



Response to the public consultation on Community innovation policy

(1) Do you agree with the Commission's assessment of the main achievements and shortcomings of Community policies in support of innovation?

BUSINESSEUROPE agrees with most of the Commission's assessment of the main achievements and shortcomings of Community policies in support of innovation as presented in the Communication "Reviewing Community innovation policy in a changing world" adopted on 2 September 2009.

We agree on the main achievements, in particular about the four areas the Commission has identified as having made progress since 2005:

- improving framework conditions
- helping to trigger more and quicker market uptake of innovative products and services
- building synergies
- increasing financial support for research and innovation.

A number of events such as adoption of a broad-based innovation strategy by the Council of the European Union in December 2006 and publication of the green paper on the European Research Area (ERA) in 2007 have marked the period since. It is clear that a positive change of direction has been initiated in European research and innovation policies, which must be pursued.

BUSINESSEUROPE has broadly supported and continues to support measures designed to remove partitions between markets, enhance the integration and coherence of R&D and innovation policies, and develop partnerships between industry, public research centres and universities¹.

Nevertheless, progress has been unequal regarding the four areas stated above. For example, the EU "Lead Market Initiative" can be seen as a good step towards developing innovation-friendly markets, as it aims to create better and more innovation-friendly market framework conditions (including regulation, procurement and standardisation) to stimulate markets of high economic value. Yet, progress in implementing the initiative is rather slow.

Regulation, procurement and standardisation can facilitate – but do not drive – innovation under certain conditions which are clarified below.

Standards are an important part of ensuring interoperability, safety and high quality, both as an alternative to and as a complementary measure to regulation. One should bear in mind however that the risk exists that excessive standardisation can stifle innovation rather than of support it.

The success of standardisation is based on the development of standards based on market needs and their voluntary use. Consortium standardisation, which tends to take place in the initial phase of innovation, is best left to market forces with a minimum of regulation or intervention by authorities.

¹ For further information, please see BUSINESSEUROPE's brochure « Innovation: Building a successful future for Europe », published in October 2009. Available at: <http://212.3.246.117/Common/GetFile.asp?docID=24653&logonname=guest&mfd=off>



Public authorities can support the creation of harmonised standards politically and financially but should not engage in directing the fields in which standards should be developed. Neither should they support, encourage or initiate standardisation activities that are not in response to a clear and up-front market demand.

Furthermore, the main reason repeatedly stated for pursuing innovation through public procurement lies in the economic impact and importance of such procurement. Public purchasers are seen as important buyers having a huge effect on the market through their demands for goods and services. That, however, does not mean that all procurement made by public purchasers is suited to encouraging innovation. Whether innovation should or can be a part of a particular purchase needs to be considered on a case-by-case or category-by-category basis. At the same time, national, regional and local public authorities should be encouraged to make more use of pre-commercial procurement of R&D services. The best way to safeguard innovation is to guarantee market openness and transparency in public procurement. Current exemptions regarding the publication of tenders for reasons of the economic crisis should not be perpetuated.

Besides, **BUSINESSEUROPE agrees on the following shortcomings** that the Commission has identified:

- lack of entrepreneurship and innovation
- in the area of Intellectual Property Rights (IPR), the EU is still not providing favourable conditions for the development and diffusion of innovation
- lack of synergy between various instruments and policies at EU and national levels
- lack of customised support to the specific needs of the services sector in innovation
- potential in the public sector for innovation is huge and not yet fully tapped.

The following key issues must also be addressed in the next Community innovation policy:

- financing. Increasing the level of R&D and innovation spending remains a strategic priority. The first thing to do is to improve the framework conditions for private investment. BUSINESSEUROPE supports the establishment of an integrated EU venture capital market and, at national level, attractive tax conditions for innovative businesses, in particular innovative start-ups.
- fragmentation of innovation policy, which is split up in different initiatives of different DGs and funding mechanisms.
- the absence of any coordinated programme to disseminate achievements to the general public
- to achieve a breakthrough in cutting red tape, there is a need to implement a trust-based and risk-tolerant approach to European programmes for R&D and innovation (Seventh Framework Programme (FP7), Competitiveness and Innovation Framework Programme (CIP), Joint Technology Initiatives (JTI), etc.)
- the significance of new business models for successful innovations.

(2) Should EU innovation policies have a stronger orientation towards addressing major societal challenges? If so, which ones should be prioritised?

Innovation is a key element for addressing the major challenges facing society today, particularly those linked to climate change, ageing population and energy security. These challenges provide also potentially important business opportunities and areas. EU innovation policies should therefore have a stronger orientation towards addressing major societal challenges.



BUSINESSEUROPE supports a challenge-based approach to research, development and innovation.

The selection of grand challenges should be subject to a broad political debate at the European level and should call for a consultative process, involving all stakeholders. These challenges should be identified through a wide process that should encompass all major policy fields. Correspondingly adequate instruments for each of the identified grand challenges should be developed.

We believe that **focus should be placed on economic challenges**. This is a pre-condition to the other society challenges and a key condition for Europe's competitiveness. Europe also needs to secure production facilities in Europe in the future. If not, there is a risk that research capacity will be transferred to other parts of the world following the transfer of production.

Non-technological innovation is also important. A combination of technological and non-technological aspects is key to successful innovations. In the past the focus was laid on technological innovations. Therefore, non-technological research and innovation should to a larger extent be included in existing funding programmes.

BUSINESSEUROPE's Research and Technological Innovation Working Group suggests the following eight societal challenges:

1. Staying competitive

Manufacturing companies are very important for the creation of jobs in Europe. We need to develop the competitive edge for the companies in order to face the challenge of global competition. A sustainable industry in Europe has to be sustaining in terms of energy and resource efficiency as well as with regards to the competence of its employees. Technology development has to be placed into such a context if we want to achieve the goal of really making a contribution to the European society. This requires investment in research and innovation within this area as well as rethinking strategies and mechanisms on how to operate, evaluate and use the research results.

2. High-quality and affordable healthcare, in relation with an ageing European population

Europe does still have some comparative advantages in life sciences. This should be strengthened. Translational research will become ever more important to interlink basic with clinical research.

3. Supply of resources

A foremost challenge is the one raised by the oil crisis. Whether we have reached the oil peak or not, there is no doubt that we have to find innovative ways of saving energy and develop alternative energy sources. But it is not only energy. We might run short on some raw materials like metals and minerals. Water is also a major issue. Wood is also an issue. Research can bring the solutions to save resources, to find alternative ways of producing and of waste reduction so that we can achieve a sustainable economy.

Europe is good at green technologies, which are a very important contribution to solve the problematic consequences of climate change, but it takes even more research efforts, innovation and dissemination of these technologies. Industries need environmental-friendly resources, and research in the best applications of raw materials or energy savings need to be developed.



4. Mobility

New vehicle concepts and technologies are needed. Transportation systems have to be modernised and adapted to the needs of today, and of the future, mainly adapting to an ageing population and concentration of population in urban areas.

5. Knowledge society

Education and learning are the fundamentals of modern society. Innovation is the central driver and competitive factor. Research in this area is needed both sociologically (how to cope with ever more information, how to have all citizens participate in the knowledge society) and technologically (data banks, strengthening of Europe's scientific and technological base).

6. Convergence of technologies

Today's society is only at the beginning of realising what cross-disciplinary combinations of biotechnology, ICT, nanotechnology or neuro-sciences could bring to improve the quality of life. The USA has taken a head start on this theme. It is important that European research focuses on it. Convergent technologies can give impulses to manifold areas of application: medicine, energy, materials sciences are just some of these. As always, ethical aspects have to be considered and discussed very seriously.

7. Security

All of the challenges described above also cause fears. There are also some risks emerging which are rather new: epidemics, terrorism and weapons of mass destruction, etc. The Internet also raises security risks. These risks have to be addressed adequately.

8. Urbanisation

In 2008, more people in the world were living in cities than in the country. Megacities are growing especially in the emerging economies. These developments ask not only for adaption of infrastructure but also for new forms of living and participating. Cities have their own eco-systems with their very special problems. Governing cities and providing their citizens with affordable and qualitative public services is a special challenge for politicians where innovative approaches are needed.

(3) Should innovation policy have any specific sector approach? If so, which sectors should be supported and which specific policy measures should be developed?
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Innovation policy should not have a narrow specific sector approach.

The most promising innovations are often inter- and trans-disciplinary. In the future, new businesses and solutions will emerge from the connection between sectors and between knowledge areas. It is therefore important that the innovation policy does not approach some sectors only.

Moreover, new products are increasingly accompanied by services. In many cases, the service component becomes the "unique selling proposition". Likewise it is important to foster process innovations. If this is not done, the trend to transfer production facilities to other – low-cost – parts of the world will increase. Impetus should thus be given to strengthening inter- and trans-disciplinary approaches.

Lastly, addressing societal challenges requires the involvement of actors from different sectors. Too specific sectoral policies could hamper such a synergistic approach which is needed to deal with societal challenges.



- (4) Do existing instruments to support innovation need to be adjusted to reflect the changing nature of innovation and integrate new innovation patterns (services innovation, open innovation, user-driven innovation etc...)?

Existing instruments to support innovation need to be adjusted to reflect the changing nature of innovation and integrate new innovation patterns.

The world is changing continuously. Innovation, which is the engine of these changes, and in particular, the instruments that support innovation, cannot stay out of this process. In view of this, we think that public support instruments must be adjusted and improved to reflect the changing nature of innovation and to support innovation more efficiently. The European Commission rightly launched a public consultation on this issue. BUSINESSEUROPE hopes that initiatives will be soon launched in this field.

The public support should concentrate on removing obstacles. Once that has been done, industry and services should take the leadership. This is crucial with a view to developing European innovation capacity and competitiveness on the global scene.

Furthermore, innovation instruments should focus on the specific needs of companies as “demandeurs” of innovation support. This means that the needs of the companies (and not specific themes from the suppliers of innovation support) should guide the innovation support schemes.

- (5) What are the most important remaining obstacles for the EU to unleash its full creative and innovative potential, in particular through innovative SMEs?

Scientific and technological indicators also make it clear that Europe is still suffering from an innovation deficit. The EU occupies first place in terms of “scientific output” (38% of the total volume of scientific publications), but European countries are left behind by the USA and Japan when it comes to patent filings.

For BUSINESSEUROPE, this is due to the fact that remaining obstacles hinder the EU from unleashing its full creative and innovative potential, in particular through innovative SMEs. There are, in our view, **9 remaining obstacles**:

1. Insufficient access to specialised innovation finance for companies

Early-stage venture capital is scarce in Europe (about a third as much, as a percentage of GDP, as in the USA). Business angels are an asset that in Europe is not fully utilised while they finance 50% of start-ups in the USA.

A cause of the problem is the fragmentation of Europe’s venture capital markets. Venture capital funds in Europe tend to be relatively small because they mostly operate within national markets.

As a consequence, Europe underinvests in post-R&D activities (industrialisation, market development, etc.), which require access to specialised finance like venture capital.

2. Insufficient funding of R&D and innovation at EU level

In 2009, only six out of every 100 euro of the EU’s yearly budget is invested in the R&D Framework Programme, while an overwhelming share of the EU budget goes to agriculture and Structural Funds (with the latter increasingly used to strengthen R&D and innovation). This share is not adapted to a knowledge-based economy.



In addition, the budget devoted to the Competitiveness and Innovation Framework Programme (CIP), which was designed to be complementary to the Seventh Framework Programme for Research and Technological Development (FP7), is too small with only € 3.6 billion for the whole period 2007-2013. In addition, access to its funds is difficult due to a series of unwieldy administrative requirements.

3. Lack of a European system for protection of intellectual property

The absence of a unitary Community patent system is a major factor impacting negatively on private investment in research. Because of translation costs, patent protection is more expensive in Europe than in the USA (3 times more) and Japan (6 times more). This makes access to the patent system difficult and unappealing for companies, especially SMEs.

Furthermore, firms do have a legitimate interest to protect their proprietary data. This can become a conflict of interests when cooperating with partners under an EU programme. Although it is clear that public subsidies have to be made transparent and evaluable, the organisation of the project consortium/participants and the rules governing the work of the consortium/participants should as much as possible be left to the participants. Actually, it does not need too many detailed prerequisites. In fact, within some boundary conditions, agreements and arrangements on intellectual property rights, on joint ownership and on transfers of ownership should be left to participants to determine.

For example, there is no need that the EU programme obliges participants to request consent for any transfer of intellectual property generated in a project under that programme if the access rights to the intellectual property are sufficiently protected. It should be sufficient to only inform the Commission *ex post*, if necessary. Moreover, the rules regarding access to intellectual property and other results from funded projects should account for practicability and have to regard the needs of partners who are part of a wider group of companies (where intellectual property will be used in several legal entities).

4. Complex rules to participate in European R&D Framework Programmes (FP)

Despite some improvement between FP6 and FP7, such as the Participant Guarantee fund to manage the risk associated with non-recovery of sums due to the Community, and the Unique Registration Facility to ensure that basic participant information has to be provided only once, access to the Framework Programme in FP7 remains complicated and time-consuming.

Companies are increasingly struggling with procedures which hamper the effectiveness of the European programmes for R&D and innovation. Long procedures for participation in Framework Programmes, complicated project management and extended *ex-post* auditing run contrary to trends within the business community, where efficiency and speed are of increasing importance in the face of global competition.

Preparing proposals for research projects has indeed become a discipline of its own. Even for large companies it is difficult to keep up with all regional, national and international programmes and initiatives. For small enterprises that do not have the resources to keep track of all existing and newly created programmes and very often neither do not have the resources to apply properly nor in all demanded elaborateness, this task seems unmanageable. This puts SMEs at a real disadvantage.

5. Constraints created by the application of the EU Financial Regulation

Some promising initiatives such as the Joint Technology Initiatives (JTIs) launched in 2007 as a new way of realising public-private partnerships in key areas at European level on large-scale projects are hampered by cumbersome legal provisions.



JTIs have been framed under the rigid rules of the “Community body” statute, which means that they are regulated under the 2002 EU Financial Regulation and the Staff Regulations of officials of the European Communities. This has generated complex procedures which have already caused serious delays in launching or making Joint Technology Initiatives fully operational.

Economically speaking, the transaction costs associated with the FP approach have grown completely out of proportion, with marginal costs of controls, checks & balances exceeding their marginal benefits. There is a serious risk that these costs will increase further when management activities of the Commission in FP7 are outsourced to other entities (JTIs, ERC, Executive Agencies, etc.), if these entities basically remain subject to the same regulations as the Commission services itself.

Key constraints in this respect are the Financial Regulation applicable to the general budget of the European Communities and its Implementing Rules. For example, the personal financial liability for Staff officers induces a zero-risk, zero-trust attitude.

Furthermore, the Financial Regulation seems less suited for dealing with public-private partnerships.

6. Inadequate EU state aid rules for R&D and innovation

Current restrictions in the state aid rules on public support for R&D and innovation needlessly hamper the same Commission efforts to encourage innovation and R&D support measures. The current restrictions are not adapted to the model of “open innovation”.

BUSINESSEUROPE calls for the EU state aid rules for R&D and innovation to be complemented with clearer operational guidelines, in particular in the case of collaborative R&D projects involving public research organisations and companies.

In particular, the European Commission should clarify how to assess in practice:

- under which conditions indirect state aid is acceptable via transfer of / access to Intellectual Property Rights and other results stemming from the activities of the public research organisations in the collaboration,
- the level of allowable total state aid (i.e. the sum of direct and indirect state aid).

Many European programmes and initiatives (e.g. CIP, EIT and JTIs) have stimulation of innovation as one of their stated policy objectives. However, the state aid rules on R&D and innovation clearly restrict state aid to innovation to only a limited number of very specific innovation activities.

There is a need for clarifying to what extent these state aid restrictions on innovation impose limitations on Community funding and possible national co-funding for activities in the CIP, the EIT Knowledge and Innovation Communities and the JTIs. Furthermore, depending on the outcome of such clarifications, it may be necessary to better align state aid rules for innovation and innovation policies.

7. Insufficient coordination at policy level

Policies formed and implemented by DG Enterprise, DG Research, DG Infso and DG Education all have an impact on the European innovation climate. Therefore, it is important that these policies and the instruments for research and innovation are designed and implemented using a more holistic approach.

In this respect, horizontal coordination between the Commission’s Directorates-General that deal with rules influencing innovation should be improved. Focussing on major societal challenges as common goals can also help achieving this.



8. Growing mismatch between education and market needs

There is a growing mismatch between education and the knowledge economy's needs in Europe. The current shortfall of 2 million high qualified workers in the EU is expected to grow

to 20 million in 2020. As these skills will be needed for new jobs in the future, action is urgently needed now.

Entrepreneurship is another part of the educational challenge. European education does not sufficiently teach entrepreneurship or stimulate creative experimentation.

9. Insufficient funding of the European Institute of Innovation and Technology

The European Institute of Innovation and Technology (EIT) must be placed on a secure financial footing with additional budget resources.

(6) What are the implications for research policy of the changes needed to policies in support of innovation (e.g. the goal of addressing major societal changes, etc ...)?

Research and innovation policies can no longer be disconnected. Their design and implementation should be developed in strong interaction, together with education policies. The goal of addressing major societal changes should lead to better integration and coherence between research, innovation and education policies.

It is also time to adopt a value-chain approach, which encompasses all the process stages from R&D to customer service.

Changes needed to policies in support of innovation have **5 direct consequences or implications** for research policy:

1. Strengthening EU research policy

An ambitious innovation strategy calls for a major overhaul of the EU budget to better reflect the EU's objectives. BUSINESSEUROPE calls for a budget increase for R&D and innovation, which should be achieved by shifting money from other areas of the EU budget (e.g. agriculture) to research and innovation without exceeding the overall 1% budget quota of the EU.

A future R&D Framework Programme should have double or triple the volume of FP7. The CIP should also double or triple in volume and the EIT, increase in a minimum € 500 million per annum.

Europe should also make greater use of the Structural Funds for boosting R&D and innovation, for example by means of public procurement.

2. Implementing more efficient management models

An increase in the amount of EU money cannot be a sufficient condition to boost R&D and innovation. Resources must also be managed in a more efficient way so that their use is optimised. The managerial model of public support policies must also be improved. This calls for:

- defining a more effective governance model for the European Research Area (ERA), with a view to fully exploiting the synergies that can be developed between national programmes, EU programmes and the programmes of other specialised European agencies.
- making EU instruments more efficient, in particular public-private partnerships such as Joint Technology Initiatives (JTIs) – see point 3 below
- implementing a more risk-tolerant and trust-based approach in EU programmes.



3. Developing public-private partnerships and encouraging industry to participate in EU R&D programmes

The European Commission must boost the attractiveness of the R&D Framework Programme (FP) and the Competitiveness and Innovation Framework Programme (CIP), in particular for SMEs.

To achieve these goals, reducing red tape, simplifying rules and procedures for participation and management and introducing some flexibility through more adequate and lean instruments are crucial. This has been developed in bullet points 4 and 5 as a response to question 5.

Use should be made of the forthcoming revision of the Financial Regulation and create a partial exemption for research and innovation, to account for a certain degree of risk that is inherent to these activities. A risk-tolerant and trust-based approach in research funding must now be implemented.

Furthermore, the Financial Regulation should also be adapted to allow setting up JTIs and similar structures without having the status of Community body, even if the Community is contributing to the budget.

4. Adding a business vision for the European Research Area (ERA)

Changes needed to policies in support of innovation imply that the ERA develops effectively as an efficient internal market for knowledge, researchers and technology on the one hand, and that knowledge exchange within it is improved, on the other hand.

The broadest possible access to the state of the art knowledge needs to be provided to researchers, be they in the public or the private domains. For smaller and younger companies in particular, it is a major challenge to find out what is going on and what could be beneficial to the further development of their activities. It can also be difficult for them to learn of opportunities to capitalise on what they know. The development of powerful and adequate literature search tools and integration of such strategies using these tools as part of the education curriculum of researchers is a necessity.

Sharing knowledge is at the heart of open innovation, and should be encouraged. Knowledge that is generated through public investment should be available in ways that will maximise the benefit for the community that paid for it. Open access to publications from public research organisations and open-access databases have a part to play in this process. But general principles aimed at making everything open, in the sense of “free of cost” or “free from protection”, will be counterproductive. Often, protection of intellectual property and dissemination of other research results will be more effective because proper care has been taken to preserve the potential value of the knowledge.

Furthermore, implementing “open access” policies for publications from public research organisations should in no way affect provisions on intellectual property protection, dissemination and confidentiality in collaborative R&D projects involving public research organisations and companies, even if receiving public co-funding. After all, companies are also investing with their own money in such collaborative projects, so those companies are entitled to benefit from the results of such collaborations, not only society at large.

5. Better aligning policies in the “knowledge triangle” (education, innovation, research) by better policy coordination between the responsible DGs within the EC and Ministries within each Member State

Jointly addressing societal challenges can help focusing the various public and private actions and policies towards common goals.



The European Institute of Innovation and Technology (EIT) can play a very instrumental role in achieving synergy between research, education and innovation activities and policies in the Knowledge Triangle.

(7) Which scope exists to better facilitate the consolidation of world-class innovation “eco-systems” or clusters in the EU at regional level, taking into account emerging industries?

BUSINESSEUROPE believes that a main priority for Community actions in support of clusters should be to better promote the emergence of world-class clusters in the EU.

Yet, while world-class clusters are fundamental to compete internationally, the European landscape is mainly characterised by small-scale and locally integrated clusters which have great potential to respond to the needs of the market and to help developing European regions.

Therefore, **Community action should focus on both types of clusters**. Strategies to develop both types of cluster are not mutually exclusive but they may involve important trade-offs that must be analysed. While a common framework for cluster development remains indispensable, the challenges faced by clusters which are diverse in nature vary. The tools employed by different cluster development strategies should be tailored to address specific needs. In this respect, the concept of “smart specialisation” is worth noting.

Yet, it is worth stressing a common principle which should guide any EU action: clusters are a market-driven phenomenon and therefore no attempts should be made to pick up the winner between different clusters. Deepening of the internal market is the most important aspect. In view of this, the four following points must be taken into consideration:

1. Promote innovative financing models

In order to boost the development of clusters in emerging industries and services as well as to support the transformation of traditional industrial districts by unlocking their creative potential, more public and private investments should be channelled innovation, in particular for start-ups and high-tech SMEs. This can be achieved by using appropriate incentives but also by promoting the diffusion of funds with the critical mass of resources and expertise needed to operate at EU level and to give specialised advice on emerging sectors.

Moreover, while most cluster programmes in Europe are still financed by national budgets, there is scope for a stronger role of the EU budget. A substantial reallocation of EU financial resources towards innovation and more ambitious and consistent financing instruments would present a substantial contribution to clusters in Europe.

2. Implement the Knowledge and Innovation Communities (KICs)

The co-location centres of the Knowledge and Innovation Communities (KICs) to be established by the European Institute of Innovation and Technology (EIT) could also act in this respect, as nuclei of regional ecosystems. KICs should indeed be highly integrated partnerships that bring together education, technology, research, business and entrepreneurship, fostering the development of ideas into commercial applications, supporting the creation of new business for existing industry and for new endeavours. In view of this, BUSINESSEUROPE recommends that the European Institute of Innovation and Technology (EIT) is placed on a secure financial footing with additional budget resources and robust funding models.



3. Create an enabling regulatory framework for intellectual property (IP)

Firms embedded in clusters have the potential to be more innovative and more likely to patent and trademark their innovation. However, ideas, knowledge and intellectual property developed by small companies typically remain undervalued and underutilised, while they could be turned into business opportunities. Furthermore, since we are heading towards a knowledge-based economy, IP protection should be easy, cost effective and of good quality.

In this context, harmonisation and simplification of intellectual property rights (IPR) systems is crucial to support clusters that operate in emerging industries, while different IPR practices discourage trans-national clustering. This will require the EU to adopt a Community Patent and an EU Litigation System in a manner that deliver the highest quality, cost-effectiveness, legal certainty and reliability for companies.

4. Keep enterprises at the heart of all EU clusters policies and instruments

Public authorities may have a tendency to interfere in clusters' governance and management. Yet, entrepreneurs should be the main characters in clusters' governance and management processes.

The EU and national and regional public authorities can and should promote the conditions that allow enterprises to develop and operate, creating those market conditions that can enhance their ability to create alliances, partnerships and to cluster. They should both create and ensure the existence of a sound regulatory and infrastructural framework in which clusters can operate.

5. Strengthen coordination between EU initiatives

The "Lead Markets Initiative", which aims to foster the emergence of lead markets of high economic and societal value by creating innovation-friendly market framework conditions. Strong linkages should be created between clusters and lead markets: for example lead markets should be encouraged to develop within clusters.

(8) How could the cooperation between regional, national and European innovation support programmes be reinforced to address the new challenges faster and more efficiently?

Reinforcing the cooperation between regional, national and European innovation support programmes **requires a strong and efficient governance model, also within the European Research Area (ERA).**

ERA should be more strongly linked to the other dimensions of the "knowledge triangle" which will have implications for its governance. At national level, different arrangements exist including the combination of responsibilities in a single Ministry and the establishment of inter-ministerial groups. ERA and its institutions cannot take responsibility for all education and innovation policies in addition to research.

However, issues involving complementarities and synergies between the three dimensions of the "knowledge triangle" must be taken into account in ERA governance and the interactions between the different areas should be strengthened. Better interaction could be achieved by holding joint group meetings and even ministerial meetings. A complementary option could be to set up time-limited networks of representatives from the different policy areas concerned to explore specific cross-cutting issues.



There is also a need to **extend the coordination of policies at European level to other policy domains**, for example to regional policy (Structural Funds). Several ERA issues, for example mobility of researchers, involve more general aspects of the Community acquis and could not be tackled solely by the ministries engaged with the ERA policies.

CREST (Comité de la recherche scientifique et technique) could have an important role to play. While the legislative work should be left to the Council Research Working Party, the strategic dimension of future CREST should be emphasised. With a more output-oriented agenda setting, CREST could be used by the Commission as a sounding board for early discussions on its policy initiatives. The planning of CREST work would benefit from taking a long term perspective, up to 2020, so as to reflect the lifecycle of Community policies and instruments (FP and other ERA instruments).

In addition, **some measures** can be taken to address the new challenges faster and more efficiently by:

- making the application process for financial grants and patents more dynamic and simpler
- improving communications by ICT and collaboration between the different administrations
- making more effective use of EU agencies, along with a better coordination among (and within) Member States.

The Knowledge and Innovation Communities (KICs) to be established by the European Institute of Innovation and Technology (EIT) could potentially help reinforce cooperation between regional, national and European innovation support programmes.

(9) What could the EU do to provide adequate access to finance to SMEs and entrepreneurs?

The EU could play a role in improving access to specialised innovation finance to businesses and entrepreneurs by:

- 1. Establishing an integrated EU venture capital market**
- 2. Improving the integration of financial markets in the EU**
- 3. Facilitating cross-border investments**
- 4. Expanding the permanent risk-sharing products offered by the European Investment Bank (EIB)**

The European Investment Bank (EIB) should also play a major role in financing research and innovation activities of enterprises. This could be achieved by developing a new facility within the EIB that focuses on the financing of innovation and follow-up financing of high-potential projects/companies. “Mezzanine” funding mechanisms should be further developed through strengthening of the EIB mechanism and new schemes. Mechanisms to facilitate access of SMEs to EIB loans must also be developed.

- 5. Providing better and more varied access to finance for innovative SMEs**

The European Investment Fund (EIF) should intensify its activities towards entrepreneurship by offering financial contributions to spin-offs and start-ups to a larger extent than is currently done *via* the Competitiveness and Innovation Framework Programme (CIP). The



creation of spin offs and start-ups with co-financing from the EIF should be an option within a future framework programme. The EIF should also enhance the financing of incubation projects. Private-owned incubation projects could be given a priority.

6. Launching initiatives to facilitate access to finance related to post R&D investment

The measures that the European Union initiates must be in line with making easier financial grants (facilitating access to fund and to credit from banks, for example decreasing its costs), giving incentives for investment, and technical advice.

It is very important is that a portfolio of financing instruments is developed for different needs of enterprises. For instance, whilst financial grants (seed money) are crucial as pre-R&D working capital, bank loan guarantees, royalty agreement financing and business angel venture financing are seen to be important to fuel post-R&D efforts.

(10) Could the EU contribute to exploit the innovation potential in public services?

Innovation is market-driven and the public sector plays a key role as a major market especially for many service companies.

New ways to foster innovation in the public sector should be exploited respecting the public procurement rules.

Examples include the Lead Markets Initiative, innovative public procurement, governments as launching customers and pre-commercial procurement of R&D services.

(11) How could the Community funding programmes for innovation, including FP7, CIP and Structural Funds, be simplified and streamlined?

BUSINESSEUROPE recommends that the 2002 EU Financial Regulation is revised to enable a more risk-tolerant and trust-based approach in research funding.

Furthermore, **any standards and certificates for innovation management** (as currently being prepared by CEN) **should be voluntary**, and should not become prerequisites for EU funding.

Contrary to what is hinted in at the bottom of page 5 in the Commission Communication of 2 September 2009 *Reviewing Community innovation policy in a changing world*, we believe that the Commission should not strive for the establishment of selection criteria for granting funds for innovation through e.g. EU public procurements rules.

(12) What could be realistic and meaningful quantitative and qualitative targets for future European innovation policy?

BUSINESSEUROPE would recommend that **a metric rather than a target** (that is unlikely to be met) is adopted.

While for public investments clear targets can be set (e.g. the Barcelona 1% public R&D investment target for 2010), private investments should rather be considered through the result: a yardstick for the success of public policies to make a Member State attractive to private knowledge investments.



BUSINESSEUROPE therefore supports the proposal of the Expert Group on the “Role of Community Research Policy in the Knowledge-Based Economy” calling for **a new EU 3% knowledge investment target for 2020**, consisting of 1% of EU’s GDP to be spent from public funds on R&D and 2% of EU’s GDP to be spent from public funds on higher education.

If private investment was to be measured, outputs such as growth of employment in innovative companies should be taken into account.

R&D is indeed not the only method of innovation. R&D indicators need to be complemented with indicators pertaining to other innovation activities, also on the output and impact side.