



European Economic and Social Committee

INT/185
Innovation policy

Brussels, 25 September 2003

OPINION

of the

European Economic and Social Committee

on the

**Communication from the Commission to the Council, the European Parliament, the
European Economic and Social Committee and the Committee of the Regions:
Innovation policy: updating the Union's approach in the context of the Lisbon strategy
(COM(2003) 112 final)**

On 12 March 2003, the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Innovation policy: updating the Union's approach in the context of the Lisbon strategy
(COM(2003) 112 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 3 September 2003. The rapporteur was **Mr Soares**.

At its 402nd plenary session of 24 and 25 September 2003 (meeting of 25 September), the European Economic and Social Committee adopted the following opinion by 66 votes to none with one abstention.

1. Summary

1.1 The Committee welcomes the Commission's Communication and endorses the goal of boosting innovation capabilities along the lines of the strategy set out by the Lisbon Council.

1.2 Boosting innovation in Europe – as a major contribution to economic growth and employment – is a highly topical issue at a time when the difficulties that the European economy is experiencing in recovering its momentum are compounded by political uncertainties and hazards.

1.3 The Committee shares the Commission's systemic view of the innovation process and its belief that innovation can assume various guises; it is a process that is nonetheless based on human resources skills - rooted in education and training - for achieving innovation in firms. The EESC firmly believes that building up sound relations, on a voluntary or negotiated basis, especially in the areas of human, social, financial and ecological links, also constitutes a fundamental element for consolidating an innovative model which is specific to the European Union.

1.4 The Committee welcomes the Commission's efforts to encourage innovation based on coordinated action between Member States and the EU institutions and in general agrees with the strategies outlined in the Communication.

1.5 The Committee acknowledges that some progress has been made in innovation over the last few years, but the EU's relative disadvantage vis-à-vis other regions is clear, while there are still major differences between countries within the EU as regards performance in innovation.

1.6 The EESC would draw Member States' attention to the need to complete the single market - the largest market in the world - effectively, and to the urgent need to create better conditions

for taking full advantage of the enormous opportunities offered by the recently agreed enlargement for reviving investment and economic growth throughout the European Union.

1.7 The Committee highlights the need to: bolster the support mechanisms for businesses; streamline the decision-making processes; work towards more efficient processes for exchanging and spreading good practices in innovation; and give greater recognition to business activity, calling upon the Commission and the Member States to promote a business culture more conducive to innovation, quality promotion and business risk-taking within society as a whole.

1.8 The EESC recommends that when European policies are devised and applied, in particular in those areas for which businesses provide the driving force, such as in innovation, account should be taken of the need to bolster the mechanisms for involving the key protagonists, namely businessmen and workers.

1.9 The Committee firmly believes that this Communication can provide a basis for strengthening innovation capabilities throughout the European Union, and hopes that the Member States and EU institutions provide the right conditions and resources needed for beefing up investment in innovation which is so vital for economic growth and for improving quality of life for people in Europe.

2. Gist of the Commission document

2.1 Innovation is a cornerstone of the Lisbon strategy launched by the European Council in March 2000 and emphasised by subsequent European Councils, in particular at Barcelona in 2002.

2.2 The present Communication on innovation policy, together with the Communication on industrial policy in an enlarged Europe and the Green Paper on entrepreneurship, form a coherent framework for developing an enterprise policy that fosters company competitiveness and contributes to the growth of Europe's economy.

2.3 While recognising the major contribution of research to innovation together with the importance of the recent Communication "More research for Europe, towards 3% of GDP", the Communication highlights that there are many other forms of innovation.

2.4 Innovation can be incremental or radical, it can result from technology transfer or through the development of new business concepts, it can be technological, organisational or presentational.

2.5 The object of the Communication is firstly to describe the diverse routes to innovation and analyse the consequences for the design of innovation policy and for the different means by which innovation policy is put into action, so that they are not hampered by a view of innovation which is too restrictive.

2.6 This analysis is complemented by an examination of the current challenges that are, to different degrees, specific to the EU, recognising that structures, problems and opportunities relating to innovation are not necessarily the same in all the world's major economic areas. Factors considered include the persistently inadequate performance of the Union, the implications of enlargement, demographic trends, and the large size of the public sector in EU economies.

2.7 While innovation policy takes place mostly at the national and regional levels, the Member States and the Commission need to step up their cooperation for strengthening innovation in the EU, including coordination and assessment mechanisms for mutual learning, as well as for taking stock of progress achieved. The Communication makes concrete proposals on how to turn European diversity into a strength.

2.8 The Communication also suggests several new directions for EU innovation policy development and, in particular, interaction with other policy areas. Innovation policy must often be implemented via other policies, and the Commission's suggestions include better coordination and a pro-active follow-up by the Commission and Member States.

3. General comments

3.1 The importance of innovation has been recognised since 1995, especially in the Green Paper on Innovation¹ and the First Action Plan for Innovation in Europe², the main objectives of which were to create an innovation culture, generate an environment favourable to innovation and encourage better links between research and innovation.

3.2 When the Lisbon European Council of March 2000 set the European Union the strategic objective of becoming "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010, it created certain expectations that innovation might become a key pillar for the future of the Union.³

3.3 The 2000 Commission Communication on innovation⁴ identified five priorities for guiding Member States' actions to promote innovation:

- Coherence of innovation policies
- A regulatory framework conducive to innovation
- Encouraging the creation and growth of innovative enterprises

¹ COM(95) 688 final – volumes I and II: EESC opinion CES 700/1996, OJ C 212 of 22.7.1996.

² COM(96) 589 final.

³ EESC opinion OJ C 260 17.9.2001.

⁴ Innovation in a Knowledge-driven Economy, COM(2000) 567 final.

- Steps to improve key interfaces in the innovation system
- A society open to innovation.

3.4 The Committee expressed the view at the time that such objectives worked towards the vital "recognition of the importance of innovation policy on the part of both the national governments and the European public"⁵, and identified four crucial principles for encouraging innovation in Europe:

- information on innovation;
- a broad awareness of its value;
- a functional organisational and regulatory environment;
- coordination of activities at national and cross-sectoral level.

3.5 This assessment still holds true, and particularly the Committee's contributions regarding the following aspects:

- the importance of converging national innovation policies;
- the adoption of tax measures to encourage private investment in research and innovation and the employment of researchers by the private sector;
- the removal of barriers preventing communication between small and medium-sized enterprises (SMEs) and universities and research centres;
- steps to encourage the creation and growth of innovative businesses (facilitating the access of start-ups to public tendering procedures and Community programmes);
- the development of human resources in research institutes and centres of excellence and steps to attract researchers and scientists from non-EU countries;
- improvements to key interfaces in the innovation system;
- measures to facilitate knowledge transfer activities; and
- the need to modernise basic school curricula and provide training, especially in primary and secondary schools, in order to raise broad social awareness on a practical level of the meaning of innovation.⁶

3.6 However the EESC would draw attention to the need for some public funds to be earmarked for continuous training, especially for intermediate-level professionals (knowledge workers), so as to allow on-the-spot research and innovation activities in firms to expand.

3.7 The Barcelona European Council decided that investment in research and technological development (R&D) in the EU should be stepped up with the aim of approaching 3% of GDP; it also called for an increase in the level of business funding to two-thirds of total R&D spending. The Committee welcomed these conclusions and highlighted the fact that the goals of

⁵ EESC opinion OJ C 260 of 17.9.2001.

⁶ EESC opinion OJ C 260 of 17.9.2001, points 3.2 to 3.6.

competitiveness, economic growth, employment, high environmental and health standards and balanced sustainable development could only be achieved by more knowledge, R&D and innovation⁷.

3.8 While R&D (research and development) has already been dealt with in various previous European Commission communications and corresponding Committee opinions⁸, the Communication in hand focuses on those aspects of innovation which go beyond or fall outside the sphere of R&D, but whose importance may be decisive for imparting new impetus to European innovation policy.

3.9 The Committee shares the Commission's view that although some progress has been made here, innovation is still a real weak point for the European Union compared to the United States and Japan, and this shortcoming could be one of the main reasons for Europe's relatively poor performance in terms of growth and productivity.

3.10 The Committee welcomes the present Commission Communication which is designed to launch the debate on modernising the foundations of Europe's innovation policy, based on a clearer understanding of the mechanisms of innovation and underpinned by renewed political desire on the part of Member States for overcoming the difficulties in creating a more innovative Europe capable of achieving the Lisbon objectives.

3.11 The Committee attaches importance to the priorities set down at the European Council meeting on 20 and 21 March 2003, namely as regards growth in employment and greater social cohesion, innovation and entrepreneurship, and environmental protection and quality of life for EU citizens, although it does recognise that to date these priorities have been more a subject of discussion than concrete action by Member States.

3.12 The Committee also welcomes the general thrust of the conclusions of the XIVth Inter-Parliamentary Eureka Conference held on 23 and 24 June, on "Building an innovation policy for Europe".

3.13 The difficulties in relaunching economic growth and boosting employment are compounded by the political uncertainties and hazards affecting the world and the European economies in particular, and highlight the particularly important and topical nature of the Commission's Communication on innovation policies. This difficult situation should be a compelling factor in encouraging Member States and businesses to support investment policies for securing the necessary changes designed to step up innovation activities as a key instrument for boosting the productivity and competitiveness of European economies.

⁷ EESC opinion OJ C 95 of 23.4.2003.

⁸ CES 921/2001, OJ C 260 of 17.9.2001; CES 185/2002, OJ C 94 of 18.4.2002; CES 838/2002; OJ C 241 of 7.10.2002; CES 278/2003, OJ C 95 of 23.4.2003 and CES 288/2003, OJ C 95 of 23.4.2003.

4. Specific comments

4.1 The Committee shares the Commission's systemic view of the mechanisms for innovation and agrees with its comment that capacities and performance in non-technological innovation may be as relevant to the slow pace of progress in achieving the Lisbon goals as the low level of R&D spending. This situation must not, however, be allowed to detract from the European objective of 3% of GDP being channelled to R&D, to which Member States have committed themselves, and to which they must keep in order to make up the current innovation shortfall.

4.1.1 In truth, developing new knowledge is a prerequisite for the European Union becoming – as affirmed at the Lisbon Council – the most advanced knowledge-based society in the world. New elementary knowledge is a product of basic research. On the other hand, innovation – and the practical knowledge associated with it - flows from interaction between basic research, applied research, development, engineering, management, marketing, etc, or from any one of these stages. It can crop up in many forms and offer many opportunities.

4.1.2 On the other hand, more effective incentives are needed to encourage mobility amongst scientists and engineers – as purveyors of information and innovative techniques – between industry (including SMEs), universities and other research centres. Intellectual property rights must be distributed fairly.

4.1.3 Of particular importance is the role which small and medium-sized enterprises can play in adopting and developing ideas for new products. However, their market opportunities and chances of survival do not depend exclusively on mobility, knowledge transfer and the sharing of new ideas, but much more on the general economic climate, their self-sufficiency in basic equipment, financing arrangements and business experience. Thus, improved competitiveness for new companies, together with a better market position and financial capacity, are also vital for innovation, at least in the first five years.

4.2 The Communication argues that businesses constitute the driving force for innovation, based on their ability to recognise market opportunities and to respond in innovative ways using their know-how and skills. The EESC would, however, emphasise that although all the interactions a businesses has with its immediate environment are vital to its innovative capacity, and conditions in the broader environment affect its innovative orientation, the knowledge base depends on life-long human resource education and training. Individuals' learning opportunities and abilities are decisive elements in the innovation process.

4.3 The EESC stresses the importance of greater recognition for business activity and the need for the Commission, Member States and society in general to strive to create a business culture more conducive to innovation, quality promotion and business risk-taking.

4.3.1 As part of the mutual learning process, it would be particularly valuable for the Commission to organise round tables at sectoral level, at least as pilot projects, in order to make it easier to pass on information about best practices in business innovation.

4.3.2 The particular nature of innovation activities, bearing in mind the high failure rates in turning ideas into financially viable projects, should warrant steps by Member States to make specialized services available to provide support for business innovation.

4.3.3 In addition, financial institutions should expand their capabilities for assessing new ideas, giving businesses opportunities for obtaining financial resources so that they can benefit as much as possible from existing and emerging knowledge.

4.4 The EESC would point out that Europe's main weaknesses emerge most of all in the proportion of GDP represented by companies' R&D spending, the number of high-tech patents⁹ and industrial added value in high-tech sectors. It reiterates its view that this state of affairs must be put right.

4.5 The EESC would also stress that differences between the Member States are particularly significant in terms of participation levels in life-long learning and numbers of high-tech patents. The continuing disparities between Member States' R&D expenditure as a share of GDP and high-tech patents is worrying. These are some of the aspects which require particular attention.

4.6 The acknowledged difficulties affecting innovation should be adequately addressed by the EU countries. These involve, firstly, shared problems such as risk-aversion, insufficient R&D investment and the lack of cooperation between the research and industrial sectors and, secondly, the specific problems the accession countries face in making the necessary changes to their economic, institutional, education and social frameworks.

4.7 The Communication underlines the need for suitable human resources policies in terms of providing appropriate opportunities for the last phase of working life, encompassing flexible working time arrangements and opportunities to participate in training. The EESC agrees that developing all workers' skills and extending the economic contribution made by older workers are important factors which must be reflected in companies' age structures and in steps to resolve the difficulties faced by social security systems. Nevertheless, workers in physically hard jobs or working in certain high-risk conditions should be dealt with differently in this connection.

4.7.1 In particular, consideration should be given to the contribution that older knowledge workers can still make to creating wealth and well-being for the community, with skill and intelligence, providing valuable opportunities for the community's productive and economic system while reducing economic and social costs.

⁹

2002 European Innovation Scoreboard [SEC(2002) 1349].

4.7.2 Against this background, the EESC feels that it is necessary to:

- set up specific instruments to safeguard rights by involving these workers more in the process of reorganising and restructuring businesses, in such a way as to facilitate new opportunities by adopting suitable instruments for back-up and technical support;
- introduce incentives for firms to employ knowledge workers who are seeking new jobs;
- encourage - through specific projects for investment policies - commercial development and partnerships with the Member States, and mobility and improved status for these workers, in order to make it easier for them to fit into the system and to ensure maximum use is made of their valuable skills and knowledge;
- make use of these workers' knowledge in order – as part of the policy of managing migratory flows - to develop selection and training activities on the spot in firms interested in hiring immigrants;
- use experts to provide professional support in the field to SMEs wishing to gain a foothold on new markets opened up via the accession countries;
- encourage exchanges between these professionals so as to give on-the-spot back-up to the process of modernising the productive, organisational and administrative apparatus of the new members of the Union; and
- introduce a specific policy for knowledge workers who, in addition to losing jobs, encounter major difficulties in reconciling mobility with the need to support a family.

4.8 The EESC is convinced that worker satisfaction, particularly regarding the quality of working conditions and relations, is a key factor in strengthening business innovation. Greater environmental and social responsibility on the part of businesses, with all its implications, would also appear to be fundamental to reinforcing a specific model for innovation in the European Union.

4.9 The Committee recognises the importance of the specific features of the EU set out in the Communication and having a bearing on innovation policy, such as the importance of the public sector and its interfaces with the most innovative enterprises, the regeneration of urban areas as centres of innovation, attractive to highly-qualified individuals, and the need to draw on European diversity in developing an innovation policy specifically geared to boosting economic growth, employment, and the quality of life for Europe's citizens.

4.10 The Committee joins with the Commission in recognising the need to step up efforts to encourage innovation, and to coordinate action between the Member States and the EU institutions; such efforts must however lead to practical effects on both enterprise support policies and models for

encouraging worker participation and commitment, as well as budget policy guidelines for allocating the necessary resources.

4.11 The EESC urges Member States to devise actions for developing better basic and technical training for the working population and, as part of moves to coordinate policies Europe-wide, to create the conditions for boosting the mobility of human resources between universities/research centres and industry, between countries and between businesses. Such actions can play a decisive part in speeding up the process of spreading knowledge and best practice in innovation activities so that sectors and businesses can benefit fully from the knowledge available, applying it to the design, production and marketing of goods and services. In information technology, it will be vital to ensure that better use is made in future of existing networks, especially by businesses and universities/research centres so that, by learning from each other, they can achieve the desired levels of innovation.

4.12 The Communication calls for new directions to be studied in order to improve innovation performance in Europe. The Committee supports many of the suggestions made, regarding either the implications for policy interfaces, or the systematic assessment of their impact on innovation (competition, internal market, employment, taxation, the environment and regional development), steps to stimulate greater market dynamism (exploiting the concept of lead markets), the promotion of innovation in the public sector (efficient, open and competitive public procurement, new types of services), and moves to strengthen the regional dimension of innovation policy (skills creation reflecting the distinctive social and economic characteristics of a region and learning from previous successes).

4.13 In the EESC's view, European innovation should be strengthened through the following specific interfaces:

- **taxation:** a policy of selective tax incentives for innovative activities, especially for SMEs operating in growth and/or medium- and high-tech markets;
- **public sector:** an investment policy for boosting the development of new products and services, focusing particularly on those with the greatest impact on public well-being (health, education and training, the environment, transport and communications);
- **employment:** coherent employment market policies aimed at upholding and creating high-quality employment, strengthening social cohesion and steady EU progress to a level of near full employment;
- **social responsibility and company human resources:** one of the main concerns of an innovative organisation should be its ability to relate to its various stakeholders in a fair, balanced way, defending and advocating environmental protection in such a way as to satisfy the various interests involved, particularly those of its workers and the community in general. At present, one of the greatest challenges facing businesses is to establish good relations, especially human

relations and those relating to social, financial and environmental issues, and particularly on a voluntary or negotiated basis.

- **redefinition of Community support schemes for innovation:** bearing in mind that part of the Community funds allocated to Member States for innovation are not used because the public contribution to the national financing component is lacking, it must be possible to guarantee this contribution fully from private sources only, so that all the funds which the EU makes available to the Member States for innovation can be used.

4.14 The Committee is convinced that the steps proposed by the Commission go some way to reducing the effects of the productivity gap between the EU and other economic areas, and can help to devise specific paths and solutions capable of strengthening the European social model.

4.15 Lastly, the EESC feels it must express its concern about how slow decision-making procedures are in the European Union, typical instances of which are the actual operation of the single market and the European patent. This difficulty means that the processes for devising and formulating policies and for subsequently implementing them on the ground - particularly those, such as innovation policy, for which businesses are a driving force - should take into account the need to strengthen the mechanisms for involving the main protagonists - businessmen and workers. The Committee is convinced that it is becoming vital for the Commission and the Member States to adopt such a new stance so that Europe can meet the challenges of innovation.

Brussels, 25 September 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini

N.B.: appendix overleaf

APPENDIX
to the
OPINION
of the
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The following amendment, which received more than one quarter of the votes cast, was rejected in the course of the discussion:

Insert a new point 4.1.4

"Accordingly, the Committee advocates that, until the R&D target of 3% of GDP is achieved, all public investment in this sphere should be excluded from the calculations of public expenditure for the purposes of the Stability Pact."

Result of the vote:

In favour: 35
Against: 39
Abstentions: 3
