

Consultation document on a framework Programme for Competitiveness and Innovation

1. Purpose of the consultation

Europe is currently reviewing its policies and support mechanisms to better be able to promote competitiveness and innovation with the ultimate goal of achieving growth and employment, -pre-requisites for the promotion of sustainable development and for the maintenance of Europe's social model. The so-called Lisbon agenda and its midterm review in spring 2005 are the framework for this process.

Without prejudice to the results of the Lisbon review and the European Spring Council, a re-orientation of several Community support schemes in support of competitiveness and growth is underway. This includes the Competitiveness and Innovation framework Programme (CIP) announced by the Commission on 14 July 2004, as an instrument to support competitiveness and innovation in the single market. It forms part of the package of proposals put forward by the Commission in the context of the discussions on the EU financial perspective for the period from 2007 to 2013. The Programme would integrate, a number of existing and planned Community programmes¹ in the very fields that have been identified² as most critical to boosting European productivity and sustainable growth.

The CIP would encompass actions to

- encourage innovation and the sustainable use of resources;
- ensure the mastery and best use of Information and Communication Technologies (ICT);
- improve the access of small- and medium-sized enterprises (SMEs) to finance; and
- foster economic and administrative reform for more entrepreneurship and a better business environment.

The combination of these actions would achieve a greater impact through increased visibility, effectiveness and synergy.

This document focuses on the benefits and added value of bringing together these different elements into a single framework and on how the Programme would relate to other Community measures³ in the area of competitiveness and innovation. The purpose of this consultation is to obtain feedback on such a framework Programme, and on its objectives and instruments. It does not address the details of the elements where these have already been the subject of public consultation.

NB: This consultation document does not prejudge the future Commission proposal for the programme which will be finalised in the light of the Spring European Council and the Lisbon review process under way as well as the responses received to this consultation process.

¹ These are: the multiannual programme for Enterprise and Entrepreneurship, in particular SMEs ([MAP](#)), the programme on [Intelligent Energy](#) for Europe, certain [Innovation Actions from the RTD Framework Programme](#), activities on the promotion and demonstration of environmental technologies covered by the [Life](#) programme; and the ICT focussed programmes [Modinis](#), [eContent](#), and [eTEN](#).

² [European Competitiveness Report, 2004](#), Commission Staff Working Paper, SEC(2004) 1397, 8.11.2004

³ such as those supported by research programmes and cohesion funds.

2. The challenges for competitiveness and innovation

The Member States signed up to the Lisbon objective of the EU becoming the world's most competitive and dynamic knowledge-based economy by 2010 capable of sustainable economic growth with more and better jobs, greater social cohesion and respect for the environment. Each pillar of the Lisbon strategy is needed for the success of the whole. Improved economic growth and increased employment provide the means to ensure social cohesion and environmental sustainability. In turn, social cohesion and environmental sustainability can contribute to higher growth and employment⁴. Developing an information society for all, where every business and citizen can benefit from the possibilities that ICT can offer, is one of the key drivers in achieving the Lisbon agenda, as is creating the right environment for starting up and developing innovative businesses, as well as encouraging the sustainable use of resources.

But at the moment Europe is seriously underachieving with regard to some of these targets, as demonstrated by the Kok report⁵ and by the Commission's own 2004 Economic Review⁶.

Recent data shows a clear correlation between **innovation activity** and **GDP growth**. Innovation is one of the keys to productivity growth, and productivity growth is essential if Europeans are to raise their standards of living in the context of falling population growth and an ageing population. Yet EU innovation performance continues to lag behind its main competitors⁷. Europe lags behind the US in 10 out of 11 innovation indicators, including early stage venture capital, and business research and development. Businesses, especially SMEs, are often put off investing in innovative technologies by up-front costs - even if ultimately it would prove economically beneficial. For example, switching to an **environmental technology** can be seen as a costly and risky investment in the short run; however it has been demonstrated that such technology can create market opportunities. Competitiveness can also be enhanced by increasing **the share of renewable energy sources and improving energy efficiency**⁸. The related EU industries are often world leaders and offer potential for job creation and sources of competitive advantage at business level. They are also key drivers of the knowledge economy and innovation uptake. The efficient use of energy resources and, the diversification of fuels, are essential to maintain competitiveness and make the European economy less vulnerable to global energy shocks, notably through reducing the EU's dependence on foreign oil imports (82% in 2002)⁹.

Information and Communication Technologies (ICT)¹⁰ are one of the main innovative means to improve productivity - half of the productivity gains in the economy come from ICT. In the EU for instance, of around 1.4% productivity growth between 1995 and 2000, it is estimated that around 0.7% was due to ICT. ICT is a major source of innovation in most high value products and services, improving work methods and

⁴ 'Facing the challenge', Report from the High Level Group chaired by Wim Kok, 3 November 2004.

⁵ Idem

⁶ Communication from the Commission "The EU Economy: 2004 Review", COM(2004) 723, 26.10.2004

⁷ See '2003 European Innovation Scoreboard', SEC(2003)1255 of 10.11.2003.

⁸ Communication from the Commission "The share of renewable energy in the EU", COM(2004)366 final, 26.05.2004 & "Ex ante evaluation of a renewed multi-annual Community programme in the field of energy (2007-2013)", final report by ECOTEC Research and Consulting Ltd and ECORYS Nederland BV, 9/2004

⁹ 'Facing the challenge', Report from the High Level Group chaired by Wim Kok, 3 November 2004.

¹⁰ [Enterprise Policy Scoreboard](#), SEC(2003) 1278, 04.11.2003.

business processes in all major industrial sectors. A competitive Europe also requires efficient and effective public and government services that are accessible by every citizen and business anywhere and any time. ICT is an essential tool in boosting the efficiency and quality of public and government services, providing the means to address the growing challenges in areas such as health, learning, inclusion, security and environment, all essential for Europe's economic and overall competitiveness. Despite the EU's effort to seize the opportunities that ICT can offer, the EU lags behind its major competitors in investing in ICT¹¹. While more than 90% of EU enterprises have a basic ICT infrastructure, far fewer have integrated them into their business strategies and processes¹². Therefore, much more needs to be done to stimulate the use of ICT.

One of the major challenges confronting **SMEs** (which make up for 98% of enterprises in Europe) is getting **access to financial resources**, particularly at their seed, start-up and growth phases – not least as they are often considered as a high risk investment, with potentially low returns which only materialize in the medium to long term. In a changing financial environment and to some extent due to the new rating culture, banks may be reluctant to provide credit to what they perceive as their riskiest clients, potentially providing insufficient profit margins - an attitude which leads to high transactions costs for SMEs.

Moreover, EU entrepreneurial spirit remains weak: only 47% of Europeans say that they would prefer self-employment to being employed¹³. Europe is not attractive enough to encourage business activity since there are barriers restricting the entry of new enterprises in the market and the administrative burden upon businesses is perceived as excessive. **Economic and administrative reform in the Member States** is therefore necessary, in order to promote the competitiveness of SMEs, entrepreneurial values, temper the fear of risk-taking and cut red tape, amongst others, through enhancing the effectiveness, quality and interoperability of services delivered within and by public administrations. Reform is not only an issue for administrations. Corporate social responsibility can be a driver for change for those businesses which maintain economic success and achieve commercial advantage by making an effective contribution to the social, environmental and economic pillars of the sustainable development goal.

3. The need for a Community response

The market will provide most responses to these challenges. Member States should act in areas where the market fails and where subsidiarity applies. The Community intervention builds on, complements and facilitates co-ordination of Member States' actions. This intervention is essential in reaching the competitiveness and innovation goals of the Lisbon strategy and in mobilising the stakeholders across the European Union.

Throughout Europe, many different policy measures and support schemes to improve competitiveness and innovation have been implemented in recent years or are under preparation, reflecting the diversity of conditions in the Member States. While progress has been made in some Member States, the overall picture is more than patchy. The expectations placed on the Member States are now much higher – Wim Kok's report¹⁴

¹¹ Between 1995 and 2001, investment in IT capital goods ran at 1.6 % of GDP less than the US; from Francesco Daveri, Why is there a productivity problem in the EU?, Centre for European Policy Studies.

¹² E-Business Watch sector database, 2002

¹³ Eurobarometer survey 2003 (Eurobarometer Flash N°146).

¹⁴ 'Facing the challenge', Report from the High Level Group chaired by Wim Kok, 3 November 2004.

proposes, inter alia, that each Member State draws up national plans to boost growth and jobs.

But equally there is a complementary role for Community action too, to support coherence and consistency in implementation.

3.1 Justification for public intervention

European firms compete in an increasingly global economy, but the business conditions they face in the internal market are key determinants of their competitiveness, growth and employment performance. Many aspects of the framework within which businesses operate depend on institutions and structures, which may be public, semi-public or private. The services all these elements provide and the efficiency of the “system” they form, influence the competitiveness and innovation performance of businesses. Focussing on market/system failures has been identified as a means of greatly increasing the efficiency of policy making. The Community and the Member States each have important roles in addressing these failures.

Where system/market failures risk hindering the achievement of the Lisbon goal, public authorities ought to take action, though the level of intervention – local, regional, national or European – should be the one that will be the most effective.

There are certain system/market failures that can best be tackled via public interventions. For example innovation, carried through to the enterprise level, suffers from what the market considers as excessive up-front costs, and long-term return on investment. In some cases there are also societal costs and benefits that are not taken into account by the market – such as environmental costs and resource efficiency gains, or the macro effect of increased resource efficiency.

Likewise the market is risk averse so is wary of new or young SMEs which are perceived as high-risk investments, especially if they are innovative. Business support, especially to SMEs, is a strategic issue. However, the market does not perceive sufficient potential return when it is directed to the micro level.

ICT uptake is also affected by perceived long-term issues with regard to return on investment and lack of confidence in aspects of security. Governments and public service providers have an essential role in stimulating private investment in ICT. Public intervention is needed to demonstrate that ICT use can improve the efficiency and quality of services. Interoperability on a trans-European level of ICT-based services requires higher investments up-front, but will lead to long term benefits by creating larger markets.

3.2 The Community response

The Community has a range of different type of interventions at hand to address the competitiveness and innovation challenge:

- Regulatory framework

The Community's fundamental contribution is made through a legal framework that creates the conditions for open and competitive markets. Internal market rules ensure the free movement of products and capital, opening markets for new entrants and forcing existing suppliers to innovate: for instance, as a technology-independent legislative technique, the Community's 'New Approach' to technical regulation and standardisation has shown itself to be an effective instrument for fostering innovation and competitiveness. Internal market rules also provide, through a framework of laws for intellectual and industrial property rights, the basis for trade in "know how" and technology. Competition and state aids rules prevent companies and governments from unfairly protecting themselves or national operators from the competitive pressures released. Environmental and social rules aim for sustainability and the consolidation of the European social model, while ensuring that operators compete on a level playing field. International trade rules safeguard the level playing field at the global level.

- Policy shaping and definition of strategies

- Through the open method of co-ordination, which forms part of the Lisbon approach, the Commission provides a platform for the national authorities to set benchmarks in policy areas of common interest and to identify and disseminate good practices with a view to improving their own policies.
- A series of Action Plans, Green and White Papers, and other policy documents provide a strategic framework for EU actions which aim at improving Europe's competitiveness and capacity for innovation. The ones most relevant to this framework Programme are accessible via the consultation site.
- Promotion of the external dimension of internal policies is supported by separate programmes: development and economic cooperation, pre-accession assistance, 'European neighbourhood'. As European business grows increasingly global, the EU can use its unique experience of becoming an internal market for goods. The Commission takes part in shaping trade policy, holding bilateral dialogues with our main trading partners.
- Encouraging economic reforms and regulatory convergence, improved access to energy and to related investment in renewable energy and energy efficiency, and environmental technologies in developing, neighbouring and partner countries, plays an important role in achieving internationally agreed sustainable development goals. The related EU commitments can lead to the opening up of markets for EU products and technologies and thus enhance the leadership position of EU industries/technology providers in world markets.

- Community Programmes: There are several mutually supportive Community sources for funding actions aimed at strengthening competitiveness and innovation. These programmes also support the implementation of action plans and policy initiatives such as those for innovation, increasing investment in research, entrepreneurship, environmental technologies, and eEurope. Some Community funding sources require a selection and management process at Community level, through Community programmes with a focus on excellence.

Others require a more differentiated selection and management process at regional or national level.

- In the area of internal policies, substantial Community support for competitiveness and innovation is channelled through two instruments:
 - The framework programme for research and technological development contributes to strengthening the science base and its links with industry, creating poles of excellence, developing key technologies for the industrial competitiveness and enhancing the training and mobility of researchers.
 - Education and training programmes for lifelong learning contribute to improving skills and knowledge of the workforce.
- In the cohesion policy area, the Structural funds in support of regional competitiveness and innovation foresee a differentiated selection and management process and provide support to all regions, in particular to lesser developed areas of the EU and those facing structural difficulties. These actions are developed at regional or national level and can thus be adapted to the very different needs of regions and Member States.

The new framework Programme for competitiveness and innovation would occupy a visible place in relation to these other Community programmes creating necessary synergies with them.

In the fields of innovation and competitiveness, large regional disparities persist in Europe. The Commission's proposed new **cohesion policy** makes competitiveness and innovation an explicit and central basis for Structural Fund intervention under the "Convergence" and "Regional competitiveness and employment" objectives. The cohesion funds and CIP would therefore reinforce each other in reaching their mutual objectives, though their approaches and instruments differ.

Through the Community's Framework Programme for **Research and Technological Development** (RTD FP) new knowledge will be created and the results of the supported activities will be disseminated and optimised at project level. CIP would encourage the further dissemination and exploitation of this work, thereby creating **synergies** by its interaction with the RTD FP and by reinforcing the link between research and innovation and its market uptake.

The framework Programme for competitiveness and innovation would add value to national interventions by providing a European dimension in **support of innovation** for enterprises, through assistance services in the areas of transfer of technology, clustering and networking. It would reinforce the competitiveness and facilitate **SMEs' access to finance**, lead to **improvements in energy efficiency**, contribute to reinforce the Internal Energy Market and accelerate the **uptake of new and renewable energy sources, and environmental technologies leading to a more efficient use of resources**. The Programme would aim at a **wider uptake of ICT by businesses, public sector and citizens** across Europe, and at developing an information society for all, based on trustworthy and secure products and services.

The actions foreseen would have clear European added value as they would function as catalysts in the integration of and by **co-ordination with the Member States**. The decisions taken by individual entrepreneurs determine levels of innovative activity.

Nevertheless, by removing barriers and ensuring the free flow of information, policy makers play an important catalytic role.

4. The new framework Programme for Competitiveness and Innovation

The framework Programme would contribute to the improvement of the international competitiveness and sustainable growth of the EU economy by orienting it towards innovative, productive, environmentally sound and resource efficient approaches. Its impact is expected to go beyond the microeconomic level. The Programme would have a transversal focus, targeting industry sectors, enterprises in general, public institutions, education and the public at large. While recognising the important role of small and medium-sized enterprises in boosting competitiveness and innovation, the Programme would also underline the role of governments in creating the right environment for competitiveness and the development of society as a whole.

a. Objectives

The objective of CIP would be to unlock and facilitate action in certain targeted areas, embracing four objectives:

1. Encourage innovation and the sustainable use of resources

Making innovation work means innovation capacity building, the uptake of new technologies and carrying it through to business level. To improve productivity, promote sustainable growth, and foster the creation of added-value, we need to address the key issues of innovative performance, the application of new technologies and the development of the necessary skills.

The framework Programme would:

- promote a better environment and governance for innovation by developing knowledge on innovation performance and policies, and encourage entrepreneurial innovation;
- support innovation in enterprises, in particular in SMEs and clusters, through services in the area of Intellectual Property Rights and financing related issues, the transfer of technology to promote the exploitation of research results (such as through Innovation Relay Centres), and the operation of business support networks (including regional networks) and assistance to innovative start-ups;
- encourage the assessment of the technical and economic viability and market potential of new technologies, including energy and resource efficient technologies;
- improve energy and resource efficiency by demonstrating the viability and stimulating the wider uptake of proven eco- and energy-efficient technologies and renewable energy sources. This will enhance EU energy supply security, stabilise energy prices for enterprises and individual consumers; reduce CO₂, other greenhouse gas and other polluting emissions from industry, the tertiary sector and households. This will give EU industry

a competitive edge in emerging markets and enlarge existing markets while reducing the overall impact on the environment.

2. Ensure the mastery and best use of ICT

The ICT activities of the Programme would focus on measures to support the Information Society strategy, in particular the wider adoption of ICT in the economy and society. It would address the particular role of ICT for growth in three aspects: the importance of the ICT sector itself; the crucial contribution of ICT to efficiency gains across the whole economy, including the public services; and the vital role of ICT in delivering innovative digital content and more accessible / inclusive services to citizens. It would also improve transparency and openness as well as government relations with citizens and enterprises.

The framework Programme would:

- increase the efficient uptake of ICT in business processes and new business models, notably in SMEs and raise business and consumer confidence in secure and trustworthy ICT systems and networks;
- improve the efficiency and quality of public/government services for enterprises/SMEs, individual entrepreneurs and citizens, as well as public administrations enabled by ICT. Areas concerned include eGovernment, health, learning and education, resource and energy efficiency, security and risk management. This would involve pilots and validation/deployment actions, electronic trans-European and interoperable infrastructures and services;
- improve the conditions for the development of digital content provided by businesses or the public sector. This includes overcoming remaining legal, technical and cultural obstacles in content, while building on the current legal framework in particular for re-use of public sector information;
- support the open method of coordination (OMC) through benchmarking, dissemination of best practices and targeted awareness campaigns.

3. Improve SMEs' access to finance

The interventions would improve SMEs' access to finance by addressing persistent recognised market gaps relating to a lack of equity and collateral and by providing leverage to national instruments.

The framework Programme would:

- help to bridge market gaps in SMEs finance, including investment in knowledge related activities and innovation such as eco-innovation and thereby contribute to the development of SMEs, especially those with growth and innovation potential;
- stimulate commercially-driven investment in innovation, in particular for early-stage companies;

- o disseminate best practices of public-private partnerships in SME finance to make optimal use of financial resources.

4. Economic and administrative reform for more entrepreneurship and a better business environment

Exchange of experience and co-ordination of national and regional policies would be carried out to add value at the European level and to improve the overall conditions for entrepreneurship, SME development, competitiveness and innovation.

The framework Programme would:

- o encourage the development and exchange of experience and best practice between both enterprises and administrations, as well as mutual learning activities. This involves support to strategic dialogue and priority setting on key issues such as corporate social responsibility to which policy action can make a difference;
- o support the dissemination of best practices and awareness raising in the relevant areas covered by the framework Programme. This includes stakeholder mobilisation and widespread communication and promotion;
- o foster co-operation between enterprises, in particular SMEs;
- o examine the feasibility of reform measures identified by benchmarking activities;
- o contribute to improving the regulatory environment through funding for impact assessment and evaluation activities in areas covered by the CIP;
- o ensure the functioning and further development of the Euro Info Centres Network: these business support centres, operating on a regional and local level, provide services on EU-related issues, in particular about the internal market, Community legislation and standards and foster business co-operation throughout the EU; likewise they provide business feedback on EU activities to the Commission.

b. Instruments

The framework Programme would use a number of instruments which would be managed by the Commission directly or indirectly. Effectiveness and efficiency criteria would guide the use of the respective instruments as well as the applicable rules on the implementation of the Community budget.

- Type of instruments

- o preparatory measures for policy and strategy definition, implementation, analysis, benchmarking and monitoring;

- projects, including pilot and demonstration projects aimed at encouraging technology transfer, disseminating new technologies that are ready for market uptake and of best-practices conducive to sustainable growth, competitiveness and innovation both at national and regional level;
 - Community financial instruments (EIF-managed debt and equity tools such as loan and equity guarantees, micro-loans, securitisation and venture capital co-investment);
 - support for local, regional, thematic, sectoral and electronic networks and services, such as services rendered by Euro-Info-Centres, Innovation Relay Centres and energy agencies, and direct innovation-related assistance to beneficiaries;
 - studies and analyses; conferences, publications, other awareness raising type of actions; and exchange of knowledge and experience in order to spread best practices and techniques; web-portals.
- **Mode of delivery**
- Indirect management via an executive agency: i.e. to perform specific tasks entrusted by the Commission, for instance:
 - related to the project application process and implementation;
 - that do not entail political decision-making implying discretionary powers;
 - that require a high level of technical and financial expertise throughout the project cycle.
 - Indirect management of Community financial instruments for improving access to finance for SMEs, primarily through the EIF¹⁵.
 - Direct management by the Commission,¹⁶ notably for policy analysis, implementation, and monitoring tasks.

¹⁵ The role of the European Investment Fund (EIF) in the operation of the current Community financial instruments for SMEs has been considered a best practice by several independent evaluations and the EIF will continue to play a key part in the operation of the Community financial instruments under the CIP. It provides considerable leverage and additionality to national instruments.

¹⁶ Including the Joint Research Centres, such as the Institute for Prospective Technological Studies (IPTS).