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Speech by
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at the Ernst & Young seminar
"How can Europe be more innovative?"

Next year, the Single Market will have existed for 20 years. It is one of the biggest assets of the EU. It has created welfare, jobs and well being in Europe. In 2009, intra-EU trade in goods represented 37% of EU GDP and in services 10, 5% of EU GDP.

The Single Market goes back to the core ideas of the European project: cooperation in order to create added value, lifting barriers and fragmentation in order to create welfare and well being. It was not established overnight. Concerted efforts have been made to remove all kind of barriers to free circulation of goods, services, capital and workers. Joint efforts have been made by public authorities, industry and civil society.

The same challenges are at stake today for innovation in the EU. We need a European Research Area by 2014. It will be a genuine single market for knowledge, research and innovation. It will create growth and well being.

We will also need major joint efforts, time, political and industrial support here. The necessity is uncontested. Economic theories are on the same page (for once !) in their conclusion that technological innovation is a key contributor to long-term well-being. Innovation is needed to create economic growth, but will also help us to meet challenges of ageing populations, of world hunger, of the environment.

The existing barriers for a real European Research Area have to be lifted. I think we all know where the problems are in general terms. It is certainly not a problem of inaction. Efforts to support innovation at EU and national levels have been numerous. But efforts remain often too fragmented and not accurate enough.

P R E S S

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I have read the outcome of the survey conducted by the Center of European Policy Studies together with Ernst & Young with interest, which largely confirms our reading of the problems: difficult access to finance, costly patenting, lack of a legal and fiscal level-playing field, failure to use public procurement strategically, problems in public education and lack of coordination between the EU and national level.

Figures show us the emergency which is at stake. The scoreboard of the Innovation Union presented by EU Commissioner Geoghegan-Quinn last February shows that the EU is far behind US and Japan along several dimensions of innovation. Let me highlight some of them.

Firstly, in terms of spending, we are lagging behind. Whereas Japan is spending already now 3, 4% of its GDP and US 2, 8% of its GDP, at EU level we only reach 2% whereas our goal for 2020 is 3%. In terms of real spending, net expenditure in the US is 50% higher, on average. In the field of public procurement for example, US spends 7 times more than EU (defense spending excluded). China is even expected to spend more than EU by 2014.

Secondly, in terms of performances, we see a strikingly similar picture. US performance on innovation has been constantly 50% higher than EU performance since 2006 and in 2010 Japan was performing up to 40% more than EU. Only six Member States in the EU do better than the US and 8 better than Japan. Performances of China are still considerably lower now, but progress is clearly underway. A recent European Commission report forecasts that in 2025 both EU and US will lose its technological supremacy to the benefit of Asian countries.

It is clear that for both internal and external reasons we need to close that innovation gap. This is why I decided, at the very beginning of my mandate, to devote part of a European Council to innovation, to decide at the highest political level on concrete goals and measures to remedy our weaknesses.

The European Council is the right institution to give Member States the necessary steer. 94% of R&D&I spending happens in the Member States, only 6% by the European Commission. We can have -- and we should have -- long discussions about the 6 percent of funds managed by the European Commission directly, but to have a real impact we need to bring the national systems into the game.

What has been decided by the European Council?

<u>Intelligent budgetary choices</u>

First, through the Member State budgets. There is a risk that current pressure on national budgets will lead to cuts in innovation spending. This would be dramatic! Innovation expenses are crucial for economic growth. We badly need growth even to achieve our goals on budget deficits. We have to rebalance our political agenda to growth although the sovereign debt crisis has not yet been solved.

European leaders have agreed that in conducting fiscal consolidation, priority should be given to areas such as education, innovation and energy. I am glad to see that some Member States have already opted for maintaining or an even higher public investment in these areas.

Of course, the same logic should apply to the EU budget. Here optimal choices will also have to be made in the context of the trend of expenditure restraint. Moreover, the European Council agreed to diminish fragmentation of resources and to develop more adequate finance mechanisms for major European projects.

The use of existing Structural Funds allocated to research and innovation projects will be improved. The commitment to devote at least 50% of the revenue from the Emission Trading Scheme (ETS) to climate policies, including innovative projects, has been reconfirmed. This commitment will from 2013 on create considerable resources to further boost green and innovative growth in the EU. At this moment the turnover in the European markets for environmental and low-carbon products and technologies amounts already to 300 billion Euro and they deliver employment for 3, 5 million people.

The potential in Europe is enormous, but competition is getting stronger. Further investing in innovative green products and low carbon technologies such as green vehicles, smart grids, smart meters and Carbon Capture and Storage (CCS) will be key.

Improving the framework conditions and instruments

Equally important as the budget are the right conditions and policy instruments necessary to stimulate private investments. This is why the European Council identified the following priorities and tasked the European Commission to work further on these:

- Simplification of existing policy instruments.
- Optimisation of standardisation procedures, to allow standards developed by industry to turned into European standards.
- Better guidance on application of Directives in order to boost public procurement.
- Valorisation of intellectual property rights and facilitate access especially for Small and Medium-Sized Enterprises (SME).
- Putting into place an EU-wide venture capital scheme.
- Answers to the needs of fast growing innovative companies, for example through a Small Business Innovation Research Scheme.

Boosting innovation is seizing opportunities across all policy fields. Innovation is a major driver to many other key European objectives: a healthy climate, a modern and safe transport, a real digital economy. We have to act everywhere.

Concerning the digital agenda, the European Council underlined the importance to establish a Digital Single Market by 2015. We invited the Commission to make rapid progress in key areas of the digital economy, such as the development of e-commerce and promotion of creativity. Here also we cannot afford to waste time: Commissioner Kroes has taken the initiative for a Digital Agenda Assembly to meet in Brussels in June in order to move the process forward.

Follow-up at European level

The European Council of 4 February was not a one-shot operation. It was a starting point in a longer process that we will follow up. I believe that the European Council plays a major role in follow up of the process.

The EU 2020 Strategy and the European Semester provide us with important tools to monitor efforts and progress at national and European level. The European Council has indicated that it expects the Member States to address innovation priorities in their National Reform Programs and in their overall implementation of EU 2020 Strategy. We will not allow this process to become a slow bureaucratic exercise, but we will follow it closely and pragmatically, with a first step already next month in the June European Council. This European Council will make a first assessment of the programs submitted last month and will decide on concrete and country-specific recommendations and orientations which the Member States can use to move on.

Next year, at the beginning of 2012 at the latest, I want to know what the Member States concretely did in a one year period to boost innovation. What did they do:

- to invest more and in better ways in higher education and universities and in R&D, even in those harsh periods of fiscal consolidation and austerity.
- to increase the share of innovative products, processes and services in public procurement.
- to stimulate green growth and investment in low carbon technologies.
- to improve the use of EU funding allocated to research and innovation projects.

Sometimes major breakthroughs need time. After more than a decade of difficult negotiations, crucial steps have recently been set towards a unitary European patent. Under the impetus of the Belgian and Hungarian presidencies and with consent of the European Parliament, the Council gave green light in March this year to proceed towards the patent through a process of enhanced cooperation. The legislative process is not yet finished and remains very challenging, but the progress is undeniable. A single EU legislation and regime on patents will give the industry oxygen and legal security, it will reduce costs by 80% and boost innovation.

Innovation is not only about economics. It contributes to tackling the most critical societal challenges we are facing. This is why the European Council has decided that innovations with a societal benefit have to find their way to the market more easily. Leaders also agreed to develop Joint Programming. The pilot Innovation Partnership launched on active and healthy ageing is an important step.

In the 80'ies, the launch of the Single Market was not only driven by politicians. But mainly by industry and civil society. To realise the Innovation Union, the same applies. It is not only politicians who can do this work. We need businesses, universities, entrepreneurs, smart and ambitious women and men taking initiatives and creating the right dynamics.

We, public authorities, we can improve the conditions, lift legal and administrative obstacles. We prioritise in a time of fiscal consolidation and austerity. We spend more public money to boost the fields where innovation processes take place. That is our way to allow innovation to "make the difference" in Europe, to "make the difference" for growth, employment and sustainable development.

With the European Council earlier this year, I gave a first push. I can tell you, today, that I am working on it together with the European Commission and that I am determined to continue to bring this to the attention of the Heads of State or Government.

There is for the EU no alternative to innovation. The challenge is: innovation or decline. So there is no choice.