

Building strong and smart communities: NSPA proposal for EU investments in the Arctic

Introduction

This document summarises the responses to a consultation that the Northern Sparsely Populated Areas (NSPA) network organised in its 14 member regions for the European Commission's initiative on the Arctic Stakeholder Forum in January-March 2017. The Forum was set up by the EC to identify key investment priorities for EU funds in the Arctic region.

The NSPA network represents close collaboration between the four northernmost regions of Sweden (Norrbotten, Västerbotten, Jämtland Härjedalen and Västernorrland), the seven northernmost and eastern regions of Finland (Lapland, Northern Ostrobothnia, Central Ostrobothnia, Kainuu, North Karelia, Pohjois-Savo and Etelä-Savo) and North Norway (Finnmark, Troms and Nordland). These regions are also referred to as the *European Arctic*.

The NSPA has 5 persons for every square kilometre, for a total of about 2.6 million people over an area of 532 000 square kilometres. These regions share a similar natural environment – a harsh climate, abundant natural resources, relative lack of agriculture in some of the regions, a strong potential for renewable energy, long distances from markets, and high cost of land transport.

However, **despite some challenges, the NSPA-regions have great potential to contribute to the European economy**, and they already deliver added value to their countries and the EU. The OECD Territorial Review on the Northern Sparsely Populated Areas¹, published in March 2017, points out that “realising the growth opportunities for these regions is linked to the identification of absolute advantages. These vary by region and primarily include minerals and energy, fisheries and aquaculture, forestry, renewable energy and tourism-related services. -- The key policy question is **how to add value around the unique assets** by reducing bottlenecks and supporting enabling factors for productivity growth such as **skills, innovation and infrastructure.**”

The EU, as a significant beneficiary of the forests, marine resources, minerals, energy supplies and high quality research of the NSPA, should facilitate the sustainable development of the region. The European Arctic has a *great potential to serve as a living lab or test bed* for new climate- and environment-friendly technologies and innovative solutions to deliver public services.

The aim of the NSPA is to develop the region to become a competitive, interesting and robust environment for new businesses to grow and invest in, and an attractive place for people to live. This report outlines the NSPA views on how the EU could facilitate this development. Part 1 outlines the investment priorities in the region, whereas Part 2 discusses how EU funding programmes should be developed to better serve the region. Part 3 draws some conclusions.

¹ OECD Territorial Review on the Northern Sparsely Populated Areas contains several policy recommendations on regional, national and EU level. The study can be accessed [here](#).

About the consultation process

For this report the NSPA offices in Brussels organised a stakeholder consultation in January – March 2017. The consultation questions were prepared together with the European Commission. Stakeholders were invited to participate in the consultation by sending written comments to the consultation questions. In addition, two NSPA consultation meetings were held in North Norway, one in Tromsø on 23 January and another in Kirkenes on 8 February. One meeting for the Swedish regions was held in Skellefteå on 23 February. (For more information about the process, see Action Plan in the Annex 1).

The offices received input from numerous stakeholders, such as regional and local administrations, politicians, business representatives, associations, networks and research and innovation institutions (full list of respondents in the Annex 2). After the consultation, the NSPA Forum and the Steering Committee discussed the preliminary findings in Brussels on 14 March, and all respondents also had an opportunity to comment on the draft report, before it was delivered to European Commission DG Mare on 7 April 2017.

1 Investment priorities in the NSPA

This section outlines the areas of investments that the stakeholders in the NSPA wish to prioritise. Each paragraph aims to answer the questions *what (should be prioritised), why and how*.

1.1 Transport infrastructure – Connecting the Arctic region

The need to develop transport infrastructure is perhaps the most crucial matter in the European Arctic, and is also well recognised in the Joint Communication on the Integrated European Union Policy for the Arctic. The OECD study on the NSPA puts forward investments in infrastructure as the most important key enabler for the development of the regions in the European Arctic. Lack of transport infrastructure creates a bottleneck to cross-border co-operation and hinders the development of the region. Improved transport infrastructure within the Arctic region, and to other European regions (both east-west and north-south connections) would facilitate better access for Arctic goods (such as seafood, minerals, wood, food) and services to the EU internal market.

It would also facilitate the development of local industry: businesses cannot grow across the borders without sufficient road, rail, maritime and air connections. Those connections are also needed to enable people to meet more easily. This, in turn, would widen the local labour markets in the region and the common research areas between universities, reducing unemployment and helping companies to attract the required skills.

Proposed actions:

- TEN-T methodology in the context of the Arctic should be developed to comprise the [Joint Barents Transport Plan](#).
- Utilise the Northern Dimension Partnership on Transport and Logistics (NDPTL) as a platform to further identify common interests in the European Arctic.
- The railway network should be considerably developed.²
- The Scandinavian-Mediterranean and the North Sea-Baltic TEN-T core network corridors should be extended along the Bothnian extension³ to the north, to ensure timely completion of the TEN-T rail and road core network in the European Arctic.
- The Eastern Corridor (Savon rata, Karjalan rata and Saimaa Canal waterway), The Mid Nordic Corridor (Sundsvall-Trondheim) together with the E12 Corridor and the Midway Alignment Umeå-Vaasa and Arctic Corridor should be developed to supplement the extension of the Scan-Med and North Sea Baltic corridors.
- Increase flight connections within the Arctic region, both east-west and north-south: small airports in the region are enablers of lively communities and businesses, and their value for local businesses should be reflected in investment plans.
- Roads: upgrade and maintain roads to make them meet European highway standards.

² There is a strong support in the regions for the expansion and development of railway connections in the European Arctic. Among others, the following alternatives were mentioned in the consultation: From Rovaniemi to Kirkenes (and further to Murmansk); from Skibotn to Kolari; upgrading the Ofofbanen or Innlandsbanan; further develop Karelia Silk Road from North-Karelia to mid-China.

³ The Bothnian extension consists of North Bothnia Line, Iron Ore Line, including a connection to the Port of Narvik and New East Coast Line and mainline railway Helsinki-Tornio.

- Shipping could be considered as a green alternative to freight transport in areas of the Arctic where this is applicable.
- Develop the ports to facilitate export to the European and global markets.
- Invest in interoperability of different transport modes and their maintenance, allowing them to be operable through shifting weather conditions of all four seasons.
- Explore the potential of intelligent transport systems.

1.2 Digital infrastructure – The digital Arctic e-society

There are still regions in the NSPA that lack sufficient broadband connections. Focus on strategic systematic upscaling of e-society solutions is one of the main recommendations from the OECD, and here are several opportunities in this field if this problem is addressed properly. Good connectivity is a vital element in regional development, and digitalization is almost an imperative in numerous sectors. Improved broadband infrastructure would allow the regions to become leaders in digital economy, such as sustainable data industry. It would also enable better use of e-health technologies, distance learning and other types of service delivery, which are vital solutions in sparsely populated regions. Digital infrastructure is also increasingly important to traditional livelihoods, such as reindeer herding, to enable the use of modern technology. It would also facilitate distance-clustering in various sectors for smart specialisation. Finally, solutions developed and tested in the Arctic could be scaled up and brought to the European markets.

Proposed actions:

- Develop full coverage of high-speed internet, also in regions beyond tipping point of commercial actors.
- Build a telecommunications cable through Northeast Passage (see Lipponen, Svento 2016) to support cloud computing infrastructure.
- Focus efforts on research and development of digital solutions, both focusing on technical aspects as well as tackling societal challenges including business models in different sectors, such as health and education.

1.3 Health and well-being – Building attractive Arctic societies

Sparse population together with limited resources of small municipalities create societal challenges. Diverse recreational activities contribute to citizens' well-being, which in turn is an important factor impacting people's decision to live in the region. This also interlinks to tourism as an emerging industry with great potential, which is dependent on sustainable attractive societies and a lively culture.

Proposed actions:

- Facilitate exchange of health workers and competence in the region.
- Facilitate development, testing and use of e-health technologies.
- Promote healthy lifestyle among young people.
- Support associations, voluntary organisations and cultural events; in particular, culture and language of the Sami people.
- Utilise the Northern Dimension Partnership in Public Health and Social Well-being (NDPHS) as a platform to further identify common interests in the European Arctic.

1.4 Education and skills – The competent and inclusive Arctic

The NSPA regions experience a skills mismatch in their labour markets. While some areas experience a high rate of unemployment, others struggle to find suitable workforce with the skills needed. The regions also experience lack of young and educated employees. Also, the OECD has identified this challenge, and recommends that the NSPA work towards a common labour market.

Related to this comes the lack of sufficient research infrastructure, which is necessary to ensure high education, the right skills and knowledge development in the region.

Proposed actions:

- Create common standards in vocational education in the NSPA.
- Increase student and teacher mobility across borders.
- Support uptake of e-learning in schools.
- Facilitate co-operation of all relevant stakeholders: businesses, education institutes, labour market organisations etc.
- Support entrepreneurship among young people.
- Focus on integration of immigrants and the identification of their skills and competence.
- Build common branding of the NSPA region as an attractive region for skilled employees.

1.5 Innovation support – Arctic Testbed for green solutions

The research centers in the NSPA do have global excellence in areas connected to the specificities of the Arctic. However, the basis for regional innovation capacity depends on connecting the research to applied science towards the local community. SMEs in remote areas are often micro companies that need to build capacity for innovation and growth in close partnership with others. Research infrastructure and testbeds function as hubs for innovation where research organizations, the public sector such as health care, SMEs and Industry come together.

Test and demonstration in extreme conditions is of growing interest to address the Arctic and European challenges, among others, the climate issue and search and rescue. The NSPA regions are in the global lead with respect to climate efforts and green technology, also in the traditional raw material industry. To this come new emerging possibilities in e-technology solutions and forest-based bioeconomy and blue economy. The regions have research competence and actors in key industrial areas that also, through collaboration between the academia and surrounding society in the regions, can deliver unique test-beds/living labs for development of sustainable solutions and societies on even a global scale.

Proposed actions:

- Improve infrastructure for applied research by investing in research infrastructure/test beds/living labs in collaboration over the borders.
- Build strategic innovation platforms for SMEs – micro companies – with the public sector, industries and business support organizations as facilitators.
- Take advantage of the Arctic “in-house” knowledge in the European Arctic research institutions, as local and global drivers for development in areas such as cold climate technology and sustainable and green solutions.
- Support the emerging bioeconomy including forests and marine environment in its full value chain as a business driver for the European Arctic.

1.6 Key Industries – Arctic Smart Specialisation

Due to increased focus on environment and climate, both the private and public sector in the NSPA must find new, more sustainable sources of income. Therefore, entrepreneurial discovery should be supported, and knowledge and technology exchange between different business sectors across borders is essential. However, this can be a challenge in sparsely populated areas with long distances.

The OECD recommends that NSPA work together on a joint Smart Specialisation strategy, supported by the national governments, the EU and the Nordic Council of Ministers. Several respondents to this consultation expressed their interest in working on such a strategy, adjusted to the special conditions in the NSPA region⁴. There are some key industries common to the NSPA regions, and to make the most of these industries, the principles of smart specialisation could be applied. In general, stakeholders in the NSPA would like to see the EU funding to be directed to the following key sectors:

- Industries in the **bioeconomy and circular economy** framework, (building on forests, agri-food and marine resources) as the most prominent sectors in the NSPA.
- **Tourism**: Joint product development, improved packaging for clients, and better co-operation across borders.
- **ICT**: digitalization, including health, well-being and ageing, robotization and automatization.
- **Energy industry**: Mostly renewable energy sources (bioenergy, hydropower, wind power, tidal power, excess/waste heat), energy technology.
- **Mining, minerals and chemicals**: research and investment in the full value chain to make it more environmentally sustainable, including mine water management.
- **Service and supply industry including sub-tier suppliers** that supply goods and services to the key industries in the region.
- **Machine technology and industry**.
- **Search and rescue and emergency preparedness**, including commercial development, research and innovation within the field of earth observation.

⁴ The analysis and recommendations by the OECD lead to a conclusion that smart specialization traditionally can be driven by institutions and structures, funded by public funding. There are some regions in the NSPA with internationally competitive research centres, but most of the regions lack a university or any other formal research centre. In rural and low density economies, the innovation system is mainly driven by entrepreneurs. Smart specialization strategies in the NSPA must be tailored to this context, and this finding should be recognized by the EU.

2 EU funding programmes in the NSPA

This section explains how the NSPA regions experience the EU funding programmes relevant to the Arctic, and outlines suggestions for improvements.

2.1 Good results and benefits for the regions

The EU funding programmes are very important in the NSPA regions to facilitate cross-border co-operation and sustainable development of the local communities. There is a clear interest in increased participation in the programmes.

EU programmes have contributed to breaking existing structures, implementing new ideas and strengthening strategic co-operation between neighbouring regions. The EU funds have also enabled the development of businesses, improved transport infrastructure and decreased unemployment, allowing our regions to develop in ways that would not have been possible without EU support. The EU programmes contribute to developing new project-based job opportunities for competent people, thus making it possible for them to stay in the region.

Furthermore, the programmes have provided opportunities for networking and collaboration with top-level researchers and other stakeholders, including policy makers. The regions have been able to influence EU-level policies and bring them to practice on a regional level. Participation in projects has also allowed regions to make European-level comparisons that would not have been possible within the national funding programmes.

The current thematic priorities of the EU funding programmes continue to be relevant and cover practically all relevant fields of interregional co-operation. They might seem similar and overlapping, but it is important to note that the programmes have different investment priorities, address different actors and have different ways to address common challenges. However, better co-ordination between the programmes is needed, as suggested in Paragraph 2.2.

2.2 Challenges and how to solve them

The respondents emphasised the generally positive experiences and good results of the programmes, but also identified some challenges related to the EU funding programmes. Participation in the programmes seems sometimes too complicated compared to potential advantages and positive outcomes of the participation. Actors in the NSPA are small, and some EU programmes are too big for them to participate in. For example, SMEs in the NSPA are rather micro-enterprises than small and medium-sized compared to their counterparts elsewhere in Europe. There is also a lack of competence in project development.

One major challenge is that the EU funding programmes operating in the Arctic have different practices for submitting applications and reporting. Application procedures and reporting rules are also often too bureaucratic. Furthermore, there are different practices regarding the application of state aid rules to the regional development funding on the one hand, and to Horizon 2020 project funding on the other hand. This requires a lot of competence and knowledge on EU programmes that small regional administrations and other regional actors do not necessarily have. In addition, there are different practices in the three NSPA countries for interpreting EU rules and regulations and

allocating funding, which means that there is no level playing field for project development across the NSPA region.

When it comes to information about the programmes, some respondents felt that it is not easily available, or there is too much and too complex information, whereas others found the information available useful and sufficient. It was also pointed out that the “Financing of the Barents Cooperation – Report from the BEAC Ad Hoc Working Group of Financial Mechanism Study” is a very useful source of information regarding current EU programmes, and should be updated in the future.

Proposals for improvements

- *Role of the regions should be enhanced:* Place-based approach should be the guiding principle in planning of the programmes. This is essential if the programmes are to respond to regional and local challenges. The regions should continue to participate in the formulation of the programmes, and try to engage local stakeholders more in that process.
- *Better co-ordination:* One might consider establishing a co-ordination mechanism that would co-ordinate joint projects aiming to solve joint challenges. This should be located in the Arctic region. Another option could be thematic co-operation forums for different programmes. Joint information meetings between different programmes should be arranged, instead of individual information events. This would improve co-ordination and reduce the number of meetings. Also, the potential establishment of an EU Arctic Competence Centre was raised. Alternatively (or in addition), there should be a strong act of *simplification*, where one option could be to reduce the number of priorities and programmes. However, while improving the co-ordination of the programmes, the primary focus should continue to be on solving the challenges of each programme region.
- *Same rules for all EU funding programmes:* Eligible direct and indirect costs should be the same for all EU funding programmes in the Arctic. Rules on how to calculate costs and what, how and when to report should be the same. The way state aid rules are interpreted should be the same regardless of the type of programme and the participating country.
- *Less bureaucracy:* It should be taken into consideration that the regions where Arctic-relevant EU funding programmes operate are democratic, applying principles of good governance, and therefore numerous reporting obligations should be reduced. There should be more trust in the local accounting practices that have shown to work well in the NSPA region, based on historically good audit results.
- *Programmes should fund the whole product development cycle.* Some respondents pointed out that the projects operating on the lowest technology readiness levels do not get enough funding. It was also pointed out that the process of commercialisation is not eligible for funding.
- *Cross-sectoral approach should be enforced:* Multidisciplinary and cross-sectoral cooperation should be emphasised when evaluation criteria of the future EU programmes are designed. For example, a project related to tourism development should also consider issues related to infrastructure and geology.

- *Funding should be received already from the start of the projects:* The fact that in some cases project funding will be reimbursed only after the project has started is an obstacle for small stakeholders' participation. In addition, some seed money facilitating the project development phase should be allocated to small project participants, especially SMEs.
- *Co-ordination with other financing sources:* When it comes to better co-ordination of investments in the Arctic, it was pointed out that the Nordic Council of Ministers and North Calotte Council complement the EU funding programmes. In order to improve co-ordination of investments in the Arctic region, the EU should focus on co-operation with existing initiatives to create an Arctic investment vehicle, such as the Arctic Investment Protocol of the World Economic Forum and the Arctic Economic Council. The EU should also create and test new mechanisms that enable investments.

3 Conclusions

The first part of this report has outlined investment priorities that are common to the 14 NSPA regions. These priorities should not be seen as competing, but mutually reinforcing each other. For example, investing in broadband would allow increased use of e-health technologies, facilitating innovation, employment and well-being in the region. Furthermore, investing in transport infrastructure would not only allow Arctic products to access the EU market, but also facilitate the expansion of local labour markets, and help businesses and research institutions to exchange and share resources. These actions would facilitate better integration between cities and rural areas in the NSPA, which is an essential growth factor for all stakeholders in the region.

The OECD study sends a clear message to the national governments and the EU to continue to ensure that the unique characteristics of the NSPA regions - a harsh climate, long distances from markets, and a small number of isolated settlements - are effectively incorporated into national and European-level policy settings for regional and rural development, and service delivery. As the Joint Communication points out, special EU funding should continue to facilitate sustainable development in the European Arctic. In line with this, the national allocation for regional development in Norway should be maintained.

EU funding programmes in the European Arctic have already significantly contributed to the development of the NSPA regions and facilitated co-operation across borders. There is a strong interest and demand in EU funding programmes in the regions also in the future. However, issues related to better co-ordination and simplification should be addressed in the next programming period.

The NSPA wishes to thank the European Commission for this opportunity to contribute to the process of identifying key EU investment priorities in the Arctic. We look forward to the next steps of the process and are committed to continuing the close dialogue with the Commission.