

## **BACKGROUND NOTE**

### **The Broad-based Innovation Strategy**

#### **1. BACKGROUND**

In the Communication “Putting knowledge into practice: A broad-based innovation strategy for the EU” of September 2006, the Commission outlined its innovation strategy for the years ahead. As a Community approach, it supports regional and national measures foreseen in the context of the Lisbon process. Whereas the previous Communication from the Commission on innovation from 2005, entitled “More Research and Innovation”, focused on investing in research and on supply-driven innovation, the broad-based innovation strategy broadens the approach and puts greater emphasis on demand-driven innovation.

Following this communication, the Competitiveness Council of December 2006 concluded that the following nine strategic priorities for innovation action at EU level should be pursued as a matter of priority: (1) Intellectual Property Rights; (2) Standardisation in support of innovation; (3) Public procurement in support of innovation; (4) Joint Technology Initiatives (JTIs); (5) Lead markets; (6) European Institute of Technology (EIT); (7) Clusters; (8) Innovation in services and (9) Risk capital markets.

#### **2. STATE OF PLAY**

To date, good progress has been made to implement the Council’s nine strategic priorities. Some of the main achievements include launching the Joint Technology Initiatives and the European Institute of Innovation and Technology. Considerable progress has been made in the area of clusters, with the Communication “Towards more world-class clusters in the European Union” adopted in October 2008.

The Commission has furthermore launched important initiatives on the basis of its Communications on the Lead market initiative, on Pre-commercial procurement and on “Removing obstacles to cross-border investments by venture capital funds”, and on standardisation in support of innovation. In parallel with progress on the nine priorities, the Commission has continued its work to improve researcher mobility, knowledge transfer and science/industry linkages, while at the same time encouraging Member States to continue university reforms and to re-orient state aid and Structural funds towards research and innovation.

The Competitiveness Council of 29 and 30 May 2008 adopted conclusions entitled “A Fresh Impetus for Competitiveness and Innovation of the European Economy”, notably on the lead market initiative, cross-border venture capital funds and pre-commercial procurement.

#### **THE EUROPEAN SCOREBOARD**

The 2008 European Innovation Scoreboard shows that innovation policy must remain at the centre of the Lisbon strategy. The gap in overall innovation performance between the EU and the US continues to narrow, but substantial differences remain particularly in business investments in innovation. The EU remains some way behind the US on R&D and IT expenditures, and EU businesses also report falling investments in other innovation expenditures (equipment, training, market preparation, etc.).

The 2008 Scoreboard also shows that virtually all Member States have improved their innovation performance over a five year period, with the exception of Denmark which has stagnated. However the speed and areas of improvement vary between Member States, with some countries improving relatively fast compared to their peer groups (e.g. Ireland, Cyprus, and Bulgaria) and others relatively slowly (e.g. Netherlands, Italy and Lithuania).

The continued improvement in overall innovation performance across the EU is encouraging and offers further evidence that the Lisbon process and the broad-based innovation strategy are working. However, further efforts are needed at Community and Member States level to sustain these positive trends in the current economic context, and to further reduce the innovation gap with the United States and Japan.

### **3. NEXT STEPS (2009)**

The December European Council called for a new European Plan for Innovation. The preparation of this will be a major initiative for 2009. The need to improve European innovation performance and the changing environment call for continued implementation of the broad-based innovation strategy, and for a deepening of the approach. Reactions from the Council, the European Parliament, industry and other stakeholders as well as the Commission's own analysis demonstrate that there is consensus in favour of complementing the emphasis on technology push with a stronger emphasis on demand- and user-driven innovation.

The lead market initiative is an example of such a demand-driven innovation policy. In the next few years, the implementation of this initiative will be at the heart of the deepening and implementation of the broad-based innovation strategy.

In preparation of the European Plan for Innovation, the Commission plans a staff working document on design as a tool for user-centred innovation in spring 2009. It will be followed by a public consultation in the context of the European Year of Creativity and Innovation 2009. A white paper on ICT standardisation policy and a Communication on future ICT research and innovation strategy are furthermore planned for spring 2009.

In June 2009, the Commission will present a Communication with an assessment of the broad-based innovation strategy. It will take stock of innovation policy development in the last few years at national and Community level, analyse the evolution of innovation performance in the EU, and provide input to future innovation policy development. Included in this Communication will be the mid-term review of the Lead Market Initiative, and staff working documents on innovation in services, effectiveness of public innovation support, and financing of innovation in SMEs. Building on the results of this assessment, the Commission aims to present the European Plan for Innovation towards the end of 2009 within the context of the future Lisbon strategy.

For a detailed account of achievements so far and planned actions, see the annex *State of play - nine strategic priorities for innovation action at EU level*.

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## ***ANNEX: State of play - nine strategic priorities for innovation action at EU level***

**(1) Intellectual Property Rights:** The Commission adopted a Communication on enhancing the European patent system, where it repeated that "patents are a driving force for promoting innovation, growth and competitiveness" and that "Europe has not yet been able to create a single and affordable Community-wide patent", and a Communication on knowledge transfer between research institutions and industry in April 2007. An IPR Expert Group submitted in June 2007 a memorandum on removing barriers for efficient use of IPR systems by SMEs.<sup>1</sup> A Recommendation and Code of Practice on the management of intellectual property in knowledge transfer activities by public research organisations<sup>2</sup> was adopted in April 2008. A Communication on a comprehensive industrial property rights strategy<sup>3</sup> was adopted in July 2008. A joint Commission-EPO conference on IPR and innovation, *Patinnova*, will be organised in April 2009.

**(2) Standardisation in support of innovation:** The Commission Communication "Towards an increased contribution from standardisation to innovation in Europe" was adopted in March 2008. It identified key elements for focusing EU standardisation policy on innovation such as commitment to market-led standardisation and to the voluntary use of standards, inclusion of new knowledge in standards and access to standardisation of all interested stakeholders, in particular small and medium enterprises, but also consumers and researchers. A review of the European ICT standardisation policy is ongoing, with a white paper planned for early 2009. An Expert Panel for the Review of the European Standardisation System has been set up. It will make strategic recommendations in the form of a report to the Commission at the end of 2009.

**(3) Public procurement in support of innovation:** A guide on dealing with innovative solutions in procurement<sup>4</sup> was published by the Commission in February 2007. The guide builds on concrete examples to identify how public authorities can facilitate competitive market demand for innovation. A Communication on pre-commercial procurement was adopted in December 2007. This Communication presents an approach to procure research and development that is compliant with the legal framework and that aims at optimising the cost benefits for the procurers while addressing the mid- to long term challenges of the public sector and strengthening the industrial innovation capacity in the EU. The Competitiveness Council of May 2008 adopted conclusions on pre-commercial procurement.

In the implementation of the Lead Market Initiative, activities in the field of public procurement play an important role. Following an expert workshop and a public consultation May-July 2008,<sup>5</sup> a call for proposals was launched under the CIP-EIP in November to support a number of thematic networks of public procurers in the Lead Market Initiative areas. These networks aim at raising the demand for innovative goods and services by public procurers.

**(4) Joint Technology Initiatives (JTIs):** Five Commission proposals have been presented to the Council: innovative medicines and embedded computing systems (in May 2007), aeronautics (CleanSky) and nano-electronics (in June 2007), and fuel cells and hydrogen (in

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<sup>1</sup> [http://www.proinno-europe.eu/NWEV/uploaded\\_documents/IPR\\_Expert\\_group\\_report\\_final\\_23\\_07\\_07.pdf](http://www.proinno-europe.eu/NWEV/uploaded_documents/IPR_Expert_group_report_final_23_07_07.pdf)

<sup>2</sup> C(2008)1329.

<sup>3</sup> COM(2008) 465 final.

<sup>4</sup> [http://www.proinno-europe.eu/doc/procurement\\_manuscript.pdf](http://www.proinno-europe.eu/doc/procurement_manuscript.pdf)

<sup>5</sup> [http://ec.europa.eu/enterprise/leadmarket/public\\_procurement\\_networks.htm](http://ec.europa.eu/enterprise/leadmarket/public_procurement_networks.htm)

October 2007). Following the adoption of Regulations by the Council in December 2007, and May 2008, taking account positive opinions from the European Parliament, the five JTIs are being implemented and the first calls for proposals have been launched by the innovative medicines, embedded computing systems and nano-electronics JTIs. A sixth potential JTI in the area of GMES is now being taken forward in partnership with ESA.

**(5) Lead markets:** The Commission has adopted a Communication on the Lead Market Initiative (LMI) in December 2007, with action plans for the following markets: eHealth, sustainable construction, protective textiles, bio-based products, recycling and renewable energies. The action plans of the initiative are now being implemented. The Competitiveness Council of May 2008 adopted conclusions on the LMI. It is expected that the EU Member States will become strongly involved in developing activities in support of these markets. The Commission has established the EPG sub-group on innovation (with a focus on the LMI) who met in October 2008. Also lead market-specific contact groups (mostly nominated from existing Commission-led expert groups) have all met and are involved in the implementation of the action plans of the six lead markets. A mid-term review of the implementation of the LMI is planned for mid-2009.

**(6) European Institute of Innovation and Technology (EIT):** In the context of a co-decision procedure, the regulation establishing the European Institute of Innovation and Technology was adopted by the European Parliament at its second reading and the legal act signed by both co-legislators in March 2008. In June 2008, EU Member States decided that the headquarters of the EIT will be in Budapest, Hungary. The EIT's first Governing Board was appointed in July following a European Commission Decision. In their constituent meeting in September 2008, the Governing Board Members unanimously elected Martin Schuurmans, Professor of Physics and former Executive Vice President of Philips Research, as their Chairman. The first Knowledge and Innovation Communities (KICs) are planned to be selected at the beginning of 2010.

**(7) Clusters:** The Commission has established the European Cluster Alliance and a High Level Advisory Group of experts on clusters. The European Cluster Alliance, an open learning and cooperation platform of public authorities, currently brings together more than 75 members across Europe. The High Level Group has prepared a European Cluster Memorandum for signature by regional governments and innovation agencies. To facilitate the preparation of this Memorandum, an ENTR paper on clusters was published in October 2007, analysing the scope for trans-national cooperation between Member States and presenting recent statistical findings in this area. Furthermore, a European Cluster Observatory was established in June 2007 to provide cluster mapping and information about cluster policies developed in 32 countries. A high level European Presidency Conference on innovation and clusters was held in Stockholm in January 2008 to discuss future European policy in support of clusters.

In October 2008, the Commission adopted a Communication entitled “Towards world-class clusters in the European Union: Implementing the broad-based innovation strategy”, which presents an approach for facilitating the emergence of more world-class clusters in the EU. It sets a policy framework for action aiming to raise the level of excellence and openness of clusters in EU countries. Also in October 2008, the Commission adopted a Decision on the setting up of a European Cluster Policy Group of 20 high-level experts. It will be operational in April 2009 for a period of 18 months, offering advice the Member States on how to better support the emergence of world-class clusters in the EU.

A call for proposals was launched in November 2008 for a new generation of Europe INNOVA and PRO INNO Europe initiatives, including testing new or better services and policies in support of clusters as announced in the Communication. Among other initiatives, a European Initiative for the Excellence of Cluster Organisations will be launched, expected to raise the overall quality of cluster management in EU Member States.

A European Presidency Conference on clusters was organised in Sophia-Antipolis, near Nice, on 13-14 November under the French Presidency, as well as a parallel Ministerial Conference on Cluster policy in Paris, both to discuss the policy orientations and the actions outlined in the Communication on clusters. The results of these discussions were fed into the December 2008 Competitiveness Council Conclusions.

**(8) Innovation in services:** A Commission Staff Working Document on innovation in services was published in July 2007. As a concrete step to foster innovation in services, a call for proposals was published in May 2007 to establish a European Innovation Platform for knowledge-intensive services (KIS-IP), with a view to develop better and more focused innovation support for services and fostering high-growth ventures. This action was started in February 2008 for a duration of 3 years. Following a call for proposals published in November 2008, the KIS-IP will be re-enforced in 2009. The Commission will publish a staff working document on innovation in services in June 2009.

**(9) Risk capital markets:** The Commission adopted in December 2007 a Communication on “Removing obstacles to cross-border investments by venture capital funds”, building on the results of an expert group and policy deliberations between Commission services. The short-term approach of mutual recognition proposed by the Commission Communication was endorsed by the Competitiveness Council in May 2008, inviting Member States to make progress towards a mutual recognition of national frameworks for venture capital funds. This was re-called in December 2008. In accordance with the Council conclusions, the Commission will further report in 2009 on the results of the process towards a more integrated European venture capital market.

In parallel, the Commission continues to analyse possible double taxation for cross-border venture capital and to work on a possible private placement regime at EU level. The Commission is furthermore looking into the options for improving further the conditions for early-stage venture capital in the EU, and is planning the publication of a staff working document on financing of innovation in SMEs in June 2009.