

Summary of the informal session on ‘How to stimulate interregional innovation investments – what would the proposed Interreg “component 5” bring us?’ – 16th of January 2019

On 16 January 2019, the Permanent Representation of Sweden to the EU and the Vanguard Initiative organised an informal information and discussion session about the topic *How to stimulate interregional innovation investments – what would the proposed Interreg “component 5” bring us?* The session gathered 60 regional representatives and 20 representatives from Member States’ Permanent Representations to the EU. The event was a follow-up of the meeting hosted by the Dutch Permanent Representation on the 25th of May 2018.

After introduction remarks from **Jeanette Lund**, Councillor for Industry Policy, Permanent Representation of Sweden to the EU, the session started with a panel discussion where the EU institutions gave an update on the state of negotiations regarding the newly proposed “Interregional Innovation Investments” tool (hereafter “Component 5”). **Peter Berkowitz**, Head of Unit for Smart and Sustainable Growth at DG REGIO, presented on behalf of the European Commission, outlining the reasons why the Commission has proposed this new initiative and its foreseen content. Berkowitz stated that the proposal has gained political support, but still needs further discussions. The Component 5 is a response from the European Commission to demands raised by the “smart specialisation community” (Regions, Academic, and other stakeholders) for strengthened support to interregional collaboration in the field of smart specialisation. The Component 5 is also an answer to a world-wide trend and shift to global value chains, as it aims to encourage close-to-market investments involving innovative products and services through the deployment of new technologies or processes, within European value chains. Berkowitz furthermore highlighted that this topic is also crucial for less developed regions, which is the scope of the proposed strand 2. The Commission intends to pursue a close dialogue in the coming months with concerned regions on strand 2.

Calin Chira, Chair of the Council Working Party on Structural Measures, representing the Romanian Presidency gave the viewpoint of the Council. The Council has proposed to move component 5 from the ETC-regulation to the ERDF-regulation as a majority of Member States supports this move. The position of the Council has not changed since the last discussions took place in November 2018, and Chira does not believe it will change moving forward. The budget discussion will take place in the more general negotiation about the multiannual financial framework (negotiation box). Chira explained that there is a need for increased understanding of what kind of activities will be financed by the new initiative, who are the potential beneficiaries and how component 5 can contribute to the main goals of Cohesion Policy and its EU added value. Chira furthermore stated that he sees it as complementary to mainstream programmes, while articulations could be further explained.

Since the session was organised during a plenary week in Strasbourg, the European Parliament’s viewpoint was presented by **Lieke van Alphen Buscardini**, Senior advisor EU Public Affairs, South Netherlands. The European Parliament debated the Arimont’s report in plenary on the day before the event – 15 January, with several MEPs voicing their support for component 5. The report was adopted with great majority on the same day as the event, 16 January. van Alphen Buscardini presented the main content of the report and how it differs from the Council’s and the European Commission’s proposals. Unlike the Council, the Parliament proposes to keep component 5 within the ETC-regulation but moving it to its own new section of the regulation.

Wim De Kinderen, International Project Manager, Brainport Eindhoven EU Office, South Netherlands presented examples from the Vanguard Initiative and the thematic S3 platforms (S3P) on why Component 5 is a welcomed instrument, answering to identified needs. Based on experiences from the Vanguard Initiative’s Pilot Projects, De Kinderen showed how Component 5 can help in solving the problems that interregional collaboration projects are facing in taking considerable steps forward in creating European industrial value chains. De Kinderen also highlighted that the tool is not only relevant for the Vanguard Initiative, but also for the largest S3 partnerships community that involved a large number of regions across Europe and cover a wide panel of sectors.

A topic that was much discussed during the session was the issue regarding **direct management**. According to Berkowitz this is *the* key issue surrounding the Component 5 at the moment. The Romanian Presidency acknowledged that direct management is needed for the tool to have an impact; the Council seems to be in favour of direct management even if Component 5 is moved to the ERDF-regulation. There are several reasons why direct management is crucial for Component 5, highlighted by both the speakers and the audience. Direct management will reduce coordination costs which is a crucial aspect for cross-regional cooperation, avoid state-aid issues notably for projects being close to market, allow for swift operations to keep pace with technological developments, facilitate the development of synergies with other EU programmes, notably Horizon Europe.

Wim De Kinderen also highlighted that besides direct management, the Vanguard Initiative would like to see an **earmarked budget for Component 5**, complementary to the Operational Programmes, in order to allow beneficiaries to build a regional top-up from mainstream ERDF-funding. Furthermore, the Vanguard Initiative would like Component 5 to include **co-creation aspects regarding the design of the work programmes**, something which was in line with remarks made by Berkowitz when discussing how the European Commission foresees the implementation of Component 5. The work programme should also reflect the specific needs of the Cohesion policy, e.g. the territorial dimension and the bottom-up approach. There is also a need to answer to EU fragmentation in value chains, with a view to compete globally.

As part of the discussions, the Council was asked to explain the logic behind the proposal to move Component 5 from the ETC-regulation to the ERDF-regulation. Chira explained that the decision was based on the fact that the majority of Member States preferred this solution. An additional clarification came from the Austrian Permanent Representation, explaining that the move was proposed to “secure and save the instrument”, and that it was a response to the overall reduced budget for ETC proposed by the European Commission. Adding a new instrument, with significant budget, while decreasing the overall budget for ETC was not seen as a positive proposal by the ETC-community. The proposal to move the Component 5 to the ERDF-regulation is a way to save it, since it might disappear in negotiations if it remains within ETC, when the budget for Components 1-4 will be negotiated. The European Commission, the Council and European Parliament positions on this are quite similar.

As a last take away message, Chira concluded that there is a need for investments through Component 5 and encouraged the audience and potential beneficiaries to voice the benefits they see with the proposal and to spread concrete examples which motivate the need for the Component 5 across Europe.

The Vanguard Initiative would like to thank the Permanent Representation of Sweden to the EU for hosting the event and the audience for attending. We ask everyone to continue the efforts of supporting component 5, until the moment of the final vote by our national governments in the European Council. We encourage an active communication effort to share examples on why we need the Component 5 using the Twitter hashtag #weloveC5.

For more information:

[Vanguard Initiative's position paper on the MFF.](#)

[Vanguard Initiative's working document on Component 5](#)

Minutes from the informal session on ‘How to stimulate interregional innovation investments – what would the proposed Interreg “component 5” bring us?’

Welcome and introduction

Jeanette Lund, Councillor for Industry Policy, Permanent Representation of Sweden to the EU

Lund welcomed everyone to the event hosted by the Permanent Representation of Sweden to the EU in cooperation with the Vanguard Initiative and Skåne European Office, Region Värmland and Central Sweden European Office. Lund started by presenting the Swedish position on the Multiannual Financial Framework (MFF) which is a position that includes a smaller budget with an overall expenditure ceiling for the next multiannual financial framework that does not exceed 1 per cent of the EU’s GNI, in line with the current and previous frameworks. This position includes a substantially decreased overall-budget for Cohesion policy. Lund, however, pointed out that the Swedish government is of the view that territorial cooperation can contribute to EU-added value by enabling common development-projects across national borders. The programs are important tools to strengthen growth in border-regions, and that smart specialisation is a good example which can contribute to more focused actions both in cross-border and national programs. Lund also commented shortly on the timeframe for the negotiations, and the most likely scenario for reaching an agreement of the MFF is either during the Finnish presidency in autumn 2019 or during the Croatian presidency in spring 2020. Referring to the overall budget negotiations, Lund also pointed out that “nothing is agreed until everything is agreed”, and that changes can happen along the way.

Interregional Innovation Investments – update from the negotiations

Peter Berkowitz, Head of Unit for Smart and Sustainable Growth, European Commission

Berkowitz started his presentation by discussing the background to why the European Commission proposed component 5. It can be seen as a response from the European Commission to demands raised by regional authorities, both members of the Vanguard Initiative and from the overall smart specialisation community, to strengthen interregional collaboration in the field of smart specialisation. Furthermore, there is a world-wide trend and shift to global value chains, both in less and more developed regions. The World Bank has a forthcoming report on global value chains that will be published this year and all regions, including Europe, needs to pay more attention to this. Component 5 answers also to such challenges, as it aims to encourage close-to-market investments involving innovative products and services through the deployment of new technologies or processes, within European value chains.

The proposed budget for the initiative is divided equally in two strands. The first strand is oriented to more developed regions and builds on the experiences from the thematic S3 platforms and the Vanguard Initiative, but the scope of the strand will be expanded and broadened. To attract less developed regions the European Commission is proposing a second strand of the initiative as well. The second strand will be more policy-oriented and focus on capacity building. The European Commission is interested in hearing the views on component 5, and especially on the second strand, from policy makers, academia and other stakeholders in member states in the Baltics, central and eastern Europe and the Commission will organise a dialogue with these actors in the coming six months.

Berkowitz mentioned that there will be a consultation exercise to develop the work programmes for both strands of component 5, but this process will not be launched until there is a decision by the Council and the European Parliament on component 5. Lastly, Berkowitz briefly discussed the timeline, mentioning that the Commission is waiting for the decision by the Council and the European Parliament on how to move forward with component 5. The Commission is happy to support this process where it fits best.

Calin Chira, Chair of the Council Working Party on Structural Measures

Chira started his presentation by emphasizing that Cohesion Policy is the most visible EU policy in Romania, which has brought many positive changes to Romania, and the presidency is committed to

moving ahead with the open and ongoing files in this area as far as possible. Nevertheless, the Romanian presidency is limited in time due to forthcoming European elections.

The Council Working Party on Structural Measures has had several discussions regarding the ETC-regulation and component 5, and there has also been an orientation debate in the General Affairs Council. A majority of the delegates supports the move of component 5 from the ETC-regulation to the ERDF-regulation. The position of the Council has not moved since the discussions took place in November, and Chira does not believe it will change moving forward. Chira mentioned that the Council does not see any risk about moving component 5 from the ETC-regulation to the ERDF-regulation. He compared component 5 to the European Urban Initiative, which is currently funded under ERDF, and with a similar design, it is logic to fund also component 5 under ERDF.

There is a need for more discussions to understand what kind of activities that will be financed by component 5, who are the potential beneficiaries and how it contributes to the main goal of Cohesion Policy. Chira therefore encouraged the audience, as potential beneficiaries of component 5, to voice the benefits they see with the proposal.

Regarding the timetable, the Romanian Presidency do not foresee additional technical discussions on component 5 for the moment. The Common Provisions Regulation will be negotiated with the European Parliament during the Romanian Presidency, but it is not likely that the specific ETC-regulation will be discussed. The ETC-regulation is expected to be discussed together with the ERDF file in its entirety. The Council might get this mandate in February but with the tight deadline for the Romanian Presidency Chira believes it will be too tight for the Romanian presidency to take on these negotiations.

Lieke van Alphen Buscardini, Senior advisor EU Public Affairs, South Netherlands

Since the session was organised during a plenary week in Strasbourg, the European Parliament's viewpoint was presented by van Alphen Buscardini. On the day before the event, 15 January, the European Parliament debated the Arimont's report in plenary, with several MEPs voicing their support for component 5. The report was adopted with great majority the day after, on 16 January.

The proposal from the European Parliament is to take component 5 out of article 3 of the ETC-regulation, which describes the goals of ETC. Instead, component 5 is moved to a new article of the ETC-regulation. The Parliament proposes direct or indirect management with the support of an expert group and 3rd country participation. Furthermore, if the budget of the "new initiative" is not spent by 2026 the Parliament proposes to move its budget to component 1-4.

The focus of the "new initiative" should be collaboration based on smart specialisation, and to tackle the persistent systemic failures that exists at the testing and validation stage of demonstration of new technologies, especially when innovation is the result of the integration of complementary regional specialisations creating innovative value chains. The Arimont's report also specifies that a strong ETC principle should apply, and that an equal share of financial resources should be dedicated for less developed and lead regions.

After the presentation on the position of the European Parliament a few comments and questions were selected from the audience. The first comment came from Baden Württemberg and was directed to Carin Chira. In regions that do not receive a lot of ERDF-funding, the colleagues working with Cohesion Policy are not in favour of earmarking funding for component 5, while colleagues working with innovation are hesitant to move component 5 to ERDF as they are afraid it will disappear in the process. Therefore, Baden Württemberg supports that component 5 remains a part of the ETC-regulation.

Chira answered that component 5 will not work without direct management. If allocation of funding to component 5 is based per region it will not have the same impact. Nevertheless, Chira emphasized that a further discussion on the elements of component 5 and its European added value is needed. ETC is funding cooperation between public administrations, but when talking about funding for European value

chains the target groups are SMEs, researchers and universities etc. This is a dimension of why component 5 is perhaps not well suited to be a part of the ETC-regulation.

A second comment from the audience came from the Basque Country, highlighting the worry that component 5, if moved to the ERDF, would become too similar to the current article 70. The experience from the Basque Country regarding applying article 70 is that it is very difficult. Following this rationale, the Basque Country supports that component 5 remains in the ETC-regulation. The Basque Country also emphasized that component 5 needs direct management to avoid the difficulties faced when using article 70 in relation to state-aid rules.

Chira answered that, as far as the Romanian Presidency understands the discussions in the Council, direct management of component 5 will remain, even if it is moved to the ERDF-regulation in order to avoid state-aid complications. A last comment was made by Berkowitz, who said that the most important issue at the moment concerns if component 5 will have direct or indirect management. The analysis by the European Commission is that component 5 needs direct management for many reasons including; state-aid issues, projects being close to market and facilitate for cross-regional cooperation.

Interregional Innovation Investments – a welcomed tool within the ETC regulation for interregional collaboration

Wim De Kinderen, International Project Manager, Brainport Eindhoven EU Office, South Netherlands

De Kinderen presented the viewpoint from the thematic S3 platforms and the Vanguard Initiative on why component 5 is a welcomed instrument. Based on experiences from the Vanguard Initiative's Pilot Projects, De Kinderen presented how component 5 can help solve the problems that the pilots face in taking considerable steps forward in creating European industrial value chains. As such, there is a clear EU added value with component 5 and it is addressing a gap in the current support framework. Since component 5 is designed to answer the needs, identified within the Vanguard Initiative and the thematic S3 platforms, it will also benefit all partnerships operating under the three thematic S3 Platforms.

The Vanguard Initiative wants to see an earmarked budget for component 5, so that this cannot be changed. The budget should be complementary to the Operational Programmes, in order to allow beneficiaries to build a regional top-up from mainstream ERDF-funding. The Vanguard Initiative also wants component 5 to have direct management since this will reduce coordination costs, avoid state-aid issues and allow for swift operations to keep pace with technological developments. Furthermore, the Vanguard Initiative wants component 5 to include co-creation aspects of the design of the working programmes.

A reaction from the Romanian Presidency following this presentation was that such concrete examples which motivate the need for component 5 should be better known across Europe. There is a need for investments through component 5 and there is a gap in funding. The audience was encouraged to disseminate such examples to their member states and across Europe.

Discussion moderated by Michael Johnsson, Senior EU Policy Officer, Skåne European Office

The first questions from the audience came from the Czech Permanent Representation and was directed to Berkowitz; which type of investments are foreseen under the two proposed strands of component 5? How can synergies with central management initiatives be achieved, and how does the European Commission intend to create synergies with the mainstream ERDF-instruments?

According to Berkowitz, strand 1 foresees the type of projects that are implemented by the Vanguard Initiative and the thematic S3 platforms, i.e. concrete business cases that are facing barriers of different types. The Commission has not seen the same capacity from newer member states to be involved in initiatives such as the thematic S3 platforms. Therefore, strand 2 targets this challenge, to support capacity

issues to build linkages between different actors in different regions within and across member states in less developed regions. The word “investments” is not included in the title of strand 2 since its focus is capacity building but this does not mean that there will be no investments. Furthermore, the Commission hopes to achieve convergence between strand 1 and 2 towards the end of the programming period, to bring the strands together.

Regarding synergies with mainstream ERDF-programmes Berkowitz said that smart specialisation in the next programming period should be outward looking and create linkages between operational programmes and regions. This is difficult to achieve through the mainstream programmes since these are region specific. Component 5 can therefore also be seen as a tool to strengthen the outward looking dimensions of smart specialisation.

Another question was directed to Chira, regarding the Council’s proposal to move component 5 from the ETC-regulation to the ERDF-regulation and if the logic behind this proposal could be explained further? Chira explained that the proposal is based on arguments coming from the member states and the ministers in charge of Cohesion Policy. In the General Affairs Council the majority of member states wanted to move component 5 to the ERDF-regulation.

An additional clarification came from the Austrian Permanent Representation, explaining that the move was proposed to secure and save the instrument. Within the Council, the ETC-community is conservative and almost the entire community complained about the element of direct management. The move was also a response to the overall reduced budget for ETC proposed by the European Commission. Adding a new instrument, with significant budget, while decreasing the overall budget of ETC was not seen as a positive proposal. Moving component 5 to the ERDF-regulation is a way to save it, since it might disappear in negotiations if it remains within ETC, when the budget for component 1-4 will be negotiated.

Berkowitz observed that the logic in the Council is similar to the logic in the European Parliament, since the European Parliament also proposes to “isolate” component 5 in a separate section of the ETC-regulation while increasing the budget for component 1-4. So, both institutions have similar logic but proposes two different outcomes.

A remark was also made by the Dutch Permanent Representation, emphasizing that the Dutch government is strongly in favour of component 5. The Dutch Permanent Representation also encouraged the Vanguard Initiative and members of the audience to communicate concrete examples on how component 5 can make Europe stronger and improve our position to compete with China and the USA.

Lastly, the panel was given the chance to give some final remarks. On behalf of the Romanian Presidency, Chira thanked the Vanguard Initiative and the audience for the messages and examples shared. He also thanked the organisers for the invitation to give the view from the Council and concluded that he does not see component 5 as threatened as it responds to clear gaps in funding. Berkowitz thanked the audience for the useful discussion. He concluded that from a political point of view, despite its small budget, the ambition of component 5 is to improve Europe’s competitiveness.