

## STEP

### Strategic Technologies for Europe Platform

#### Preliminary considerations

##### Context

The publication of STEP is a direct consequence of the developments surrounding a possible "**European sovereignty fund**", as announced in September 2022 by U. von der Leyen. STEP would therefore be a first step towards a genuine sovereignty fund, which would be proposed in 2025 as part of the next multiannual financial framework (MFF) post-2027. The EC considered that the creation of a new fund at mid-term would be less effective overall and would run the risk of generating inconsistencies with existing funds and programmes.

The philosophy behind STEP is to **change priorities in terms of European funding, and above all to increase EU support for the technologies targeted by STEP** (see below). Coordination will be provided by DG BUDG, via the **creation of a new unit**. The Commission also stresses that this represents a profound change in approach to **strategic dependencies**, partially reflecting the Versailles Declaration of March 2022.

In the European Parliament, a joint ITRE-BUDG parliamentary committee will be responsible for the dossier. The EP's position is expected in October.

It should be noted that STEP provides for the budget for certain European programmes to be boosted by an additional budget of €10bn, which is being negotiated as part of a parallel procedure to revise the MFF, so it is not yet guaranteed.

##### Presentation

Announced as part of the mid-term reform of the MFF on 20 June, the Strategic Technologies for Europe Platform (STEP) takes the form of a proposal for a Regulation aimed at prioritising support for **3 types of critical technologies: digital and "disruptive" technologies, clean technologies and biotechnologies**. The lists set out the technologies targeted but do not appear to be exhaustive (open list principle, see Recital (4)).

However, they must meet **at least one of the following conditions**:

- Bring to the single market an **innovative**, cutting-edge technology with significant economic potential.
- Helping to **reduce or prevent the Union's strategic dependencies**.

In addition, STEP covers part of the value chain required to produce these technologies: key components, specific machinery and essential raw materials.

To achieve this, the Commission has defined **3 objectives** for STEP:

- **Making certain existing European funds more flexible.** It is important here to distinguish between the different types of funds targeted by STEP, namely:
  - **Directly managed funds** (by the EC): InvestEU, the Recovery and Resilience Facility (RRF), the Innovation Fund, the European Innovation Council (part of Horizon Europe), the EU4Health programme and the Digital Europe programme. With these funds, the European Commission can itself determine the priorities (work programmes), and will therefore be able, even in the absence of an additional budget, to put in place calls for projects prioritising STEP technologies, while maintaining the objective of the fund used.
  - **Funds under shared management** (with the Member States): mainly the ERDF, the Cohesion Fund and the Just Transition Fund. STEP would enable Member States, for example, to support projects in line with STEP objectives without having to resort to national co-financing (= 100% EU funding) and to receive pre-financing of 30% over the year 2024.
- **Strengthen certain existing instruments** via an **additional budget** ("Top-up") of 10 billion euros, distributed as follows:
  - 500 million for the European Innovation Council (=EIC).
  - 3 billion for InvestEU.
  - 1.5 billion for the European Defence Fund.
  - 5 billion for the Innovation Fund, it should be noted that this additional support is only available to Member States whose average GDP per capita is below the EU-27 average measured in purchasing power standards and calculated on the basis of EU figures for the period 2015-2017.

As previously stated, this additional budget is being negotiated in another procedure (revision of the MFF) and cannot therefore be guaranteed. According to feedback from the EC, **the granting of this additional budget would not make the implementation of STEP conditional.** In particular, as the funds in question are under direct management, the EC will be able to adapt the priorities of the work programmes and calls for projects, whether or not the additional budget is granted. There is, however, a political and practical reservation on the part of the EC in the case of the €3 billion for InvestEU: it would be added to a new funding priority that would not exist without this additional budget.

- **Create synergies between existing instruments**, in particular by issuing a "**sovereignty seal**" and creating a "**sovereignty portal**":
  - "**Sovereignty Seal**": this can only be awarded by the European Commission, via calls for projects that it would launch under the following funds: Horizon Europe, the Digital Europe programme, the European Defence Fund, the EU4Health programme or the Innovation Fund. If a project meets the "sovereignty seal" criteria, as well as the minimum scores for the other criteria linked to the funds in question, it will be prioritised and will have easier access to other types of funding covered by STEP.
  - "**Sovereignty portal**": This portal will act as a one-stop shop, providing investors with information on funding opportunities for projects linked to the STEP objectives and giving visibility to these projects. However, many elements remain to be determined.

## Preliminary considerations

Highlighted by the various crises that have shaken Europe, **strategic dependencies have become a clearly identified political priority for the EU**, notably through the Versailles Declaration of March 2022, which now needs to be addressed concretely and rapidly.

To this end, in her State of the EU address in September 2022, President von der Leyen stated her intention to propose **the creation of a European sovereignty fund to support the development of industrial projects to meet strategic dependencies on critical technologies**.

Although initially announced for the summer of 2023, at the time of the mid-term reform of the MFF, it was finally postponed and replaced by the STEP, which prefigures a possible Sovereignty Fund presented as part of the next MFF.

Instead, **STEP presents itself as an innovative tool**, proposing a structuring of projects that responds to the challenge of strategic dependencies and reinforcing the budgets of European funds that can support these projects. What's more, **the notion of "sovereignty" is finally entering the language of the European Union**. The creation of a "sovereignty seal" in this first initiative is a **very positive signal** for the development of a **European industrial policy**, notably driven by the proposals for the Net-Zero Industry Act (NZIA) and the Critical Raw Materials Act (CRMA), responding to the challenges of digital and ecological transformation, as well as the issues of resilience.

However, although STEP is an interesting first step, **the initiative still falls far short of what** could initially be expected from a European sovereignty fund. **France Industrie will therefore be particularly attentive to** the development of this instrument and its further development in the future.

The French industry is questioning **various aspects of STEP**.

First of all, the industry has **serious doubts about the ability of the criteria proposed in Article 2 (2.) to cover all the technologies considered critical** or contributing more generally to the STEP objectives.

With regard to the list of technologies, **the industry welcomes the principle of an open list**, which makes it possible to aim for exhaustiveness where support for critical technologies is crucial. However, we note with regret that **technologies related to nuclear energy are not explicitly included**, despite their significant contribution to reducing strategic dependencies linked to energy issues. In the absence of a definition in European law, this list must continue to be exhaustive and must be included in the work programmes and calls for projects that result from it. Finally, **the critical technologies identified under the NZIA, as well as the projects linked to their value chain, notably through the CRMA, are in letter and in spirit closely linked to certain technologies on the STEP "clean tech" list**. STEP would benefit from making explicit reference to these technologies, without however being limited to them<sup>1</sup>, with a view to providing the financial leverage currently lacking for the NZIA and the CRMA, which would then be enshrined in the future European sovereignty fund. Finally, STEP should be made to **help with the commercial development and export** of European products in order to increase the market share and profitability of these same technologies.

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<sup>1</sup> The list of "clean tech" in STEP goes far beyond the NZIA or CRMA technologies. This ambition must be maintained.

It is also necessary for the regulation to propose a **clearly defined approach on the contribution of projects to the objectives of reducing strategic dependencies**. France Industrie welcomes that the approach is not only focused on the reduction of current addictions, but also on the prevention of the development of future addictions. In the first instance, the EU's strategic dependencies should be those identified in the **2020-2021-2022 Strategic Dependencies Reports**. However, these need to be refined on the basis of feedback from industry and the Member States. Secondly, it is vital to **assess the contribution to reducing these strategic dependencies**. This assessment could be made by **quantifying the reduction in the rate of dependence at European level** for the product in question (already applied for the French "critical metals" calls for projects). To be consistent with the CRMA proposal, it would also be appropriate to quantify the EU's dependence on a single third country. Certain criteria such as mastery of the value chain, economic aspects, security of supply or their contribution to decarbonisation in the case of clean tech could also be interesting to take into account.

In addition, **the assessment and definition of the sovereignty seal still needs to be evaluated** by industry. It must aim to finally offer tangible criteria, and must not lead to the setting in stone of a partial and inoperative definition of European sovereignty, while at the same time competing with the French approach to sovereignty. There are also many questions about the **precise criteria for awarding the sovereignty seal** and their evaluation. It would appear that these criteria will be assessed in an administrative manner via their inclusion in the work programmes. Their interpretation will therefore be left to the administration of each fund. **France Industrie considers that it is essential to ensure the best possible objectivity and homogeneity in the assessment of STEP criteria** while ensuring that STEP's political orientation is reflected in the definition of its objectives and the interpretation of its criteria. It would also be interesting to have details of the **duration for which a project benefits from the seal**. Secondly, the industry identifies a **risk of early classification of projects at European level that have already received the seal**, which could discourage the emergence of any new projects. Finally, the industry would like clarification on the capacity of projects to be awarded the seal if they meet the STEP criteria but are not included in the objectives of the reference programmes.

It is also important to remember that the **scope of STEP lies in its application to the various European programmes and funds. The industry will therefore be attentive to ensuring that STEP is properly harmonised across the various programmes**. This harmonisation could in particular take the form of the intervention of the new DG BUDG unit responsible for STEP in future calls for projects aimed at translating STEP priorities. In addition, French industry believes that the integration of the Euratom programme into the programmes supported by STEP would be particularly relevant, given its association with Horizon Europe.

**With regard to the distribution of funding for STEP objectives, it is essential that this does not come at the expense of other priorities. They must not result from a reallocation or withdrawal of funds already earmarked** for technologies other than those covered by STEP. This is all the more crucial in view of the non-negligible risk of dissociation between the STEP regulation and the financial top-up.

In this context, **we welcome the desire to place respect for the "level playing field" at the heart of technology deployment**. However, **this "level playing field" objective seems to be contradicted** by the fact that the additional €5 billion of the Innovation Fund has been earmarked for projects located in Member States whose GDP per capita is lower than the European average, which also calls into question the *"cost-efficiency"* principle set out in the Innovation Fund's project selection approach.

STEP must therefore be able to count on a solid and dedicated financial base, without encroaching on other priorities. **We therefore welcome the proposal to increase the budget by €10 billion** to finance Article 3, so that the STEP objectives can count on a pre-identified basis. The French industry is nevertheless in favour of a **more inclusive and generalised use of the additional budget envisaged for the Innovation Fund, which would** benefit only some of the Member States.

In general, the French industry will remain particularly attentive to **the proper articulation and coherence between STEP and other legislation** that may be concerned (Chips Act, NZIA, CRMA, etc.), particularly with regard to **the technologies targeted** and the strategic dependence issues identified in the **Versailles Declaration**.

**At this stage, the governance of the instrument is too vague and imprecise. Indeed, the concrete organisation and missions of the Platform are** a source of questioning for industry, particularly with regard to the "Sovereignty Portal" and its bodies (Steering Board, STEP Team, Industrial Advisory Group, etc.), which are not clearly detailed in the legislative proposal. The role of industry needs to be strengthened, notably through contact groups and industrial alliances.

This is why it is **urgent for STEP to evolve as quickly as possible, from 2028 onwards, into a genuine autonomous sovereignty fund, both in its budgetary and regulatory aspects**, and thus **become a dynamic steering tool** to ensure that the capacities and needs of the industry and its future challenges are matched. The French industry is calling for this development to be treated as one of the major European priorities, particularly with a view to the next European Commission.