



**COUNCIL OF  
THE EUROPEAN UNION**

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**NOTE**

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From: The Polish delegation  
To: Delegations  
Subject: Recommendations of the High Level Group on Innovation Policy Management  
- Information from the Polish delegation

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Delegations will find, in annex, a note from the Polish delegation on the above-mentioned topic with a view to the AOB item at the Competitiveness Council on 29 May 2013.

**Note from the Polish delegation on the recommendations of the High Level Group on  
Innovation Policy Management**

Poland would like to draw attention of the Competitiveness Council Members to the recommendations of the High Level Group on Innovation Policy Management. Poland would like to present the above-mentioned recommendations in a written form during the Industry Part on 29 May, 2013. Simultaneously, during the Research Part on 30 May Poland would like the above-mentioned recommendations to be noted by the Competitiveness Council Members.

**Background**

At the Competitiveness Council on 6 December, 2011, the Polish Presidency launched the idea of setting up the High Level Group on Innovation Policy Management in order to create out-of-the-box thinking and concrete proposals on how to further enhance present initiatives and to develop and manage a more comprehensive innovation policy in the EU.

On 11 April, 2013, the High Level Group on Innovation Policy Management held its last official meeting in Warsaw, Poland. As a result of this meeting, a set of specific recommendations were formulated. Poland presented them during the Informal Competitiveness Council on 2 May, 2013.



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**Recommendations of the High Level Group on Innovation Policy Management - the initiative of the Polish Presidency**

At the Competitiveness Council on the 6<sup>th</sup> of December 2011, the Polish Presidency launched the idea of setting up the High Level Group (HLG) on Innovation Policy Management in order to create out-of-the-box thinking and concrete proposals on how to further enhance present initiatives and to develop and manage a more comprehensive innovation policy in the EU as well as to enhance sustainable growth and competitiveness more rapidly.

The tripartite High Level Group, chaired by the former Director General of the Council of the EU, Professor Dr. Klaus Gretschmann, was composed by Members from European Institutions (European Council Cabinet, European Commission's DG Research and DG Enterprise), eight Member States Governments (Finland, France, Germany, Ireland, Netherlands, Poland, Spain, UK), five academics, one SME (QSC) and nine multinationals (Air Liquide, Alstom, Bayer, BP, Electrolux, Eli Lilly, Magna, Statoil and Yara).

The Group held three sessions during a period of eight-months: September 2012 (the Ministry of Economy, Warsaw), December 2012 (the Polish Permanent Representation, Brussels) and the last one in April 2013 (the Polish Presidential Palace, Warsaw).

The purpose of the HLG was to provide independent advice on how to proceed further with the EU innovation policy and how to complete the on-going efforts. The independent and temporary status of the High Level Group allowed open discussion and concrete recommendations on what to do and how, based on its own experience and on a comparative study of other companies and countries. To start, it was agreed that the High Level Group will focus its attention on six main, but inter-related areas: long-term and short-term governance innovation, intellectual property, social consensus, education and financing.

The result of the last meeting in Warsaw was the final report with the set of specific recommendations that were presented during the Informal Competitiveness Council on 2<sup>nd</sup> of May in Dublin. In the final report, the HLG puts forward seven horizontal and highly strategic recommendations aiming at improving the current status of innovation policy in Europe.

In its recommendations, the Group calls for an urgent optimization of the “embryonic European Innovation Ecosystem”. The EU needs to move away from its linear innovation approach towards a complexity-based one, according to the HLG. This requires broadening of traditional Research & Development and funding to involve product, processes and intangible innovations covering industry, services, business models, management and public governance.

Improving policy coherence is, according to the Group, the most urgent requirement in the EU to improve innovation policy. In order to address the imperative need for a mechanism to overcome the fragmentation and cleavages in innovation policy at all its levels (inside EU institutions, between MS and EU authorities, among Member States, between business and public authorities etc.), the HLG suggests one overarching authority, within the EU Institutions and in Member States, with full responsibility for innovation and competitiveness, in order to guarantee overall coherence between countries, sectors, clusters, departments and their rules.

In order to improve the quality of regulations in Europe and reduce their complexity and rigidity, the HLG finds imperative to set up an inter-institutional and independent EU Impact Assessment mechanism (ex-ante and ex-post), operating in close cooperation with national centres, to evaluate the economic, social, innovation and competitiveness impact of proposals and amendments.

The HLG also calls to eliminate obstacles and provide new funding to innovation, to facilitate industrial cooperation and re-interpretation of competition law, to take an inclusive view of intellectual property and to increase the innovation potential through user- and consumer- driven innovation policy mechanisms. The EU must review the increasingly abusive application of the precautionary principle and should go scouting at a global level, as well as within its leading innovative Member States, for new ideas, projects, and concepts and adapt them to create global first mover advantages.

**High Level Group on  
Innovation Policy Management**

**RECOMMENDATIONS**

**By the independent High Level Group on Innovation Policy Management**

**‘It always seems impossible until it is done’ (Nelson Mandela)**

**1. Vision**

Innovation policy is the key tool to stimulate economic growth and strengthen competitiveness and employment opportunities for Europe’s millions of unemployed. By re-ordering, upgrading and enriching decisive elements of the presently rudimentary rather than comprehensive approach of EU innovation policy, we suggest following a new and inclusive model: the innovation ecosystem, encompassing all the different elements which contribute to an innovation-conducive environment.

Whereas the traditional linear model of innovation prioritizes scientific research as the basis of innovation and suggests that change happens in a successive fashion from research via invention to innovation to diffusion and marketing, our ecology model provides a much richer picture of the way innovation works and how it can be stimulated and fostered.

In doing so, Europe will be able to improve its competitiveness based on a knowledge and digital economy and reap the benefits of them for its societies. As the Single Market or the Common Currency once were, a European Decade of Innovation should be the new overarching vision for the EU, a benchmark for its actions. The European Decade of Innovation is meant to serve the European Common Good: the best living and working conditions for the peoples of Europe, the modernisation and maintenance of its unique societal model.

In order to make the above vision a reality, a strong focus will be required on the complex interactions between all the factors and actors which make up a competitive economy. Indispensable prerequisites are a collaborative model of governance, an overarching steering authority, tailor-made policy and regulatory revisions, continuity and perseverance. Success is measured by transformation of research in markets and by GDP growth.

## **2. Rationale**

An innovation ecosystem is a set of ideas, institutions, instruments, policies, regulations and factors that determine the level, direction, outcome, productivity and degree of competitiveness from innovations<sup>1</sup>. A realm characterized by clear, simple, efficient, smart, low-complex, competitionbased and socially-accepted features will be best-suited and conducive to prompt and promote innovation.

This approach requires innovation to be addressed as an interactive system for value creation and common efforts by EU institutions, governments, business and universities (and other centres of learning and research). It requires both leadership from the top and strong decentralized interaction amongst all stakeholders to ensure a convincing redesign of all policies relevant for innovation and competitiveness in the European Union, the Member States and their interface.

During the last 20 years, the European Union has developed a research and development (R&D) policy and it has tried to make it complementary to the research and innovation efforts of the Member States. Some progress has been made but it is too slow and too limited to have a distinctive and lasting effect on Europe's growth and competitiveness. R&D<sup>2</sup> does not automatically lead to innovation in markets; intervening and flanking factors, such as legal provisions, administrative support, entrepreneurial skills, risk propensity and public opinion, etc., defining a conducive innovation environment need to be addressed and tackled simultaneously. Concomitantly, the removal of bottlenecks and obstacles to innovation are the tall order of the day.

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<sup>1</sup> See separate paper on an innovation ecosystem.

<sup>2</sup> The EU Treaty makes explicit reference only to R&D policy. Innovation policy is not mentioned but can be derived from a wider interpretation.

As the quantitative target of the EU to invest 3% of the Union's GDP in R&D has not been reached (save in one Member State) and since the present post-crisis budgetary situation in most Member States does not allow for any increase in spending, non-financial means to stimulate innovation are being sought after. A fresh and successful redesign of innovation policy management could compensate for this budgetary scarcity without requiring additional public spending.

Our upshot is the following: in order to bring back and accelerate growth and strengthen competitiveness, a radical overhaul of the EU innovation policy is required and can be implemented without Treaty changes, but rather by thorough policy and regulation (re-) design and innovation management.

Against this background, the Polish Presidency announced an initiative at the Competitiveness Council on 6 December 2011 to establish a High Level Group on Innovation Policy Management (hereinafter HLG), composed of experts from business, governments and academia, whose mandate would be to prepare a series of concrete recommendations with absolute independence and to create out-of-the-box reflections and make forward-thinking and unorthodox, perhaps even politically bold, proposals for how to redesign, develop and manage an encompassing innovation policy in the EU<sup>3</sup>.

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<sup>3</sup> The recommendations are based on advice from the members of the HLG at the meetings and in bilateral consultation processes. Their final formulation is the responsibility of the Chairman and Secretary General of the HLG.

### 3. Recommendations

#### 1. Optimize the embryonic European innovation ecosystem

Optimizing the embryonic European innovation ecosystem is our core recommendation from which instrumental recommendations relating to policy and management will be derived below.

As a matter of fact, a lot has been done or attempted in recent years, yet Europe is still in urgent need of refreshed efforts to deeply change minds and practices in order to influence the factors stimulating and inhibiting innovation. Efforts need to be bundled to move away from linear thinking to a complexity based one, dealing with the inter-actions of the various factors and actors. The world's most competitive economies show that it can be done<sup>4</sup>.

However, it requires the broadening of traditional R&D and the funding approach to involve products, processes and intangible innovations (such as design), to cover industry and services, business models, management and public governance. Optimum use of all available resources depends on optimum governance and management of the innovation ecosystem.

To develop strong and unconditional commitment by the key stakeholders, complete the innovation ecosystem and catalyse actions, a temporary<sup>5</sup>, independent tripartite advisory group, composed of experts from governments, business, universities or national innovation bodies, is an indispensable tool. It should provide advice to the responsible European and national authorities on managing the complexities of innovation and the multiple interfaces, on the conversion of perspectives in a globalized economy, on guarding strategic agility and a market oriented, bottom-up approach, on a re-design of governance tools, on university-business and stakeholder cooperation, on peer review mechanisms, on impact assessment for competitiveness and on the transmission between the multiple levels of governance and between economic sectors, on stimulating entrepreneurship and on facilitating social acceptance.

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<sup>4</sup> See separate paper on benefits of innovation.

<sup>5</sup> In the opinion of the HLG the period should not exceed one year.

The EU must adapt its emerging innovation policy according to both generic and even more so to the specific characteristics of each sector and move away from applying a uniform approach to heterogeneous markets. It must also focus more on cross-sector innovation opportunities and on digitalisation in all economic sectors including governance. There needs to be better mutual understanding, common problem perception and better alignment between business strategies and public policy objectives and vice versa, to create mutual support and give particular attention to the innovation, competitiveness and employment resulting from them. Critical factors that could undermine business success have to be eliminated without delay.

Independent peer review of regulatory simplification is necessary in order to reduce wasteful regulations or review excessively rigid application, simplify structures and institutional bodies of every kind established over the years without or with very little added value today.

There needs to be a determined effort for cultural change through executive development of those involved, transparency and communication in the institutions and a revision of human resource policy in the institutions towards more diverse recruitment and a result-based promotion system.

The above requires a reduction in the current overload of policy priorities to the few that are really key: the coherence of policy-making through efficient coordination (from the top), a review of the sometimes anti-innovative and politicized use of the precautionary principle and independent testing and assessment of the competitiveness effects of all proposals.

Last but not least, it also requires a complete and thorough re-thinking of how societies can better recoup some of the multiple benefits from innovation, notably from publicly funded innovation with commercial use. This could be an important element, together with evidence-based policymaking and transparency, to facilitate public acceptance of (misunderstood or contested) innovations. The role of the Chief Scientific Advisor should be strengthened in alliance with national science advisory bodies in order to ensure more scientific input in policy-making and policy support.

Finally, ascertain the public acceptance of innovations to avoid premature “death” of novel ideas and potentially useful developments. Social acceptance is determined by partnering and democratic consensus building mechanisms. Therefore, help establish and deliver an in-depth (scientific) impact analysis and outline benefits and risks as well as the strengths and weaknesses of contested innovations and seek ways to improve objective information provision.

## **2. Improve policy coherence**

In the view of all the HLG members, this is the most urgent requirement.

Indeed we seem to be in need of mechanisms to overcome the fragmentation and cleavages in innovation policy, those inside EU institutions, between Member States and EU authorities, among Member States, between business and public authorities as well as between administration and citizens. Therefore, it appears to us that within the EU institutions and in Member States, there must be one overarching authority with full responsibility for innovation and competitiveness in order to guarantee overall coherence between countries, sectors, clusters, departments and their rules and actions and to address the ecosystem in its entirety. This is meant to ensure that the innovation-policy-mix will be right and coherent.

To facilitate cooperation amongst the relevant actors and stakeholders, criteria must be set for giving guidance for public governance, exchange of good practice, independent peer review, and adaptation of governance methods to new technologies. There is a continuing need to improve governance capabilities and skills to present day needs and to the possibilities and consequences of new technologies. Better framework conditions, coherence and alignment between European and national policies aimed at stimulating innovation require observing key (global and transnational) competitive elements by sectors, to set jointly agreed benchmarks, and to ensure horizontal, vertical, temporal and systemic coherence.

An integrated approach is needed, similar to the one that existed during the early phase of the development of the Single Market: namely an explicit agreement, a kind of covenant, between all the relevant actors, public and private, to make fostering innovation and its effects on competitiveness and employment the overarching and imperative goal of EU policies. This requires a toolbox and mind-set different from what we witness today in terms of regulation and policy design, a fundamental overhaul of the government-business relations and consultation processes as well as a priority to a demand and competitiveness driven innovation approach by all policy makers. Besides, in order to set the framework conditions right<sup>6</sup>, it does also require to bring in a sector and cross-sector perspective to determine where the key competitive advantages of Europe may lay dormant, and then to focus on these.

### **3. Reduce regulatory complexity and rigidity**

At the interface between the European and national levels and in the various preparatory and decision making bodies, it is essential (1) to ensure that all officials have a realistic understanding of how “naked” research results are transposed into markets, (2) that they work on the basis of the evidence produced by internationally recognised and peer reviewed science, (3) that they have a comprehensive view of what innovation and competitiveness require, and (4) which rules and regulations need urgent streamlining or re-interpretation of their application or even elimination.

While respecting the prerogatives of the institutions, it is imperative to set up an interinstitutional, independent EU Impact Assessment mechanism (ex-ante and ex-post), operating in close cooperation with national centres, to assess the economic and social impact of proposals and amendments on innovation and competitiveness. In this context, benchmarking and comparing strengths and weaknesses with Europe’s main global competitors should be standard practice for new regulations and for the revision or interpretation of existing regulations. Growth and employment are too important to be blocked in the ice-sea of the status quo.

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<sup>6</sup> Where the Community method fails, much might be achieved between Member States (or groups of Member States) through the open method of coordination.

There must be an end to the distortion of the Single Market through the additive regulation by regional governments and to anti-competitive side-effects of advisory agencies or committees due to selective (if not populist) interpretations of science or of the impact of new technologies.

Regulatory simplification must be accomplished bottom-up and concrete proposals from stakeholders should be mandatory to be considered by the EU Commission within a short timeline. Regulations should be interpreted taking into account new research and technologies for innovative risk management and competitiveness as well as speedy market access.

#### **4. Eliminate obstacles and provide new funding to innovation**

In Member States and in the EU itself, still many obstacles and impediments, factors hampering innovation efforts and restraining innovation opportunities, prevail. Just to name a few: limited market access, lack of efficient intellectual property systems, prohibitive regulations, fiscal disincentives, lack of skilled labour force as well as of motivated and top-qualified researchers, missing entrepreneurial spirit, discontinuity and absence of perseverance in R&D and innovation policy making, etc. - they require all the efforts the EU and national governments can muster to eliminate them, each within his own area of competence, but in close coordination and against the backdrop of an innovation ecosystem approach.

From this vantage point, an improved cooperation of the public and private sectors are of the essence: EU and Member States may be called upon to encourage universities to spend a significant part of public research funding in public-private partnerships or in business-university partnerships; the renewal of management education may have to be put on the agenda. In order to facilitate aligning contrasting stakeholder agendas with a company's commercial objectives and government policy objectives, new ways and means to stimulate closer cooperation to ensure effective knowledge transfer and rapid market use must be envisaged.

Best practices as well as current and foreseeable problems in public-private partnerships (PPP) should be identified and barriers should be eliminated to facilitate the establishment and the operation of national and trans-national PPPs in innovation.

Cross-border cooperation between research centres should be based on intrinsic needs and desires, not artificially because of EU funding requirements.

As regards raising funds for innovation projects, we recommend creating a new mechanism for incubator and seed capital (rather than focus on venture capital which is less suited to the EU model of fund raising), which requires public funding depending on the risks involved. A fund which can spend a significant amount over a period of 5 to 10 years could be accumulated by bringing all EU R&D and innovation work under one authority to avoid fragmentation and waste. The budget for Horizon 2020 should not be fragmented over many innovation partnerships without a single overarching authority and cross-sector objectives. The 7th and 8th RFP, Horizon 2020 and the Structural Funds financing mechanisms should be coordinated in view of optimizing research and innovation processes. New funding should be considered for innovative forms of business-university cooperation, such as joint strategic knowledge centres which allow for crosssector engagement.

Moreover, the existing funding possibilities should be redesigned in order to ensure a cumulative mix of funding throughout the chain from research to pre-market access. Special attention must be given to cross-sector projects and to the inclusion of small and medium sized enterprises, for which simplicity of regulation and procedure is essential. In this context, the idea of innovation bonds should be examined again.

## **5. Facilitate industrial cooperation and re-interpretation of competition law**

Clusters should focus on market and society driven needs but also should identify age-old indigenous skills, creativity, equipment, traditions and technologies upon which innovation clusters can also rest. Locally successful clusters built upon models of “flexible specialization” in traditional home industry regions could serve as excellent examples. Such clusters should be identified and supported.

To concentrate innovation policy primarily on SMEs would be insufficient: the role of corporate “locomotives” must be recognized, in particular their leverage in the supply and distribution chains and the symbiotic relations with SMEs, although some may follow different trajectories to growth.

Unintended side-effects of other policies which can be counter-productive for innovation must be eliminated, in particular an overly strict and sometimes misguided application of competition law (though not its principles) must be revised and overhauled with a view to facilitating and stimulating industry cooperation in the R&D and innovation chain.

## **6. Take an encompassing and inclusive view of intellectual property**

The EU must go beyond a focus on patents and ensure adequate protection of all forms of intellectual property, brands, including cultural and local ones, geographic indicators, trademarks, data and copyrights and tailor them to the needs and requirements of individual sectors.

Particular attention must be paid to Europe’s competitive position in design, creativity, history and culture based innovation and branding.

However, we must maintain a careful balance in order not to paradoxically hinder innovation.

There needs to be a sensible balance between sharing information and building on ideas to allow innovation.

Equally the rights of creators must be balanced against other commercial freedoms in order to allow for full realization of economic value.

The EU must eliminate the problem of counterfeiting and illegal imports at source by making it a key condition in trade agreements with third countries. It should enforce respect for all forms of intellectual property in the new media. This may help to protect innovations vis-à-vis imitation by international competitors.

Patents can be legitimately used to offer protection, but it should be examined if some dormant patents could still play a useful role in creating value.

Finally, the EU should seek ways to avoid asset stripping by financial operators which may destroy our intellectual properties and manufacturing basis.

#### **7. Increase the innovation potential through user and consumer drive**

Complement the up-till-now primarily supply-driven approach to innovation with demand-driven efforts. Innovation processes can either be pushed or pulled. A pushed process is based on newly invented technology, that an organization has acquired, access to, and tries to find profitable applications for. A pulled process tries to find areas where customers' needs are suspected, but yet not met and then focus efforts to find solutions to those needs.

Reform the European Innovation Partnerships to make them primarily business-driven to ensure a bottom-up and market relevant approach, coherence in the whole R&D and innovation chain and interaction between them, but with participation of EU and national academic experts and business. Link the EIP to the lead market's concept and its development. This can be done before even creating an overarching authority for innovation.

Replace (within one year) the excessive bureaucratic mechanisms with a result oriented control system. Bring all innovation partnerships under a single authority for innovation and competitiveness in order to ensure coherence and true innovation.

Reduce the number of partners in PPPs to become more focused and to ensure efficiency and effectiveness, and combine them with a systemic demand policy.

Go scouting at a global level, and at local level in Europe, for new ideas, projects, research, and create first mover advantages. Industry, even small and medium sized companies, operates in European and global markets and this must be the focus of all innovation policy efforts.

#### **4. Conclusions**

There is already a need to start a new ecosystem approach by 2014, after the midterm evaluation of Horizon 2020, to ensure that no more time is lost on the way to strengthening the embryonic innovation ecosystem throughout the EU.

A temporary brain trust should be established to provide out-of-the-box thinking, based on the best practices in various countries worldwide, to EU and Member State governments and to develop a blueprint for a new innovation policy approach to be implemented from 2015 onwards, with clearly defined objectives and a schedule (as was the case of the successful realization of the White Paper on the Single Market).

New growth, competitiveness and employment creation will be the result of a more daring approach.

Warsaw, Presidential Palace, 11 April 2013

Klaus Gretschmann, Stefan Schepers