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THE ECONOMIC AND FINANCIAL CRISIS IN EUROPE: ON THE ROAD TO RECOVERY?

Session 1

ECONOMIC AND FINANCIAL CRISIS: THE RESPONSE OF THE EUROPEAN UNION

As recently noted by the European Commission[1], the most pressing task for the European Union is to get back on the path of smart, sustainable growth, with the goal of creating jobs and building on its areas of competitive advantage, thus enhancing its competitiveness in the global market place.

Past crises have highlighted the need for suitable regulation and supervision of the financial sector in order to restore financial stability and instil fresh confidence in the markets.

Against this backdrop, innovation and research seem to have an essential part to play in triggering an economic recovery. The European Commission has stated that it is necessary to create "*a vibrant, innovation-based economy fuelled by ideas and creativity, capable of linking into global value chains, seizing opportunities, capturing new markets and creating high-quality jobs*"[2].

The European Union firmly believes that it must take a number of measures to promote innovation by companies, including the introduction of a community patent (already in progress), speeding up the definition of rules and modernizing them for procurement, and creating a European passport for venture capital funds.

This does not mean that the EU is not already one of the world's leading centres of innovation. The latest analyses show that the EU has achieved outstanding scientific results and that it excels in the sector of innovative products. Europe still has a firm grip on the largest share of

[1] *Green paper of 25/03/2013, "Long-term financing of the European economy*".

[2] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - *State of the Innovation Union 2012 - Accelerating change*. *Brussels 21/03/2013*.

income generated in the value chains of global production (28%) and since 2008 the gap that separates it from the USA and Japan on the innovation front has halved in size.

During an economic crisis, there is a danger that the differences in growth between the different EU regions will become more pronounced. This is yet another reason why it is necessary to act promptly and introduce measures that can guarantee an evenly balanced recovery.

The data collected show that in 2010 the recovery was much quicker in States that had previously invested larger amounts in R&D and innovation, such as Germany, Finland and Sweden. There were lower unemployment levels in areas where investments had been made in innovation. Although there are fewer rapidly growing innovative companies in Europe than in the United States, studies have shown that they have a decisive impact on the general growth in employment: despite the fact that there are not many of them and they only account for a small percentage of the overall number of firms, the number of jobs that they create directly and indirectly is disproportionately high. In addition, rapidly growing innovative companies play a crucial role in increasing productivity, which is largely brought about by the redistribution of jobs from firms where productivity is low to those where it is high.

The investments by Member States have attracted foreign capital: US firms account for two thirds of internationally mobile R&D investments and their annual spending in this area in Europe is ten times greater than the amount they invest in China and India combined.

There seems to be clear reluctance by SMEs to invest in innovation, largely due to a lack of confidence in the future prospects of the European economy. Meanwhile, in recent years the Member States have had to cut the funds provided for research and innovation due to budgetary reasons. The measures that Member States are currently taking in this area seem to involve policies and action plans for specific matters that do not necessarily form a coherent whole, hence the need to work towards a single, integrated strategy.

The Commission has also noted that all too often institutional funding for universities and public research institutes is awarded without taking into account concrete performance or control criteria based on tangible factors. According to the Commission, this means that individual players in the research sector have few incentives to join networks, participate in European competitions, aim to achieve high standards or cooperate with the private sector.

In general, the Commission listed a number of points which must be contemplated in any innovation-related actions by the EU:

- Access to loans and capital is an essential requirement for the promotion of rapidly growing entrepreneurial schemes[3].
- The objective of encouraging the development of young, innovative companies must be achieved by offering specific, more favourable tax regimes to young, innovative companies.
- The relationship between innovation and internationalization is particularly important because export and innovation strategies bolster each other, leading to an increase in export levels, turnover and employment on a company level.
- A fundamental part in the creation and growth of technology-based innovative companies is played by guiding the R&D system towards knowledge transfer and – crucially – improving the ties between the scientific base and the business sector.
- It is essential to promote the specific development of an innovative and entrepreneurial culture.

From 2014, the EU's Horizon 2020 research and innovation funding programme will bring together all of the forms of support for research and innovation across Europe in a single framework. Horizon 2020 has been implemented in accordance with the aspirations of the Innovation Union. It will mark a significant change of approach, with funding being grouped by relevant issues for society, simpler regulations for participants and more effective achievement of results.

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[3] A major step forward was marked by the EU Regulation creating European venture capital funds that was adopted in 2012, as it will allow venture capitalists to raise funds throughout Europe, to the benefit of start-ups and SMEs.

Another important initiative involves the European Institute of Innovation and Technology (EIT), which puts into practice the "knowledge triangle" concept (education, research and innovation) through new forms of partnerships, such as Knowledge and Innovation Communities (KICs). There are currently three KICs, which deal with climate change, sustainable energy, and future information and communication society. The training programmes of the European Institute of Innovation and Technology's KICs focus on innovative and entrepreneurial capabilities, with the goal of showing innovators in the corporate world what sort of actions and knowledge are needed to turn ideas into business opportunities.

When it comes to supporting innovation, another highly relevant issue is protection of intellectual property. A groundbreaking agreement regarding the Community Patent was made in December 2012 and it should allow the first patent that is valid throughout the EU to be awarded and registered in spring 2014. The Member States will have to ratify the Unified Patent Court agreement promptly if they are to meet the 2014 deadline set as part of the Innovation Union initiative.[4]

The economic situation in Europe is still fragile in spite of the measures that have been introduced, but it seems that things are heading in the right direction and that results will be achieved in the medium to long term.

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Industry: a key sector for the European Union

[4] Patent Translate is a machine translation service which has been operational since March 2012. The European Patent Office is developing the tool with Google. It can currently provide translations between English and 14 other languages. The number of languages will gradually be increased to 32 by the end of 2014. The free service provided by Patent Translate will allow the contents of patents and any related documents to be published anywhere in the world, so that they are easily accessible to everyone.

Industry is behind 80% of exports and spending on research and development by the private sector, so it is at the forefront of Europe's globalization process. It drives forward the entire economy and has an especially big impact on employment (providing jobs for 35 million workers) and service activities. However, recently there has been a decline in Europe's production capacity, the disparity within the EU has increased, and there have been growing concerns about relocation and the competitiveness of European companies. As mentioned above, in circumstances such as these innovation plays a crucial role in maintaining a solid manufacturing base and promoting a new industrial model that is capable of consolidating its place in the global economy.

Consequently, industrial policy must be one of the pillars of European construction and seen as a real priority. It requires a level of political commitment on a par with that shown for cohesion, infrastructure and agriculture.

The European Commission also has a prominent role, as it can exploit the industrial policy possibilities opened up by the Lisbon Treaty and outlined by article 173 of the TFEU, especially the opportunity to "*take any useful initiative to promote coordination between the Member States in terms of industrial policy, in particular initiatives aiming at the establishment of guidelines and indicators, the organization of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation.*"

The European Parliament has recently made a proposal to set up a steering group in order to bring together European, national, regional and local powers and the resources currently scattered across all levels and sectors. This should be seen as a positive step.

The Committee of the Regions has highlighted some critical issues that must be addressed in support for industry[5]:

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[5] Opinion of the Committee of the Regions on "A Stronger European Industry for Growth and Economic Recovery" (2013/C 139/03).

- The problems besetting industry in many Member States are structural in nature. In order to address them, industrial policy's design, governance and financing need to be overhauled completely and rapidly, and adequate institutional and financial resources must be allocated.
- The growth of the single market has not yet resulted in a stronger industrial base for the EU. There seems to be no good reason why currency parity is not included among the conditions for market access.
- It is necessary to create a new category of mid-sized businesses somewhere between SMEs and large enterprises, employing between 250 and 750 workers and with a turnover of under €200 million. This category could receive appropriate rates of aid, higher than those for large enterprises and lower than those for SMEs.