

Towards a pro-active competition policy in favour of innovation

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Ladies and gentlemen,

I would like to thank the organisers, and especially Minister Brinkhorst, for this great initiative, and for inviting me today to discuss two pillars of our future: Innovation, to begin with, is not merely a trendy buzzword; it is the way forward for Western economies. Secondly, the transatlantic relationship, which in a world of economic and political uncertainty is perhaps our greatest assets. It should be nurtured on both sides of the Atlantic. We share the same goal: to promote freedom, democracy and free trade around the world. We both find ourselves in a global economy, facing new demands and new challenges.

Today many people are voicing their concern about Europe’s economic performance – and they are not wrong. Low growth rates coupled with high unemployment and substantial budget deficits are trends across Europe. We need to address low labour productivity and the prospect of demographic changes. But I am convinced that we can meet these challenges – if we get our minds focussed.

The key to success is learning to make better use of the knowledge economy.

I firmly believe that the competitive advantage of Europe lies in the high education of its workforce and in its capacity to move towards a knowledge economy and generate high added value products and services. Europe has an enormous capacity for innovation and entrepreneurship. We need to tap into this potential, and we need to do it now. Our economic growth depends on it. And growth is essential if we are to deliver the standard of living and the social and environmental protection which European citizens rightly expect.

I would like to explain why competition policy – and state aid reform in particular – has a central role in this.

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If we are serious about the objective of more growth and jobs, we have to first look at what markets can deliver, what they cannot deliver and what we would like them to deliver. Trying to fix things that are not broken through governmental intervention is not only inefficient; it is costly and even sometimes counterproductive.

My main message is simple and clear: companies competing in a free market environment will naturally be spurred on to innovate, become more efficient, and generate lower priced, higher quality goods for consumers. As Commissioner for Competition, but also in my previous business positions, I have seen that innovative companies are often the most successful.

However, it would be both naïve and irresponsible to think that the markets will deliver efficient outcomes in all circumstances. In some cases public intervention is both necessary and justified, on the one hand to meet

specific objectives which the markets alone are not delivering, and, on the other hand, to encourage structural changes in markets so that these objectives can be delivered naturally in the future.

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And this is where things get more complicated. Public interventions have to be done with great delicacy and care. When the European Council set the goal of less and better targeted state aid, it was in recognition of this fact.

In the area of public aids, ‘better’ means that we have to pay more attention to what economists tell us, which is that state aid should be used in a proactive way, as a means to improve the functioning of markets by targeting market failures. Focussing aid on market failures in areas that make a difference for the overall competitiveness of Europe, while reducing as much as possible market distortions, will be the guiding principle of the process of state aid reform I am committed to delivering over the coming years.

By market failures I mean situations where the market by itself does not deliver an efficient outcome. For example, in the field of risk capital, normal market conditions typically mean that small, innovative and thus risky businesses can face tremendous problems in getting funding. In these circumstances, the state is sometimes the only actor able to change the incentives for investors, so that they consider these innovative ventures worth a try.

The same applies to research and innovation. The results of research and development often have the nature of public goods, meaning that anyone

can potentially use and copy them and that firms may refrain from investing in research. In such situations, intervention may be justified to change the incentives present in the market. Such intervention can be at national or European level; it can be regulatory – for example through upholding intellectual property rights – or financial.

Focussing on the financial part, the European Commission has recently proposed a new financial package for research which would double the EU research budget, allowing investment of around 70 billion euros in the next seven years. But still, the EU Research budget accounts for only 6% of total EU public expenditure for research. The Member States will have to pull their weight, and this is where the state aid reform becomes important.

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Let me touch briefly on a number of concrete issues that we are considering in this context.

Firstly, I think it essential to make state aid rules simpler, clearer and more user-friendly. The governance and administration of state aid have to get better. More use could be made of block exemption regulations, which authorise granting aid without it being notified to the Commission. Focusing on the cases that really matter will reduce the administrative burden on all stakeholders. In relation to research and innovation in particular, I am in favour of broadening the Block Exemption Regulation on Small and Medium Enterprises, to increase the scope for aiding young innovative enterprises.

Secondly, the Research and Development Guidelines are in need of updating. Right now, the Guidelines – following the WTO Subsidies Code

– focus on a somewhat outdated three-stage approach to research. However, it appears that Member States should rather distinguish between activities that are closer to the market and activities that are really pure research. Firms are naturally motivated to engage in research and innovation activities that can bear rapid commercial results. So it makes sense to help these activities less and to focus more on those activities that relate to pure research or ‘pre-competitive’ innovative activities.

Thirdly, there is widespread consensus that the linear model of innovation, according to which innovation is the natural consequence of investment in research, is outdated. In today’s economy, innovation often comes from customers, from market demands and suggestions, and not only from technological progress. Economists suggest that not only do we need research but also talented entrepreneurs, engineers and managers, first class education, financing possibilities, networking, dissemination and technology transfer as well as experimentation in the market. We therefore need to look at support measures that can address market failures that hinder this wider innovation system.

Fourthly, we need to look again at the relationship between public and private entities conducting research. Universities and research centres are increasingly behaving like normal market participants and it is important to clarify how state aid rules should apply to them, while at the same time taking due account of the fact that close collaboration between public research organisations and industry is the key to a successful European research policy.

Fifthly, the rules for aid for risk capital also need to be reviewed, to facilitate the access to seed funding for innovative start-ups or to create

more favourable conditions for clusters and technology centres, which contribute to entrepreneurship and innovation. Access to risk capital is one of the areas where Europe could learn from the US example.

Finally, I believe that there is room in Europe for innovative projects. Large projects in the fields of aerospace, atomic energy, information technology, biotechnology are developed in the US with public money, notably by military procurement and funding. European industrialists, like the Chairman of Saint Gobain, Jean-Louis Beffa, have rightly pointed out that this is different in the EU.

Several initiatives are under way in the Member States to correct this situation. The Nordic countries are already investing more than 3% of their GDP in R&D. The UK, taking a different approach, profits from public-private partnerships. The Netherlands is also focussing on private-public partnerships and has for some years been emphasising the importance of SMEs and international co-operation. France, applying yet another model, is in the process of establishing an agency designed to boost innovation activities in co-operation with industry.

These are important steps in the right direction. The Commission will of course continue to scrutinise innovation aids so as to make sure that competition is not distorted. We must make sure that new innovation policies are not turned into a vehicle for defunct industrial policies but genuinely address market failures. Here the devil is in the detail: innovation aids have to be awarded in a manner that is non-discriminatory, transparent and objective and in full accordance with state aid rules. The Commission will also ensure that innovation projects are WTO-compatible. The WTO Agreement on Subsidies remains a foundation stone

for the transatlantic relationship. Within these parameters, I would encourage Member States to exchange best practices, to learn from each other and to co-operate more closely.

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Ladies and Gentlemen,

That brings me to my conclusion, for learning from each other is exactly the reason why we are here. At the beginning of the 1980s – and this is often forgotten – the US were in economic disarray. During an entire decade, management gurus were talking about Japan and Germany as the engines of growth, quality and innovation. The US did a number of things to turn the situation around and managed to get their economy back on track. The overall results show that by stimulating investments in research and innovation it is possible to create new markets and new opportunities. This is precisely Europe's challenge today. I am certain that by learning from each other and by working together we can succeed.

I wish you an interesting and stimulating conference.

And thank you for your attention.