Innovation Union: transforming Europe for a post-crisis world

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The Commission presents a report on the State of Innovation Union 2011. Innovation Union is an integrated flagship initiative under the Europe 2020 strategy, built around 34 specific commitments and aims at ensuring that innovative ideas are translated into new goods and services that create growth and jobs.

The report sets out the background, stating that the first year of Innovation Union has seen the economic and financial crisis reaching a new phase, and the pressure to cut investments is huge. At the same time, the shift in economic power from West to East is accelerating. Both the Innovation Union Scoreboard and the Innovation Union Competitiveness report highlight the fact that Europe's research and innovation performance has declined over recent years.

This report focuses on key policy actions of 2011, and provides an overview on the state of play of all 34 commitments of the Innovation Union.

Progress: overall, good progress has been made in launching the 34 Innovation Union commitments. Legislative proposals have been tabled according to plan and pilot actions have been launched and tested.
Out of the 34 Innovation Union commitments, two have not been taken up: at national level, dedicating procurement budgets to innovative products and services and, at EU level, consulting social partners on bringing the knowledge economy to all occupational levels. Two more actions are delayed: regulatory screening and the eco-innovation action plan. The Commission will step up its efforts to launch the delayed activities promptly and calls on Member States to intensify their efforts to drive demand for innovative solutions through public procurement.

The paper also makes the following points:

- the Commission is proposing to increase investments in research, innovation and education in support of the EU's pro-growth agenda. The Horizon 2020 proposal enacts many of the Innovation Union commitments;

- there has been good track record on putting in place the conditions that will smooth the path from idea to market. In particular, the Commission has already tabled legislative proposals for unitary patent protection and for modernising standard-setting;

- the Commission will put forward measures for completing European Research Area by 2014, and expects to present a proposal in mid-2012;

The challenge for the next implementation phase will be that all actors take collective responsibility for Innovation Union delivery, adopt the proposals tabled by the Commission and translate firm political commitments into action both at national and at EU level.

Action at national level: the success of Innovation Union will depend on the extent to which it can mobilise action at national and regional level. Overall, the National Reform Programmes include a breadth of measures that offer a good starting point for stimulating innovation. However, national programmes

often lack ambition and specificity. Additional efforts are needed to reach the EU's 3 % R&D target and **Member States need to do more to protect and prioritise expenditure on research and education and the key infrastructures** to sustain future growth.

A few trends could be detected from the announced reforms with respect to research and innovation:

- a majority of Member States are in the process of improving their governance structures and strategic guidance for research and innovation, which is often accompanied by a gradual integration of the two policy fields and increased targeting of public funding on selected areas. At this stage, however, very few countries are explicitly targeting societal challenges as their main priority;

- a majority of Member States are engaged in improving framework conditions or financial support for research and innovation, in particular through R&D tax incentives, and different forms of support to innovative SMEs, including venture capital. An increasing number of Member States are paying attention to demand-side innovation policy instruments, in particular public procurement. So far, only a few countries have an approach that seeks to integrate demand- and supply-side instruments;

- in terms of budgets allocated to R&D, only a limited number of Member States — including Denmark, France, Germany and Sweden — have launched new funding initiatives, while some others such as Slovenia are earmarking a substantial share of Structural Funds for research and innovation. It appears that countries committed to increasing their R&D funding are also the ones which consider the broadest spectrum of growth-enhancing measures in line with the Innovation Union areas of action, and are already high or aspiring innovation performers.

There is clearly a **risk of widening the innovation divide between the Member States**. It is important that modest innovators sustain their recent positive commitments and the middle-of-the-range innovators are urged not to decrease further their R&D public investments and to start planning to recover lost momentum. Only in this way can Europe meet its ambition on research and innovation targets. Member States are invited to **do more to prioritise research and innovation investments** and turn into action political commitments undertaken in 2011, especially on pursuing reforms aimed at boosting the effectiveness of their research and innovation systems and improving the use of Structural Funds for research and innovation.

EU funding for research and innovation: in its proposal for a Budget for Europe 2020, the Commission envisages substantial re-orientation of the future EU budget towards research and innovation, bringing together current research and innovation programmes into a single strategic framework — Horizon 2020 — to fund the whole innovation cycle. **Many of the Innovation Union commitments are enacted upon through Horizon 2020,** notably: more focus on societal challenges, a strengthened approach to SMEs, and stronger support to market uptake of innovation, including by means of procurements, standard-setting and loan and equity financing. A number of simplification measures for the current Framework Programme (FP7) have already been introduced early 2011, and Horizon 2020 will show more far-reaching simplification.

In parallel, the existing EU research and innovation funding is already being focused on Innovation Union priorities. The Commission is piloting new approaches with Horizon 2020 in mind.

Future action: For 2012, the Commission will continue delivering the Innovation Union, notably by presenting the two remaining Innovation Union initiatives scheduled for 2012, i.e. the proposal for the European Research Area Framework and the new headline indicator. It will also present an external evaluation by the newly created European Research and Innovation Advisory Board.

In tandem with the innovation policy measures under way, the Commission will review the current approaches to innovation in other EU policies and propose strategies to mainstream innovation into all EU policies.