

NOTE
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LERU's response to the EC's Call for Ideas

As expressed in its response to the [Call for ideas](#) launched by the European Commission on 16 February 2016, LERU is convinced of the need for a EU systemic approach on innovation. EU investment in innovation is strong (e.g. Innovation Union, InnovFin- EU Finance for Innovators, European Institute of Innovation and Technology –EIT-, European Innovation Partnerships –EIPs-, Joint Technology Initiatives –JTIs-, Knowledge and Innovation Communities –KICs-, etc.) but complex and confusing. There are too many initiatives and levels, better coordination of the multiple EU investments in innovation is required. **LERU is furthermore convinced that this systemic approach should first and foremost be one of optimising, streamlining and simplifying the current EU institutions and instruments dedicated to innovation.** If this systemic approach requires the presence of a dedicated Council, then LERU is willing to consider the need for the creation of a European Innovation Council (EIC). It should be clear, though, that **such a Council can only have a role as an advisor, a catalyst and a coordinator**, while the major reforms of optimisation and simplification have to come from within the institutions and instruments themselves, not from creating new layers, new institutions and new entities.

What challenges does the European Innovation Union face?

Education, science and innovation are the three main pillars on which to build fair and prosperous societies and economies. Europe has developed valuable policies to stimulate each of them. Education and science are solid foundations on which innovation can develop and thrive. But, as the century-old “push versus pull” debate has amply illustrated, more is needed to make innovation flourish.

To this end, **Europe has designed an array of institutions, programmes and instruments aimed at supporting and stimulating innovation.** The EIT (and its KICs) and Horizon 2020 are the visible ones. By definition, they should be user-focused, addressing grand societal challenges, while fully taking into account entrepreneurship as a game changer.

However, **the challenge remains to mobilise the focused efforts and funding needed to fill the gaps that still exist** between “knowledge & creative spark” on the one hand and “embodiment & realisation” on the other. This is definitely the case when it comes to more disruptive forms of innovation where it is shown that Europe still has momentum to gain.

It is therefore paramount that the strengths Europe has developed in science and innovation are preserved, developed and boosted. To achieve this, the efforts of the Directorate-General for Research and Innovation (DG RTD), the Research, Innovation, and Science Policy Experts high level group (RISE), the EIT and the many other relevant EU institutions, need to be augmented or complemented by more targeted coordination and advice aimed at the continuous optimisation and streamlining of the institutions and instruments that are in place. It is obvious that the effectiveness and the efficiency of at least some of those institutions and instruments can and should be improved. This improvement requires redrawing both the frameworks and the constraints under which they operate by taking into account validated insights and recommendations to optimise their functioning.

DG RTD/RISE and EIT come to mind first, but it is obvious that the need for coordination extends well beyond the boundaries of those valuable institutions. One should not overlook the importance of the 33 Directorate-Generals (DGs) within the European Commission (EC) (e.g. DG Health and Food Safety, DG Education and Culture, DG Internal Market, Industry, Entrepreneurship and SMEs, ...) as well of that of institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF). **A boundary-spanning focus is thus required**, i.e. one that points to the need to also encompass those EU institutions and instruments that significantly impact Europe's innovation performance while operating beyond the remit of the institutions and instruments directly dedicated to innovation policy in Europe.

In order to drive European innovation performance, such boundary-spanning advisory, catalyst and coordination actions are needed. **LERU recommends those actions to be fulfilled by adapting the frameworks and constraints of the existing institutions and instruments.** If, for various reasons, this turns out to be impossible, then LERU can support the creation of an EIC to articulate and enable those actions. However, **convincing arguments must be put on the table, initially by those who haven't ringingly set up the various instruments and institutions, for example the EC.**

Mission and position of an EIC

Given the existing institutions and instruments, an EIC, if needed, should assume a boundary-spanning role that is complementary and additional to them. As the setup of the EIT highlights, integrating activities in and across the Knowledge Triangle is key to mobilise and to direct Europe's vast reservoir of talent, knowledge and entrepreneurial ambition.

It is the opinion of LERU that **an EIC should then have a well-delineated, high-level, boundary-spanning advisory focus. It should also be positioned as a catalyst** to support the fundamental, cross-sector dynamics in the Knowledge Triangle, as they are at present supported both by DG RTD, EIT and other European institutions. This should happen not by replacing the existing institutions and their instruments; not by cutting into their respective budgets or by micro-orchestrating them (since they are already orchestrated), but by further stimulating them, challenging them to grow ever better and more efficient, and by addressing any significant (regulatory) impediments towards more effective innovation outcomes that need to be removed.

Horizon 2020 is in essence project/consortium focused. The EIT embodies the integration of innovation activities in and across the Knowledge Triangle, addressing grand societal challenges with huge economic impact. In addition, various other DGs and institutions such as the EIB and the EIF have a role to play in a talent-based innovation economy that wants to grow its ability, capacity and resource-base for disruptive innovation.

An example would be the obvious existing gaps between, on the one hand, funding of innovation activities (a role assumed by the EIT and H2020) and, on the other hand, the investment in companies bringing those innovations to the market (a role assumed by the EIB and the EIF, also leveraged via other investment funds). Thus, it seems logical that an EIC addresses those boundary-spanning gaps in the broader European innovation landscape. Finally, **better coordination is needed** in order to reduce regulatory burdens and existing bottlenecks.

What focus for a boundary-spanning EIC?

EIC AS AN ADVISOR ON INNOVATION POLICY

First, **an EIC (if needed) should advise and support the EU institutions** in better articulating and balancing the desired outcomes of European innovation policy across the various and multiple actors and sectors involved. **From a policy perspective, there are in essence two possible ways for innovation outputs to show up in outcomes as economic benefits of innovation.**

- **Structural Change** - addressing the differences in growth of value added across industries, away from industries with lower levels of innovative activity towards industries with higher innovative activity. By such a change, the share of innovative output in the total output of an economy will definitely increase. The pursuit and support of disruptive innovation is one way to achieve structural change. Research-intensive universities are important contributors to this process.
- **Structural Upgrading** - featuring differences in performance between firms within industries, without necessarily changing the overall composition of economic activities. This differential performance may be reflected in moving to industry segments with higher innovative activity, thereby defending competitive advantage. Such upgrading may not necessarily be reflected in differential value added growth at the firm level. The economic benefit of innovation may, for example, consist in increasing product quality to be able to hold market shares constant in spite of higher prices when compared with low-cost competition; or in keeping costs down to stay competitive in spite of higher wages paid to a firm's workforce.

A Council such as an EIC should act as an advisor on balancing and designing innovation policies and instruments within and across existing European institutions that aim at structural changes or disruptive innovations as well as at structural upgrading. Those policies should focus on investing in action and risk-taking whereby the companies and near to market academic and related groups compete for resources. To do so, an EIC should take into account not only the institutions and instruments at EU level but also experiences and programmes on the national level of the member states, (for example, the Catapult programme in the UK,).

EIC AS A CATALYST TO REMEDY STRUCTURAL INNOVATION FUNDING AND INFRASTRUCTURE GAPS

Second, the funding problem for innovative ventures, both start-ups and high growth companies, has not disappeared in Europe. As a consequence, **there is a need for an orchestrating role that addresses the funding gap, by mobilising a diversity of schemes and instruments** (e.g. risk capital, smart money, private equity, alternative financing schemes etc.). Hence, the Council should explicitly address those investment needs, identify the present funding gaps and advocate the need for competitive funding with hard endpoints, stipulating the necessary matching funding from industry, having a challenging competition to ensure focus on the best, and act as a major catalyst for relevant actors to mobilise the necessary investment schemes. This would help to solve the problem of large-scale finance in Europe for risky ventures and play a strategic role to mobilise private investment. Pan-European Fund of Fund initiatives are particularly welcome in this respect.

In this context, **an EIC should not shy away from proposing and promoting regulatory reforms** whenever and where deemed relevant and necessary (e.g. REFIT). Once again, the position of an EIC as a boundary-spanning council is crucial, designing and building bridges towards the EIB and the EIF, including mobilising the full potential of the European Fund for Strategic Investments (EFSI). An added value of an EIC could be to establish synergies of existing activities on EU level and make this transparent to the different innovation actors.

In addition, **an EIC could advise on infrastructure policies needed in support of business and innovation**, not just when it comes to important, large-scale, experimental technology platforms and infrastructures, but also by focusing on the continuous need for incubators and accelerators in support of innovative business. Such infrastructural instruments, linked to the capital investment schemes referred to in the previous section, are much needed in helping innovative companies bridging the 'valley of death'.

An EIC would thus advise and develop schemes to link capital (and quasi-capital) funding to incubator and accelerator infrastructures all over Europe, mobilizing expertise and investment money into appropriate instruments that reinforce and complement the institutions already in place and the instruments they currently deploy. It is obvious that those infrastructures will need the quality, the high entry bars, and house rules to make them useful in supporting companies with the distinct potential to be competitive on the global scale.

EIC AS A COORDINATOR OF INNOVATION POLICY ACROSS EU INSTITUTIONS

Finally, innovation policies and instruments need to be agile, focused and efficient, geared towards both improvement (structural upgrading) and disruption (structural change). Positioned as a boundary-spanning, coordinating Council in between the major European institutions that foster innovation, **an EIC will coordinate policy needs and foster policy learning**. It will do so by critically examining existing processes and instruments and the regulatory burdens that are too often experienced throughout the European innovation landscape and policy scene, and by proposing solutions to reduce those bottlenecks in order to gain effectiveness. The mission of an EIC should be to have a decisive impact on the adoption of the solutions it proposes to the EU institutions to strengthen Europe's capacity for structural change and disruptive innovation whilst not losing sight of the continuous need for structural upgrading.

How to achieve this?

The aforementioned EIC would thus play a boundary-spanning coordinator and advisory role in between the existing institutions, while extending the innovation value chain towards the investment end of the 'valley of death'. This extension is at present rather marginally addressed by the existing institutions and instruments in their current configurations. As a consequence, an EIC would be complementary and additional to the institutions in place at present.

In order to operate effectively, an EIC should be an agile instrument on the European policy scene, conceived as a council of high level people from the business, venture and finance, and academic sectors, focusing on the three interrelated innovation issues described above: policy design, innovation funding and policy coordination.

If an EIC would be needed to achieve those roles, then LERU can support its creation and focus as outlined above. However, at present, LERU believes it would be better to add those capabilities/roles to the existing institutions and entities, by redefining their strategic and operational frameworks and redrawing the boundary conditions under which they function.