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New Economic Perspectives: Transformation as an opportunity for the viability of our regions

Policy paper of the network partners „Four Motors for Europe":
Auvergne-Rhône-Alpes, Baden-Württemberg, Catalonia, Lombardy

La Région Auvergne-Rhône-Alpes

Baden-Württemberg

Generalitat de Catalunya

Regione Lombardia

Europe is currently facing several parallel crises and radical transformations that need to be mastered and organized, be it massively advancing climate change and the resulting need for Europe and the world to become climate-neutral, be it the Russian war on Ukraine, which also brings a completely new perspective to global economic policy. There are also increasingly more protectionist tendencies in global markets, which impede supply chains and pose major challenges to Europe's competitiveness. The Covid-19 pandemic has had a lasting impact on the economy and society as well.

Facing a variety of challenges and transformational needs, Europe's highly developed and highly innovative industrial sites and regions have been particularly affected by this situation and its multiple impacts. Examples include the transformation to a climate-neutral economy, rapid technological change with its developments in the field of digitization and artificial intelligence, but also negative factors such as the disruption of global supply chains, the energy crisis and sharp price increases.

Europe will only overcome these challenges and emerge stronger from the crises if it guides all regions along this path on the one hand and relies on the strengths of its strong regions on the other, as Europe's economically strong and research-oriented regions handle important locomotive functions, are drivers in implementing the European Green Deal and digital transition, resilience, and open strategic autonomy, and are crucial driving forces for the less developed regions of Europe. Europe's strong regions also contribute substantially to the prosperity and global competitiveness of the EU, which depends to a large extent on the economic dynamics in its innovative regions.

Auvergne-Rhône-Alpes, Baden-Württemberg, Catalonia and Lombardy are particularly affected by these developments as economically strong and research-oriented regions. Together, the four regions generate around 10% of the EU's GDP and joined forces as early as 1988 in the "Four Motors for Europe" initiative to raise their concerns to the EU level and to further develop the European Union. With this in mind, they now want to create an impetus so that the right course is charted in these times of transformation and Europe remains an industrial powerhouse. The Four Motors for Europe agree that strong industrial regions need more effective support today. To this end, the EU must further develop its framework conditions.

1. REGIONAL PARTICIPATION IN EU PROGRAMS

From the Four Motors for Europe's perspective, focusing on the regions and countries in the planning, implementation and monitoring of the EU's cohesion and investment policy has proven its value. It is derived directly from the principle of subsidiarity, which is often enshrined in European agreements. We are concerned by the development that key new investment programs, in particular for crisis management, are deviating from this principle and no longer providing for direct regional participation. These programs are managed centrally with national budgets. Regions therefore have no or only very limited opportunities to participate in the programming and implementation of these programs. This has become particularly clear in the case of the Recovery and Resilience Facility, as shown, for example, by the benchmark study of the " Regions 4 EU Recovery" initiative.
As a result, EU financial support is hardly visible to citizens in the Member States and regions and is not adequate for responding to regional situations.

SPECIFICALLY:

- As a result, by the next Multiannual Financial Framework (MFF) at the latest, all investment programs should be reintegrated into the general EU budgetary framework.
- If new financial instruments are created in the future, they should be oriented more or, if appropriate, directly to the regions. The principle of shared management with a focus on the regions applied in cohesion policy has proven its value. The management of the programs in cohesion policy should therefore be maintained on the regional level.
- In the case of newly created crisis instruments, substantive overlapping as well as funding from other established EU funding sources should be avoided.
- The late adoption of the current financial framework and legislation for the sectoral programs delayed the launch of new programs. The legislative process should therefore be designed and streamlined in such a way that it is completed six months before the start of the funding period. This creates legal and planning security, continuity in implementation, and enables a more even outflow of funds. In order to manage the EU programs efficiently, implementation provisions relevant to the program should be in place before the start of the program.
- To ensure the effectiveness and efficiency of EU support programs, further efforts should be made to further simplify them and make them even more flexible and available.

2. TRANSFORMATION OF THE ECONOMY: REINFORCING EUROPEAN STRENGTHS

The EU supports green and digital transformation, from its research and industrial policy in basic research and innovation to new products and processes. In addition, EU structural policy is a major element in the areas of qualification and structural adaptation and is therefore indispensable for the Four Motors for Europe as regions of transformation. Companies of all size must be helped with structural change in order to keep them within the EU applying the principle of technological neutrality to achieve the objectives set and to build supportive structures and qualify employees.

European innovative regions are spread throughout the EU. They create jobs throughout Europe and strengthen the EU through the transfer of innovation across all European regions. By doing so, they greatly contribute to the EU's open strategic autonomy.

A sensible cohesion policy must therefore take the full scope of its effects into account. The traditional regional categories of EU structural funding and the resulting co-financing rates do not adequately reflect these challenges and should evolute to better reflect these challenges.

Cohesion policy should also adapt to the territorial realities of each region by allowing management authorities to freely choose what to be supported within European regulations.

It is important to have leeway to support transformation projects through more flexible EU state aid law and through interventions from the EU structural funds, but we need an "intra-European level playing field" for this. Within the framework of previous regional aid, structurally weaker EU regions in particular have the freedom to provide financial support for settlements. It is important that strong and innovative transformation regions also have the opportunity to support their industrial ecosystems in a specific and targeted manner. Other regions may also benefit from the European value chains only if the highly innovative industrial and economic clusters in these regions are preserved, which also strengthens the EU's overall global competitiveness.

SPECIFICALLY:

- Even during a funding period after 2027 all European regions – including the more developed regions – must be included in the EU's structural funding, because EU structural policy can only be successful if all regions pursue the same goals together.
- Adaptation to industrial transformation processes must become a stronger focus of EU structural funding in the process, especially for highly innovative and economically strong regions. This can be reflected directly in the European Regional Development Fund (ERDF) as well as through a more developed "Just Transition Fund" that takes all transformation regions into account.

- In light of this, we propose the Just Transition Fund (JTF) to be designed in a way to make sure all regions could have access and benefit from it.
- Due to the transformation challenges, it is also advisable to allow the more developed regions for transformation projects to have higher co-financing rates (along with a higher overall budget for EU structural funding) based on the co-financing rates of transitional regions.
- In addition to existing indicators, the allocation criteria for EU structural funding should also include industrial density and the number of employees subject to social security contributions (with reference to the relevant transformation sectors), as these are in particular indicators of transformation challenges. Energy-intensive industries and industries whose products and technologies are still predominantly based on fossil fuels should be supported in their digital and green transformation, because then they can have a particular high impact in achieving the goals of the European Green Deal.
- The European Social Fund Plus (ESF Plus) is the European Union's main financing and support instrument for investing in people. It aims to improve employment and education opportunities in the EU. In doing so, it makes an important contribution to developing the potential of skilled workers. The transformation can only succeed if it also brings people on board. This is why matching funding for upskilling and reskilling is essential to achieve the objectives of the European Year of Skills. Highly developed and innovative regions should also be able to attract and retain local talents.
- The only distinction between structurally strong and structurally weak regions no longer fits in the period of revolutionary transformations and global challenges.
- European state aid law should also take greater account of the transformational needs of innovative industrial ecosystems.
- The breakdown of state aid grants by assisted areas is not considered to be effective in the temporary crisis framework. Transformation regions should also at least have the opportunity to grant the maximum amount of aid to an enterprise in specific areas analogous to the areas related to in article 107 (3) c) TFEU.

3. RESEARCH AND INNOVATION, EDUCATION, DIGITALIZATION

Four Motors for Europe continue to advocate for a greater focus on supporting research and innovation in the EU budget. Excellence criteria and the networking of centers of excellence must be at the heart of this, as excellence in science and research is a decisive factor for the competitiveness and innovative power of all of Europe. The networking of AI in particular with regard to both the centers of excellence in research and the Testing and Experimental Facilities of Artificial Intelligence (TEF) should be promoted and expanded.

SPECIFICALLY:

- There is a need to expand the approach of "Important Projects of Common European Interest" (IPCEI) to new technologies such as artificial intelligence , or quantum computing, as well as areas in which the EU is heavily dependent on third countries, and sufficient and low-threshold participation by SMEs. Adequate participation by regions, an effective communication strategy towards SMEs, and a transparent application process must be ensured within the limits of their financial capacities. Greater transparency towards regional authorities of approved IPCEI located in their region and better anticipation of future assessment is needed to ensure effective implementation. Effectively promoting regional innovation ecosystems ('place-based approach') is crucial for strengthening Europe's competitiveness and achieving open strategic autonomy of the EU quickly and, above all, sustainably. Institutions such as universities, universities of applied sciences, engineering schools, technological centers, clusters and research institutes are at the heart of regional innovation ecosystems and should therefore be given a high priority in EU policy.
- Through their roots in the region, they have the opportunity to respond to the site-specific needs of society and local companies in a targeted, flexible and agile manner and to promote a strong start-up culture. We ask the Commission to make use of this potential and support it in the budget.
- The Horizon Europe program is of great and growing importance. Research and innovation play a key role in achieving strategic autonomy for the EU and strengthening Europe's competitiveness in terms of the European Innovation Agenda. New instruments in Horizon Europe, such as "Missions", can provide valuable answers to the current challenges described at the outset. As we can observe several positive impacts from the first ongoing projects funded by the EU Missions on the local and regional level, we encourage the Commission to continue to support the participation of regions in EU Missions Horizon Europe calls.
- However, the program is heavily oversubscribed, so many excellent projects cannot be funded. In order to increase participation, the relevant financial allocations for Horizon Europe will be needed for the remainder of the program, and a significantly improved financial envelope will be needed in the next MFF. Support to European Innovation Ecosystem, and especially to Regional Innovation Valley, is of great interest for European regions as a way to share and learn from expertise and solutions of other ecosystems.

- In relation to other EU projects and funding programs, the synergies with Horizon Europe should be utilized in the best possible way, but Horizon Europe's budget should not be unduly used to finance new policy initiatives for other purposes, such as the EU Chips Act. The EU Chips Act would indeed require a specific budget to help the EU meet the challenges of open strategic autonomy for semi-conductors and the digital and green transitions.
- Implementing Horizon Europe as unbureaucratically as possible remains an important goal.
- The ERDF is an important and proven instrument for supporting research and development and innovation in the regional context. These fields of intervention should remain a main area of intervention of the ERDF in the framework of sustainable development and the European Green Deal.
- To strengthen synergies between Horizon Europe and ERDF, regional managing authorities of the ERDF should be more involved in exchanges with the Commission on synergetic development of these instruments. This would also contribute to increase transparency, consistency and relevance between the two instruments.

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