SMART AND SUSTAINABLE GROWTH

A New Innovation Spirit and the Future of Lead Markets

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Judging by the scant attention devoted to innovation during the extraordinary European Union (EU) summit in February 2011, the European Council has not started yet to treat this question seriously. In spite of this, over the span of one year the European Commission has managed to launch a silent innovative revolution in the EU. One could reasonably ask about the meaning of this new innovative spirit for the future of the Lead Market Initiative, whose final evaluation has been planned for autumn 2011.

A silent revolution

A discussion on innovation had initially been planned for the EU Summit in October 2010, but it had to be postponed until December and then, once more, until early 2011. Finally, European leaders looked into it during the last moments of the February Summit. Some may conclude that this has clearly demonstrated that innovation does not belong to the most pressing European priorities. Yet, such an estimation would be misleading and superficial. Contrary to appearances, the EU Innovation Commissioner, Maire Geoghegan-Quinn, has already managed to introduce innovation into the hard core of the EU agenda. What is more, unlike in the case of the Lisbon Strategy, many of the measures that the Commission has proposed give its innovation plan a fair promise of being implemented.

Institutional changes, introduced within the EU over the span of the last two years, have turned out to be unexpectedly favourable for innovation.

Firstly, innovation gained a determined and well-positioned spokesperson, and a Commissioner-level one. The personality of Geoghegan-Quinn has played an important role: since the very beginning she has been actively promoting her agenda, whereas for this semester she has already announced a further offensive.

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Secondly, the Lisbon Treaty has reinforced the role of European Council, thus urging the Commission to take new steps in order to re-establish its position. It seems that the Commission has used the discussion over a successor to the Lisbon Strategy as an opportunity to present itself as an ambitious and forward-looking, yet effective and practical institution.

In any case, we should not be surprised by the fact that innovation does not arouse just as strong feelings among national leaders, as do fiscal coordination in the eurozone or social upheavals in the Arab world. The latter issues are happening “here and now”, whereas in the case of innovation one usually presumes that they will always find their time. Still, part of the problem is that many governments find innovation unattractive, as it seems difficult to be ‘sold’ to their voters. In a way, they are “maximizing their marginal benefit”, focusing on the most pressing issues that have a direct influence on wallets (like the New Financial Perspective and corresponding Common Agricultural Policy and Cohesion Policy questions). Most of the more long-term and strategic problems are left over to the Commission – which actually seems to be very well suited for tackling them.

It was thanks to the Commission’s initiative that the conclusions of the February Summit included a number of solutions that are key to innovation in the EU. For instance, the Commission has been obliged to draft, by the end of the year, a proposition on a pan-European venture capital market, as well as a proposition on a Small Business Innovation Research Programme (which would correspond to a very successful American programme of supporting demand for innovative solutions produced by small and medium-sized businesses). The Council has also agreed to launch a pilot European Innovation Partnership (EIPs) in the area of healthy aging.

At the same time, the Commission has managed to introduce into the European agenda two relatively novel ideas (“smart specialisation” and “conditionality clauses”), which should make Europe2020 much more effective than its predecessor.

Smart specialisation is supposed to become one of key criteria in the distribution of the Structural Funds within the Next Financial Perspective. In a country like Poland, it may therefore be easier to obtain financing for the development of clean coal technologies, than for a basic research in nanotechnologies. According to this new philosophy, the Commission would support different sectors of expertise and on different stages of development (basic research versus application), depending on the potential of particular countries. The concept of “smart specialisation” is still very fresh and it provokes strong controversies. Some experts argue that it may lead to a further widening of the development gap between EU countries. Others, to the contrary, say that it should induce Member States to reflect on their “innovation niches”, thus contributing to greater European integration and economic cohesion, and to a greater competitiveness of the EU as whole. Given the uncertainty about its real impact, it might seem very risky to include it in the EU strategies at this stage.

As regards the conditionality clauses, they are not such a new concept, but the Commission would like to try to make it effective at last. According to this idea, the support from Structural Funds in the Next Financial Perspective may be granted depending on whether a country has succeeded in fulfilling its objectives included in a yearly Programme of Reform, an obligatory document showing the progress in the implementation of Europe 2020. The supporters of this idea underline that it should be perceived as a system of incentives rather than of penalties. However, it is clear that it should also provide for some penalisation, if it is to be effective at all.

The Europe 2020 is often denigrated as an otherworldly document, detached from the current socio-economic context. But as far as the long-term perspective is concerned, it is much more concrete than the Lisbon Strategy. It is no longer based on a wishful thinking of "let's catch up with the US and Japan". Instead, it draws attention on specific objectives that the EU should pursue; matches them with indexes; and forces the Member States to fit into this scheme. Thanks to the conditionality clauses, as well as to the European Semester (inaugurated this year as a way to better coordinate economic policy between Member States), the new European strategy has a fair chance of being carried out not only in words, but also in deeds.

The story of the LMI

Both the new EU philosophy and the launching of European Innovation Partnerships (EIPs) are of crucial importance for the future of the Lead Market Initiative (LMI), whose final evaluation is to take place during the Polish Presidency.

According to an official definition, "lead market is the market of a product or service in a given geographical area, where the diffusion process of an internationally successful innovation (technological or non-technological) first took off and is sustained and expanded through a wide range of different services".[1] The 2006 Aho Report "Creating Innovative Europe" identified five markets that fulfilled these criteria: e-health, pharmaceuticals, transport and logistics, environment, and digital content industry. Based on this report, the Lead Market Initiative was launched in December 2007. The report "identified a first set of markets with the potential to become lead markets and called for urgent and coordinated action through ambitious action plans for these markets, in order to rapidly bring visible advantage for Europe's economy and consumers".[2] After consultations with stakeholders, six markets were eventually chosen: e-Health, protective textiles, sustainable construction, recycling, bio-based products and renewable energies. What is most important, all of them were equipped with demand-side policy instruments dealing with regulation, public procurement, and standardisation.

1. European Commission, Communication, COM (2005) 474 final, 5 October 2005
2. European Commission, Communication, "A Lead Market Initiative for Europe", COM (2007) 860, 21 December 2007

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The implementation of lead markets demonstrated, however, that the initiative suffered from a range of weaknesses. A crucial one resided in its structure, which passed over national governments, focusing solely on strengthening links between the stakeholders on the ground. What this often provoked was a strange situation whereby the ministries responsible for innovation policy in a particular country disposed of only fragmentary information on lead market initiatives involving their national partners. This may, to some extent, explain another problem about LMI, which is that they have quickly lost the momentum, failing to maintain the support on the top political level. This explains why they have not fulfilled the ambition of becoming a central European project aimed at boosting the EU's innovativeness. It quickly became clear that lead markets involved only a small number of stakeholders, in sectors that were still starting to emerge, and only in particular countries. It is no accident that the LMI mid-term progress report, published in September 2009, was based on information from only 16 countries. The so-called "new Member States", who entered the EU in 2004 and 2007, have never been too enthusiastic about it: first of all, because they did not participate in the initial stages when the LMI was designed, and therefore could not identify with the sectors chosen; and secondly, because just after accession, they had a whole lot of other problems to tackle and usually did not care too much about innovation policy.

The LMI final report, which is currently prepared by an independent consulting agency from the United Kingdom, should be unveiled in the first days of July 2011, while the decision on the future of the initiative should be taken in November or December 2011. Not long ago it seemed that the future direction for the LMI would consist in adding other market sectors (space industry, for example); adding new instruments; better connecting LMI to Research, Development and Innovation (R&D&I) funding; or even using LMI as a tool for addressing societal challenges. However, the political context has changed since then and it is no longer certain that the LMI will survive at all. There are three major reasons behind this:

Firstly, the EU has adopted a new innovation strategy, which not only absorbs a whole range of existing instruments, but also puts a very strong emphasis on the demand-side innovation policies – like public procurement, standardisation, regulation, or the promotion of user-driven innovation and design-innovation. These became popular largely thanks to the LMI. But once they are employed in all other sectors, the LMI loses its uniqueness.

Secondly, we may imagine that LMI would somehow become "absorbed" by EIPs. Of course, the future of the latter is also unclear. The first Partnership, on healthy aging, has only been launched in February, as a pilot project. If it produced positive results, then following ones should be selected in December. However, there is a serious risk that there would be too little time for a proper evaluation, whereas many countries may be reluctant to agree on further partnerships, if the preliminary results are unknown. Of course, we should remember that EIPs cannot wholly replace lead markets. While the latter focused on promising sectors, the former are rather directed to societal challenges. What they have in common is a comprehensive perspective (involving many instruments) and the aim of engaging a wide array of stakeholders. However, in this respect the EIPs should be much more complex and thorough, encompassing both supply and demand-side innovation policies plus the existing and prospective financial instruments. EIPs have already gained a hype that lead markets have never known, and this may suggest that 'symbolically' they have already managed to absorb them. Nevertheless, the final decision on whether LMI would be absorbed formally by EIPs, should be taken in October or December 2011, after the results of the healthy aging pilot project are unveiled and discussed.

One last argument would be that LMI does no longer fit very well in a new European philosophy of innovation, whereby the concept of "smart specialisation" is quickly gaining ground. According to this new idea, European countries should avoid concentrating their efforts on the same sectors, looking rather for innovation niches instead. What is more, an entrepreneurial learning process should take priority over a top-down approach of choosing the most promising sectors. This rests in a clear contrast with the approach underlying LMI, which altogether puts a question mark over the compatibility of LMI with the new innovative spirit in the EU.

Conclusion

The Trio Presidency, and Poland in particular, should carefully observe the ongoing debate on EIPs, LMI and "smart specialisation". It will be the responsibility of the Trio Presidency to guide discussion in the right direction and work out a consensus on the future of LMI. The final decision should be based on a balanced evaluation of effects of LMI hitherto, its potential for future progress, and its capability of being replaced by EIPs.

The Trio Presidencies should also take account of the fact that the future of lead markets remains, as yet, unclear. Much would depend on the results of the evaluation, which should be ready in July, as well as on the effects of the EIP pilot project on healthy aging, which should be known in autumn. Lead markets have already played a crucial role in promoting demand-side innovation policies within the EU. But for the time being, it seems that the continuation of LMI may not be needed anymore. With the "Innovation Union" and the European Innovation Partnerships, their uniqueness is irretrievably gone. Besides, they do not seem to be consistent with the new innovation philosophy, which is expected to reign in the EU at least for the next decade. Therefore, it is quite probable that in October or December 2011 the European Council decides that LMI should retire.

The good news is that this would happen not because innovation has lost, but – just the opposite – because, at last, it is starting to win itself a proper place among the EU's top priorities.