



THE IMPORTANCE OF INNOVATION AND CREATIVITY FOR OUR ECONOMY IN THE CONTEXT OF THE “EUROPEAN YEAR”

Günter VERHEUGEN*

Vice-President of the European Commission responsible for
Enterprise and Industry

Ladies and gentlemen,

I am very pleased to be here today to talk about the importance of innovation and creativity for our economy in the context of the “European Year”.

Let me start by a small comment about the title of today’s event. I fully agree that as far as innovation is concerned, it is time for speed and ambition at EU level. But, the title of today’s event - “time to step on the gas” - is politically incorrect. Our policy agenda must be about the low carbon economy. We therefore need to go faster but with less “gas” rather than more.

The economic forecasts published by the Commission last week indicate that the free fall in which the crisis sent our economies is slowing down, and will hopefully soon be stopping. But let us not have any illusions, this recession risks having a lasting effect on our levels of growth potential and employment creation.

The football player and coach Johan Crujff used to say that there is always something positive in every bad news. We should be thinking in this direction when we consider scenarios for exiting the current crisis and for building a stronger economy for the future.

From previous economic crises, we know that those economies that stick to investment in research and innovation emerge more competitive when recovery happens. That is because crisis very often bring the will to “break with the past”, to do things differently, thus putting a premium on innovation.

Let me give you an example. Many established companies hesitated to innovate during the 1930s’ crisis with the consequences we all know. However, the reality is that many new technology companies, such as Hewlett-Packard or Polaroid, that became leading innovators and successful

* On 3 September 2009 Mr. Günter **Verheugen**, the Vice-President of the European Commission and the Doctor Honoris Causa of Mykolas Romeris University, delivered a lecture “The 5 Years of the EU Development: Histories of Success and Challenges for the Future” to the academic community of the University. He kindly agreed to present his speech delivered at the International Conference on Innovations (Brussels, 22 September 2009) for publication in *Intellectual Economics*.

businesses later in the century, were established as entrepreneurial start-ups that appeared in the 1930s.

From this perspective, the choice of 2009 as the Year of Innovation and Creativity could not be better. In the current crisis, when financial resources are scarce and demand low, creativity is needed more than ever to find new ideas which attract financiers and consumers along.

This hunger for innovation - if you allow me the expression - also offers an opportunity to put our economic model on a more sustainable basis. The challenges of today's world – climate change, the consequences of population ageing or security can only be successfully addressed by a coherent and joint policy approach which has innovation at its heart. This transformation is indispensable if we want to remain competitive in the globalised world and continue to lead the global efforts to fight climate change.

As a new Commission will soon be taking office, as our current economic strategy is coming to its planned term and as a debate on the new financial perspectives is starting, it is a good moment to reflect whether the policies we have put in place in recent years are up to this challenge.

To enable us answer that question, we have just conducted an assessment of the progress made in the implementation of recent Community policies to foster innovation.

Let me share with you the main conclusions of this assessment.

First of all, I wish to repeat once again that innovation is first and foremost the result of private initiative. But clearly businesses and consumers do not act in a vacuum.

They react to incentives, adapt to the regulatory environment, and adjust according to expectations of future policy developments. That is why supportive framework conditions are fundamental for innovative activity. This is particularly important in order to unlock the huge creative potential which resides in the millions of SMEs across the Union.

In this respect, the renewed Growth and Jobs Strategy since 2005 provided the political framework for significant policy achievements both at the EU and Member States level. Let me give you some examples.

Promoting entrepreneurship and facilitating life of SMEs has become a key political priority culminating with the adoption of the Small Business Act with a battery of measures in support of entrepreneurs and SMEs which are now being implemented.

In parallel, excellence in education, skills and training has been widely recognised as a prerequisite for innovation and creativity. The New Skills, New Jobs Strategy in particular is helping improve the skills match and anticipate future skills needs in the labour market.

We have also learned that stimulating the markets for innovative products and services and promoting a positive attitude towards innovation is as important as supporting the “supply side” and “broadened” our strategy accordingly. In this respect, with the launch of the Lead Market Initiative in 2008, the EU has mobilised different policy instruments, regulation, standardisation and public procurement in a targeted way to facilitate market lift-off in six identified areas, namely sustainable construction, recycling, renewable energies, bio-based products, protective textiles and healthcare.

Standardisation policy itself has also evolved to support innovation with a stronger commitment to open and market-led standards.

Collaboration on research and innovation has been reinforced, for instance through the use of public-private partnerships such as the Joint Technology Initiatives. The European Institute of Technology has been established to stimulate world class innovation in Europe. As part of it, the forthcoming knowledge and innovation communities will address major societal challenges.

Last but not least, Cohesion Policy programmes have seen an important budget shift for the period 2007-2013, with some €86 billion within the Structural Funds earmarked to support research and innovation. This provided concrete boost to the reorientation of national and regional policies towards innovation as called for by the renewed Lisbon Strategy.

With all this, why is it that I think we need a new level of ambition for EU innovation policy?

Despite all these actions, I am afraid that clear shortcomings remain in our innovation system. As a result private investment in innovation related expenditures (including R&D, ICT, training and education) remains insufficient in many Member States. We need to turn this around because excellence in innovation remains closely linked with investments and research intensity.

There are several reasons, let me mention only the most important.

- *the internal market, which determines the space in which innovators can capitalize on their investments, still remains to be completed in many respects;*
- *the legal framework for protection of intellectual property remains incomplete;*
- *access to capital remains difficult. Despite our efforts, the venture capital market remains too fragmented, and consequently the level of equity funding low;*
- *the standardisation process is not yet sufficiently synchronised with research results and market needs;*

As far as innovation policy is concerned, in the last years we tried and tested several approaches. I think that now came the time when we should ask ourselves the question whether the number of actions and policies we have deployed in the innovation area really help to make a difference. In some areas, this has certainly been the case. It appears, for example, that the financial instruments of the Competitiveness and Innovation Framework Programme are effectively contributing to cover gaps in innovation financing. It also appears that the work we have done to improve innovation metrics with the European Innovation Scoreboard is widely used and appreciated.

However, looking ahead I see the need for a greater prioritisation. The scale of current EU-level actions in areas which will have strategic importance, such as ecoinnovation or security, appears insufficient. At the same time, actions in other areas should undergo an efficiency and subsidiarity test and be eventually discontinued.

So what are my conclusions for EU innovation policy?

Our joint work on the future innovation strategy has just started, so let me limit myself to some personal considerations only.

Clearly, providing world-class conditions for entrepreneurs and especially the innovative ones should remain a key priority. Wherever the EU level has a lever to provide better conditions, we should act decisively. I think in particular of the Community Patent issue. This is absolutely key to address the biggest weakness of the EU innovation system, its insufficient capacity to transform new ideas into successful business propositions. No need to stress that this policy commitment must be echoed by a strong determination on the side of the business community – as part of its social responsibility - to privilege innovation with perhaps a longer term horizon of return rather than short term profit.

We must also continue our better regulation and simplification work. While we proved that we can add value with direct financial support, I am convinced that our funding programmes should once again be rethought to achieve better complementarity and further simplification. People should not be discouraged from applying by unnecessary bureaucracy as is the case today.

The EU can also make more out of its diversity. We can do more to help the best ideas to circulate quickly and enable others to learn from them. We can also do more to make sure that no opportunity for cooperation is lost at any level. There is in particular more scope for partnership and cooperation to deliver high quality and better value-for-money public services. The need for budgetary consolidation will make this an absolute must if we want to be able to provide the quality of the public service our citizens expect also in the future. In this perspective, there is major potential for joint actions between public buyers to provide critical mass and trigger breakthrough solutions.

How should these considerations work their way through in policy?

As I indicated, I have the feeling that Community action on innovation requires a more strategic approach. We should define priorities more clearly and then put policies and funding in place where the mouth is.

Therefore, for the future innovation policy to succeed, we need to place it at the heart of the new Lisbon Strategy. This does not necessarily require a new innovation policy as such, but it certainly requires putting innovation at the centre of all policies which will form our future economic strategy with commonly agreed objectives.

In this context, we announced that by spring 2010 we stand ready to present an ambitious European Innovation Act. This should in my view be an expression of a joint commitment to making innovation a key political priority based on a clear and ambitious agenda.

Ladies and gentlemen,

European integration, our European project, is a wonderful example of innovation.

Walter Hallstein was right: “Wer in europäischen Dingen nicht an Wunder glaubt, ist kein Realist”

- You are not a realist if you don't believe in miracles when it comes to European matters.

The coming weeks and months are the time for debate, for putting ideas on the agenda. I am sure today's discussion will help us to move forward.

Thank you for your attention.