

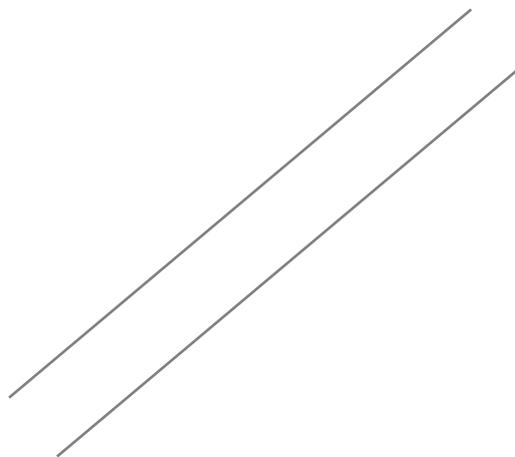
THE 2005 GUGLIELMO MARCONI LECTURE

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Promoting, Creating and Encouraging Real Innovation



Ladies and Gentlemen,

The Innovation Manifesto of the Lisbon Council says that

Without dynamic change, there can be no progress

Without venturing into the unknown, there can be no advancement

Without taking risks, there will be no pay-off.

I agree.

Industry without innovation would be economic life without focus. That is why our strategy for more and better investment in research and innovation is so important. It is the key to our competitiveness, to the creation of jobs and growth.

Innovation in the context of the Lisbon partnership

Innovation is the key to competitiveness in a globalised economy. It opens the door to sustainable growth and to more employment. It will enable Europe to face up to its societal challenges, to handle the demographic developments that lie before us.

The Lisbon strategy is a partnership between the EU and the Member States. **But it also relies on the commitment of all the players who wish to see progress towards more growth and jobs. I therefore welcome the support of the Lisbon Council. The debate you stimulate will encourage support for the Lisbon goal of jobs and growth.**

Individual Member States and regions, acting alone, cannot develop the critical mass, that will produce the innovations needed to compete in the world market.

European enterprises – including SMEs - must be able to build on an effective Internal Market, whether it be to sell their products and services, or to access the capital, skills and other resources that they need. Fragmented markets are a structural deficit that is not easy to overcome. But the need to fulfil our innovative potential requires that reform be delivered.

Although there is certainly a role for Europe in this, it is in particular to the *Member States* that we have to look for delivery of the reform required to achieve the Lisbon goals of jobs and growth.

The *National Reform Programmes* that the Member States presented in the past weeks spell out their strategies. They represent a renewed commitment to the work of economic reform, although of course much good work has been going on already.

The reform programmes are currently being assessed by the Commission. But I can already say that the future will not be won by delivering programmes, but by carrying them through. The programmes will need to be backed by consistent, strong commitment by the Member States, to bring reform through.

The Member States' programmes on research and innovation are particularly important. Research and innovation were identified by the Council in *integrated guidelines 7* and 8 and the way forward has to take account of the decade-long experience of innovation policy analysis developed by the Commission.

The Commission will present its conclusions in January 2006, in its Annual Progress Report.

Of course, the partnership includes you, the real innovation managers and entrepreneurs, and I would be happy to discuss with you about the ways you could do better, about the ways you are assuming the necessary responsibility for making Europe more innovative, and also about the question: what do policy makers expect of business.

The innovation challenge in Europe is twofold

The 2002 Barcelona European Council set the goal of raising our research investment from 1.9% of GDP to around 3%. The importance of achieving this has been widely recognised, but there are problems. The most striking one is the continued sluggishness of private sector research investment: increasing industrial investment in research, in Europe, has emerged as a key challenge.

And it is not just enough to carry out research, we have to turn it into commercial products and services and then to market them successfully.

We have to succeed in this. We are faced with challenge on two sides. On the one hand is the challenge of the US, with its entrepreneurial culture that can grow dynamic new companies into giants like Microsoft and Intel.

On the other, we have the challenge of the newly industrialising economies, not just Korea and Taiwan, but China and India.

The choice is simple:

Either we achieve a more innovative growth path, or we face a slow decline.

I do not suggest that we need a *one-size-fits-all* approach to innovation. Our Member States are different one from another. That is why, last summer, we talked to them individually about the design of their National Reform Programmes.

Some of our Member States, in particular some of the new ones, need to **concentrate on catching up**, on establishing an innovation strategy and making sure that the main components are in place and working. Some of these Member States are achieving impressive growth rates. These need to be complemented with strong innovation systems, that can sustain and develop are competitiveness over time.

On the other hand, our European innovation leaders, who are as good as any in the world, need to **convert their good innovation performance into higher GDP and growth**. High investment in research needs to be carried all the way through to strong marketing. Knowledge creation alone is not a sufficient condition for wealth creation, even if it is a necessary one.

Our European innovation leaders need to translate their world-class research and high-level skills into successful products and services, and then to market them aggressively. Entrepreneurship and better innovation management are needed, supported by innovation poles.

What can innovation policy do?

In the end, it is enterprises that innovate, not policy-makers. European innovation policy is there to support them in this action, not to replace them or to direct them.

I know that governments themselves need to innovate. And they need to be supportive to innovative solutions. Some 16% of Europe's GDP is used for public procurement. Innovation can be market driven, so it is important that government as a purchaser encourages innovation. It is not a question of governments directing

markets, so much as their ensuring that their purchasing is open to innovative solutions.

But the core business of government is to create the right conditions for enterprises to innovate.

The right policy can give firms, however big or small they may be, scope to make the best of their entrepreneurial flair and know-how. The right policy is not just permissive, but supportive. Good innovation policy ensures that enterprises can find the technology, knowledge and finance they need. It encourages business efforts to identify and develop new market opportunities. And in particular, it fosters links between science and industry and facilitates technology transfer.

There is much more to innovation than technology. We need non-technological innovation too, in design, in business process, in management and marketing.

Our value systems must foster creativity and risk-taking. And above all, we must cultivate entrepreneurship in Europe.

To get the best in jobs and growth, innovative companies must also be encouraged – if necessary persuaded - to go international.

There is a lot to do. Only if regional, national and European policies work together, only if they pull in the same direction, can we make the most of our enormous collective strength.

The EU contribution to more and better research and innovation

In October, the Commission adopted a new strategy to boost research and innovation in Europe. This is part of the renewed Lisbon partnership for growth and employment. It aims to bring research and innovation to the heart of things – to the heart of EU policy-making, of Community and national funding, of businesses and policy-making in the Member States.

Let me outline 4 lines of action to which I attribute central importance:

- First, we are supporting the continuous development of business **clusters** in Europe. The EU already has many clusters, but they tend to be too small, too few and not sufficiently inter-connected with European or beyond.
- You see, clusters are powerhouses for innovation and competitiveness. They give firms competitive advantage. For a high tech firm today to find itself in a dynamic cluster is like a heavy industrial plant a hundred years ago being situated on a coalfield next to a deep-water port. It is a major competitive advantage. Clusters bring together entrepreneurs, innovators, researchers, education and training institutions, financial intermediaries, local and regional development bodies. Clusters help firms cooperate and learn from each other. They stimulate the flow of ideas. They facilitate access to finance and business partners, the life-blood of innovators.
- We have just launched a family of projects to support and encourage clusters across Europe. The brand-name is *Europe INNOVA*. Its target is to help clusters to be more dynamic, to help key sectors to manage their clusters better, to support their development and to build on good practice.
- And you should certainly take all your part and responsibility in supporting these clusters.

- Second, we are helping **regions to pull together** in developing their innovation potential. There is enormous potential in Europe to build on the complementary strengths of our regions. Many of the regions, not least in the new Member States, lack the full array of strengths to develop their potential. But strategic alliances and cooperation can help build that strength. The Commission has already made a significant contribution to the development of regional innovation strategy and to policy learning between regions. Now we are encouraging regions to cooperate in developing complementary strengths. The brand name is *PRO INNO Europe*, an action that is just getting started and from which we have high expectations. If it goes well, we anticipate continued development in regional cooperation under the *Competitiveness and Innovation Programme*, which will become our funding mechanism as of 2007.
- Third, we have to improve **access to venture capital**. Innovation is a risky business and it depends on a supply of risk capital and early stage loans. But venture capital and early stage loans are in short supply. This is not just a European problem, but it is accentuated in Europe because of the fragmentation of the European financial market which is divided up into packets that are too small, with insufficient expertise or scale to support innovation in general and new technology in particular. Both legal and informal barriers inhibit the development of the European venture capital market. And that is only the supply side. On the demand side, investors are too often unprepared, without clear enough ideas as to how to prepare for investment or of what it will imply.
- The Commission, as you will know, has been working hard in the regulatory area to lay the foundations for a Single Market in Financial Services. The financial instruments provided by the current *Multi-annual Programme for Enterprise* have been remarkably successful in attracting and supporting private capital in support of early-stage investment. We hope to develop this valuable work under the *Competitiveness and Innovation Programme* from 2007.
- Further, the issues confronting the development of finance for early stage investment were discussed at the rather successful Risk Capital Summit which was jointly sponsored by the Commission and the Presidency in October. This will help us prepare a communication on access to finance for growth, which we will adopt in spring 2006.
- Fourth, we will continue to develop our support for the internationalisation of small technology based companies through the services we provide to small businesses in our **Innovation Relay Centres**. This network of service providers operates across the EU and is hosted by major national and regional institutions that already support innovative companies. Its aim is to support international technology transfer. That is, the Centres help small companies assess their technology assets and needs. Then they help them find partners in other Member States who can complement them by helping complete their technology, or by licensing their technology for their own needs.
- The Innovation Relay Centres have been around now for some years. A recent evaluation has confirmed that they are doing a good job. But we are not satisfied just to stand still. We are working to improve their work on technology transfer. And we are also working to ensure that this network and the network of *Euro Info Centres*, which provides information services to small business, work in a fully complementary way. We want to be sure that

any small business will be sure to receive a basic support service from any Commission sponsored Centre, and will be directed to specialised resources as appropriate.

There are important resources being allocated in support of these actions at Commission level. At the moment we are using the Research Framework Programme to support *INNOVA*, *PRO INNO* and the Innovation Relay Centres. The Multi-Annual Programme on Enterprise supports our work on early stage finance.

As of 2007, we expect to finance all these activities from the new Competitiveness and Innovation Programme and this should increase our scope and flexibility. Of course, exactly what we can do depends on the outcome of the debates on the new financial perspective.

But whatever happens there (and it is very important), I want to point to another major development.

The funds that we can mobilise directly to support innovation are useful, but inevitably limited. However, it is not their mass that is important, but their capacity to leverage the very much more substantial resources which are made available from other sources.

First, the new programming period for the Structural Funds gives a high priority to actions in support of innovation. Of course, the choice of what to do with these funds is exercised by the regions themselves. But the work we are organising in support of the regions, in particular under the Pro Inno brand, and in the financial instruments in favour of early stage finance for small business, prepares the regions to make the best use of these resources. It is not simplifying too much to suggest that the success of our measures will be partly determined by their capacity to help regions design and develop the measures that they can then support using the very substantial Structural Fund resources.

Further, work is at an advanced stage to clarify the rules that govern the use of **State aids in support of innovation**. We have been running a public consultation on new rules that should make it much clearer what will be regarded as acceptable use of State aid as a means of offsetting market failure.

In the last analysis, the effect of EU support for innovation is not measured by the contribution of the relatively limited funds that we spend directly, or even by their capacity to mobilise the far larger resources available to the Member States, but by the effect that all of this has on **mobilising the private sector itself**.

Conclusion

Developing Europe's innovative, knowledge based, economy is the key that will open the door to a Europe that is and remains competitive in a fast-changing world.

Translating European knowledge and creative potential into commercial value is our greatest challenge, for that is what will provide the sustainable growth and jobs that we need.

The US has, in many ways, been the benchmark for innovation and economic performance over the last decade. Its remarkable achievements in sustained innovation and competitiveness over that time have been a continuous reminder to us of what was achievable. That is what benchmarks are for.

But if much in the American performance has been impressive, we should not let ourselves feel overawed. The US too has its problems. Its success is heavily

concentrated in a few key states. Take away California and Massachusetts and the sparkle is dimmed.

There is nothing that says that Europe cannot become the benchmark, if we put our minds to it.

Let me just point to one possible advantage we will have in the years to come in setting that benchmark. Europe has been laying the foundations for an overall innovation strategy for several years. We have made important steps in pulling together a joint innovation strategy for Europe. If we bring that off – and that depends on how well we and our Member States work together in the years to come – we just might be able to provide a model which our American partners, who do not have a federal innovation strategy, would view with admiration.

There is great potential in Europe.

Let's make the most of it!