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***“Let's make the crisis work for innovation”***

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Globalization has increased pressures on countries to move up the value chain and engage in a continuous process of innovation. Innovation is not only determined by the creation of knowledge but also by its diffusion. The European economy has been suffering from the gap between knowledge generation and knowledge application. Over the last years, a lot has been done at different levels of European governance to bridge this gap. Many new institutions have emerged: technology centres, business innovation centres, competitiveness poles, innovation financing schemes, clusters, etc. Policies have been launched at European, national, regional, and local levels to create conditions for these synergies to flourish. Particularly spectacular have been actions at regional levels. Many regions have built regional innovation systems and strategies improving efficiency of interactions between partners.

The European Union's and governments' efforts to harness innovation to generate growth have been increasingly focusing on the regional dimensions of innovation. The situation at regional level varies greatly across the Union. Some regions use new opportunities and build on them, some lack culture of networking and have not yet reached the critical mass needed to exploit new opportunities. There is no one-size-fits-all approach to promote innovation at the regional level; it takes time to see which tools work - where and why.

The 2006 reform of the cohesion policy has introduced a strong focus on investment directly relevant to innovation, including the mainstreaming of its innovative actions programmes and introducing new policy tools to promote innovation. The reform considered innovation as an essential growth path leading to sustainable development and improved competitiveness. Innovation has become a central feature in the 2007-2013 cohesion policy programmes, offering a chance to reduce the innovation deficit in some regions and promoting the efforts of all others to go the distance.

Marrying cohesion and innovation has the advantage of exploiting the potential integrated approach to development policy that cohesion policy is based on, as well as bringing partnership amongst all actors which is key in fostering innovation through regional Europe.

There is evidence both in theory and practice that innovation is most effectively addressed at regional and local level where physical proximity fosters the partnership amongst actors both in private and public sectors. However, European regions vary greatly in their capacity to develop and absorb knowledge and technology. There are many who have innovative performance below the EU average, but there are also regions that have higher performance than the US or Japan. But all regions are today confronted with the need to restructure, modernize and foster continuous knowledge-based innovation in order to meet the challenges

and exploit opportunities of globalization, climate change, demographic trends, energy security, and last but not least, to get out of this crisis stronger, more competitive with sustainable jobs capacity.

Regions do not measure today their competitiveness against the European backdrop; they position themselves in the global context. To improve their competitive edge, they must attract companies and talented, well trained people, they have to capitalize on their knowledge base, develop their capacity to innovate, aim at creating an identity brand that facilitates internationalization.

The diversity of regional and local Europe, combined with increasing democracy of growth, shows the potential of local development based on industry niches. You can easily identify at this level of governance all sorts of microclimates for firms, with a lot of different models of successful innovation. This diversity of business relationships, social connections, knowledge specialization creates regional innovation potential. It is well presented in the diversity of regional innovation strategies prepared within the framework of the cohesion policy. They are not easy to copy, but they show what works and what does not. And for start up companies the place they chose for business location can be detrimental to their development.

Crisis brings a risk of a risk aversion to stay with us for a while. This will not reduce access to financing. Innovative financing, especially for a small and medium sized companies that want to enter the space of innovation, will certainly not be the most common type of available funding, while at the same time this is what will be badly needed in the years to come. So crisis is not a friend of innovation. The challenge for European cohesion policy is to create such a risk aversion free space.

Within the European recovery package, regional policy is clearly an opportunity to continuously prioritize innovation within the investment patterns. Of course research and technology driven innovation is highly concentrated but regions can be innovative through good absorption capacity of research generated elsewhere or adopting innovation.

Stimulus package related investment can lead to investment in innovation factors which are external to firms, like availability of high-skilled people or risk funding schemes. Europe has an extraordinarily well-educated population. This creates also a chance to exploit the potential of user-driven innovation. Long term investment in innovation-friendly education at all levels, putting innovation at the heart of the knowledge triangle, attracting talents, facilitating mobility of researchers - these are just a few examples of what are the basics for the development of an innovative society. Crisis is the last call we should listen to. One could consider the idea of assigning at least 20 or 30% of the national stimulus packages to innovation. And a substantial part of it to low emission growth related innovation.

Crisis cannot be disconnected from the long term development. It hit the real economy that had already been hit by shocks related to climate change, globalization pressure, energy security and efficiency, demographic trends. We will be able to pay back our crisis-related debts only if the investment rooted in the stimulus packages will trigger sustainable long-term growth, improve efficiency and competitiveness. The European Union, prior to the crisis, agreed on policy measures that prioritize innovation and greening of our economies. A move towards innovation-based sustainable growth has been at the heart of the EU response to globalization. That is why the re-launched the Lisbon partnership for growth and jobs has put innovation at the centre. Before the crisis we had started to use the power of innovation to meet environmental challenges. Eco markets do exist in the Union. This makes it easier for European firms, the direction is there. We have 445 European cohesion policy operational programmes that target innovation and climate change and the energy challenge. Crisis-related amendments to the policy make it more flexible and user-friendly. Crisis is by no means a moment to take a break from innovation. For the European regions the challenge is to make themselves attractive as a location for innovation and research-intensive sectors. Innovation is for them a modern way to remain or to become competitive.

Today, innovation is born at the crossing of many policies and actions. The EU has developed a set of complementary policies to support all indispensable elements of innovation processes, from the excellence in research, to support for building research and innovation capacities, to stimulating innovation in social area, to exchange of good practice, to caring for intellectual property rights, to connecting players... etc. Policies and actions involve all levels of the multilevel governance system of the Union.

The analysis of factors that will be key drivers of growth, job creation and competitiveness in the future shows a growing weight of resources available at local and regional level - research institutions, networking small and medium sized companies, innovative businesses, skills and talents.

The nature of innovation has been changing. What remains unchanged is the need for innovation to reach the market if it is to influence growth. But it can take time for an innovation to increase the competitiveness of an economy. And Europe cannot afford a lost decade. We must move now.

What is clear is that today innovation is not a monopoly of the most advanced economies, be it national, regional or local. It is not any more a linear process leading from laboratory behind wired fences to the final user. It is no more the responsibility of enlightened decision makers. It is a complex cross cutting socio-economic process that has to be orchestrated among like minded parties. The space for the dialogue between them has to be ensured by smart public policy. Innovation requires many factors to be in place and create a cultural environment conducive to innovation. Innovation feels good in a competing environment but at early stage cooperation might matter more. The closer we are to the technological barrier, the more important the role of competition. But for laggards, for those who have to catch up too intense competition can be a factor that reduces their chances. There is an optimal degree of competition that encourages innovation. Innovation means to be where nobody was before. It is about giving an idea a chance.