

Vice-President KATAINEN Speech
for the High-Level Event
"Smart Regions: driving smart specialisation investments in
priority areas for European growth"

2 June (9:30 – 10:00)
"Square", rue Mont des Arts, Brussels

- Cohesion Policy and the ESI Funds are a key driver for **structural reforms and for investment**.
 - **Structural reforms:** Many CSRs are implemented with ESI Funds support, in particular in the field of research and innovation. The ESIF ex ante conditionalities supported such required reforms. They triggered a fresh look into existing policy strategies, insisted on a better evidence base and promoted more stakeholder involvement. Research and innovation strategies for Smart specialisation are a prime example of this.
 - **Of course Cohesion Policy is also about Investment:** around 1/3 of the EU budget goes into fostering cohesion between the different EU countries and regions. This makes Cohesion Policy one of the biggest EU growth and jobs drivers. It works in complementarity with EFSI to push together for more investment.
- **We cannot afford to leave the least favoured regions in Europe behind.** We need jobs, growth and investment everywhere. ESI Funds are the ideal instrument for a differentiated, place-based investment strategy. They address in a tailor made way the challenges and opportunities that are specific to the different regions. They also anchor the cutting-edge ideas in regional realities, and transform the ideas into better lives for everyday people.

The **challenges** can be

- Due to geographic issues: islands, remote areas, sparsely populated, disconnected territories,
- or due to limited administrative capacities to cope with the complexity of investment policies, public procurement, state aid, etc.
- or due to the industrial landscape with industries that are not yet fit for the globalised, digitised, fast-moving economy that we live in
- or the disconnection between less research intensive regions and cities with their universities, high density of firms, talents, etc. .

We need to transform these economic landscapes to make them fit for the future.

- The **opportunities** are:
 - These Smart specialisation strategies **create clear, stable, predictable investment conditions in regions to mobilise public and private R&I investments**, for instance for industrial modernisation via the full use of Key Enabling Technologies (KETs) in existing and emerging industries, via testing and demonstrating innovative renewable energy solutions, address health issues not only to help patients, but also to boost business to provide solutions, innovative ways to ensure sustainable, healthy nutrition and make the best out of Europe's fame for quality food.
 - They **focus investment in regions on their specific growth areas with competitive advantages**.
 - **Smart specialisation allows regions at different development levels to take different development paths**. This means Europe can develop multi-speed to the benefit of all. Smart specialisation priorities allow regions to make themselves and their scientific and industrial potential known abroad. They help find cooperation partners to become part of global value chains and move up in them. It allows also lagging regions to leapfrog in the value chains.
- **Such trans-national cooperation on innovation has proven its value in a number of regions. For instance in the Baltic Sea area**, new and old Member States cooperate and complement each other around joint visions for economic transformation and finding innovative solutions to shared problems, such as sea pollution. In other Macro-Regional Strategies similar activities have started. Such cooperation also helps to shape investment project ideas and mature them.

In addition:

- Europe needs **larger investment volumes targeted on its specific growth opportunities**. Coordination and an alignment of the investment power of EU regions holds the key for this - for instance if they want to invest in energy related innovations. Mobilising the EFSI and its leverage on private investment can boost this further.
- The first **thematic smart specialisation platform concerns energy related innovation**. Projects that emanate from this could find support in a thematic investment platform. The **InnovFin Energy Demo Projects** is a joint initiative by the EIB Group and the European Commission under Horizon 2020. It enables the EIB to finance innovative first-of-a-kind demonstration projects in the field of renewable energy, sustainable hydrogen and fuel cells. These might include, amongst others, first-of-a-kind power, heat, and/or fuel production plants and/or first-of-a-kind manufacturing plants. The EIB provides loans between EUR 7.5m and EUR 75m. The charts out the way for a thematic investment platform in the field of energy.
- I recall from an event of the **Vanguard Initiative** that I attended in February where such energy innovation projects were emerging. They are developing a pilot project for becoming the global leader in components for marine renewables and offshore energy applications. This is crucial for Europe and what we can do best. I understand from the discussions yesterday that there are more ideas for such

project pipelines emerging, also in the fields of agro-food (where we lead the world in variety and quality when we do our best) and industrial modernisation. These multi-regional projects could be the front-runners for thematic smart specialisation investment platforms.

- And that is what the thematic smart specialisation platforms that we launch today are really about: **Investment project pipelines that draw together around related smart specialisation areas the innovators, entrepreneurs and the investors** (be they private, institutional or regional).
- Europe needs **larger investment volumes targeted on its specific growth opportunities**. Here the Investment plan for Europe can play a significant role.
- The **Investment Plan for Europe** – one of this Commission's main initiatives – is aiming at boosting investments in key areas of the European economy. [It can complement ESIF, by striving also for improvements at the structural and regulatory framework.] EFSI aims to support investments in key areas such as strategic infrastructure (digital and energy investments as well as transport infrastructure), environment and resource efficiency, education, research and innovation, health, the social economy, as well as finance for SMEs and Mid-Caps small businesses. It has therefore also the strong potential for economic transformation in these areas.
- The **Investment Plan** consists of three mutually reinforcing strands/pillars:
 - Firstly, mobilising at least 315 billion euros in additional investment over the next three years, maximising the impact of public resources and crowding in private investment. The main instrument to achieve this objective is the **European Fund for Strategic Investments (EFSI)**, which has an Infrastructure and Innovation Window, and a SME Window.
 - Secondly, making sure that this extra investment reaches the real economy. The main instruments to make this happen are the **European Investment Advisory Hub (EIAH)** and the **European Investment Project Portal (EIPP)**.
 - And thirdly, improving the investment environment, both at the European level and at the level of individual Member States. Work is underway to address barriers with an EU and Single Market dimension, as well as regulatory and non-regulatory investment challenges at national level, also stressed in the context of the European Semester.
- The **European Fund for Strategic Investments (EFSI)**, the corner stone of the Investment Plan is now almost one year in place. Yesterday, I could present a Commission Communication on the Investment Plan's achievements so far.
- A significant number of EFSI projects have already been approved by the EIB Group, committing 12.8 billion euros of resources to trigger a total investment value of 100 billion euros. This is already around 32% of the overall EFSI objective of 315 billion euros.
- By now, the EIB Group – the EIB and the EIF – approved well over two hundred loans and guarantees to be covered by the EFSI across 26 Member States, covering many regions.
- The more than 60 projects that been approved so far **in the infrastructure and innovation window of EFSI** are supporting also areas of economic transformation.
- Let me give some examples of EFSI loans and equity investments:
 - EFSI supports an Italian mid-sized steel company's ongoing investment programme in improving its energy efficiency and environmental performance and contributing therefore to industrial modernisation [Arvedi modernisation programme (IT)],

- Investment in a fund targeting new project companies in France that need capital to reach the industrialisation phase. The fund supports private sector entities, mostly SMEs and Mid-Caps in the manufacturing sectors, enabling them to industrialise new technologies, processes, or products. [FONDS SPI - SOCIETE DE PROJETS INDUSTRIELS (FR)]
- A RDI project with a German company, related to the manufacturing of printing machines. It supports the development of high-speed, state-of-the-art, large format digital (inkjet) printing machines and specialised printers for printing on 3D-objects. [Heidelberger Druckmaschinen R&D (DE)]
- A larger investment programme of a chemistry company, having several plants in Italy, concerns R&D, the production deployment of innovative bioplastics process and upgraded product technology. [Novamont Renewable Chemistry (IT)],
- The building of bio-refineries and renewable energy sources in Europe a bio-product mill in Finland [Äänekoski bio-product mill (FI)],
- The support of the first European facility for recycling aviation-grade titanium [ECOTITANIUM project (FR)]
- A project of the Agro-food industry in Greece on the island of Crete supports the development of new product lines in the cold cut meat and dairy food manufacturer segments with enhanced health or dietary properties based on the proprietary “Oliving technology” of the Promoter. [Agro-food industry RDI]
- [A project concerns research and development investments on new product and process development and Capital expenditure for the upgrade of two stainless steel products plants in cohesion regions. [APERAM R&D AND COHESION REGIONS Project (FR)]]
- Small and medium sized enterprises have an important role in creating jobs and helping in economic transformation.
- Under the **SME Window of EFSI**, already some 150,000 SMEs and Mid-Caps are expected to benefit from enhanced access to EIF finance. The support goes directly to SMEs, for example
 - via a loan guarantee together with the Polish Promotional Banks PBK, in order to generate loans to more than 4000 innovative SMEs
 - via an agreement in the UK with Santander Bank that will see €140 million reach SMEs over the next two years.
 - via a microfinance scheme in the Netherlands via the non-for-profit organisation Qredits, where loans amounting to 200 million euros help some hundreds of new entrepreneurs to start and continue their business.
- We expect that a large proportion of start-ups, SME and mid-caps supported through the EFSI and its SME window concern e.g. digitally driven innovations or the digital transformation of their process, product and activities.
- The EFSI's success is heavily dependent on private investors' involvement. Mobilisation of private capital is a key feature of the EFSI and currently represents about 80% of the expected investment value. National Promotional Banks are also involved in the co-financing or implementation of several projects. This operational cooperation should develop further in 2016. Further, concrete opportunities for investment cooperation with countries outside the EU are being pursued.

The second pillar of the investment plan

- It is important, also to mention the other elements of the Investment Plan, apart from EFSI:
- Just yesterday, the Commission launched the transparent and user-friendly **European Investment Project Portal (EIPP)**, providing EU based project promoters the opportunity to boost the visibility of their projects to potential international investors. We have already received more than one hundred investment projects for publication, in particular from emerging regions of Europe and those that has been particularly affected by the economic downturn.
- Further, the **European Investment Advisory Hub (EIAH)** went live in September 2015 and offers project promoters a single point of entry for technical assistance, guidance and advice. This is also the place where both public authorities and private project promoters can find the tools and knowledge necessary to structure and plan a project fit for EFSI but also for any other financing.
- In order to ensure broad coverage of services across the whole Union, the EIB and the EC worked closely with a Core Group of **National Promotional Banks (NPBs)** and prepared a Memorandum of Understanding (MoU) for possible cooperation between EIAH and the NPBs. 18 NPBs have signed the MoU already, further MoUs are in preparation.

The third pillar

- The Third pillar of the Investment Plan aims at removing bottlenecks to investment and to address emerging regulatory challenges – such as those posed by the increasing synergies across network sectors, notably the digitalisation, the transport and the energy systems and the further electrification of transport nodes. Its implementation has to be achieved through complementary actions at EU and country level.
- At EU level, the Commission has started to address a number of barriers to investment notably through initiatives to further deepen the Single Market. In parallel, the Better Regulation agenda of the Commission seeks to simplify the legal framework and to reduce regulatory burden across the single market.
- At national level, the Third Pillar focuses in the need to carry out relevant structural reforms, notably in the context of the European Semester. The dialogue between the EU Institutions and the Member States is crucial. Priority reforms should in particular target those areas with the lowest rate of policy response so far and which generate most of the bottlenecks.

What will be the next steps for the Investment Plan and how will the synergies work?

- It is important, to facilitate the combination and the synergy of existing financing resources such as the European Structural and Investment Funds (ESIF) grants and financial instruments, and the products to be made available via EFSI. The Commission has published in February guidance on how this combination can work. In addition, ESIF programme contributions to EU level instruments should be a practical option for Member States; the Commission is currently discussing with Member States and Managing Authorities the various possibilities of their potential contributions to these instruments.
- Also, a number of **investment platforms** – dedicated investment vehicles that allow grouping together smaller projects – have already been set up, and others are under development in Energy Efficiency, Broadband in remote areas,

Sustainable Transport/green shipping, Raw materials, as well as Education. While it is ultimately for stakeholders to take ownership, the Commission can play an important role in encouraging the development of further relevant platforms.

- These are key tools to finance groups of projects and can greatly increase the effectiveness of the EFSI and other funds. Rules applicable to the EFSI **cooperation with National Promotional Banks** and investment platforms have already been released on the Commission's website. What this means in practical terms is that ESIF can feed into Investment Platforms – national, regional, or sectorial or - or directly support projects in line with the contributing ESIF programme rules and applicable eligibility criteria, while EFSI can come into projects at different risk levels.

Circular economy

- Finally, let me have a word on circular economy
- The circular economy might also play an important role for economic transformation.
- In this context, the Commission adopted last December a circular economy package which will boost competitiveness, foster sustainable economic growth and generate new jobs, while using resources in a more sustainable way. The circular economy initiative is closely linked to our energy and climate policies but could also open new business areas in the frame of economic transformation.
- In a circular economy, materials that can be recycled are injected back into the economy as new raw materials thus increasing the security of supply. These "secondary raw materials" can be traded and shipped just like primary raw materials from traditional extractive resources.
- This way we have the chance of doing more with less. By using raw materials and resources more efficiently and being less dependent on imports, businesses in the EU are becoming more competitive and resilient to supply shocks and price fluctuations.
- Practically, to make this happen, it is important that the business models for the circular economy are widely adopted and also accepted by the banks and other financing partners. In this respect, also EFSI could serve as a kind of laboratory for the financing of innovative structures.]

Closing remark:

- I am fully committed to help smart specialisation deliver fully on its potential to drive and focus investment and transform EU industries in all parts of the Union towards more innovation and knowledge intensity, more and better jobs and finding solutions for societal challenges.