJECT TIMETABLE AND MATURITY		
<p>a) The Project phases have been clearly and correctly identified</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Start and completion dates of the Investment Process Stage (start date: 2012.05.14 in the GC and 2012.07.01 in the Application; completion date: 2015.08.21 in the GC and 2015.08.31 in the Application). However these discrepancies are of minor nature (2 month's delay in construction stage) and don't influence financial model, as the data in financial model are presented on annual basis.</p> <p>Completion date of the Operational Stage (2015.09.01 in the GC and 2026.08.31 in the Application). GC ends in year of 2015 while the Financial Model covers the whole operational period until 2026.</p>
<p>b) The maturity of the Project has been correctly assessed</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>c) The Project implementation timeframe is realistic and reasonable</p>	<p>Y <input checked="" type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	<p>However it is difficult to get absolute assurance without an access to the Project execution reports, the Project implementation timeframe attached to the application dossier seems to be reasonable and realistic.</p>
<p>d) Dependencies and constraints have been properly taken into account in the Project timetable</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
7.2.4. FEASIBILITY AND OPTIONS ANALYSIS		
<p>a) The application dossier contains sufficient evidence of the project's feasibility (from an economic, engineering, institutional, management, implementation, environmental...point of view)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>b) The do-nothing scenario ('business as usual') has been analysed to compare the situations with and without the project</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Beneficiary does not justify lack of "business as usual" scenario analysis.</p>
<p>c) Other alternative feasible options have been adequately considered (in terms of do-minimum and a small number of do-something options)</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	
<p>d) The chosen technical solution(s) is/are appropriate and sustainable according to market and technological developments, future demand and capacity constraints, etc.</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>e) Demand for the Project outputs has been properly analysed and is and/or will be adequate and significant (long run forecasts)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>f) The location of the investment is suitable and the local context is favourable to the Project (i.e. there are no physical, social or institutional binding constraints that</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>

<p>could threaten the Project feasibility)</p> <p>g) Appropriate technology is available for the Project implementation</p> <p>h) In the case of productive investments/R&D/energy, the relevance and impact on public infrastructures have been properly considered, e.g. necessary links to transport network (air, road/rail connections, etc.), links to other utilities, public sector responsibilities to provide "new services", etc.</p> <p>i) The incentive effect of the requested aid has been assessed and found to be significant (i.e. the proposed aid is necessary to produce a real incentive effect to undertake investments which would not otherwise be made in the area, or to ensure that the Beneficiary undertakes (additional) investment in the region concerned)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p> <p>None</p> <p>The incentive effect was described, however we were provided only with brief description and some conclusions (point G.2, nothing additional in the feasibility study). Following the Company's explanation, the project meets following criteria:</p> <ul style="list-style-type: none"> - material increase in the size of the project/activity due to the aid - a material increase in the total amount spent by the beneficiary on the project/activity due to the aid; <p>The Company declares that without the grant it would realize a project with the value of only 25% of the granted project, implementing not innovative technology solutions, with limited scope not including R&D activity. The answer given by the Company on Community assistance is: NO – as regards acceleration implementation of the project, YES – confirming that the grant will be essential to implementation of the project. As a additional confirmation, the Company claims that it waited with the project commencement until the grant agreement is concluded i.e. April 2012.</p>
<p>7.2.5. FINANCIAL ANALYSIS</p>		
<p>a) Depreciation, reserves, and other accounting items which do not correspond to actual flows have been eliminated in the analysis</p> <p>b) The determination of cash flows has been made in accordance with an incremental approach</p> <p>c) The choice of discount rate is consistent with the Commission's or Member States' guidance</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Detailed comments related to "Financial analysis" are in section 4.5 of the "Quick Appraisal" Report</p> <p>None</p> <p>The discount rate of 8% is appropriate according to the guidelines issued by the Polish Ministry of Regional Development guidelines ("National Strategic Reference</p>

<p>d) The choice of the project's time horizon is consistent with the values recommended per sector for the 2007-2013 period¹</p> <p>e) The residual value of the investment has been calculated</p> <p>f) A nominal financial discount rate been employed (in the case of using current prices)</p> <p>g) The main financial performance indicators have been calculated (FNPV(C), FRR(C), FNPV(K), FRR(K)) considering the right cash-flow categories</p> <p>h) The project's calculated financial rate of return is at an appropriate level to justify a potential EU contribution</p> <p>i) Private partners in the Project are expected to earn normal profits as compared with some financial benchmarks (if applicable)</p> <p>j) If the Project does not benefit from any form of state aid, the financial analysis demonstrates the existence of a funding gap and the need for EU assistance in order to make the Project financially viable</p> <p>k) If the Project benefits from state aid, the requested EU grant has been properly calculated (the EU contribution may not exceed the maximum state aid allowed for a project)</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Framework 2007-2013 Guidelines in terms of selected issues connected with preparation of investment projects, including projects generating income”, section: 7.4 Assumptions for financial analysis).</p> <p>Time horizon for Project in manufacturing sector according to EC CBA guide is ca 10 years. In the analysis a period of 15 years was adopted, justified by the Beneficiary as specific for this line of business and technology.</p> <p>Residual value is calculated as net value of fixed assets at the last year of forecast.</p> <p>None</p> <p>Beneficiary uses FNPV(C) and FNPV(K) calculation methodology not in line with “Guidance on selected issues concerning investment projects, including revenue-generating projects”. Guidelines of Ministry of Regional Development, MRR/H/14(1) 09/2007, without giving justification in the application. FNPV(C) calculated by means of regular formula gives the amount of 14 108,24 EUR, about 80 thousand EUR less than presented by Beneficiary. FNPV(K) calculated according to the guidelines amounts to EUR 3,922 thousand, about 53 thousand less than presented by the Beneficiary.</p> <p>FRR amounts to 13.4% with EU contribution and 7,9% without</p> <p>None</p> <p>Aid under X656/2009 block-exempted scheme</p> <p>The requested EU grant has been properly calculated and the EU contribution is not exceeding the maximum state</p>
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¹ 25 years for Energy, 30 years for Water and environment, 30 years for Railways, 25 years for Roads, 25 years for Ports and airports, 15 years for Telecommunications, 10 years for Industry, 15 years for Other services.

<p>l) If the Project is a revenue generating project², the amount to which the EU co-financing rate applies has been identified in accordance with EU regulations (Art. 55 Reg. 1083/2006)³</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>aid allowed for the project. The grant under measure 4.5 OP IE is the only public source planned for this project, thus there are no issues with cumulating of an aid from different sources.</p> <p>None</p>
<p>7.2.6. ECONOMIC ANALYSIS</p>		
<p>a) The cost-benefit analysis (CBA) demonstrates that the Project yields a positive economic net present value considering its impact on the development of the area where it is to be implemented.</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>b) The prices of inputs and outputs have been considered net of VAT and of other indirect taxes</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>c) The prices of inputs, including labour, have been considered gross of direct taxes</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>d) Subsidies and pure transfer payments have been excluded from the analysis</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>e) Externalities have been included in the analysis, including environmental externalities (e.g. application of the polluter pays principle and assessment of effects on NATURA 2000 sites)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>f) Shadow prices have been used to reflect the social opportunity cost of the resources employed</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>g) Sector-specific conversion factors been applied (in the case of major non-traded items)</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>h) The appropriate shadow wages have been chosen in accordance with the nature of the local labour market</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>i) The chosen social discount rate is consistent with the Commission's or Member States' guidance</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>Discount rate is 5.5% in compliance with the "Guidance on selected issues concerning investment projects, including revenue-generating projects". Guidelines of Ministry of Regional Development, MRR/H/14(1) 09/2007, Article 8.1, point 6. The guidelines are applicable from the 19th of September 2007.</p>
<p>j) The main economic performance indicators have been calculated (ENPV, ERR and B/C ratio)</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>ENPV: EUR 23,051,639.62., ERR: 11.3% and B/C: 1.1</p>

² A revenue-generating Project means any operation involving an investment in infrastructure the use of which is subject to charges borne directly by users or any operation involving the sale or rent of land or buildings or any other provision of services against payment (Article 55 of Council Regulation 1083/2006).

³ For revenue-generating projects, the maximum eligible expenditure is identified by Article 55(2) Regulation (EC) N. 1083/2006 as the amount "that shall not exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period". Such identification of the eligible expenditure aims at ensuring enough financial resources for Project implementation, avoiding, at the same time, the granting of an undue advantage to the recipient of the aid (over-financing).

<p>k) If the economic net present value of the Project is negative, there important non-monetised benefits to be considered</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>ENPV of the Project is positive and amounts to EUR 23,051,639.62.</p>
<p>7.2.7. RISK ASSESSMENT</p>		
<p>a) The choice of the critical Project variables is consistent with the elasticity threshold proposed</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>b) The sensitivity analysis has been carried out variable by variable and possibly using switching values</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>c) The expected value criterion has been used to evaluate the Project performance</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>d) Ways to minimise the level of optimism bias have been considered</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>e) Risk mitigation measures have been identified and are adequate</p>	<p>Y <input type="checkbox"/> N <input checked="" type="checkbox"/> N/A <input type="checkbox"/></p>	<p>In point B.4.2 d of the Application that the Beneficiary mentions that the project has a high level of risk of realization. This kind of risk is not defined in the Application or Feasibility Study.</p>
<p>7.2.8. OTHER EVALUATION APPROACHES</p>		
<p>a) If the Project has been shown to have important effects that are difficult to assess in monetary terms, the opportunity to carry out an additional analysis, such as CEA or MCA, has been considered</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>There is no need to carry out additional analysis such as CEA and MCA.</p>
<p>b) The choice of the additional analysis is suitable with the fields of application of CEA and MCA</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>c) If a CEA has been performed, incremental cost-effectiveness ratios have been calculated to exclude 'dominated' alternatives</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>d) If an MCA has been performed, the weights applied are consistent with the relative importance of the projects effects on society</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>None</p>
<p>e) If the Project is likely to have a significant macroeconomic impact, the opportunity to carry out an Economic Impact Analysis has been considered</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>The Project is not likely to have a significant macroeconomic impact, the opportunity to carry out an Economic Impact Analysis has not been considered.</p>
<p>7.2.9. CONSISTENCY WITH EU POLICIES AND LAW</p>		
<p>a) The Project is consistent with relevant EU policies and law in the field of sustainable development, protection and improvement of the environment.</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>None</p>
<p>b) The Project is consistent with EU competition policy and regulations and is not likely to generate competition distortions</p>	<p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p>	<p>The provided documentation did not provide the clear information/ explanation in the respect, especially with regard to the project's consistency with EU competition policy and regulations.</p>
<p>The main argumentation in this scope is presented in the point regarding market analysis, when it is explain that currently</p>		

<p>c) The Project is consistent with EU public procurement regulations</p> <p>d) The Project is consistent with gender equality and anti-discrimination EU policies</p> <p>e) If the Project is in the field of industry, the Project is in line with the objectives of the Europe 2020 Flagship Initiative “An Integrated Industrial Policy for the Globalisation Era” and may contribute to their achievement</p> <p>f) If the Project is in the field of energy, the Project is in line with the objectives of the Europe 2020 Flagship Initiative “A resource-efficient Europe” and may contribute to their achievement</p> <p>g) If the Project is in the field of ICT, the Project is in line with the objectives of the Europe 2020 Flagship Initiative “A Digital Agenda for Europe” and may contribute to their achievement</p> <p>h) If the Project is in the field of the knowledge economy, the Project is in line with the objectives of the Europe 2020 Flagship Initiative “Innovation Union” and may contribute to their achievement</p>	<p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p> <p>Y <input checked="" type="checkbox"/> N <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p> <p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p> <p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p> <p>Y <input type="checkbox"/> N <input type="checkbox"/> N/A <input checked="" type="checkbox"/></p>	<p>the market in scope of high pure and ultra pure products is divided between two players operating in 3 facilities.</p> <p>Regional aid can only play an effective role if it is used sparingly and proportionately and is concentrated on the most disadvantaged regions of the European Union. The value of the aid should not exceed the permissible aid ceilings and the advantages of the aid in terms of the development of a less favoured region must outweigh the resulting distortions of competition.</p> <p>As regards the project the EU contribution is not exceeding the maximum state aid allowed and the project is positive in the respect of economic costs and benefits. The positive link between the project and regional development is sufficiently justified.</p> <p>According to above it can be stated that the aid granted is necessary to provide an incentive effect for the investment on defined scope and that the benefits of the aid measure outweigh the resulting potential distortion of competition.</p> <p>Lack of the reference to procurement procedures used by the Beneficiary to select contractors</p> <p>None</p> <p>Lack of reference to the Europe 2020 Flagship Initiative in the application</p> <p>Project is not in the field of energy.</p> <p>Project is not in the field of ICT.</p> <p>Project is not in the field of the knowledge economy</p>
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7.3 Appendix 3: Appraisal team



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