Orgalime Position Paper on Commission Communication "Putting knowledge into practice: A broad-based Innovation strategy for the EU"

COM (2006) 502 final

Brussels, 14 February 2007

1. INTRODUCTION

Orgalime, the European Engineering Industries Association, speaks for 36 trade federations representing some 130,000 companies in the mechanical, electrical, electronic and metalworking industries of 24 European countries. The industry employs some 10 million people in the EU and in 2005 accounted for some €1,598 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union. The engineering sector plays a key role in Europe and its future; at an economic level – by contributing significantly to the overall economic output of the EU; at a social level – as a major provider of employment and benefits to society and individuals; and at a technological level – as a driver and enabler of innovation.

Orgalime welcomes the Commission's commitment to competitiveness within the renewed Lisbon partnership for Growth and Jobs and especially the Commission's efforts to create a more innovation-friendly business environment. Orgalime fully supports the Commission Communication "Putting knowledge into practice: A broad-based innovation strategy for Europe" and is pleased that the Commission followed many of the recommendations of the report "Creating an Innovative Europe" (Aho-report). We hope that in the follow-up of this Commission Communication, which lists 10 priority actions for a broad-based innovation strategy, the Commission will play an active role in the implementation of the proposed road map.

2. EUROPE NEEDS AN INTEGRATED APPROACH

Orgalime believes that the keystone for achieving an internationally competitive European industry lies in research, innovation and the efficient use of resources. While much of the action in this area must come from industry itself as well as from Member States, Orgalime believes that European research, technical development and innovation policies should focus on developing framework conditions that stimulate innovation, entrepreneurship and thus growth and employment.

If Europe's goal is to achieve sustainable growth and competitiveness, this can only be accomplished by improving *the entire research and innovation system*. This includes not only the capacity to create new knowledge (research), but also an understanding of when, where and how this knowledge can be used and applied on the market (innovation). We need a cultural change in Europe towards a society where innovation is encouraged. That is why joint work that involves industry, public authorities and academia is essential.

3. USING THE POTENTIAL OF AN OPEN INTERNAL MARKET WITH INNOVATION-FRIENDLY FRAMEWORK CONDITIONS

We believe that an open internal market is one of the most important elements for a truly innovative and competitive Europe. In spite of the many areas in which European industry is a world leader, we still have an insufficient capacity to turn new knowledge into new or improved products, services and processes. This is a question of culture and education, and also of establishing a business-friendly climate within the internal market. If the development of the internal market for products has to a large extent been completed, more can be done,

for instance by opening infrastructure and services markets, by deregulation and simplification of regulation. There are still often too many obstacles and disincentives hindering companies trying to bring innovative products, services and processes into the internal market. Such obstacles often arise from regulatory or administrative requirements, either at national or European level, or from inflexible labour markets. These barriers need to be abolished in order to allow companies to deploy their full innovative capacity. It is particularly important that EU policy should underpin the strengthening of the internal market with a view to increasing the growth and competitiveness of European industry.

4. CREATING INNOVATION-FRIENDLY EDUCATION SYSTEMS

Orgalime believes that education plays a crucial role in developing an innovation-minded culture in Europe. We need to overcome the potentially fatal situation of young people's low interest and poor skills in science and engineering, as well as the limited appeal that careers in the manufacturing sector present for young people. Europe needs a new concept for improving the quantity and quality of technical education and for attracting young people to technical and scientific studies. To our mind schools should regularly organise visits of pupils to manufacturing companies in order stimulate curiosity at an early age; this has already been done in some Member States and here the Commission could motivate others to follow, through benchmarking and best practice approaches. At the level of higher education, we have been requesting for many years the introduction of internationally accepted Bachelor and Master courses for engineers, which should be made attractive to students, in order to ensure that sufficient highly skilled personnel are available. Furthermore we need to find a way to tackle the increasing shortage of teachers for scientific subjects.

5. FURTHER REFLECTION ON THE EUROPEAN INSTITUTE OF TECHNOLOGY (EIT) IS NECESSARY

With regard to the Commission's proposal for establishing the European Institute of Technology (EIT), we believe that more consultation and exchange of views is needed before taking definite decisions. Industry is still very reluctant to accept the Commission's suggestions. There is a broad consensus that (i) Europe does not need an EIT solely for the sake of having an EIT and that (ii) an EIT should not distract from the fact that we need to establish closer links to industry for all European universities and research institutes, and that they need to focus more on the commercialisation of research results. Furthermore, the EIT should not be financed from funds that were earmarked to the Framework Programme 7 (FP7) or to the Competitiveness and Innovation Programme (CIP).

Nevertheless we welcome the fact that through the idea of creating an EIT, a European-wide discussion has emerged at a higher political level about the European education landscape and about Europe's capacity to provide excellent technologies. Everybody agrees that Europe needs excellent universities and that there is potential for improvement. We believe it would only be worth the effort and cost of establishing an EIT if it helps to improve research output, especially in terms of marketable innovations. If the EIT project were to be realised, we think *competition* should be the main driving mechanism: existing universities should compete with each other for gaining access to networks, or, if this is the way the EIT will work in the end, for obtaining the status of an EIT. This competitive approach would, in our opinion, lead to an improvement in the quality of EU research and innovation output.

6. IMPROVING IPR PROTECTION

Industry still experiences unnecessary drawbacks such as national discrepancies and high costs which hamper the implementation of new ideas. Therefore a much simpler, cheaper and faster European patent system is needed for industry, if it is to set world standards, develop new products and fully benefit from the economic advantages associated with being the market leader. We fully support the Commission's new double-track strategy to work

simultaneously towards the adoption of the Community patent in the long run and other actions in the short run. For the latter, we urge the Commission to work

(i) towards the ratification of the EPLA; the establishment of a judicial system for litigation would create more legal certainty for companies and would avoid the harmful effects of the current divergent national procedures, and

(ii) towards the ratification of the London Agreement on the application of Article 65 of the European Patent Conversion; ratifying this agreement would reduce translation requirements and would also bring one step closer an agreement on the language regime for a future Community patent.

7. FINANCIAL BOOST TO RESEARCH AND INNOVATION

Orgalime shares the Commission's analysis of the poor uptake of research results in Europe and the conclusion that this competitive disadvantage needs to be addressed by European policymakers. We appreciate the different measures taken by the European Commission as valuable steps in the right direction; we support further action in the field of knowledge transfer between universities or public research institutions and industry; we welcome the fact that cohesion policy is regarded as a means to foster innovation and support the implementation of tax incentives for R&D.

The gap between the research community and the market-driven sector needs to be bridged in order to facilitate the uptake of R&D results by engineering industries which are characterised by a high percentage of SMEs. Our experience shows that best-practice examples for stimulating academia-industry cooperation already exist in some Member States: the innovation vouchers issued by the Dutch Ministry for Economic Affairs; competitions for grant funding towards collaborative research run by the DTI in the UK; the general research premium being introduced in Germany in the framework of the high-tech initiative. We believe that these examples are well worth analysing and could even be considered for adoption at EU level.

European funding programmes such as the R&D framework programmes, structural and cohesion funds, CIP and EIB facilities are clearly steps in the right direction, but do not always prove to be easily accessible and understandable for SMEs. They would often prefer tax incentives as a policy instrument to stimulate more business research and innovation. Orgalime therefore supports a stock-taking of best practice on this matter and welcomes the Commission Communication on the more effective use of tax incentives, which we hope will give guidance for the design of incentives and encourage Member States to improve the use and coordination of their instruments.

Orgalime sees European Cohesion Policy as a key means of giving all regions the chance to participate in general technological development. However we regret that in the past less than 10% of the Cohesion fund was used for research and development and, in line with the Aho report, we strongly urge that for the next time frame of 2007-2013, during which €307 billion will be available for Cohesion Policy Instruments (6 times more then the money devoted to the Framework Programme 7), a much higher proportion will be reserved for research and innovative technologies.

With regard to having easier and greater access to funds, we believe that Europe should work together in order to overcome the fragmentation of its venture capital market. Due to this fragmentation, European industry is prevented from taking full advantage of the possibility to raise funds for creating innovative products.

8. THE CONCEPT OF INNOVATION-FRIENDLY "LEAD MARKETS"

The concept of lead markets proposed by the European Commission is problematic. Orgalime has always been arguing that the prime task of the European Union is to provide favourable framework conditions under which companies can flourish. Active state intervention in the market should be limited to an absolute minimum and therefore, in principle only market forces should decide *which* technologies and investments are going to be realised. However, we recognise that in some areas a concerted action could lead to success, even more so when one bears in mind that, in some economies such as the US and China, the state strongly supports the take-up of new technologies trough both financial and regulatory instruments. Therefore there are a number of sectors of the European engineering industry that welcome the lead market concept and ask for more investment in high-tech infrastructure or public projects. Furthermore by jointly studying such innovation-friendly lead markets, a number of existing barriers could be identified and eliminated.

We believe that decisions of defining possible lead markets should not be left to public authorities alone, which at the end of the day do not have to bear the consequences of a failed investment. We therefore urge the Commission to ensure very close cooperation between industry and state authorities when establishing criteria that will influence the parameters for potential lead markets. European Technology Platforms should serve as a valuable indicator and contributor for the Commission work on lead markets. The new element in Technology Platforms is that they are industry-driven and were created in cooperation with both public authorities and academia. The Strategic Research Agendas of the various platforms therefore pinpoint the markets of the future that are worthy to both financial and political support.

In the document (Memo/06/325) that accompanied the Commission Communication, the Commission rightly raises eco-innovation as an example for a lead market. While we fully agree that eco-conscious design and manufacturing offer business opportunities, we nevertheless would like to point to one Commission suggestion which raises some concerns, namely that "a mechanism could be put in place whereby the current best performance in the market for a given set of products could become the reference standard". As an industry that has been environmentally over-regulated in the past few years, we feel that the best performance approach can easily be questioned since in most cases it does not lead to the best overall result, but to a trade-off: e.g. a product that has the lowest energy consumption, but may have very high water consumption, should not be given the status of best performance. We therefore trust that the Commission will respect the principle established in the framework directive for Energy Using Products (EUP) which aims to adopt a holistic and coherent framework for the eco design of engineering products.

9. CONCLUSION

Orgalime firmly believes that now is the time to act if the Lisbon objectives are to be achieved and therefore warmly welcomes the Commission's Communication. We hope the follow-up of this Communication will be another step in better differentiating the various needs posed by "research and development" and "innovation". Both the present Commission Communication and the Commission's decision to create the Competitiveness Innovation Programme (CIP) are positive steps that are likely to complement Framework Programme 7. As research, development and innovation are strongly interlinked, we hope that the follow-up of the Commission's new innovation initiatives will not lead to any separation and fragmentation of Commission activities at the expense of industry, but will rather lead to an improvement of the entire research and innovation system.