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INNOVATION UNION FOCUS AREAS FOR IMPLEMENTATION

Executive summary

BUSINESSEUROPE has identified a series of focus areas for the follow-up to the Commission's Communication on the "Innovation Union" flagship from October 2010. BUSINESSEUROPE invites the Commission and other stakeholders to continue dialogue on the preparation and implementation of these focus areas:

- Strengthen financial mechanisms and in particular the risk-sharing facilities and venture capital through the EIB;
- Stronger focus on research, development and innovation (RDI) as a driver for growth in the implementation of the Structural Funds;
- Revise the state aid framework for RDI;
- Achieving a well functioning European Research Area (ERA) by 2014;
- Accelerate the simplification process of the EU research and innovation programmes;
- Activate and engage all European RDI actors and other stakeholders relevant for successful innovation around European Innovation Partnerships;
- Ensure that Europe is the location of choice for leading academics, researchers and innovators;
- Ensure that Member States have strategies in place to produce sufficient researchers and other R&D personnel to meet their national RDI targets;
- Promote businesses involvement in curriculum development and doctoral training so that skills better match industry needs;
- Ensure that Member States and regions procure innovative products and services (including pre-commercial procurement);
- Speed-up and modernise standard-setting to better facilitate interoperability and foster innovation in fast-moving global markets;
- Involve a broad set of stakeholders in the implementation phase;
- Use the European Institute of Innovation and Technology (EIT) as a tool to integrate education, research and innovation at EU level;
- Take the necessary steps towards the EU patent and its system of dispute settlement.

To gear the focus of the EU budget towards Europe's future as a knowledge-based economy and to leverage private investment, we call for a general shift of financial resources to activities directly targeting Europe's competitiveness and economic growth, such as RDI. We also call for careful consideration of a potential focus on *social innovation* and any changes to the protection of Intellectual Property (IP), which would risk discouraging private sector participation in EU programmes.



Introduction

The European Commission adopted its Communication on the Innovation Union flagship initiative on 6 October 2010. This flagship is a central part of the Europe 2020 Strategy and BUSINESSEUROPE acknowledges and appreciates that our input has been considered during the preparation of the Communication. BUSINESSEUROPE reiterates its broad support for the measures presented by the Communication and underlines the importance of a business-oriented research and innovation policy and close involvement of the entire range of European business – from SMEs to major international companies – in the implementation of the various measures presented by the Communication. We also emphasise that the strong inter-linkage between the Innovation Union and the flagship on Industrial Policy must be acknowledged, and we call for the principles of the flagship on Industrial Policy to be respected when Innovation Union is implemented.

The Competitiveness Council broadly endorsed the Communication in November 2010, and as the European Council is expected to give its green light in February 2011, all efforts will now have to be put on implementation. In this context, priority must be given to the most central items that will have a direct effect on research, development and innovation (RDI) in Europe and leverage business investments as European business takes its investment decisions for both RDI and production on a global scale and is increasingly compelled to consider alternatives when locating investments. The European business community must be actively engaged in the priority setting as European business together with academia and research institutes is the main stakeholder in this policy area.

In this context, this position paper presents BUSINESSEUROPE's identified focus areas for implementation, by relating the measures presented in the Communication to the five main objectives of EU innovation policy as presented in BUSINESSEUROPE's essential publication "Innovation – Building a successful future for Europe" from October 2009, namely i) *Increase public and private investments*, ii) *Enhance public support policies*, iii) *Nurture future talent*, iv) *Stimulate demand and markets for innovation*, and v) *Implement integrated policy approaches*.

The key measures to fulfil these five objectives are elaborated in the following sections of this paper. We invite the Commission to involve BUSINESSEUROPE closely when these measures are implemented. Our more specific ideas on the focus measures presented below will be developed throughout that process.

Although this paper first and foremost identifies the focus items that are supported by BUSINESSEUROPE, we would also like to raise a word of warning on a couple of issues:

We call for careful consideration of a potential focus on *social innovation*, a concept that is yet to be properly defined and where the potential role of the EU is questionable. BUSINESSEUROPE takes note of the proposed social partner consultation, but the prime priority must be to focus on innovation with clear opportunities and where



European business has a strong value-adding potential. Only with such a focus will the societal return on investment be maximised.

Moreover, initiatives to promote open access to research results must ensure continued and robust protection of intellectual property rights (IPR), as in the current open access pilot in FP7. It should be recognised that private sector participants typically contribute 25 to 50 percent towards projects costs. Softer IPR protection would seriously impede, obstruct and discourage the participation of European business in the EU research and innovation programmes. Furthermore, open access policies should not hamper companies from engaging in fruitful collaborations with universities and research institutes. Just like in the FP7 pilot, future open access policies should therefore not entail any obligation to publish or restriction of IP protection. Generally, all initiatives relating to IP protection must be addressed with caution. Companies and universities who are prepared to engage in risky development projects must be rewarded by the competitive advantage that strong IP protection grants them. While we agree that collaborative IPR arrangements must not unduly distort competition, any changes to existing competition rules must be very carefully evaluated.

1. Increase public and private investments

The EU is still failing to make important progress towards meeting the target of spending 3 percent of EU GDP on RDI. This fact can largely be explained by inadequate levels of public spending and framework conditions that discourage private investment. BUSINESSEUROPE acknowledges that many of the measures presented in the Communication are likely to have a positive indirect impact on RDI investment. To gear the focus of the EU budget towards Europe's future as a knowledge-based economy and to leverage private investment, we favour a general shift of focus of financial resources to activities that directly target Europe's competitiveness and economic growth. The leverage of EU resources should be enhanced by further development of adequate financial instruments and by encouraging and facilitating private investment. RDI is a key factor in this context and its share of the EU budget must therefore be substantially increased in the next MFF. Future EU programmes addressing RDI should cover all phases of the value chain – from basic research to bringing the results to the market.

Despite the absence of a commitment for increased EU-funding, the Communication presents several important indirect measures to increase financing to RDI. In particular:

- Strengthen financial mechanisms and in particular the risk sharing facilities and venture capital through the EIB. BUSINESSEUROPE reiterates that access to finance remains a major obstacle to expansion of innovative companies – especially SMEs – and encourages the Commission to expand and develop existing structures and financing mechanisms on the EU level. Grants, debt and equity all have roles to play in the various phases of innovation and development. A possible link-up with national initiatives in this area is very promising. We welcome the idea of a stronger role for the EIB, in close cooperation with other capital



providers and intermediaries, while underlining that such a role must not distort the financial markets.

- Stronger focus on RDI as a driver for growth in the implementation of the Structural Funds. BUSINESSEUROPE acknowledges the progress made in this regard in the during the current MFF, and strongly encourages a substantial shift towards RDI in the period post 2013 as all EU funds must be used as to enhance competitiveness. For example, a part of the funding could target procurement of innovative products and services. This would help to gear cohesion policy towards areas driving economic growth. Action on the regional level may be of particular importance for SMEs. Likewise, a shift towards supporting research, innovation and growth-driving projects must be implemented in the future Common Agriculture Policy.
- Revision of the state aid framework for RDI. A transparent framework for RDI support on a national and regional level would help to boost public funding in support of private RDI. To foster effective collaboration between companies and public research organisations, clear operational guidelines¹ are needed for indirect aid through the contributions from public research organisations. Such a revised state aid framework for RDI must prevent differences at the national level that would distort competition and clarify – and where justified extend – the types of innovation that would be eligible to ensure coherence with a potential enlarged scope of activities eligible for support on the EU level. The revised state aid rules must also ensure a level global playing field.

2. Enhance public support policies

The concept for the European Research Area (ERA) was launched 10 years ago but there remains no effective overarching governance of the ERA. The current fragmentation of RDI efforts in Europe is a major problem as correctly pointed out in the Communication, and potential beneficiaries of RDI support still face a multitude of European, national and regional programmes with heterogeneous rules and procedures. The corresponding administrative burden is effectively discouraging private sector participation in these programmes.

BUSINESSEUROPE is therefore particularly supportive of the suggested measures to:

- Achieve a well functioning ERA by 2014, while underlining the importance of achieving an overarching governance structure, progressive alignment of national programmes, streamlining of administrative rules and enhanced cross-border mobility of researchers;
- Accelerate the simplification of the EU research and innovation programmes. The complexity and rigidity of rules applicable to current financial instruments make it less attractive for business to participate in EU-funded projects.

¹ E.g. see chapter 7 of the Responsible Partnering Handbook on <http://www.responsible-partnering.org/library/handbook-11.pdf>



BUSINESSEUROPE calls for an overhaul of the administrative rules in the preparations for EU support to RDI post 2013, but simplification measures that can be achieved without the involvement of Council and Parliament must be implemented immediately (e.g. acceptance of methodologies for average cost calculations based on cost centres where this is the beneficiary's usual accounting principle). The guiding principle for this overhaul must be a shift from a control-based to a trust-based system, including a reconsideration of the provisions on personal liability of EU officials. Moreover, streamlining of rules across different programmes must be ensured;

- Activate and engage all European RDI actors and other stakeholders relevant for successful innovation around European Innovation Partnerships focusing on societal challenges. The future added-value potential in Europe should be considered when defining the specific focus of partnerships and a clear governance model with strong involvement of European business must be ensured. Due to the complexity of such partnerships, BUSINESSEUROPE considers a pilot partnership as an appropriate first step, and future partnerships must be defined together with European business and not by the Commission itself, as presently seems to be the case. It is also important to ensure that the implementation of the partnerships does not lead to undue creation of new organisational structures and that they are based on a bundling of existing initiatives.

3. Nurture future talent

To underpin sustainable economic growth, Europe needs to upgrade its RDI capacity by ensuring a sufficient supply of skilled workers and researchers. In growing global competition for talent, Europe must do its utmost to maintain an attractive environment for its researchers and attract foreign talent. The evolution towards more knowledge intensive jobs reinforces the importance of training and employability for all workers, including professional and managerial staff. The crisis has reminded us that there is no longer “a job for life” and that some of the jobs that were destroyed will not come back.

BUSINESSEUROPE is therefore particularly supportive of:

- The emphasis on policies to ensure that Europe is the location of choice for leading academics, researchers and innovators and to attract a sufficient number of highly skilled third country nationals, which may include a further facilitation and encouragement of third-country participation in EU-funded RDI projects as far as there is reciprocity. More strategic and better balanced science and technology agreements with third countries should be concluded in this regard;
- The call for Member States to have strategies in place produce sufficient researchers and other R&D personnel to meet their national RDI targets and to promote attractive employment conditions in public research institutions;



- The emphasis on businesses involvement in curriculum development and doctoral training so that skills better match industry needs. In addition, innovation and entrepreneurship must make it into the mainstream curricula of European universities, including engineering and business schools. The status and attractiveness of these areas must be improved in academia, and must also be effectively addressed during primary and secondary education.

4. Stimulate demand and markets for innovation

Market demand for research and innovative products and services is a key factor for enhanced RDI investments from European business. As the Communication correctly points out, most previous EU initiatives have focused on supply-side measures trying to push innovation, while market-led / demand-side mechanisms would pull research and innovation towards real needs of the market. We appreciate the general emphasis on demand-side measures and the importance of giving markets a greater role in "pulling" EU innovation by providing market opportunities. Initial steps have been taken under the EU Lead Market Initiative but a bolder approach associating the supply and demand sides is needed;

In this context, BUSINESSEUROPE is particularly supportive of:

- The call for Member States and regions to procure innovative products and services (including pre-commercial procurement). In this context, soft measures should be taken, including guidance, sharing of best practice and enhanced dialogue between the public and private sector. However, BUSINESSEUROPE underlines that technical specifications must not be too prescriptive, recalling that innovation and research results cannot be dictated. Instead, functional specifications are more appropriate, as these are technology-neutral and leave more room for innovative solutions. Moreover, the EU itself must make similar commitments;
- The commitment to speed up and modernise standard-setting to enable interoperability and foster innovation in fast-moving global markets, while respecting the private sector nature of such standardisation. In this context BUSINESSEUROPE underlines the importance of promoting standards on the *international* level by ensuring that our trading partners adopt international standards for regulatory requirements and apply technology-neutral trade and industry policies so as to foster globally uniform interoperability and innovation.

5. Implement integrated policy approaches

To reach the objectives of the Innovation Union, all stakeholders must work in a common direction. This calls for an enhanced coordination between measures on the EU, national and regional levels, but also improved coordination between the various Directorates-General of the European Commission, who are central to the implementation of the new strategy. This coordination must fully respect the principles



of the Industrial Policy Communication which emphasises the interaction between horizontal policies and sectoral and regional approaches. Moreover, new initiatives on the European level for further coordination and harmonisation is necessary. Finally, the right balance between action on the European, national and regional level must be struck.

The Innovation Partnerships (further discussed in section 2 above) can be key tools to achieve a more integrated approach to RDI if they are governed properly. In addition, BUSINESSEUROPE appreciates:

- The call for active involvement of the broad set of stakeholders in the implementation phase. BUSINESSEUROPE underlines the important role of European business in this regard, as business must be the main vehicle for delivering on Europe's RDI objectives;
- The acknowledgement of the European Institute of Innovation and Technology (EIT) as a tool to integrate education, research and innovation at EU level. BUSINESSEUROPE notes certain implementation problems, complexity and rigidity relating – inter alia – to the current legal status of the EIT as a Community body. Provided that the EIT has a sound, lean and mean legal structure and the first three Knowledge and Innovation Communities (KICs) demonstrate that they can deliver tangible benefits to the business sector, we call for additional resources being allocated to the EIT to ensure its financial footing;
- Finally, but at the very core of EU innovation policy, the call for European Parliament and Council to take the necessary steps towards the EU patent and its system of dispute settlement. In this context, a majority of BUSINESSEUROPE members – except the Spanish (CEOE), Italian (CONFINDUSTRIA), Portuguese (AIP-CIP) and Polish (LEWIATAN) federations² – welcome the recent Commission proposal on translation arrangements.

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² These federations consider that the system proposed undermines the equal footing legal framework among companies, creates competitive disadvantages, and therefore neither promotes nor enhances competitiveness. They keep supporting the one language solution (English only) for the EU patent.