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NOTE

From:	Trio Presidency
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Fostering European sustainable growth through novel approaches to innovation and digital policies

Delegations will find in Annex a Trio Presidency note on fostering European sustainable growth through novel approaches to innovation and digital policies, in view of the meeting of the High Level Working Group on Competitiveness and Growth on 19 July 2019.

Introduction

Innovation is key to fostering European competitiveness, wellbeing and sustainable growth. There is evidence that a significant portion of economic growth in Europe can be traced back to innovation, and that innovation is a crucial element in increasing productivity. Innovations are needed to address social and environmental challenges. Recently, sustainability has become a more and more important driver of global competitiveness. Breakthrough innovations with a significant contribution from science, research and innovation (R&I) have become key enablers of sustainability.

Digitalisation is profoundly transforming economies, markets, businesses and the society. The emergence of new digital technologies (artificial intelligence, data economy, etc.) has deeply changed the nature and impacts of innovation. More and more technologies are emerging at the intersection of the physical, digital and biological worlds (e.g. 'organ-on-a-chip' is a blend of biotech and medicine). This new wave of innovation has rendered the technological and innovation process more complex as companies need to master different technologies and new business models.

Against this backdrop, drawing maximum benefits for the European economy from this operating environment calls for novel approaches to innovation and digital policies in order to increase the impact of R&I investments, address the direction and speed of desired societal transitions and promote wider industrial transformation. The EU's next strategic agenda, for the period 2019-2024, highlights that Europe's success will depend on whether it is capable of turning sustainability into a competitive advantage by focusing R&I on the emerging economic, social and ecological transitions.

Consequently, innovation should be embedded at EU level in broader strategies, policies and programmes. An increased focus on the uptake of research results and diffusion of innovations is necessary in order to reap the full benefits of R&I investments in Europe. This need is also underlined in the European Council's new strategic agenda for 2019-2024, which emphasises the crucial link between economic wellbeing, skills, entrepreneurship and innovation. Furthermore, the importance of innovations for the European sustainable growth agenda was recognised at the informal meeting of ministers responsible for research on 4 July 2019 in Helsinki.

Innovations are key to responding to societal challenges

Innovations are crucial for solving pressing societal challenges. For example, addressing climate change requires not only increasing investments in R&I but also increasing the impact of those investments by translating research results and other inputs into innovations and new solutions.

New approaches to policies addressing these issues are emerging. A challenge-driven and mission-oriented approach to research and innovation is likely to enhance policy impact.

Besides continuing to step up investments in research and innovation, the EU approach should set the direction of investments without being prescriptive (i.e. through missions in Horizon Europe). A smarter and more targeted use of investments will support technological change and accelerate the transition towards a more sustainable economic model while increasing impact.

Investments need to be considered in a holistic way across governments, and in collaboration with main stakeholders, businesses, citizens and society. In addition, new types of public-private-people partnerships can significantly increase the policy impact by creating not only markets but also solutions for those markets. Therefore, we need new governance models for better integrating research and innovation with other policies as well as for providing more effective coordination at EU and national level.

Increased impact through a focus on innovation diffusion

New growth is largely dependent on our ability to translate research results into practice and to bring innovations to the market. There is evidence that a lack of innovation diffusion slows down productivity growth. Therefore, we should put the diffusion of innovations at the heart of EU and national innovation policies. For a stronger impact, novel policy approaches should also reflect the increasing importance of non-R&I-based innovation (new business models, training, testing, marketing, design) and the effects of the digital transformation throughout the economy.

In relevant policies, more focus should be put on market-creating innovations, the growth of companies and stronger ecosystems. We need appropriate policy instruments for supporting radical innovations and for sharing risks with innovative, growth-seeking and research-intensive SMEs. At EU level, the EIC is a good example in this context.

Policies should highlight the importance of inter-sectoral collaboration and co-creation, new types of PPP(P) models, non-R&I-based innovation, data access, use of digital platforms and their potential for scaling up, and innovation capabilities. In addition, demonstration, testing facilities and testbeds, as well as experimentation, are important for the deployment of innovations. Innovators also need access to the latest digital capacities, including the necessary facilities to test digital solutions before their deployment.

Furthermore, a well-functioning single market is essential for European businesses to scale up and grow quickly. The quality of the regulatory and legislative environment (including the innovation principle) is becoming increasingly important for innovation and competitiveness, which needs to be taken into account when developing the future single market.

Adjusting policies to seize the opportunities created by digital innovation

Digitalisation is profoundly transforming innovation and business models. Data in all its forms has become a central input for innovation, and an important factor for economic growth. Furthermore, innovation cycles and time to market have become faster. Digitalisation also provides new needs and opportunities for collaboration on innovation activities and requires the consideration of sound ethical principles. Digital technologies are transforming economies by making them increasingly service-driven. All these changes require new approaches to digital and innovation policies as well as adjustments to existing policies.

Innovation and digital policies should promote the uptake of new technologies and industrial renewal and support the transformation to a more sustainable economy and society. Key policy objectives for innovation policy in the digital age should be enhancing access to data and fostering competition, collaboration and inclusiveness, addressing cross-cutting policy challenges and promoting business innovation, entrepreneurship and skills development (upskilling and reskilling).

Multiannual financial framework (MFF) programmes as levers for innovation-led sustainable growth

In short, Europe needs to develop an approach where science-based and technological innovation combines with various areas of innovation, such as business models, finance, governance, regulatory and skills. The EU added value will come from steering and accelerating the economic and societal transformation of Europe by joining up investments, smart regulatory ecosystems and efforts to support reforms that increase the quality and efficiency of R&I investments. These approaches to innovation and digital policies should contribute to a new sustainable growth model capable of addressing transitions in key socio-economic systems (energy, mobility, circular economy, health) that will provide prosperity and jobs in the coming decades. The real impact of this new model increasingly depends on the cooperation between the EU and Member States.

The MFF programmes provide incentives and an enabling framework for improving European competitiveness. This as a whole should contribute fully to advancing the European innovation-led sustainable growth agenda.

Question:

How can we ensure that MFF programmes create favourable conditions and incentives for fostering European sustainable growth?

Multiannual financial framework (MFF) 2021-2027 and other programmes that play a significant role in fostering European competitiveness through innovation and digitalisation

Horizon Europe aims to maximise the impact of EU investments in research and innovation to help address global challenges, including the Sustainable Development Goals and climate change, and to help boost Member States' competitiveness. Horizon Europe will notably strengthen science and technology in the EU through increased investment in highly skilled people and cutting-edge research. Horizon Europe will foster the EU's industrial competiveness and its innovation performance by supporting all forms of innovation, including market-creating innovation, via the European Innovation Council (EIC).

The **InvestEU Programme** will bring together under one roof the multitude of EU financial instruments and budgetary guarantees currently available to support investment in the EU, making EU funding for investment projects in Europe simpler, more efficient and more flexible to help close the sizeable investment gap in Europe. The InvestEU fund will support projects with EU added value in four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills.

The new **Digital Europe Programme** will support the digital transformation of businesses, public administrations and society as a whole, boosting job creation and productivity. It will strengthen Europe's capacities in key areas such as high-performance computing, artificial intelligence, cybersecurity and advanced digital skills, and support their uptake in the private sector and in areas of public interest. Focusing on deployment and market take-up, it will contribute to the EU's competitiveness, strategic autonomy and sustainable development goals. It will deliver synergies with research and innovation activities by creating the necessary infrastructures and capacities and will pave the way for the deployment of novel digital technologies.

The **European Space Programme** builds on the achievements of EU flagship programmes Galileo, Copernicus and EGNOS. Europe needs to respond to growing global competition, increased private-sector involvement and major technological shifts. Besides supporting the space sector itself, the programme, by providing space data and services, enhances new opportunities for R&I, innovation and business in various other sectors, including the transport, logistics, agriculture, energy, digital and financial sectors. Space can also play a crucial role in various policy fields by effectively tackling new challenges such as climate change, sustainable development, disaster management, border control, maritime surveillance and security.

The **European Regional Development Fund and the Cohesion Fund** aim to drive up economic and social convergence while helping regions fully harness globalisation and equipping them with the right tools for robust and lasting growth. The bulk of the investments will go towards innovation, support for small businesses, digital technologies and industrial modernisation. The shift towards a low-carbon, circular economy and the fight against climate change will also receive funding. Building on a successful pilot action from 2014-2020, the Commission proposes to create Interregional Innovative Investments to support the development of EU value chains. Regions with matching 'smart specialisation' assets will be given more support to build pan-European cooperation and clusters in areas such as big data, circular economy, advanced manufacturing or cybersecurity.

The **Connecting Europe Facility** will support infrastructure projects connecting the EU and its regions, because the single market requires well-functioning networks of infrastructures. It seeks to better integrate the transport, energy and digital sectors in order to accelerate both the digitisation and decarbonisation of the EU's economy. Clean mobility solutions, such as electric mobility, require close integration between the transport and energy sectors. Other examples include autonomous mobility, energy storage and smart grids. An EU-wide, very high capacity, secure and resilient digital connectivity infrastructure is the basis for a fully functional Digital Single Market, accessible to all EU citizens, as well as for the deployment of the next generation of digital services.

In addition to those spending programmes financed under the next EU long-term budget (MFF), the **Innovation Fund** is one of the funding instruments supporting the European Commission's strategic vision for a climate-neutral Europe by 2050. The fund, established under the EU Emissions Trading System Directive, will support the deployment of low-carbon technologies and processes in energy-intensive industries, environmentally safe carbon capture and utilisation and storage of carbon dioxide, innovative renewable energy and energy-storage technologies. It will help create the right financial incentives for companies and public authorities to invest now in the next generation of low-carbon technologies and boost EU competitiveness by empowering EU companies with a first-mover advantage to become global technology leaders.