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The Vanguard Initiative calls for an integrated EU industrial & innovation policy based on interconnected regional ecosystems

Core messages

Since its establishment a decade ago, the Vanguard Initiative (VI) has been successful in fostering innovation, collaboration, and new industrial growth across Europe. Our model of interregional collaboration along industrial value chains, based on smart specialisation principles, inspired the development of EU policies, notably the Smart Specialisation Thematic Platforms and their 4-steps methodology (LEARN, CONNECT, DEMONSTRATE, SCALE-UP) as well as the Interregional Innovation Investment (I3) Instrument. On the basis of its commitment to promote co-investments in European priority areas, the VI has recently launched its own funding tool¹, based on coordinated mobilisation of regional fundings to foster SME participation in innovation projects and accelerating market uptake of innovation.

The European Council called in April 2024 for the adoption of an EU competitiveness Deal to face the new geopolitical reality and increasingly complex challenges. In recent years, the EU has developed a set of policy responses, mostly in reaction to multiple crises, and its approach towards industrial policy has deeply evolved, often losing sight of the regional anchorage of industry.

Taking stock of those evolutions and ahead of the new strategic agenda for 2024-2029 and the preparation of the next Multiannual Financial Framework (MFF), **the Vanguard Initiative is calling for an ambitious EU industrial & innovation policy co-developed and co-implemented with Member States and their regions, with the objective to leverage co-investment in key EU priorities. The Vanguard Initiative puts forward several proposals and is committed to develop them further, test and pilot new approaches, in collaboration with EU institutions.**

This renewed **EU industrial & innovation policy must** :

- ✓ Fully reap and develop the potential of **EU industrial and innovation ecosystems**, meaning that a stronger consideration of the **regional dimension** and the role of regions in those policies is needed, through enhanced place-based approaches. Regional ecosystems are the place where all relevant actors – companies, research centers, further education colleges and schools, universities, clusters and innovation intermediaries, training centres, public bodies,... collaborate to innovate, and where commercial uptake of innovation can take place.
- ✓ Leverage private and public funding and co-investments around key EU priorities and value chains, considering both the need of investing in **R&I** at different TRL levels and of **accelerating market uptake and the industrial and commercial scale-up of innovation**, while better connecting innovation capabilities and industrial needs across

¹ More information about our VINNOVATE call : <https://www.s3vanguardinitiative.eu/multipurpose-page/call-2024>

Europe. Addressing funding needs at high TRLs (in particular TRL 6 to 9) is particularly important.

- ✓ Ensure a level playing field, within Europe and at global scale, through an effective EU toolbox. It should focus on **collaborative approaches**, and in particular promoting interregional collaboration along industrial value chains.
- ✓ Be **inclusive for all regions**, according to their own strengths and potentials, and for **SMEs** that are the heart of the EU economy and should be enabled to reap the benefits of the Single Market and participate in EU value chains. Considering the relative concentration of excellence and of industrial ecosystems is needed for improving the global performance of Europe.
- ✓ Fosters full collaboration with and participation of our closest partners, notably the UK including its national and regional level, is also crucial.

Smart specialisation (S3) principles could be instrumental in developing such Europe wide collaborative approaches and paving the way for economic transformation, EU leadership and open strategic autonomy. Cluster collaboration on the basis of S3 complementarities can also support the twin transition and enhance resilience by fostering cross-sectoral, interdisciplinary and trans-European strategic initiatives.

The case for an EU industrial and innovation policy based on more collaborative approaches

The need for a strong EU industrial policy has gained a strong momentum, and the EU has developed a large set of new instruments and regulations, but mainly based on national approaches, and largely relying on fiscal capacity of individual Member States, putting the level playing field within the Internal Market at stake. The regional dimension of industrial ecosystems and asymmetric effects of global challenges have been largely overlooked. State Aid rules continue to prove challenging for regions seeking to actively promote research and innovation activities, including cross border ones.

The New EU innovation agenda renewed the emphasis on developing regional innovation ecosystems and their interconnection, notably through the Regional Innovation Valleys Initiatives, supported through Horizon Europe (EIE) and I3. This is a significant step towards a stronger recognition of the regional dimension of innovation policy. Other initiatives go in the same direction, e.g. Thematic smart specialisation platforms, Euroclusters, Hydrogen Valleys, Net-Zero Valleys, European Digital Innovation hubs,... The Partnerships for Regional Innovation also address innovation as a means to create societal benefits and contribute to the green and digital transition as part of regional transformation agendas.

However, the growing complexity of our societal challenges, the level of investment required for the twin transition, and the global competition require going further and faster in developing critical masses at the EU level, and new mixes of funding as well as more synergetic approaches across policy fields and policy levels. In particular, a stronger connection between industrial and innovation policy is needed to overcome the innovation paradox and connect knowledge development to industrial needs and industrial uptake, especially those of SMEs.

The Letta report provides a comprehensive analysis of the European Single Market. It pleads for a more European approach of industrial policy and highlights the essential role R&I will play in competitiveness when it comes to creating new and transforming existing industries, society and the environment sustainably. It also proposes a 5th freedom embedding research and innovation drivers at the core of the Single Market.

Vanguard Initiative vision and proposals

Taking this into account, **the Vanguard Initiative calls for a new industrial & innovation policy toolbox** addressing industrial competitiveness challenges. This should be composed of a complementary set of clear and focused instruments that are not sector specific but could be accommodated to a various set of value chains. This toolbox should provide solutions for well-established market failures such as high costs for developing R&I capabilities and infrastructures, fragmentation of funding which implies lack of private and industrial engagement and lack of cross-regional collaboration; the valley of death between research and commercialisation ; and the lack of capabilities for SMEs to adopt new technologies (skills, access to expertise and access to state-of the art innovation infrastructure and pilot lines, IP management).

This toolbox should focus in particular on :

- **Interconnecting regional ecosystems** and fully recognising the regional dimension of industrial and innovation policies. Regions are the right place to address innovative ecosystems, making the links between our industry/SMEs and knowledge institutions (research centres, universities, further education colleges and schools, TTO, training centres, ...) as well as our citizens. Regionally developed innovation ecosystems connected across Europe will be the driver of new European strategic value chains. Furthermore, working with partners within geographical Europe, all of which are working towards the same goal, would help to create a critical mass and drive productivity and competitiveness within Europe as a whole.

Harnessing regional ecosystems by better connecting and integrating them across Europe provides three real advantages: 1) making technology infrastructure usable across Europe for industry to test and invest here; 2) providing technology providers and appliers/users with enough potential to become economically successful; and 3) thereby enabling R&I to play a vital role in providing economic and social benefits for European citizens today and tomorrow.

- **New approaches and tools for connecting R&I support to industrial deployment.** A better coverage of the innovation life cycle, across the TRL scale is needed. A stronger priority should be put on enabling market uptake of new innovative technologies and fostering EU competitiveness and modernisation of industry. Stronger connection between technology development and application domains is needed, also taking into account the relative geographical concentration of excellence. Our evidence suggests that a persistent market failure remains at the piloting and demonstration stage of new technologies, especially when innovation is the result of the integration of complementary regional specialisations. The aim being to provide industrial companies,

notably SMEs, easier access to networked facilities for piloting and demonstration of new products and services.

- **Using Smart specialisation principle as driver for shaping innovative EU value chains.** Putting the outward looking perspective of Smart specialisation into practice through the development of an effective support landscape for interregional collaboration including with geographically close partners – from thematic S3 platforms (TS3P) to funding solutions. It can also be a strong leverage for developing effective synergies between sources of funding. Fostering cross-cluster collaboration can be instrumental in that perspective, as clusters can facilitate connection between businesses—including SMEs—and research and innovation stakeholders.

Building on recent policy developments, we therefore ask the European Commission to develop:

- A **comprehensive support framework for interregional collaboration**, covering the whole collaboration life cycle – from connecting to funding – with a generic approach adaptable to diverse value chains (avoiding addition of sectoral specific policies that make the policy landscape more complex), and simple implementation mechanisms. We would propose further simplification of application procedures and requirements, from a user perspective : i.e. lump sum funding, simplified reporting and expenditure management... A bottom-up approach is needed, allowing to build trust and long lasting collaboration between different categories of stakeholders (no one-off calls). An EU support scheme providing top-ups for interregional funding mechanisms like the Vanguard ‘VINNOVATE’ scheme could also be part of the toolbox.
- An **enhanced I3 instrument, with a significant budget**, and improved implementation modalities so that it effectively addresses investment gaps for creating, linking, upgrading and operating infrastructures that are needed to establish European value chains. The I3 instrument, which was created to support commercialisation and scaling up of innovation projects for the development of European value chains across regions is unique, not only in its support to high TRL innovation activities but also in its objectives which contribute to fast economic impact based on current capabilities as well as to longer term capacity building. I3 must continue to pursue these differentiated objectives according to the current legal basis, and continue to develop/evolve into a **central tool for EU industrial policy** in the mid-term.
- A **refreshed State aid framework**, enabling effective support for innovation, while ensuring a level playing field at EU level is retained:
 - A new state aid exemption framework designed to facilitate and enable interregional collaboration at a large scale, taking experience from existing EU level schemes (interregional voucher schemes, I3, INNOSUP or Eurocluster-like collaboration), and focusing on innovation deployment in SMEs. The framework should also facilitate inter-cluster collaboration.

- The European Framework for State Aid should be reassessed to further stimulate industry-led innovation, especially concerning pilot and demonstration projects, go-to-the-market phases and deployment of new technologies, with open access for SMEs. There is also a case for facilitating the interconnection of open innovation infrastructures through appropriate State aid rules.
- In particular, an IPCEI framework that is more inclusive towards SMEs, with a clearer role for regions in decision making and development of IPCEI projects, would be useful. This could take the form of an ‘IPCEI for regions’. Regions know their hidden champions best and they have the potential to transform markets EU-wide and globally.
- An EU policy framework for supporting collaborative action in developing **networks of innovation and technology infrastructures**, open to SMEs and facilitating demonstration activities, market uptake of technologies. We strongly support the ongoing work for developing such an EU Technology Infrastructure Strategy that would foster the development and accessibility and connectiveness of technology infrastructures so that companies can truly contribute the green and digital transition. This should facilitate access to associated services, to meet companies needs regarding IP management, skills, and access to funding. Furthermore, the infrastructures in our closest partner countries should be considered in the development of the strategy and mutual openness sought rather than duplication of efforts.

The Vanguard initiative network has developed experience in piloting such collaboration, but market failures remain to be solved to fund such approaches and de-risk investment. The VI has identified investment gaps for creating, linking, upgrading and operating such networks of facilities.

- Further reflection on effective implementation of **synergies** across EU programmes, and between EU and regional funding, building on S3 approaches through institutional and strategic interlinkages between S3 and strategically important policies such as the new European innovation agenda. More work is needed on harmonisation of rules.

The Vanguard Initiative remains committed to contribute to this discussion, to share experience and to pilot innovative solutions and policy experiments.