Joint Informal Meeting of Ministers for Research and Industry

Background note on Innovation: Accelerating the transformation of Europe through innovation

15th July 2010, Brussels

Introduction

The mounting pressures of global competition, social and environmental challenges, climate and demographic change or the rarefaction of resources call upon Europe for urgent and swift action with innovation in the broadest sense of the word as the key answer. This means ensuring the transition of the European economy to a knowledge and innovation based economy capable of rising to these challenges and seizing new opportunities. The Lisbon strategy failed to deliver because the systemic nature of this transition was insufficiently perceived. There is a structural underinvestment in the transformation of our economic fabric, because of the complexity and uncertainty that are inherent to such transitions.

The economic and financial crisis underpins the need for an exit strategy through innovation. There is no alternative than to accelerate the transformation of our economies in order to build leadership positions for future markets in a global economy.

It is in this context that the European Council will address research, development and innovation in the framework of the new Europe 2020 Strategy and in particular regarding the flagship initiative «Innovation Union» of which we are awaiting its publication very soon. The flagship initiative « An industrial policy for the globalisation era » will also be published soon and constitutes the other important pillar of the Europe 2020 Strategy to make the transition to a smart, durable and inclusive economy. Those two initiatives should be designed and implemented in close interconnection, as innovation will be the key of transition towards a greener and globally competitive industry.

The Belgian Presidency considers that the European Plan for Research and Innovation will be a new step for the European Union needed to increase innovation as well as valorisation of research results, resulting in economic benefits, job creation, international competitiveness and, notably by accelerating the deployment of new solutions to address today's societal challenges, the general well being of all.

Putting research and innovation at the top of the European agenda constitutes an opportunity for the Belgian Presidency to ensure a clear message for a more ambitious Europe in the fields of research and innovation which is better organised to stimulate interactions between research, the market and the demands of society. The development of an innovative and competitive European Union requires the development of a broad approach to innovation that enables strong partnerships between policy domains, actors and a refashioned multi-level governance. Financing innovation will require in that framework specific attention as it appears as a major bottleneck, which has grown in intensity as a result of the crisis. The gap between research and innovation is the largest in the early stages of the transformation trajectories.

Those are the reasons why the Belgian Presidency organised this joint Research-Industry Informal Meeting. The aim is to support the ambition of the European Council to maintain a leadership position for Europe in a fast changing world. Therefore we have to accelerate new solutions in a common political approach of innovation and industrial transformation that should be part both of the Innovation Union as of the new upcoming industrial policy and to address this message to the Heads of State and Governments.

1. Financing RDI in a long term perspective

To implement the Europe 2020 strategy effectively, specific actions need to be undertaken to accelerate investments in RDI so as to support the transition of the EU economy towards an energy and resource efficient and competitive knowledge economy that ensures sustainable growth. Therefore we need policies for structural change.

As a mobilising tool, the RDI target to increase EU R&D expenditure to 3 % of GDP must be maintained even in times of economic crisis as exit strategies require both short term but also long term measures within an integrated and balanced approach that secure macro-economic stability, including employment, and long-term growth potential. Achieving the objective will not only require heightened priority in the national, regional and EU budgets but also more investment by the private sector. Furthermore, one or several new indicators are needed for monitoring the structural progression made by member states towards a knowledge and innovation economy as a complement to the 3% target. These indicators should be based on more output factors (results) as opposed to input factors (investment).

As far as the public sector is concerned, efforts need also to be pursued to fund basic research. Excellent higher education which is well-funded, autonomous and able to compete at an international level is yet another prerequisite for innovation.

All bottlenecks that constrain private investments in innovation must be addressed. This includes the development of effective financial instruments not only at the EU level but also in the Member States, as large gaps persist in financing innovation, notably for SMEs. These will need to be adapted to the needs of SMEs, and especially young innovating companies, not only at the stage of their conception but more importantly ensuring their further growth so that they can reach sufficient scale and participate in innovation platforms and new value chains. Another specific concern to consider is the to accelerate uptake of eco-innovation by SMEs. Financing innovative projects, notably developed by clusters, should be developed and optimised because of their leverage role for economic transformation and delivering solutions for complex societal challenges. Publicly supported open innovation platforms can mitigate the risks and costs for investing in uncertain long-term innovation trajectories. The policy levels that are closest to the innovation clusters are best placed to facilitate choices on knowledge building that fits best in the innovation system.

Achieving a better efficiency in innovation support is not only about increasing the levels of funding but also about how all the different funding instruments and EU (such as structural funds, agricultural and rural development fund, EIB/EIF instruments, FP7, CIP, SET Plan,…) and national level need to be devised and coordinated to achieve the 2020 goals as to maximise impact and EU value added. The EU value added is crucial in leveraging commitment towards common objectives, common transition pathways towards new economic solutions for 21st century challenges in energy, mobility, health and other societal needs. But at the same time the EU supports mechanisms for innovation should encourage better use of synergies and complementarities between Member States' efforts.

1. What would be your top 3 new measures to be taken at the European level to fill those financing gaps and to accelerate innovation and industrial transformation?

2. What could be the appropriate criteria to ensure European value added (e.g excellence, contribution to challenges, smart specialisation, …)?

2. Towards a more integrated and strategic approach of innovation

The Europe 2020 Strategy aims for smart, sustainable and inclusive growth where the role of innovation policy is to support the transition to a competitive and effective economy using its resources to tackle the major societal challenges, such as climate change, energy and resources efficiency, health and demographic change and social exclusion. Social innovation (including innovation in social dialogue) remains yet another important factor in the completion of the Europe 2020 strategy.

2.1. New synergies between innovation policies and between stakeholders

Policies encouraging networks and supporting the knowledge triangle are vital elements of an integrated innovation policy. Clusters are the key of an innovative and creative economy by creating ecosystems where SMEs and large companies, high and low tech companies, users and producers can closely interact. On the basis of that collaborative and multi-sectoral approach, they constitute a powerful tool to tackle efficiently societal challenges and enhance global competitiveness.

Moving to a new green and sustainable growth path implies strong investment in technological innovation, but also solid changes in production processes and ways of doing business, notably for SMEs. The specific role of SMEs in the innovation chain and in the EU economy requires specific attention in innovation and industrial policy. The success of the strategy requires an inclusive approach of SMEs.
New policies aiming at supporting non-technological innovation have to be developed as a piece of the new integrated approach of innovation. In addition, action is needed to support new attitudes to innovation, creativity and entrepreneurial spirit.
The "Innovation Union" initiative aims to reorient RDI policies towards tackling these societal challenges by addressing the innovation chain in an integrated way and by developing innovation and knowledge partnerships that can address system transition challenges.

The aim of the partnerships is to find research and innovation solutions to concrete problems directly linked to major societal challenges, exploiting the new market opportunities these challenges offer.

The EU needs a framework for the coordinated and coherent use of all policy actions and funding instruments at European and national level to achieve a predefined target to address the challenges and quickly deliver the necessary solutions to the market. It does not need to be a new instrument, but it should contribute to the streamlining, simplification and better inter-connection of the elements in the Union's research and innovation landscape[1], bringing together supply (funding) and demand side (procurement, standards, and regulations), and better connecting these instruments with other EU policies.

Each Partnership will include a roadmap containing a limited set of ambitious actions – e.g. a new Joint Programming Initiative or coordinated FP call on the supply-side; major joint public procurement, new regulation, standardisation on the demand side. Governance of each partnership will be built taking into account the specific features of the theme, and will be mainly based on existing structures focusing to achieve the target.

Therefore the success of the Innovation Partnerships depends on the active involvement of all partners based on a more focussed and strategic approach. Making choices is key for co-investment in common transition paths.

[1] Including the Framework Programmes, Article 185 Initiatives, Joint Technology Initiatives, Public Private Partnerships as part of the EERP, European Technology Platforms, Knowledge and Innovation Communities, Joint Programming, ERA-Net, SET Plan, Lead Market Initiative, etc.

1. *What are the key success factors of the proposed European Research and Innovation Partnerships? How can an inclusive approach of European partnerships for Research and Innovation be ensured, so that public and private stakeholders from all Member States and Regions can participate and benefit from it?*

2. *Which actions should the EU take to support clusters as drivers of innovation and growth and to help Member States and regions develop optimal specialisation strategies?*

2.2. For an enhanced convergence of research and innovation policies: New forms of multi-level governance

The Lisbon Treaty gave the legal basis to the European Research Area and raises the Commission's initiative capacity for implementing ERA by 2020. A recent European poll [2] shows that Europe's citizens mention RDI as one of the first domains on which to act on at the EU level.

However, the fragmented and complex EU RDI landscape makes it difficult to manage funds and programmes in an efficient and effective way.

An integrated approach makes it essential to have a coherent and complementary framework between the different levels involved. Therefore improving governance of strategic innovation policy represents an important issue. An integrated innovation policy implies a system of multi-level governance taking into account the different stakeholders at European, national and regional levels, in line with subsidiarity, and the global dimension of innovation. Furthermore, coherence and coordination between the different EU policies and between EU and national / regional policies must be enhanced in order to mobilise effectively all resources. Duplication of efforts and lack of critical mass for achieving real breakthroughs need to be tackled urgently. Smart and networked specialisation can be a key element in developing multi-level-governance for strategic and integrated innovation policies.

The integrated guidelines urge member states to reform national (and regional) R&D and Innovation systems "to foster excellence and smart specialisation". It can give opportunities to regions and member states to participate in the knowledge economy by developing comparative advantages.

There are different paths for better coordination of policies in the overall European strategy for growth and jobs, such as mutual opening of research programmes, EIB leverage, better targeting of the structural funds, etc. which need to be actively explored in this perspective.

1. How can horizontal coordination between EU policies be enhanced? How can the Competitiveness Council strengthen its contribution to the European Council regarding research and innovation policies?

2. How, where, and at what level, can we ensure better coordination and convergence between EU, national and regional policies?

[2] Eurobarometer, February 2010