



European Economic and Social Committee

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State of the Innovation
Union 2012

Brussels, 18 September 2013

OPINION

of the

European Economic and Social Committee

on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: State of the Innovation

Union 2012 - Accelerating change

COM(2013) 149 final

Rapporteur: **Mr Stantič**

On 21 March 2013, the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: State of the Innovation Union 2012 - Accelerating change
COM(2013) 149 final.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 17 July 2013.

At its 492nd plenary session, held on 18 and 19 September 2013 (meeting of 18 September), the European Economic and Social Committee adopted the following opinion by 161 votes to 1 with 1 abstention.

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1. **Conclusions and recommendations**

- 1.1 The EESC welcomes the Commission's decision to publish, for the second year in a row, a report on the state of the Innovation Union, in which it notes considerable progress, namely that 80% of the commitments under the flagship initiative are being implemented according to plan. The EESC agrees that progress has been made, particularly as regards the framework policy, which relates to the implementation of concrete commitments. It therefore expects that by the end of 2014 all 34 commitments will have been implemented.
- 1.2 Despite the progress achieved in 2012 in several important areas, such as the single patent and the new rules on venture capital funds, there is no reason for complacency. The Innovation Union is not yet bringing about results in terms of economic growth and creating jobs. Nor can we see major progress in the global competitiveness of the European Research Area.
- 1.3 The EESC notes with particularly deep concern the trend of diminishing R&D expenditure in the majority of Member State budgets for the second year running. Equally concerning is the widening innovation gap between Member States and between individual regions. There will need to be a rethink of the effectiveness of regional cohesion policy and the Structural Funds in relation to the Innovation Union, especially as regards the brain drain from Europe's less favoured regions to established research centres.

- 1.4 The crisis has already forced Europe to deepen integration for the purposes of ensuring macroeconomic stability and the functioning of monetary union. The EESC is convinced that greater and deeper integration is also needed in the area of R&I if we really want the Innovation Union project to result in greater competitiveness of European knowledge, economic growth and the creation of jobs. The EESC calls on the European Council to support deepening of the Innovation Union concept in the conclusions of its October summit.
- 1.5 The EESC is convinced that the Innovation Union, even if all 34 commitments are met, needs to go deeper, and in this connection supports the ERIAB¹ recommendations and the Commission's response to them. At the same time, it calls on the Commission to draw up, as soon as possible, a list of measures and areas in which deepening is possible and urgent. The Committee sees opportunities for deepening particularly in further improving the environment for fast-growing innovative enterprises, in innovation in the public sector, in social innovation and in new, innovative business models, which could radically change the mindset and existing approaches to innovative solutions.
- 1.6 A functioning European Research Area is an indispensable component of the Innovation Union. Despite the full support of the European Council, the EESC doubts that it will be completed by the end of 2014, as it does not see sufficient progress in the key areas: mobility of researchers, the effectiveness of national research systems, optimisation of use of research infrastructure, the competitive use of national research funds, the completion of the market in intellectual property rights, etc. The EESC therefore calls on the Commission and the Member States to ensure, as soon as possible, that all the conditions for the development of the ERA are fulfilled as suggested by the Commission in its communication².
- 1.7 The EESC welcomes the progress in building top-quality research infrastructure at pan-European level and the encouraging initial results of the European Innovation Partnerships. It considers that the latter are in some cases still unverified and unfinished models, and calls on the Commission, on the basis of experience to date, to prepare a comprehensive analysis of their effectiveness along with uniform conditions for their operation and financing.
- 1.8 The system of support for research and innovation in Europe is still too complex, which puts micro and small enterprises in particular off EU research projects. Besides complicated and time-consuming administrative requirements, there are also significant disparities in procedures between programmes at regional, national and European level.
- 1.9 The Committee sees considerable potential for stimulating innovation through more innovative targeting of public procurement. It therefore calls on the Member States to increase the use of pre-commercial procurement and share experiences and models of

¹ European Research and Innovation Area Board: Stress-test of the Innovation Union, November, 2012.

² Commission Communication COM(2012) 392 final - A Reinforced European Research Area Partnership for Excellence and Growth.

innovation-friendly procurement. This should also apply to public procurement financed by the Structural Funds.

- 1.10 The reform of education systems should, amongst other things, provide Europe with many more highly qualified scientists and engineers³. The EESC thinks that it would be good to include entrepreneurial training and management skills in their study programmes; these are essential to the effective transformation of good ideas into successful projects. The Committee calls for businesses and the social partners to be included in preparing curricula and running doctoral programmes.
- 1.11 The EESC would once again like to highlight the specific role of social innovation, which could play an important role in tackling the crisis and the other challenges of modern society. Therefore, those support mechanisms that are also accessible to potential social innovators in civil society and the social economy sector should be developed. The EESC calls on the Commission to put in place support for the creation of incubators for innovative social projects as soon as possible.

2. **Background to the opinion and the Commission communication**

- 2.1 The Innovation Union is one of the seven flagship initiatives announced in the Europe 2020 Strategy. Its aim is to create a more innovation-friendly environment in Europe and thus ensure that innovative ideas are turned into products and services that will create growth and jobs. Analyses show that countries that have invested more in R&I in the past recover considerably more quickly and have higher levels of employment⁴.
- 2.2 In its communication on the State of the Innovation Union 2012⁵, the European Commission for the second year in a row summarises the achievements at Member State and European level in terms of implementing the Innovation Union, one of the key flagship initiatives of the EU 2020 strategy.
- 2.3 In general terms, the Commission reports considerable progress in the implementation of the Innovation Union. More than 80 % of the initiatives are on track. The Member States are focusing more and more on creating a business environment that is favourable to innovation: they are cutting taxes on investment in research, lowering taxes on profits from patents, making it easier to access risk capital, etc.

3 Europe will need at least a million new researchers and engineers by 2020 if it wishes to achieve the goals of the EU 2020 strategy.

4 Innovation Union Scoreboard 2013.

5 COM(2013) 149 final, 21.3.2013.

2.4 However, the communication mentions a number of worrying trends, most of which are a consequence of the economic crisis and large budget deficits:

- in 2011 and 2012, a **trend of falling R&D expenditure** in the budgets of most Member States emerged;
- differences in the efficiency and effectiveness of national research systems widen the **innovation gap between countries and regions**;
- in some countries, there is a **decline in investment in research and development in the private sector**, especially among small and medium-sized enterprises;
- because of the numerous bottlenecks that impede growth, Europe has **too small a share of fast-growing innovative businesses**.

2.5 A key finding of the communication is that Europe has to step up its commitment to deliver innovation-based growth. To achieve this aim, the Innovation Union must be further developed as a matter of urgency. At present, it is not yet clear in what areas, with what measures and by what means such development and deepening will take place.

3. **General comments**

3.1 The EESC welcomes the Commission's decision to draw up an analysis of the state of the Innovation Union every year. It is one of the flagship initiatives of the EU 2020 strategy. A timely analysis of the results facilitates corrective measures in areas where things are not going in the right direction.

3.2 A period of two years is, given the usual practice when it comes to implementing new EU legislation, too short for a real evaluation of the results achieved⁶. Nonetheless, the EESC appreciates that the policy framework for the Innovation Union is more or less in place, though results in terms of economic growth and new jobs are not yet apparent.

3.3 In the context of the overwhelming, all-engulfing debate on public budget deficits, unpopular austerity measures and an overall fall in confidence in the European project, the Innovation Union is one of the more positive and successful stories. Most of the commitments under the Innovation Union are more or less on track. The EESC therefore reasonably expects that all 34 commitments will be fulfilled by the end of 2014.

⁶ Some legislative acts on improving the environment for innovation (the intellectual property directive, the European patent, the venture capital passport, etc.) have not yet entered fully into force.

- 3.4 The EESC welcomes the progress in the area of building pan-European research infrastructure thanks to the efficient role and activity of the ESFRI⁷. Of a total of 48 projects on the ESFRI list, 27 projects are already in the implementation phase, which augurs well for achieving the aim of constructing 60% of the priority European research infrastructure by 2015⁸. In the Committee's view, Europe is still doing too little to coordinate and optimise the use of its research infrastructure.
- 3.5 The new concept of **European Innovation Partnerships**, the initial pilot projects of which are aimed at tackling key societal challenges⁹, is so far showing an encouraging picture. They aim to bring together stakeholders at all levels, to overcome fragmentation and to provide a critical mass. Despite these positive signs, European partnerships are in some cases still unverified and unfinished models. The EESC therefore calls on the Commission, on the basis of experience to date, to draw up a comprehensive analysis of their effectiveness as soon as possible and to draw up uniform conditions for their operation and financing in the future.
- 3.6 Despite the undoubted progress in some areas, there is no room for complacency. Below, the EESC will set out the areas where improvements have not yet been sufficient and where rapid and effective action is needed.
- 3.7 **The system of support for research and development** is still much too complex in Europe. Potential beneficiaries are faced with a daunting multitude of existing instruments (national and regional programs, intergovernmental initiatives and EU funding procedures). The amount of red tape has not been significantly cut back either. This hampers cross-border cooperation and puts SMEs and micro-enterprises, in particular, off EU research projects. Besides the administrative burden, there are also significant divergences in procedures.
- 3.8 The starting point for the Innovation Union must be to build an excellent, **modern education system** in all Member States, including reform of higher education. Businesses still have very little involvement in the preparation of curricula and in running doctoral programmes. The EESC therefore once again calls for the social partners to be allowed to participate actively in planning the education systems of the future. The EESC also calls for managerial and entrepreneurial skills to be included in the education of future engineers and scientists so as to facilitate and promote the transformation of good ideas into successful marketable projects.
- 3.9 The EESC supports a broad definition of innovation, which can extend to numerous fields. In its previous opinions, it has repeatedly highlighted the specific role of **social innovation**¹⁰,

⁷ European Strategic Forum for Research Infrastructure.

⁸ See ESFRI Implementation report, November 2012.

⁹ European Innovation Partnership (EIP) Active & Healthy Ageing, EIP on Agricultural Sustainability and Productivity, EIP on Smart Cities and Communities, EIP on Water, EIP on Raw materials.

¹⁰ See opinions [OJ C 132, 3.5.2011, p. 39](#) (point 3.10.4); [OJ C 229, 31.7.2012, p. 39](#); [OJ C 354, 28.12.2010, p. 80](#).

which often comes directly from civil society organisations. Many aspects of European welfare systems are the fruit of innovative ideas from civil society and social economy actors. Therefore, support for innovation must include all areas of society, and financing mechanisms must reflect the extraordinary diversity of innovation.

- 3.10 We are still not effective when it comes to **commercialising innovative ideas**: access to finance, especially for small, innovative enterprises, is still difficult (shortage of risk capital funds due to the financial crisis). Entrepreneurship and innovation often go hand in hand. In Europe, we are traditionally less tolerant of the possibility of business failure. We are even more reticent about risky, innovative projects. The single market in capital (especially risk capital) still is not working. New forms of financing innovative businesses such as "crowd funding" and "business angels" are emerging too slowly. The Risk-Sharing Finance Facility has been a very good experience, but sadly it cannot meet demand.
- 3.11 The completion of the **single market in innovation** depends in large measure on the proper functioning of the European single market. This still faces numerous obstacles and deficiencies, especially in the area of free movement of services and capital¹¹. The EESC once again suggests to the Commission that it think about establishing a pan-European electronic database (in the form of a search engine) containing specific knowledge from individual businesses and research institutes to facilitate faster networking of businesses and other organisations to link them up to innovative projects (perhaps within the context of the existing European Enterprise Network)¹².
- 3.11.1 Obstacles to the **completion of the single market in intellectual property rights** fall within the same category. Whilst the single European patent has finally seen the light of day, which is an important achievement, the procedures are not yet operational.
- 3.12 Europe is also lagging behind in **completing innovative procurement markets**, especially as regards public procurement mechanisms¹³. In the EU, there are far too few public tenders designed to foster innovation. The EESC therefore calls on the Member States to substantially increase the use of **pre-commercial procurement**, which the Commission estimates would allow the procurement market to grow by EUR 10 billion. In this connection, the Committee also points to the European Parliament's proposals for modernising public procurement¹⁴. More use should also be made of public procurement co-financed by the Structural Funds to increase demand for innovative products and services.

11 See opinion on The Single Market Act - identifying missing measures (not yet published in the OJ).

12 [See opinion OJ C 218, 11.9.2009, p. 8, points 1.2 and 3.2.4.](#)

13 The public procurement market represents around 17% of Europe's GDP.

14 IMCO Committee Report and EP Resolution on Pre-Commercial Procurement.

- 3.13 A functioning **European research area**, which is synonymous with the single market in research and innovation, is one of the key conditions for putting the concept of the Innovation Union fully into practice. The European Council has set 2014 as the deadline for its completion¹⁵. This means that by then all of the key obstacles to mobility and cross-border cooperation should be removed, including by means of an open labour market for researchers, the establishment of additional pension funds, an optimal flow of knowledge and research findings, and a more competitive use of national research resources. The EESC has set out its views on the completion of the ERA in more detail in an opinion¹⁶, in which it expressed the concern that 2014 was too ambitious a deadline.
- 3.14 The priority for financing and stimulating innovation should be reflected right across all EU funding programmes, including the cohesion funds, and not just within the competitiveness and innovation programme. The EESC therefore calls on the Member States to take advantage of the opportunities afforded by the new Structural Funds Regulation¹⁷.
- 3.15 For the Innovation Union to function properly, sustained efforts and effective cooperation at all levels – EU, national and local – are needed. Greater focus is needed on the role of **regional innovation policy**, which could make a significant contribution to stemming the brain drain from regions with limited capacity to established European research centres.

4. **Specific comments**

- 4.1 In the EESC's view, the fulfilment of the 34 commitments in the flagship initiative is merely the first step in achieving a genuine Innovation Union. If we want it to make a substantial contribution to smart, sustainable and inclusive growth, **deepening** will be necessary in the next phase, meaning much more integration and coordination of national R&I policy with the EU's policies and activities. The EESC calls on the Commission to produce, without delay, a list of specific measures and areas where deepening is not just possible but is necessary.
- 4.2 The EESC considers that there is much room for deepening in numerous areas, of which it would like to list just a few:
- *promoting innovation in the public sector* can enhance the efficiency and reduce the costs of public bodies, thus contributing to balancing the budgets and to the general competitiveness of the Member States;
 - further *improvements to the business environment for innovative, fast-growing firms* through more determined measures in the area of taxation, support for start-ups (time-limited tax breaks), harmonisation of copyright legislation, etc.;

¹⁵ European Council conclusions of February 2011 and March 2012.

¹⁶ [OJ C 76, 14.3.2013, p. 31.](#)

¹⁷ Article 9 of the ESF Regulation.

- *social innovation* can successfully tackle many of the challenges of modern society and the consequences of the economic crisis;
- *innovative solutions in the service sector* would open up new possibilities in retailing, e-commerce, tourism, software applications, etc.

4.3 The EESC supports the findings and recommendations of ERIAB, which has carried out the first "stress test" of the Innovation Union¹⁸. In this report, it expresses the need for a radical rethink of the future European growth strategy, based more on knowledge and innovation. Amongst the key challenges, it mentions:

- weak political commitment by the Member States to the Innovation Union;
- outdated traditional business models;
- insufficient linkage between top-level scientific-academic achievements and actual output in terms of technology-based innovation;
- slow decision-making and adversity to innovation-related risk.

4.4 The EESC suggests to the Commission that it give some thought to specific instruments aimed at promoting the development of new, innovative business models. One possible idea would be to use so-called "innovation vouchers".

4.5 The EESC was invited in the flagship initiatives to encourage the businesses, social partners and NGOs it represents to support the Innovation Union and to help spread best practices. We propose that the Committee, particularly through its EU 2020 Steering Committee, draw up a concrete list of initiatives and activities with which, via the social partners, national economic and social councils and other civil society organisations, it could make a greater contribution than hitherto to building confidence in the Innovation Union.

Brussels, 18 September 2013.

The President
of the
European Economic and Social Committee

Henri Malosse

¹⁸ European Research and Innovation Area Board, 1st position paper: Stress-test of the Innovation Union, November 2012.