SVENSKT NÄRINGSLIV

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The Strategic Technologies for Europe Platform (STEP)

The proposal to establish a Strategic Technologies for Europe Platform is composed of a Regulation (2023/0199) and new funding from Member States of that would range from EUR 10 billion (in the COM proposal) to EUR 13 billion (in the EP mandate). STEP seeks to increase the amount of support available to environmental technology, research-intensive technology (deep tech), and biotechnology through a number of existing EU programmes.

The Confederation of Swedish Enterprise is critical of the proposal for several reasons and has formulated its view on the proposal below.

Summary

STEP distorts competition in the single market and introduces incentives that risk reducing efficiency in the projects it seeks to support. This includes the conflation of research, industry and cohesion policy, which is extremely unfortunate and concerning in light of the forthcoming announcement of a European sovereignty fund, which it is reasonable to assume will be based on STEP.

Given that the European Parliament has already voted in favour of the proposal, the Confederation of Swedish Enterprise understands the challenges associated with stopping the entire legislative proposal, or key parts of it. Swedish Enterprise would therefore like to emphasize the following important points:

- Prevent discrimination between Member States and competition distortion by applying the same conditions to investment in all Member States.
- Limit the introduction of new assessment criteria that undermine excellence in projects.
- Maintain existing co-financing requirements.
- Resist demands for new funding from Member States.

Distortion of competition

A substantial part of the proposal is characterised by cohesion policy objectives. It has been indicated that the proposal has in part been designed to compensate for the more permissive state aid rules which have made it possible for countries, particularly resource-rich Member States, to grant greater state aid to domestic companies. It is also true that some countries, especially Germany, have granted large amounts of aid in Euro and in terms of GDP per capita.

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However, the amount of aid that has been granted has not been proportionate to all countries' GDP. Sweden is among those countries that, according to the European Commission's latest available statistics on state aid[1], has granted the least amount of aid. Large countries such as Germany and France have granted significantly more aid than Sweden has in absolute terms and in relation to GDP. The same applies to countries that in the proposed STEP are given particularly favourable treatment, for example that have a GDP below the EU average, or, for certain parts of the proposals, that have a GDP below 75 per cent of the average. This mainly applies to countries in the eastern and southern parts of the EU. Almost all of these countries grant more state aid than Sweden does.

Swedish Enterprise therefore finds it unreasonable that the measures should be designed so that investments in EU Member States are made under different conditions. This will distort competition and lead to less efficient allocation of resources. The purpose of providing state aid will be undermined, at least from a Swedish perspective, and in the eyes of other Nordic countries and the Benelux, for example. On the contrary, competition distortions would be magnified. Swedish Enterprise therefore believes that STEP should be designed in such a way that it does not discriminate between different countries – investments in all countries should be made on equal terms.

Furthermore, Swedish Enterprise believes that the proposals should seek to reduce the amount of state aid within the EU over the long term, and that business conditions should primarily be promoted through broad measures to lower costs and improve access to skills, infrastructure and effective regulation. The amount of state aid within the EU has increased for many years, and it is extremely important that regulations are tightened following the introduction of several temporary crisis frameworks. Aid granted based on the central EU budget will not be classified as state aid unless national authorities control such allocations. Either way, this entails selective support for specific economic activities that will distort competition between companies. This is extremely problematic.

A problematic mishmash of research funding, industrial policy and cohesion policy

EU research funding is based on open programmes in which companies and projects, irrespective of the Member State in which their activities are conducted, compete based on objective criteria, through selection processes that are based on excellence, and where the aim of funding is to address a market failure in the form of too little research, especially at early stages of TRL.

Swedish Enterprise is concerned over the increasing tendency for varying degrees of industrial and cohesion policy to be mixed into research policy. Since STEP is focused on "development and manufacturing" rather than research, this leads to a further shift in focus from research to manufacturing, which should fundamentally be something funded by the private sector. This has already happened with increased state aid being made available under the Chips Act, the revision of the IPECI framework, and Article 2.8 of the Temporary Crisis and Transition Framework. State aid granted to manufacturing increases the risk of crowding-out effects and distorted competition, when potentially more efficient competitors are disadvantaged in relation to actors who are granted aid. STEP also introduces several cohesion policy elements, with primarily investments in certain countries with lower GDP benefiting from such policies.

[1] State Aid Scoreboard 2022

In addition, the proposal includes elements of security policy, because one criterion for qualifying for STEP is that one manufactures a product on which the EU is “strategically dependent” on third countries for access to the product in question. This not only includes companies that develop new innovative technologies with a high degree of innovation, but also existing and well-known technologies that may receive support if the EU is dependent on individual third countries for them. This is protectionist/mercantilist thinking and will lead to investment being directed to areas where the EU is not necessarily competitive. Over time, this results in reduced productivity and competitiveness. Building on areas of strength and developing existing capacities simultaneously creates inverse and mutual dependencies, which helps reduce the risk of economic extortion, and strengthens European industry’s capacity to innovate and its long-term competitiveness.

This is extremely worrying, particularly given the stated aim of STEP to serve as a model for a future European sovereignty fund, with STEP being evaluated in 2025 to establish a basis for an assessment of whether the measures have been appropriate and whether it is necessary to scale up support to strategic sectors.

Proposals should be funded within the framework of existing resources

Under the Commission proposal, measures are to be funded by Member States providing new resources totalling EUR 10 billion. For Sweden, this amounts to SEK 4 billion, despite the fact that, according to the proposals, Sweden is excluded from benefiting from the majority of the proposed funding opportunities.

Swedish Enterprise does not believe it is justified to seek new funding from Member States’ budgets; rather, funding should be obtained through redistribution from less productive parts of the EU budget, as well as the use of unused funds in the EU’s various support programmes, including the Recovery and Resilience Facility. Fresh funding from Member States also needs to be financed, which ultimately risks happening through increased taxation of the business community, or other increased costs or the cancellation of productive investments in respective Member States.

Proposed terms create harmful incentives

The proposal includes measures to introduce a number of more permissive conditions for financing. This applies in particular to the option of allowing a higher degree of funding from the EU (100%), i.e., that no co-financing would be needed. In addition, greater pre-financing (30%) would be allowed in 2024.

The requirement that projects be co-financed is fundamentally sound. It constitutes good incentives that the project owners need take share some of the project risk. Removing co-financing completely may lead to lower quality of projects and worse outcomes, when high-risk projects are made possible in this way. The Commission briefly justifies the proposals by saying that they will lead to greater incentives for investment with such financing, as well as accelerating implementation. However, it is highly doubtful whether investments made possible by a removal of the requirement for co-financing should be financed. How removing the co-financing requirement would lead to faster implementation also appears unclear. It should be noted that the co-financing requirement is proven, and that financing levels have been adjusted over time. In less developed regions, the co-financing requirement go as low as 15%, which should not represent an obstacle to starting projects, but at the same time is effective to ensure that the right projects are started and run efficiently.

The proposal to implement an extraordinary pre-financing round in 2024 is intended to accelerate investment in 2024, and as an incentive for member states to re-prioritise their programmes towards investments under STEP. Swedish Enterprise is sceptical of this proposal as well. Suddenly increasing a budget and skewing the allocation of funds during a programme period may also make it difficult for supporting authorities to identify suitable projects. There is much that suggests that it is preferable to have a balanced allocation of funds over a programme period and avoid rapid amendments in the budget.

Sovereignty Seal: an attempt to unify a fragmented landscape of aid programmes

The Commission proposes the establishment of a so-called Sovereignty Seal for projects that meet one of the aims of STEP and basic criteria in one of the included support programmes. An approved application, regardless of whether funding has been granted or not, would grant the project a Sovereignty Seal that shows that it fulfils basic quality requirements; it may then be used to apply for public or private funding in other contexts.

The purpose of the proposal – to attempt to simplify a complex system of partially overlapping support programmes within the EU and member states – is certainly welcome. At the same time, several objections can be raised to the proposal. On the one hand, it does not reduce complexity per se, nor does it simplify or reduce existing support programmes. Furthermore, projects that receive the seal will be those that in some cases only fulfil basic criteria in one of the included support programmes. That in itself does not necessarily mean that projects meet any kind of excellence in absolute or relative terms. It cannot therefore fully replace an application process where companies are pitted against each other and assessed according to objective criteria, and where the best project or projects are selected. There is also concern that a seal such as this could enable the accumulation of support from several different support programmes which could result in a project being overfunded. Finally, it should be pointed out that there is already a Seal of Excellence, which broadly serves the same purpose; it should be made clear in all respects why an additional stamp is needed, and the seal of excellence should be evaluated before broadening its scope of use.