Community innovation policy in a changing world

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PURPOSE: Communication on Community innovation policy in a changing world.

CONTENT: in 2005, the re-launched Lisbon Partnership for growth and jobs has stressed innovation and entrepreneurship and called for decisive and more coherent action by the Community and the Member States. On this basis, an ambitious European innovation policy has been launched and the Small Business Act (SBA) has been agreed. Thanks to this partnership approach, progress can today be reported. Almost all Member States have improved their innovation performance. The innovation gap between the EU and its key competitors, the US and Japan, has narrowed. As new competitors are emerging and challenges are getting bigger, the EU must not only sustain the recent positive trend, but further improve it. The aim of this communication is to identify remaining gaps and propose policy orientations on how to fill them. Based on the analysis of achievements so far and the lessons, the Commission intends to explore the feasibility of proposing to the Member States before spring 2010 a European Innovation Act encompassing all the conditions for sustainable development and which would form an integral and crucial part of the future European reform agenda.

PROGRESS ACHIEVED:

(a) improving framework conditions: the EU has since 2005 worked to improve framework conditions for innovation:

- Member States and their regions were encouraged and helped (in particular through cohesion policy) to improve their innovation policies by implementing national and regional innovation strategies and developing evaluation;
- at Community level, access to the single market has been made easier, the availability of cost-effective inputs has been improved, competition policies fostered, and conditions for entrepreneurship and for the growth of new ventures strengthened ; -the removal of barriers to the proper functioning of the internal market for goods and the implementation of the Services Directive by Member States will remove a broad range of administrative and legal obstacles to doing business;
- it is also acknowledged across the EU that excellence in education, skills and training is a pre-requisite for innovation. Lifelong learning has become a policy priority, and reforms in education and training systems in Member States aim to increase investment in human capital, facilitate innovation and promote a more entrepreneurial culture;
- the modernisation of the EU’s state aid rules has provided Member States with an effective public policy tool to support R&D and innovation;
- lastly, the European Union Office for Harmonisation in the Internal Market (Trademarks and Designs) has lowered the cost for European trademark registration applications twice in the last five years. The new rate (40 % lower than previously charged) has reduced the cost of obtaining trademark protection throughout the EU to an all-time low. The average time needed to complete the registration process has also been cut by 50 %.

b) helping to trigger more and quicker market uptake of innovative products and services: regulation and standardisation can provide the right incentives and stimulate markets for innovative products and services:

- new rules on car emissions aim to trigger substantial innovations in the European automotive industry;
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the Emission Trading Scheme (ETS) Directive will foster innovation in renewable energy production and encourage the construction of more environmentally friendly power plants, including new carbon capture and storage (CCS);
- the Strategic Energy Technology Plan helps to accelerate the development of low-carbon technologies essential to achieving the "20-20-20" objectives by 2020;
- the REACH and cosmetics legislation provide major incentives for innovation in alternative substances;
- the Action Plan on Sustainable Consumption and Production and Sustainable Industrial Policy sets out a harmonised, integrated legal framework to foster innovation towards more energy-efficient and environmentally friendly products;
- the revised Eco-Design Directive provides a legal basis for promoting the market introduction of more environmentally friendly products both in terms of energy efficiency and resource efficiency;
- the Lead Market Initiative (LMI), launched in 2008, has identified markets for innovative products and services where innovation is both needed and possible and where the use of the above-mentioned instruments influencing the capacity to quickly put new products on the market in a more focused way can make a real difference (bio-based products, eHealth, sustainable construction, protective textiles, recycling, and renewable energy).

(c) building synergies: the development of the European Research Area since 2000 has led to several initiatives to encourage a more coherent research and innovation system in Europe:

- recent policy initiatives aimed at creating an internal market for knowledge by supporting the mobility of researchers and the access to and the circulation, transfer and exploitation of knowledge and technologies ('5th freedom');
- collaboration on research and innovation has been reinforced. Five Joint Technology Initiatives (JTI) have been set up, each as an independent legal entity with substantial budget allocations from the Seventh Framework Programme. Furthermore, under the European Economic Recovery Plan, public-private partnerships for green cars, energy-efficient buildings and ‘factories of the future’ are being launched;
- the European Institute of Innovation and Technology has been created to stimulate and deliver world-leading innovation by bringing together higher education, research and business around a common goal;

(d) stepping up financial support for research and innovation : European research policies and programmes have been reinforced better to support innovation:

- the Seventh Research Framework Programme, with its substantially increased budget of EUR 54 billion for the period 2007-2013, supports commercially relevant research. The Commission is also facilitating private-sector research coordination through the European Technology Platforms. EU research in key areas such as ICT, health, security, space or marine sciences has increased;
- Cohesion Policy is providing a stable and strategically targeted source of innovation financing: some EUR 86 billion in over 380 of the 455 operational programmes of the Structural Funds for regional development has been earmarked to support research and innovation;
- under the EU rural development policy some EUR 337 million are provided to support the development of new products, processes and technologies in the agricultural, food and forestry sectors. Investments in broadband infrastructure and other innovation projects in rural areas will be further reinforced following the Health-Check of the CAP and as part of the EU Recovery Package;
- within the Competitiveness and Innovation Framework Programme (CIP), the EU has a specific programme dedicated to SMEs and innovation outside the Research Framework Programme with an annual average budget of EUR 225m for the period 2007-2013. A specific amount has been set aside for the take-up of environmental technologies.

2) CHALLENGES TO MEET: the Innovation Scoreboard shows clearly that Europe is already today the continent with some of the most innovative countries and regions of the world. Experience also shows that these countries are better prepared to make use of the exchange of best practices. The same holds true for companies: it is not necessarily the absolute amount of R&D spending that matters, it is the innovative climate within an undertaking that makes the difference in competitiveness terms. The challenge today is to replicate these success stories throughout the EU. It will be very important to ensure that the mindset of society remains favourable towards innovation. Innovation is mainly driven by entrepreneurs. This implies the need to foster a policy and regulatory framework that promotes globally competitive EU industries and rewards investment in research and innovation of both products and processes including innovative forms of work organisation. The social partners have an important role to play in this context. Innovation also needs investors willing to take risks and willing to go beyond short term profit expectations. Lastly, the competitiveness of European industries and their innovation capabilities will particularly depend on access to and mastering of key enabling technologies which are associated with high R&D intensity, rapid innovation cycles, high capital expenditure, and highly-skilled employment.

The Commission proposes two lines of action:

Removing critical bottlenecks in the framework conditions for entrepreneurs: despite improvements, the EU innovation system continues to suffer from shortcomings that negatively influence the market rewards and incentives for private investment in innovation which as a consequence remains lower than that of our main competitors. The Communication stresses that (i) the single market needs to be completed in a number of areas; (ii) the legal framework for the protection of intellectual property remains incomplete; (iii) the venture capital market is fragmented and the level of equity funding low; (iv) the standardisation process is not yet

sufficiently synchronised with research results and market needs; (v) the knowledge triangle between business, education and research needs to be further strengthened and the EU still lacks critical infrastructure to enable innovation; (vi) efforts to increase the capacity of the EU educational systems to contribute to an innovative and agile knowledge society must continue.

Enhancing the governance of the EU innovation system: while a number of initiatives have been undertaken by the Community, the needed synergies between policies and instruments at different levels have not yet been created across the EU.

The relatively slow take-off of the recently launched Lead Market Initiative is a good example of this. The coordination of policies to support innovation at regional, national and EU level has to improve significantly : a better governance system is needed, based on the principles of subsidiarity, but better exploiting the added value of setting common objectives, agreeing on common actions and sharing best practises among Member States. Cooperation with third countries and in particular best practice exchange with the US should also be substantially enhanced. The **level of funding to support innovation centrally at EU level has remained modest** both in relation to the EU budget and compared to many national budgets, representing an even smaller share than the 5% of public spending on research under the Research Framework

Programme. Even the total of EUR 67 million available in 2009 to stimulate market uptake for eco-innovation to address resource efficiency and climate change appear modest in view of the importance of these challenges. Lastly, the Communication calls for **clear structures and substantial simplification of participation rules** for all innovation funding, regardless of its origin, ensuring better participation by SMEs.