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The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

The Commission for Economic Policy (ECON) at the European Committee of the Regions (CoR) examines recent research, articles and discussions on the socioeconomic impact of the pandemic in Europe and on the different economic response measures planned and implemented at EU, national, regional and local level.



The gradual lifting of restrictions in many European countries and the major boost to vaccination campaigns has generated a sense of optimism and prospects for economic recovery. This should not, however, blind us from the important institutional developments of the moment. Indeed, this eleventh edition of the ECON Bulletin is being published as Member States are in the process of submitting their National Recovery and Resilience Plans (NRRPs) to the Commission.

A preliminary analysis of the plans that are already available shows that the involvement of local and regional authorities in this process is disparate and unequal. While – in some Member States – subnational authorities have been consulted and actively involved from the beginning of the drafting exercise, in others, the involvement of LRAs is not adequate. Admittedly, Member States are only legally required to report on the involvement of LRAs in the preparation of their plan. This means that, in practice, the Commission will not be able to ensure that this involvement is effective by blocking funds. Beyond this major issue, the CoR will also keep paying close attention to other important issues for our regions and cities in the drafting of the NRRPs such as the effective coordination of RRF projects with other funding streams (e.g. cohesion policy or the common agricultural policy) and their coordination with structural reforms. The Facility represents an opportunity for fundamental transformation and structural reforms in the EU and, as such, is an opportunity that should not be missed.

As you can see from the second part of this Bulletin dedicated to a presentation of the main events recently organised by ECON, our commission continues to work actively to share information, encourage debate on major economic issues and ensure – in such a decisive period – that tomorrow's public policies take account of the regions and cities and their needs.

-- Michael Murphy (IE/EPP), Chairperson, Tipperary County Council, Chair of the ECON commission

EU Economic Policies

State of discussion

ECON activities



European Committee
of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

EU economic policies relevant for cities and regions

State of play

Portugal was the first Member State to submit its Recovery and Resilience Plan to the European Commission on 22 April – one week ahead of the 30 April indicative deadline – with several Member States still completing their plans. The Commission will have two months to evaluate the plans, following which the Council will have one month to approve them by qualified majority. The aim of the Commission is to "have everything ready this summer".

As of 20 May, 22 Member States had [completed the ratification process](#) for the "Own Resources Decision", aiming to raise the upper limit for national contributions to the EU budget, and which must be fully ratified for "Next Generation EU", and thus the RRF, to go ahead. The process is still going on in only Austria, Hungary, the Netherlands, Poland and Romania.

Launch of the Conference on the Future of Europe

The work of the Conference on the Future of Europe officially started with the signing of the [Joint Declaration](#) by the European Parliament, the Presidency of the Council and the European Commission on 10 March. This declaration sets out the scope, structure, objectives and principles of the Conference, which is organised as a citizen-led forum for dialogue on the future of Europe. Citizens' recommendations will be debated during plenary sessions and the final outcome of the Conference will be presented in a report to be examined by the EU institutions – with the purpose of triggering follow-up measures (in accordance with the Treaties). Citizens are free to address the issues that are important to them, but "an economy that works for people" and "Europe's digital transformation" are likely to be important topics for the Conference.

Communication on the fiscal policy response to COVID-19

On 3 March 2021, the European Commission published a [Communication on the fiscal policy response to COVID-19](#), providing guidance to the Member States for the coordination of fiscal policy in the next phase of economic recovery. The communication presents the Commission's considerations on how a future decision on extending the "general escape clause" of the Stability and Growth Pact to the end of 2022 should be taken. The Commission suggests extending the suspension of the budgetary rules until the level of economic activity in the EU area reaches pre-pandemic levels. The proposal was endorsed by the Eurogroup in a [statement](#) adopted on 15 March, in which the finance ministers agreed to continue providing "the necessary level of fiscal support" to protect the economy from the prolonged shock caused by the pandemic and support economic activity with the fiscal stimulus

EU Economic Policies

State of discussion

ECON activities



provided by the RRF. Therefore, based on the publication of the Commission's spring economic forecasts in May, the final decision will be taken to extend the general escape clause until the end of 2022.

In addition, the Commission has not yet relaunched the public consultation on the overall economic governance framework, which was announced in February 2020 but immediately suspended due to the outbreak of the pandemic. The consultation will be relaunched at some point however and will be an opportunity to reflect on the potential reform of the fiscal coordination mechanism, in light of the challenges presented by unprecedented economic shocks, debt sustainability and the decline of public investments.

The European Policy Centre published [here](#) its commentaries on the key takeaways from the Commission's new fiscal guidance.

Communication on the 2030 Digital Compass



On 9 March, the Commission published its communication on the "[2030 Digital Compass: the European way for the Digital Decade](#)", which contains its vision for Europe's digital transformation and translates it into specific targets to be reached by 2030:

- As regards increasing **citizens' digital skills**, at least 80% of adults should have basic digital skills, and there should be 20 million ICT specialists employed (with more women) by 2030;
- Several specific targets have been set concerning **digital infrastructure**: for instance, all populated areas should be covered by 5G and Europe should have its first quantum computer by 2030;
- The **digital transformation of businesses** should be accelerated (e.g. 75% of companies should use cloud computing services, big data and Artificial Intelligence by 2030);
- Emphasis is also put on **public governance** with the digitalisation of public services (e.g. all key public services should be available online; e-medical records and electronic identity identification should be the norm for Europeans).

The communication includes a joint governance structure – including a traffic light monitoring system – and proposes to agree on a set of digital rights and principles. It also aims to swiftly launch major multi-country projects combining investments from the EU budget, Member States and the private sector (e.g. pan-European interconnected data processing infrastructures). Regarding the next steps, the Commission is launching a consultation process on this "vision" and the digital principles in order to be able to propose a Digital Policy Programme operationalising the Digital Compass by the end of the summer and an inter-institutional declaration on digital principles by the end of 2021.

ECON intends to hold a discussion on this topic at its 15 June Broadband Platform meeting, where a link between targets set in the Digital Decade and targets at local and regional level will be explored.





Conclusions from the meeting may feed into the stakeholder consultation led by the Commission and scheduled to conclude by this summer.

Revised EU guidelines on regional state aid

On Monday 19 April, the Commission presented its revised [Regional Aid Guidelines](#), which will enter into force on 1 January 2022. The update will align the previous rules with the new green and digital priorities of the Commission and, according to Commissioner Margrethe Vestager, "*will enable Member States to support the least favoured European regions in catching up and to reduce disparities in terms of economic well-being, income and unemployment*", while ensuring a level playing field and fair competition in the single market. The main innovations of the revised guidelines are:

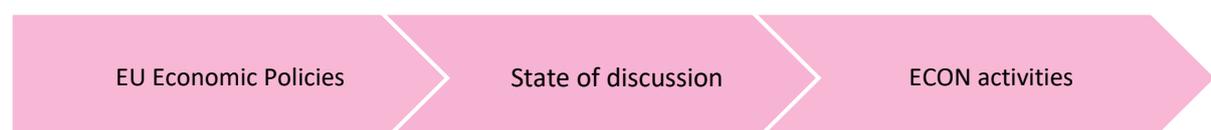
- Increased overall regional aid coverage to 48% of the EU population, an updated list of assisted areas and the possibility for Member States to identify non-predefined "c-areas" facing particular challenges in the Just Transition;
- Increased maximum aid intensities to support the European Green Deal and Digital Strategy objectives by enabling additional incentives for investments in the disadvantaged areas of the EU;
- Updated regional aid maps for the period 2022-2027;
- General simplification of the guidelines and clarification of some definitions and terminology.

ECON commission provided its input into the revision process of the existing rules on regional aid through a RegHub consultation concluded last November¹.

Launch of two ECON-related public consultations

- On 8 April, the Commission launched a [public consultation](#) on a proposed revision of the State Aid Framework for Research, Development and Innovation (the "RDI Framework"). The revision would make it easier for Member States to support research, development and innovation – including by SMEs – while minimising possible competition distortions. Interested parties can respond up until 3 June.
- The Commission has also launched another [public consultation](#) on a new legal instrument to deter and counter coercive practices employed by non-EU countries (i.e. "countries trying to obtain a certain policy direction by restricting trade or investment – or threatening to do so – to the detriment of EU businesses including those operating in these third countries"). This instrument would give the Commission a tool to apply restrictions towards non-EU countries to counter these unfair practices. The consultation is open until 15 June and the input received will be used to develop a legislative proposal to be adopted by the end of the year.

¹ <https://cor.europa.eu/en/engage/Documents/RegHub/report-consultation-04-state-aid.pdf>





European Committee
of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

State of discussions

Francesco Corti, Jorge Núñez Ferrer, *Steering and Monitoring the Recovery and Resilience Plans – Reading between the lines*, CEPS, April 2021

This paper focuses on the governance mechanism for the Recovery and Resilience Facility (RRF), accounting for the opportunities and potential obstacles that may arise in the negotiation and implementation of the National Recovery and Resilience Plans (NRRPs).

The RRF represents an opportunity for fundamental transformation and structural reforms in the EU Member States. However, the risks of mismanagement and failure of implementation threaten the entire European project. The stakes for the Commission are very high, hence the evaluation and monitoring of the NRRPs will have to be very careful. The RRF is not part of the Multiannual Financial Framework (MFF). It is managed by the European Commission, with the final approval of the Council, excluding, *de facto*, the European Parliament. Funds are linked to targets and objectives under the green and digital pillar and the central management of the Commission should avoid the bottleneck of excessive bureaucratic procedures that affect for example the Cohesion Funds. However, there are other obstacles around the corner, such as: the increased workload for national and local administrations in monitoring data and producing reports on top of the requirements for the traditional Structural Funds; substitution effects with other sources of funds (e.g. Cohesion Policy); the box-ticking exercise to comply with the required priorities; and the very short timeline for the disbursement of funds, implementation and monitoring process. In conclusion, the paper suggests giving more relevance to structural reforms and EU objectives in the NRRPs, reducing the administrative burden across all levels of government, putting in place an effective monitoring system and integrating the RRF into the MFF to shield it from legal challenges.

Martin Arnold, James Politi, *Mind the economic gap: Europe and the US are drifting further apart*, Financial Times, March 2021

This article examines the forecasts of economic growth and recovery from the pandemic in Europe and the US, finding both the EU's fiscal measures and its vaccination campaign insufficient to catch up with the US, which is expected to return to pre-pandemic levels of growth already next year.

The economic wounds left by the pandemic in Europe are much deeper and will take longer to heal compared to the US. The euro area suffered an economic decline of 6.6% in the first year of the pandemic, with forecasts of a double-digit recession this year. The US economy on the other hand, only lost 3.5% last year and according to the [OECD forecasts](#) is expected to grow 6.5% this year and 4% next year. The US government's combined fiscal stimulus since the beginning of the pandemic amounts to 12-13% of GDP while, including the upcoming recovery fund, the EU has deployed resources accounting for only 6% of euro area GDP. Moreover, the current delays in the EU vaccination campaign are likely to affect output and demand in the coming quarters, while the US is on the path to hit the target of the 4 July Independence Day holiday to return to normal thanks to its massive vaccination efforts.

EU Economic Policies

State of discussion

ECON activities



The president of the ECB Christine Lagarde has underlined the time lag between the EU and US stimulus packages and announced a significant increase in the pace of the ECB's expansionary monetary policy of bond-buying, predicting that inflation would remain well below its target even in two years' time. The authors discuss the need for more ambitious fiscal intervention in the EU economy and the negative effect of the fiscal rules on expectations. The Stability and Growth Pact hangs like a sword over the heads of EU finance ministers, despite the announcement that the "general escape clause" will be extended until the end of 2022.

Jan Maarten De Vet, Daniel Nigohosyan, Jorge Nunez Ferrer, Ann-Kristin Gross, Silvia Kuehl, Michael Flickenschild, *Impacts of the COVID-19 pandemic on EU industries, European Parliament study, March 2021*

This report addresses the impact of the COVID-19 crisis on the EU-27 economy as a whole and across sectors and underlines necessary recovery measures to meet the needs of the EU industry.

The second part of the study focuses on the disruptions that the pandemic is causing to European strategic value chains, whose resilience has been challenged by the economic shock. Weaknesses were unveiled as many companies were initially unable to deal with shortages in supplies due to closed borders and inactive manufacturing sites. However, most supply chains quickly recovered and have been affected less severely during the subsequent waves. The authors argue that value chains can be reinforced with an increased diversification of supply lines rather than reshoring/onshoring. The crisis has accentuated the strategic importance of some value chains (e.g. microelectronics, batteries), which need to receive continued attention to ensure access to materials, investment and skills. However, this should not lead to a lasting policy impetus in favour of relocation given that this trend would not be compatible with the need to keep EU industry internationally competitive.

Frederico Mollet, Marta Pilati, *Updating the European industrial strategy for the post-pandemic world, European Policy Centre, March 2021*

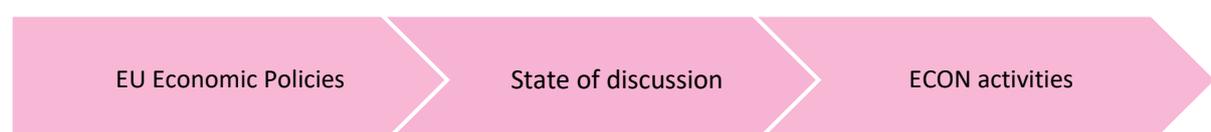
This policy brief reviews the Commission's industrial strategy one year after its publication in March 2020 in light of the consequences of the pandemic and provides a set of measures to improve it.

The paper identifies six key pillars in the [2020 Industrial Strategy](#):

- Focus on industrial ecosystems;
- Industrial alliances to mobilise and coordinate private investments in strategic sectors;
- Pan-European state support to Important Projects of Common European Interest;
- Reduction of external dependencies;
- Assertive trade and investment instruments;
- Development of "deep technologies".

The update that the Commission is scheduled to publish at the end of April should adapt the current industrial strategy to the challenges of the pandemic crisis. The authors suggest four areas of intervention:

1. Financing: Incentivise private investments, intangible investments and equity finance;
2. Industrial ecosystems and alliances: promote the Green Deal, competition, standards-setting inclusion and regional convergence; mobilise public procurement and support start-ups and SMEs;





European Committee
of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

3. Technology dissemination: promote tech transfer programmes, support SMEs in adopting new technologies and mobilise the European Structural and Investment Funds for technical infrastructure and tech support;
4. Strategic autonomy: develop a transparent methodology to assess policy actions, prioritise economic value and design an action plan to diversify supply chains.

The European Policy Centre has also published interesting articles on the EU's forthcoming industrial strategy update; for instance, outlining specific recommendations ([here](#)) and putting the emphasis on the need to bridge the political divides over the industrial strategy ([here](#)).

[Guillaume Van der Loo, 'Mixed' feelings about the EU-Mercosur deal: How to leverage it for sustainable development, European Policy Centre, April 2021](#)

After two decades of negotiations, the ratification of the Free Trade Agreement between the EU and Mercosur countries is still disputed over environmental concerns, such as the risks of increasing the deforestation of the Amazon and the lack of commitment to the Paris Agreement. Criticism has addressed specifically the limitations and the weak enforcement mechanisms under the trade and sustainable development chapter. The Commission announced a review of its [15-point action plan](#) for the implementation of the trade and sustainable development provisions, the publication of a mandatory environmental and human rights due diligence instrument and a [legislative proposal](#) to tackle the risks of deforestation associated with products placed on the EU market. However, none of these instruments will affect the Mercosur agreement, whose negotiations are closed. Alternative solutions to strengthen the requirements for sustainability and environmental protection could be:

- **A joint statement or declaration:** an interpretive and legally binding addition to the treaty, whose scope is however limited;
- **An additional protocol:** a legally binding solution that does not require renegotiation of the agreement;
- **A joint roadmap:** a non-binding law instrument that contain more ambitious environmental commitments;
- **Pre-signature or ratification commitments:** a leverage tool stating conditions that the Mercosur countries must meet before the agreement is ratified by the European and national Parliaments;
- **Unilateral statements or declarations:** specific positions expressed by single EU Member States upon the signing of the agreement with limited legal relevance.

The way this agreement moves forward will set the blueprint for the Commission's commitment to the EU Green Deal and its attention to the concerns of a large part of civil society regarding sustainable development.

[Johan Norberg, "COVID-19 and the danger of self-sufficiency: How Europe's pandemic resilience was helped by an open economy", ECIPE, March 2021](#)

This policy brief debates the EU's dependency on foreign trade and the consequences of the pandemic on its trade openness.

EU Economic Policies

State of discussion

ECON activities

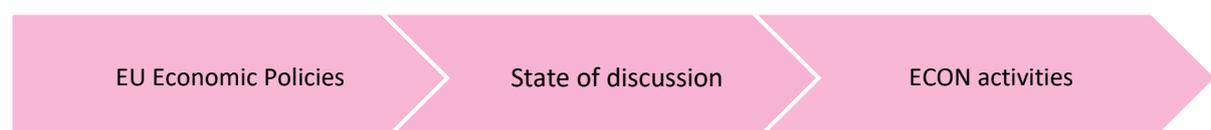


The author criticises the measures taken by the EU and its Member States at the beginning of the pandemic to close external borders and suspend free movement within the internal market. According to the analysis, these choices proved to have negative effects on the availability of critical medical supplies and protective equipment. These shortages were blamed on an excessive dependency on other countries, and led to a call to repatriate supply chains, increase local production and build national champions. On the contrary, the author argues in favour of increased integration into the world market, stating that self-sufficiency is not just utopian, but also inefficient as a response to future crises. Moreover, he presents the argument that local supply chains are even more vulnerable than international integrated ones, when a crisis hits.

The brief defends the capacity of globalised supply chains to adapt quickly in response to unexpected shocks, despite the obstacles represented by regulations, tariffs and restrictions. In conclusion, the author maintains that Europe's resilience lies in its integration in a globalised open market and its relationships with trade partners.

Irina Kustova, Christian Egenhofer, Jorge Núñez Ferrer, Julian Popov, From coal to low carbon – Coal region development opportunities under EU recovery programmes, CEPS, April 2021

This report discusses the economic transformations that regions previously relying on the coal industry are bound to undergo in light of the EU objectives for carbon neutrality and green energy transition and the opportunities to accelerate these developments offered by the EU Recovery Fund. The authors present a variety of low-carbon sectors and technologies suitable for the successful redevelopment of these regions, such as renewable energies (coalmines can be turned in geothermal power plants), waste-to-energy, recycling, battery production, re-use of components, water treatment and carbon capture and storage. Moreover, these regions have the potential to become industrial clusters with a strong economic specialisation, thanks to their existing infrastructures, human capital and land resources. The next step is the establishment of SMEs, which are a signal of stabilisation and resilience for the regional economy. In the second chapter, the report introduces Special Economic Zones as a policy tool to stimulate economic development in redeveloping and transitioning regions affected by stagnation and high unemployment. Finally, the authors highlight the unprecedented opportunities represented by the EU budget for cohesion policy and the Recovery Fund to finance structural reforms for the transition towards a more sustainable model of development.





European Committee of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

ECON activities

The EU SME Strategy one year on – joint CoR Eurochambres Webinar



Small and medium enterprises (SMEs) constitute the backbone of a European economy harshly affected by the pandemic. On 10 March 2020, at the dawn of the COVID-19 storm, the European Commission published the SME Strategy for a sustainable and digital Europe, to support SMEs with the challenges of the economy of the future. Over the past year, the economic system has gone through a painful makeover and today looks much different than any prediction could have envisaged. Against this

background, the Committee of the Regions and Eurochambres held a webinar on 10 March 2021 to discuss the main achievements of the EU SME Strategy and the opportunities it provides for a swift and successful recovery. Despite the public support measures made available by the EU and its Member States, SMEs have been severely affected by the unprecedented shock of the pandemic. However, as emerged in the webinar, the priorities set by the SME Strategy remain crucial as long as their implementation is adapted with flexibility to the current crisis situation. During the webinar, the discussion touched on the Recovery and Resilience Facility, and the significant consideration that should be attributed to SMEs in the National Recovery and Resilience Plans. In this respect, local and regional authorities could be best placed to convey the local challenges faced by SMEs to the national legislator responsible for drafting the plans. The speakers agreed that, as Commission President Ursula von der Leyen said², SMEs are the motor of our economy and will be the engine of our recovery. In other words, the mitigation of the economic and social effects of the pandemic and the conditions for a fair, strong and rapid recovery depend to a large extent on the success of the SME Strategy and the RRF. More productive and resilient SMEs will be the drivers of the economic revival, provided that they are allowed to thrive in a system that favours innovation and partnerships at the local and European level.

² In the 2020 State of the Union Address at the European Parliament, available [here](#).



European Committee of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

European Entrepreneurial Region Prize Ceremony



This year's special edition of the European Entrepreneurial Region award ceremony was hosted by the CoR president Apostolos Tzitzikostas during the online plenary session of the Committee of the Regions on Thursday 18 March. Unusual times call for unexpected solutions and the EER prize this year was awarded to six regions, instead of the usual three, for the two-year period 2021-2022. The extended time span will allow the winners to plan and implement strategies for a successful recovery. Not surprisingly, this special edition of the EER prize revolved around the theme "Entrepreneurship for a Sustainable Recovery". The six winning regions were announced by MEP Eva Maydell, Michael Murphy, president of the ECON Commission at the CoR and Hubert Gambs, Deputy

Director of DG Grow. The regions awarded for their dedication to sustainable economic recovery and development were: Provence-Alpes-Côte d'Azur, from France, Madrid Region from Spain, Silesia Region from Poland, Helsinki-Uusimaa Region from Finland, Gabrovo Municipality from Bulgaria and Castelo Branco Municipality from Portugal. In conclusion, the panel decided to assign for the first time a special mention to the Vukovar-Srijem County, in Croatia to encourage the region to continue its efforts and re-apply next time.

ECON stakeholder consultation: the SDGs outline the path for a fair and sustainable recovery at the local, regional and European level



In preparation for a new opinion on the SDGs scheduled for adoption at the plenary session on 30 June 2021, the European Committee of the Regions gathered more than one hundred participants on 25 February 2021 for an online stakeholder consultation on delivering the Sustainable Development Goals by 2030. COR rapporteur Ricardo Rio (PT/EPP), Mayor of Braga, welcomed this opportunity to collect contributions from representatives of local and regional governments, civil society organisations, associations of regions and cities and other international players working on Agenda 2030, to be channelled in his recommendations on how to integrate the SDGs into the European

Semester cycle and the Annual Sustainable Growth Strategy, for a fairer and sustainable recovery. During the discussion, all speakers stressed the crucial role played by local and regional authorities in the implementation of the SDGs, despite the additional challenges posed by the COVID-19 pandemic. They unanimously expressed the need for a more integrated approach of shared responsibility across the levels of governance from local to national, to European. This represents an invaluable opportunity to amplify the positive spillover effects of different policies implementing the SDGs at various levels of government.

EU Economic Policies

State of discussion

ECON activities



European Committee of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

The overarching conclusions that can be drawn from the discussion are the heartfelt commitment of the participants to continue working on the SDGs and to strengthen the dialogue and collaboration initiated within the framework of the former multi-stakeholder platform on SDGs, and the widespread agreement on the importance of the active contribution of local and regional governments to the implementation of the SDGs, already acknowledged by the Commission in the Staff Working Document *Delivering on the UN's Sustainable Development Goals*.

CoR-OECD survey on the SDGs



The CoR and the OECD invite Local and Regional Authorities to participate in a [survey](#) on the SDGs as a framework for recovery. The results of the survey will be presented during the European Week of Regions and Cities in October. They will also contribute to a CoR SDGs opinion and the broader OECD Programme on "A Territorial Approach to SDGs: A role for cities and regions to leave no one behind"; which seeks to support cities and regions in fostering a territorial approach to the

SDGs. The survey is accessible [here](#) and is open until Friday 11 June 2021.

Political Launch of RegHub 2.0: the consultative Network of Regional Authorities for EU Policy Implementation Review



On 3 March, the European Committee of the Regions launched the mainstreaming phase of the Network of Regional Hubs for EU Policy Implementation Review. [RegHub 2.0](#) is a platform created to establish a network of local and regional authorities across the EU that provide feedback on the enforcement of EU policies and legislation on the ground. The newly launched version extends the initial pilot project started in 2019 to cover 46 members across 19 EU Member States. RegHub 2.0 is designed to collect evidence from Member States' local and regional governments on the implementation of EU policies and report those findings to the European Commission, the European

Parliament and the European Council through the European Committee of the Regions.

Members of RegHub 2.0 spoke during the launch to express their vision for the success of the platform and the added value of their contributions to improving the EU decision-making process, especially in areas such as public procurement, state aid, health policy, interregional cooperation and so on. Other members of the network sent their contributions through video messages to share their motivation and commitment to RegHub 2.0 and its importance for their region.

The relevance of this initiative has been also recognised by the European Commission, which institutionalised the network as a public stakeholder in the framework of the [Fit for Future Platform](#). The most important features of RegHub 2.0 are the involvement of local representatives in assessing and overcoming the challenges associated with the concrete execution of EU regulations and the unique capacity to directly connect local communities and citizens with the EU institutions.

For more information, watch the recording of the event [here](#).



European Committee of the Regions

ECON

ECONomics

The Bulletin of the Commission for Economic Policy

Building economic recovery and resilience across EU regions and cities

Upcoming - ECON webinar "Making digital transition work for all SMEs" on 23 June

The ECON commission is organising on 23 June a webinar on "Making digital transition work for all SMEs". The webinar will explore ways to develop an enabling regional policy framework and share regional best practices for SME digitalisation. The event will build on the latest research work, including a CoR study on the 'The state of digital transformation at regional level and Covid-19 induced changes to economy and business models, and their consequences for regions', bringing together EU policy makers, stakeholders and experts from European Entrepreneurial Regions.

Upcoming – Second meeting of the Broadband Platform on 15 June



The second meeting of the Broadband Platform this year will take place on 15 June from 10.00-13.00. European Commission experts and local and regional politicians will virtually gather to discuss challenges and opportunities linked to digital transition and connectivity for the cities and regions in Europe. The meeting will focus on key policy initiatives to prevent a digital divide: on measuring digital transformation and the Digital Compass/Digital Decade initiative by the European Commission and on promoting better connectivity in the EU (through the Commission's

connectivity toolbox and the Broadband Cost Reduction Directive). It will highlight the concept of digital cohesion as an essential additional dimension of the traditional concept of economic, social and territorial cohesion enshrined in the EU Treaty.

ECON and Eurochambres invite you to participate in a short survey on "the state of digital transformation at regional level and Covid-19 induced changes to economy and business models and their consequences for regions". The survey is open until 31 May and available [here](#) in all EU languages.