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**New directions in EU regional policy: the innovation and
competitiveness agenda**

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European regional policy in the period 2007-2013 will be a key pillar of the Union's strategy to promote growth, jobs, and competitiveness, and the main instrument driving forward the development of the new Member States. Preparations are currently being finalised to ensure that the €500 billion which will be invested in this period contribute fully to these goals. Policies for innovation and research and development will be of central importance, and the regions have a key role to play in drawing up appropriate strategies involving all local players – businesses, academic and research institutions and local authorities.

Ladies and Gentlemen,

My visit to Leeds today is shorter than I would have wished. This is a city rich in culture and history, and I regret that I do not have the time to explore it further. This does of course mean that there is something left for my next visit, and today I am delighted to have the opportunity to give a talk here in the University – my background as a Professor of Economics at the University of Warsaw means that a return to academic territory is always welcome.

Let me start by stating a fact of life. These are challenging times for the European Union on a wide range of issues. We need to make progress on the constitution in order to improve the efficiency of our decision-making, to make our institutions more legitimate, accountable and transparent for our citizens, and indeed for many other reasons. We need to take forward the process of enlargement. These processes are

long and difficult and need to be explained fully to our citizens in the aim of ensuring their support. We must continue to implement the often difficult reforms that will put our economies on the path to the sustainable growth in the face of challenges ranging from changing demographics, protection of the environment and energy security, globalisation and the rise of new trading partners such as India and China.

I will focus today only a fragment of the overall picture - European Regional Policy, for which I am directly responsible in the Commission, and the key role it plays in response to globalisation, in improving our competitiveness, in promoting innovation: in short how the Commission's Lisbon Agenda on growth, jobs and competitiveness is being driven forward through the regions. And this is indeed an exciting time in this field. Following a year of intense preparations on the legal and financial framework for the policy for the next seven years, 2007-2013, Member States and the regions are currently finalising the arrangements for almost 400 regional programmes. This is an immense amount of activity which will result in the investment of around €350 billion of European funding across the Union, over €500 million when we add the contribution which Member States themselves will make as co-financing requirement. With the leveraging effect that this has, we can mobilise up to three times more this amount. This is our largest investment programme ever. It is a tremendous opportunity to contribute significantly to the growth and competitiveness of the European Union. And indeed this is my main message to you today – while regional policy has always been our main instrument for reducing social and economic disparities across the regions of the Union, it is now also recognised as a key pillar of the strategy to promote growth, jobs and competitiveness. This is

because today in order to achieve catching up and economic, social and territorial cohesion we must invest in what promotes competitiveness.

In the time that I have, I want to cover three points. In reverse order, the last point will be a few words on the future of European regional policy here in Leeds, in Yorkshire and the Humber. My second point will be on the 'new directions' and on the buzz concepts of 'innovation and competitiveness' which are in the title of my speech, and which are also at the heart of what we are now doing with regional policy. I want to start, however, with what is perhaps a new challenge, rather than a new direction, for regional policy – the last enlargement of the Union to 10 new Member States in 2004, soon to be completed by the arrival of Bulgaria and Romania in January.

This enlargement has added greatly to regional disparities in wealth and development within the Union. A few figures will illustrate the scale of the challenge. The enlargement added 20% to the Union's population, but only 5% to its GDP. The number of people living in regions where GDP is less than 75% of the Union average – where the majority of our regional policy investment goes – has increased from 69 million in the EU of 15 to 118 million in the EU of 25. The GDP of Latvia, the poorest EU Member State is 39% of the EU average. The area of inner London has a GDP per capita almost 10 times higher than the poorest region in Poland.

Regional policy will have a key role to play here, though we should bare in mind that nearly half of the poorer regions of the Union are in the EU15. Past experience has demonstrated clearly that it contributes significantly to reducing economic disparities. This is most obvious in the case of the poorer regions of Spain, Portugal and Greece where EU regional policy reduced the gap in GDP levels per head by between 11

and 13 percentage points between 1988 and 2003. Ireland is perhaps the most striking example, and while its economic miracle – a doubling of income per head in the last decade – cannot be put down to EU regional policy alone but, combined with excellent internal policies, it played a significant role. For the period 2007-2013, we estimate that regional policy investments in the new Member States could create up to 2.5 million extra jobs and raise their GDP by between 10 and 16 per cent. Regional policy will therefore continue to promote the economic development of the new Member States, and through the growth and new markets this creates, the Union as a whole will benefit. 40% of investment in the less advanced regions flows back to other regions in the form of increased trade. But I think it is worth stopping to acknowledge too, the fact that this policy is testament to the long tradition of solidarity - support to the less well off parts of the Union - which is an essential principle on which European integration is built and developed.

Let me turn to what is a new development for regional policy and the result of a very deep reform – its central role in the competitiveness and jobs agenda. First, I should say a few words about the agenda itself – some of you will know it as the 'Lisbon' agenda. It has become the key priority of this Commission because for some years we have been aware in Europe that we are performing below our potential, we have been losing competitiveness with respect to other players in a rapidly globalising economy. Globalisation is not a new phenomenon. But in this current episode, the pace and the scale of the changes confronting us are unprecedented. One figure illustrates the scale of the change - twenty years ago just 10% of manufactured goods came from developing and emerging countries. All forecasts say that by 2020 it is likely that this

figure will be 50%. I am among those who consider globalisation to be as much of an opportunity as a challenge. The opening of economies to global competition has been a major factor stimulating growth across the world and a reduction in poverty in the emerging economies. But it is clear that we cannot take these benefits for granted. Much of the growth I just mentioned has taken place outside Europe, and in order for us to benefit, we must have the flexibility to adapt to the changing world around us. We must raise our level of competitiveness to be able to seize the opportunities. And given that the benefits are not always evenly spread across the economy, we must put in place policies which ensure that they benefit all.

What should this policy response be? Let me mention three elements which are of particular relevance to my talk today:

First, there is a need for increased emphasis on RD&I, research, development and innovation. The EU spends just under 2% of its GDP on research. In the US the figure is almost 2.5% and in Japan and Korea it is around 3%. Our aim is to increase our investment to 3% of GDP by 2010. But this is the easy part of the task. We also need to find ways to convert our research and development into new products, patents, and jobs. Investing in R&D is not in itself a guarantee of improving the performance of the economy.

Second, one way of doing this is to unleash the entrepreneurial energy which exists in our economies. We need to unlock the business potential of our SMEs by increasing their access to financing possibilities for start-ups and expansions. There is an urgent need to reduce significantly the administrative burden that businesses face both at EU and at national level; and there is an increasing recognition of the importance of

promoting links between business and the academic and research worlds.

Third, greater investment in education and training is also essential, both to ensure that our citizens find jobs in the new high value sectors of the economy, and also to avoid the social tensions caused by high unemployment levels. With a better educated workforce and easy access to training and continuous education, we will be better able to adjust to the rapidly changing technologies and patterns of demand. We have set ourselves a target of 2% of GDP to be invested in higher education by 2010. Given that today's figure is 1.3%, this is an ambitious target, but there is a broad consensus that it is essential.

Let me turn now to the contribution which regional policy has to make to these issues. It has been one of my key priorities as European Commissioner to ensure that regional policy not only reduces the increased socio-economic and territorial disparities in the enlarged Europe, but that it contributes fully to the growth and jobs agenda all over the Union. It must be an instrument that provides new dynamism to our regions and helps them exploit the opportunities presented by globalisation. How have we gone about doing this?

First, we have put in place a new more strategic approach. This aims to integrate growth strategies at European, national and regional level – to put in place an effective multi-level partnership which adds legitimacy to public policy implementation. At European level, Member States have agreed on Strategic Guidelines which highlight three priorities for their future investments:

- The need to improve the attractiveness of Member States, regions and cities as places to live, work and invest, by improving

accessibility, the quality and level of services, and preserving the environment;

- The need to encourage innovation, entrepreneurship and the growth of the knowledge economy, for example through research and innovation capacities, and
- The need to create more and better jobs by attracting more people into employment and entrepreneurial activity, by improving adaptability of workers and enterprises, and by increasing investment in human capital.

In line with this, we have increased budgetary concentration on the priorities of research and development, entrepreneurship, human capital and ICTs. On the basis of the guidelines, Member States have drawn up their own national strategies for regional policy and have agreed to ' earmark' a large proportion of European funds for investment in knowledge and innovation.

Second, this strategic approach at European and national level is combined with reinforced efforts to promote partnership in the preparation and implementation of regional policy on the ground. It is increasingly evident that effective strategies for regional development cannot be devised and imposed in a top down fashion. It is at the regional and local level that we find the essential knowledge and expertise for identifying problems and appropriate solutions. Partnership of all relevant players in the process of putting together a regional economic development programme, fosters consensus building, helps to tailor investment strategies to the needs of the region, and provides legitimacy.

The importance of this approach is made very clear in the strategy for innovation which was adopted by the Commission in September. It stresses the fact that the main competence for fostering innovation lies at the regional level, and hence the regions must be closely involved in developing policies on innovation. It is at the level of the region that businesses, especially SMEs interact with one another and with universities and research centres. This proximity of key actors is an essential factor in the innovation process.

A third significant new development is that for the first time in the history of European regional policy, we are involving key European financial institutions in the design and implementation of our policy. The aim is to support Member States in developing financial instruments – such as risk and venture capital, or micro-credits. Improving access to such instruments is essential because small enterprises are a key source of innovation and of job creation, and too often they are starved of the funds to finance their ideas. Together with the European Investment Bank we have created a specific instrument for this purpose - JEREMIE which stands for Joint European Resources for Micro- to Medium- Size enterprises.

Fourth, in the new generation of regional policy urban areas will be a greater priority than before. This is because cities are major drivers of growth and providers of jobs. But they are also areas where poverty, exclusion and problems of multiple deprivation are often concentrated and act as obstacles to growth. Our aim will be to improve the attractiveness of cities in terms of transport infrastructure, of public services, and the regeneration of the urban fabric. And we will also look closely at the links between urban, suburban and rural areas to ensure

balanced territorial development. We have gained much valuable experience of these issues in our existing regional policy programmes and the URBAN initiative of which you have one in Halifax. But in this new period we are going to make available the expertise and resources of the European Investment Bank and the Council of Europe Development Bank on urban issues through a new instrument – Joint European Support for Sustainable Investment in City Areas or JESSICA for short.

My final point is that for regional policy to contribute fully to the growth and jobs agenda, the sharing of experiences and best practice is of crucial importance. This has been part of regional policy for some time under the INTERREG programmes. But we want to take it much further with a new initiative called 'Regions for Economic Change' where 'networking' becomes a new buzz word. Regions and cities will be asked to work together to create networks on issues such as improving the capacity for research and innovation, on how to bring innovative ideas to the market more quickly, and on how to help areas that have been heavily dependent on traditional industries to restructure. As is the case across the UK, your region has a wealth of experience to contribute and I hope you will participate fully.

Let me conclude by saying a few more words about what this means for you in Leeds, and in Yorkshire and the Humber more widely. The statistics on innovation and R&D as a percentage of GDP show that you have some way to go to match the performance of the best regions in the UK. But there are very promising developments on which you can build in the new period. You have the largest higher education sector, expressed as a percentage of regional gross domestic product, of any

region outside London. The region has 14 Centres of Industrial Collaboration established to help businesses to exploit the innovation and cutting edge expertise from universities, and a successful consortium of universities. In your Regional Economic Strategy you have identified key sectors for support and are successfully developing clusters in areas such as advanced engineering and metals, bioscience, chemicals, and digital industries. And with the direct support of European regional policy you have developed the Bioscience SME incubator at the University of Leeds is supporting spin-out companies that can exploit the University's leading edge research in this field, and is facilitating technology transfer activities. My meeting this morning showed me very clearly the extent of the University's involvement in the development of the region, and I found that greatly encouraging.

In the future programming period, there will be less funding for this region than was the case in the past – a function both of the progress which you have made, and of the fact that we have new, poorer members of the Union. In this context, the choices that are made on where to allocate funding are of great importance. Supporting innovation is a key task of our new regional policy. I urge you to continue the good work which is underway in this area with the aim of doing three things: creating a region where enterprises have the means and the initiative to benefit from the research of the academic world; a region where the academic world in turn can find ready outlets for its valuable research; and a region which shares its valuable experience with other parts of the Union.