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It is a great pleasure to see all of you here. I have met many of you over the last year and I would like to thank you for your contributions.

I would like to share with you four messages. First, that Europe needs growth. And sustained growth can come from advances in knowledge and innovation. Second, Europe is too small to be able to afford leaving parts of its territory with a growth deficit. So all regions and cities must upgrade their human capital and capitalise on their resources via knowledge and innovation. Third, all regions must enhance the ability and willingness of their enterprises to innovate and be internationally competitive. This will not occur unless regions and cities boost their research centres and their academic institutions. Fourth, European regional policy must be involved in enhancing innovation, building links and exploiting synergies with other policies and programmes. What happens at local and regional level in the area of innovation matters for the future of Europe.

Today's debate is actually a debate on how to make the EU2020 Strategy deliver. It is legitimate to ask from where the growth can come and what should be the priorities for a new European strategy. How should we address the ageing of our population, as demographics will continue to work against us, how to address scarcity of natural resources in particular in the context of skyrocketing growth rates in China and other emerging economies, how to address climate change related risks when there is no certainty about future standards as Copenhagen failed, how to address job insecurity and loss of feeling of social belonging, how to position ourselves against new patterns of globalization. These are crucial strategic questions, and innovation is an essential part of any effective response to them.

We know that future growth will not come primarily from numerical additions to the labour force. We know that we must care not only about restoring production gaps generated by the crisis, we must put productivity gains on track. If the European economy is to grow in a sustained way, this would allow governments to pay back huge debts. But the growth to be sustained must come from advances in knowledge and technology, from innovation and creativity, from intelligent investment of new capital.

The world of today is already different from the pre-crisis one, and it will be even more so in the future. There are new expectations of citizens, there are new markets emerging to respond to those expectations, jobs are being created in new sectors. We have to transform our economy into a low carbon one. We have to make innovation an essential element of our culture. In Europe, growth policy focussing on a limited number of locomotives, on a limited number of growth poles is no longer an option. Europe must expand its innovation basis, mobilize creativity as well as knowledge generation and use across its territory. Rethinking growth delivery mechanism, exploiting better the potential of cooperation, of

multilevel governance, of integrated approach to policy thinking and making – can make the grand transformation which is awaiting European economy more efficient and effective.

And of course, public policies, public sector and public expenditure have a role to play in this new growth model. The most efficient place for public interventions must be identified. Over the last years we have witnessed a gradual shift in public investment toward local and regional level. This is true for energy related actions, for job creation, and for the promotion of knowledge and innovation. The need to combine an integrated approach to growth with territorial specificity leads us directly to the regional and local level. If the success of modern economies depends increasingly on innovation, harnessing local knowledge and creativity is critical for gaining competitive advantage. In this context, European regional policy has to address endogenous growth potential with a view to reducing development disparities between European regions and it should boost the competitiveness of all European regions in order to enable them to adapt permanently to ever more demanding conditions of globalisation. But investing in knowledge is not a one-off boost, it is a process.

When answering the question whether European regions are able to be competitive at the global level, it should first be stressed that European regions have very different levels of economic development, which makes it hard to compare the EU's competitiveness to that of the United States or Japan, where economic development is much more homogeneous across the territory. When it comes to investment in innovation, this is no different. If we take R&D expenditure as a proxy for the innovativeness of European regions, we see that especially Western European countries have high levels of investment in R&D, while these levels are much lower in most of the new member states. Even within countries, these investment levels often differ markedly.

The Fourth Cohesion Report highlighted a trend towards polarisation in Europe as regards innovation: on the one hand the number of European technological “hotspots” is increasing; on the other hand the performance of a growing number of regions is decreasing according to a centre-periphery trend. But no matter how competitive they might be today, these are confronted with the permanent need to restructure, modernise, and foster continuous knowledge-based innovation in order to meet challenges and exploit opportunities of globalisation, climate change, demographics, energy security and efficiency, and, last but not least, to find the way out of the crisis. We all look at Spain now. Here the government has been the first to say that innovation is the way out of the crisis.

Many of the regions geographically located farthest from the European centre appear to lag behind in research and innovation. Outermost regions, in the afternoon under discussion, are the most extreme example of this tendency. Some regions, however, do better than the US or Japan.

In the history of regional policy, a lot has been done for innovation. Regional policy contributes to innovation through support for integrated regional innovation strategies and experimentation. It has been the policy ambition since the 1990s and its Community Initiatives, based on proven institutional capacity or credible commitment of regional public-private partnership. Between 1994 and 2006 the Innovative Actions allowed for the creation of experimental laboratories of ideas for regions to develop innovation policies.

In 2005, the Initiative Regions for Economic Change was launched, supporting innovative projects and promoting the exchange of experiences across regions. In an enhanced communication effort by the Commission, the RegioStars Award was established within the Initiative, aimed at identifying good practices in regional development and at highlighting innovative projects attractive and inspiring to other regions.

These initiatives have promoted small scale experimentation, mutual learning and the set up of clusters and have contributed over the years to change the role of the modern cohesion policy that manages 1/3 of the Community budget, or 0.4% of EU GDP, a high percentage of which is devoted today to the spread of innovation and to investments in the knowledge-based economy. Thanks to all the experience we have, we know that innovation is man-made, it can be grown where we create adequate conditions.

Of course there are many questions to be tackled today as regards the link between regional policy and innovation, about the ways and means to ensure complementarities with the Research Framework Programme and other Community programmes.

The reform of European regional policy in 2006 moved this policy towards building competitive advantages at the regional level through strengthening the knowledge base of European regions. To achieve this, regions and cities must enhance the ability and willingness of their enterprises to innovate and be internationally competitive. This will not occur unless regions and cities boost their research centres and their academic institutions to not only achieve a strong basis and a critical mass of high quality research, but also create an appropriate entrepreneurial climate in a university context.

The good news is that not only the Lisbon Strategy, but also its daughter, the EU2020 Strategy, have identified in innovation - in its broader sense - the main instrument to foster the development of the European territory and potentiate its competitive capacity against the challenges coming from a globalised environment. Innovation has been put at the centre of both strategies and its paramount role has been emphasised as never before.

The re-launch of the Lisbon Strategy in 2005 aimed to bolster the competitive position of the EU and its regions in the world economy by placing economic growth, jobs and competitiveness at the top of the Union's agenda. The top priority has been to increase levels of innovation to help Europe's businesses move up the value chain. One of the main ways to boost innovation in practice was the reorientation of regional policy in the programming period 2007-2013 to make it the main investment instrument to take the then newly-reformed Lisbon Strategy forward. Member States "earmarked" the major part of policy measures for investments that could contribute significantly to the Lisbon objectives. The global amount currently allocated to R&D and innovation under regional policy is around €86.4 billion. This is more than three times the financial allocation for innovation and R&D of the previous period (2000-2006). The long-term planning involved with these multi-annual programmes also provides a stable financial basis for companies to invest in innovation on a prolonged basis.

Investments such as support to business and SMEs especially in the start-up phase, development of ICT services to enterprises and citizens, industrial clusters and science parks, training of human capital to potentiate talents and skills have been put at the top of the priorities for regional policy across all member states and regions.

Additionally, the policy is being used today much more than in the past to mobilise financial support for innovative business through EIB-supported instruments. In the current period new instruments of financial engineering have been set up to provide for innovative and renewable forms of financing beyond grants. These are proving to have an incredible leverage potential and guarantees their use is increasing across Europe both by public and private partners.

Despite the fact that not all regions have the same level of capacity to undertake research and innovation, Lisbon-related investment opportunities within the framework of regional policy have been broadly seized by Member States and regions. The Commission communication on the results of the programs negotiations of 2008 reveals that at planning phase approx. 86 billion € (corresponding to the 25% of the total Structural Funds envelope) have been allocated to innovation (nearly 35 billion € in the EU12 and ca. 49 billion € in the EU15).

Still, this data needs to be compared against the actual expenditure on the ground during the first year of implementation. The Commission is currently aggregating the information provided by the Member States in a Strategic report which shall be completed by 1st April 2010.

This document will provide for the first time actual aggregated data on the kind, level and form of expenditure that the Member States have undertaken in meeting the Lisbon priorities, confirming or not the resources earmarked at programming phase.

At the same time it will be the basis for a first assessment of the actual contribution of the regional policy to the Lisbon objectives and pave the way to a serious reflection among EU and national institutions, regional stakeholders and the civil society on the shape and contents of the strategy for growth and jobs after 2010.

We therefore do not have to start from scratch: the foundations for increased attention to innovation and thus competitiveness are already in place at the local and regional level. Especially now, in a time when we are looking to recover from the crisis, we should pay very close attention to the nature of recovery measures that need to be implemented in those regions that are hit by the crisis. Economic recovery will be much slower, patchier, and less effective if addressed at the European or national level only. Securing link between the type of recovery measures and long term competitiveness linked priorities is also essential. If not, we will risk a lost decade.

Innovation requires local and regional focus. You know if successful regions and cities capitalise on their resources via research and innovation. If we look at the most dynamic technology industries, the common factor is not a location in or near capital cities but one close to the most innovative universities. Europe has many exciting examples of innovation in the regions. You have the evidence in your hands.

Fortunately, there is a growing recognition in Europe that the appropriate responses are increasingly at local and regional level of European governance, even if challenges and opportunities may spring from further afield than 20 or 30 years ago. In the EU2020 context, we therefore have to encourage regions to look into their current strategies and see how they could adjust them to increase their efficiency and their potential for innovation and knowledge-promoting strategies. The effectiveness of EU 2020 policies depends critically on local and regional involvement.

One of the great advantages which American business has is that it has a domestic market of over 300 million people with an average income per capita higher than that of the EU. In Europe we are very proud of our greatest achievement - internal market. And rightly so, but it is far from complete. We have 27 countries, which on many accounts and in spite of the development of the EU's internal market, still operate as separate market areas. To a certain extent, this can be explained by a large number of factors also including language, institutions, traditions and history. This makes it somewhat harder for promising start-up companies to rapidly exploit our internal market of around 500 million. This makes also cross-border cooperation and networking more difficult and less efficient.

Many still existing concerns will only be overcome, if at all, in the long term. What we must do is to continue to develop the EU's internal market, also in the services, in particular in research and technology

sector, so that we can achieve at least some of the benefits which the Americans take for granted. Protecting and, indeed, expanding internal market should be our shared European objective. But let me also emphasize that in further enhancing internal market we must today pay more attention to territorial dimension of internal market impacts, barriers and opportunities. In particular if we want better exploit the potential of innovation offered by territorial cooperation.

On the business side, barriers to innovation are related mostly to the internal market. Making the European internal market work for innovation, making it sensitive to local and regional dimension of Europe is a priority. I am not the only one in this room that can present far too numerous examples of how difficult it is to exploit the cross border cooperation potential to make Europe more competitive. And this is due to the fact that internal market is an unfinished business.

A particular area, which has found less room than it perhaps should in the Lisbon agenda and hopefully could be taken up under the EU2020 framework, is the financing of high growth knowledge and technology-based enterprises. This is one area where Europe has been behind development in the United States, where access to venture capital and subordinated debt instruments have always been more readily available. Unfortunately the current banking crisis, which has made banks far more restrictive in their lending policies, is liable to make this situation even worse. And I have doubts whether in our efforts to regulate financial markets and sectors we pay any attention at all to the contribution of financial sector to growth. Moving forward on specific innovation supporting financial engineering instruments is necessary. Jeremie has been just a first step towards development of venture capital institutions and new forms of guarantees for SMEs, in particular those open to risk and innovation.

Of course, the low growth and economic stagnation experienced in the last decade, and more recently aggravated by the crisis, have made it clear for regions and cities that they cannot simply rely on relatively favourable macroeconomic framework conditions to ensure competitiveness and growth. Instead, European regions and cities have understood that they must seek to combine macroeconomic assets with implementing effective microeconomic measures, to work with enterprises, and thus, in fact, to put in place regional innovation policies, truly and concretely enabling 'framework conditions for innovation'.

For the European regions this means that in order to compete successfully in the global market, and to continue to grow at a pace that will allow them to bring their GDP per capita levels to a good and sustainable level, they must strengthen the ability and willingness of their enterprises to innovate, to be internationally competitive. This will not occur unless regions and cities enhance their research centres and their academic institutions to not only achieve a strong basis and a critical mass of high quality research, but also create an appropriate entrepreneurial climate in a university context. An adequate legal

framework with respect to commercialisation and industrialisation of their knowledge production, has to be in place, as well as incentives and policies to encourage research groups to actively seek knowledge transfer opportunities.

Universities do make a significant contribution to regional economic and social development, and in a globalised economy this role is growing in importance: they contribute to a region's comparative advantage in knowledge-based industries and to its human capital base, and they can help to generate new businesses. A thriving region creates an environment in which higher education can also thrive, helping institutions to attract and retain staff and students.

This is the case not only of universities in big capital cities: there is a growing number of universities acting at regional or local level which are gaining importance, merging and pooling resources with public research organisations to create critical mass and enhance their education and research quality.

For instance the Coimbra Group, of which the University of Granada is a member, is more and more affirming its role across Europe in establishing academic and cultural ties to promote internationalization, academic collaboration, excellence in learning and research as well as services to society.

Implementing efficiently the knowledge triangle means fully exploiting the potential for synergy between regional stakeholders, universities and business. Decision-takers at the regional level must be fully aware of the potential that research and innovation activities offer to all regions for economic growth. Take-up of such measures will be improved only if there is a strong awareness of the opportunities, and advantages to be gained, amongst businesses, universities, research centres and other relevant institutions. There are still too many situations where the awareness does not exist or work.

Raising awareness of how the European regional policy can assist in drawing new knowledge into a region by helping firms and researchers to engage with international partners, and potential customers and suppliers, is vital to the long-term economic growth of that region.

So are European regions able to be competitive at the global level? In fact, some already are, and with the continued attention of regional policy, others will be as well in the future. We must, however, not forget where we are coming from: some regions in the EU are very poor indeed and a policy whose budget comprises a mere 0.4% of EU GDP can perhaps go a long way in mitigating this and in increasing innovation capacity even in such regions. European regional policy is but one available tool. It can be, indeed it is, an excellent partner in innovation process but we need all hands on deck. It is important that the European Union keeps focussing on bolstering long-term growth by constantly increasing and enhancing its focus on innovation. If the right balance is struck in this process between all levels of European governance and partners - business, academic and civil society - are involved and committed,

then the EU will continue making steps towards becoming the world's most competitive economy with regions that can compete worldwide.

In the REGI Committee of the European Parliament we have followed very narrowly this issue through a number of reports and debates. We are in the process of exploring the relation between regional policy and the Lisbon Strategy, at the moment when Europe is shaping its new Strategy for growth, meant to tackle the challenges of the next ten years.

Here the know how and experience of the regional policy has a great role to play. Insufficient involvement of local and regional authorities in the implementation of the first edition of Lisbon strategy was followed as of 2006 by the process of Lisbonisation of regional policy. This has generated a qualitative shift in the implementation of the strategy.

I am convinced that regional policy, based on the partnership will help develop a sense of ownership of the EU2020 goals by the regions and cities, universities, and business.

As well we are very much convinced in REGI that, as the OECD emphasized in 2009 , because innovation is becoming more complex, no single policy can efficiently promote it across Europe. An integrated approach between relevant policy areas is needed building synergies and developing horizontal strategies. In the time of crisis we must be practical, but we must be ambitious as well.

In this sense REGI is currently looking into the various opportunities of synergies between the regional policy and the funding programmes dedicated to knowledge and innovation (Seventh Framework Programme and Competitiveness and Innovation Framework Programme).

The implementation report of this year analyses how the indicative framework of the Community Strategic Guidelines 2007-2013 - in particular Guideline 1.2 on Improving Knowledge and Innovation for Growth - was followed by the Member States and regions in their National Strategic Reference Frameworks and Operational Programs.

In addition the different ways of mixing EU funding sources, including mixed financing, complementary or consecutive financing and multi-funding in the same cluster or network are under analysis.

We are living an historical momentum and we must be able to exploit all the opportunities coming from it: at Community level a new Treaty is in force allowing for wider Community powers in several policy fields, for an enhanced legislative competence attributed to the European Parliament, and, last but not least, extending responsibilities for the pursuit of common EU objectives beyond the national governments and European institutions - to local and regional Europe; a new Commission is at work, which needs to adopt

crucial proposals for tackling present challenges and shaping future strategies and must be ambitious in this task.

From the economic and social point of view we are confronted with a crisis which is putting under big pressure many national economies and showing weaknesses also where they were not expected. In this context big debates are taking place at European level: how to promote competitiveness and economic growth in Europe after 2010 through the EU2020 Strategy, how to shape the future regional policy, what should be the Community budget after 2013, just to cite some of the main ones. All these debates are linked together and have to be tackled in a parallel and synergic way if we want to prepare Europe to the challenges of the next ten years at least.

In a period of economic crisis we need to be practical: the regional policy already makes an important contribution to research and innovation activity in the regions of the EU and represents a big opportunity for the knowledge-based economy, offering a stable and sure source of funding for a 7-year period, with more that 2/3 of its 347 billion € for 2007-13 dedicated to the Lisbon objectives.

But we still must be ambitious: the regional policy disposes of a consolidated methodology in terms of integrated approach among policies and offers a well worked out governance system able to mobilise local investments and to engender structural reforms in the longer run. The degree of success in the implementation of the knowledge-based economy in the future strongly depends on how deeply these tools will be used.