Innovation Union: transforming Europe for a post-crisis world

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PURPOSE: Commission Communication presenting Europe 2020 Flagship Initiative Innovation Union.

BACKGROUND: this Communication begins by noting that Europe’s capacity to create millions of new jobs to replace those lost in the financial crisis, and its future standard of living depends on Europe’s ability to drive innovation in products, services, business and social processes and models. This is why innovation has been placed at the heart of the Europe 2020 strategy. The "Innovation Union" is one of the seven flagships announced in the Europe 2020 Strategy. The paper outlines both the potential in the EU and its weaknesses. The latter includes:

Under-investment in our knowledge foundation: the EU spends every year 0.8% of GDP less than the US and 1.5% less than Japan in R&D - with major gaps in business R&D, venture capital investments - and our education system needs reform. Countries like China and South Korea are catching up fast and moving from being imitators to leaders in innovation. Unlike the EU, they are pursuing a strategic approach to creating an innovation-friendly environment. Private sector R&D is increasingly outsourced to emerging economies and thousands of our best researchers and innovators have moved to countries where conditions are more favourable. According to recent estimates, achieving our target of spending 3% of EU GDP on R&D by 2020 could create 3.7 million jobs and increase annual GDP by close to EUR 800 billion by 2025. Too few of our innovative SMEs grow into large companies;

Unfavourable framework conditions: private investment in research and innovation is being held back and ideas prevented from reaching the market by poor availability of finance, costly patenting, market fragmentation, outdated regulations and procedures, slow standard-setting and the failure to use public procurement strategically. Moreover, barriers in the single market make it more difficult for different players to work together across border, using and sharing knowledge from all sources, which is increasingly how successful innovations are developed.

Fragmentation of effort: national and regional research and innovation systems are still working along separate tracks with only a marginal European dimension. This leads to costly duplication and overlap which is unacceptable at a time of tight finances. By better pooling our efforts and focusing on excellence, and by creating a true European Research Area, the EU can enhance the quality of research and Europe's potential for major breakthroughs and increase the effectiveness of the investments needed to get ideas to market.

CONTENT: the Communication addresses the challenges and opportunities facing Europe in key areas where urgent and sustained efforts are required. It sets out clearly the key European, national and regional initiatives needed to create the Innovation Union

Concretely, to achieve Innovation Union, the following is needed:

- the EU and Member States need to continue to invest in education, R&D, innovation and ICTs. Such investments should where possible not only be protected from budget cuts, but should be stepped up;
- this should go hand in hand with reforms to get more value for money and tackle fragmentation. EU and national research & innovation systems need to be better linked up with each other and their performance improved;
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education systems at all levels need to be modernised. We need more world-class universities, raise skill levels and attract top talent from abroad;

- researchers and innovators must be able to work and cooperate across the EU as easily as within national borders. The European Research Area (ERA) must be completed within four years – putting in place the frameworks for a truly free movement of knowledge;
- access to EU programmes must be simplified and their leverage effect on private sector investment enhanced, with the support of the European Investment Bank. The role of the European Research Council should be reinforced. The framework programme's contribution to nurturing fast growing SMEs must be boosted. The European Regional Development Fund should be fully exploited to develop research and innovation capacities across Europe, based on smart regional specialisation strategies;
- we need to get more innovation out of our research. Cooperation between the worlds of science and the world of business must be enhanced, obstacles removed and incentives put in place;
- remaining barriers for entrepreneurs to bring "ideas to market" must be removed: better access to finance, particularly for SMEs, affordable Intellectual Property Rights, smarter and more ambitious regulation and targets, faster setting of interoperable standards and strategic use of our massive procurement budgets. As an immediate step, agreement should be reached on the EU patent before the end of the year;
- European Innovation Partnerships should be launched to accelerate research, development and market deployment of innovations to tackle major societal challenges, pool expertise and resources and boost the competitiveness of EU industry, starting with the area of healthy ageing;
- our strengths in design and creativity must be better exploited. We must champion social innovation. We must develop a better understanding of public sector innovation, identify and give visibility to successful initiatives, and benchmark progress;
- we need to work better with our international partners. That means opening access to our R&D programmes, while ensuring comparable conditions abroad. That also means adopting a common EU front where needed to protect our interests.

The Communication outlines a large number of actions and time-scales which are designed to meet these challenges. They include the following:

- an integrated framework for the **promotion of e-skills for innovation and competitiveness**, based on partnerships with stakeholders;
- a **European Research Area framework** and supporting measures to remove obstacles to mobility and cross-border co-operation, aiming for them to be in force by end 2014;
- by 2015, Member States together with the Commission should have completed or launched **the construction of 60% of the priority European research infrastructures** currently identified by the European Strategy Forum for Research Infrastructures (ESFRI). The Commission will design future EU research and innovation programmes to ensure simple access and stronger involvement of SMEs, in particular those with a high growth potential;
- by mid 2011- the European Institute of Innovation and Technology (EIT) should set out a Strategic Innovation Agenda to expand its activities as a showcase for Innovation in Europe;
- by 2014: the EU should **put in place financial instruments to attract a major increase in private finance** and close the market gaps in investing in research and innovation. Contributions from the EU budget should create a major leverage effect and expand on the success of FP7 and CIP. The Commission will work with the European Investment Bank Group, national financial intermediaries and private investors to develop proposals addressing the following critical gaps: (i) investment in knowledge transfer and start ups; (ii) venture capital for fast growing firms expanding on EU and global markets; (iii) risk sharing finance for investments in R&D and innovation projects; and (iv) loans for innovative fast growing SMEs and midcaps;
- by 2012, the Commission will ensure that **Venture Capital funds** established in any Member State can function and invest freely in the EU (if necessary by adopting a new legislative regime). It will endeavour to eliminate any tax treatment unfavourable to cross-border activities;

- the European Parliament and Council should take the necessary steps to adopt the proposals on the **EU patent**, its linguistic regime and the unified system of dispute settlement. The objective is that the first EU patents are delivered in 2014;

Member States are invited to carry out self assessments based on the policy features identified in the Annex and identify key challenges and critical reforms as part of their National Reform Programmes.

Lastly, the European Parliament is invited to give priority to Innovation Union proposals and initiatives, including the identification and success of the European Innovation Partnerships. The Commission would welcome the Parliament holding once a year a major policy debate on progress with representatives of national parliaments and stakeholders, to identify key messages and to keep the Innovation Union high on the political agenda.