Keynote speech by Commissioner Danuta Hübner

"*Linking Cohesion Policy with Building Knowledge Economies in European Regions*"

at the European Regional Economic Forum (EREF) 2008 conference on

"PPP and private funding of RTD, innovation and education activities at the regional level"

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Ladies and Gentlemen,

Building European "regional knowledge economies" is at the heart of the new Cohesion Policy. The Lisbon Agenda set out the aim for Europe to become a knowledge-based economy, as this is the key for Europe to achieve sustainable growth and employment.

We cannot achieve the ambitious objectives of the growth and jobs agenda, let alone cope with the challenges of globalisation, if we fail to unlock Europe's full potential. For that reason we need to exploit all of Europe's capacities or we need to build it up – and every region, every square kilometre counts in this respect.

It is against the backdrop of global changes that we need to assess and strengthen a region's competitive position. Proximity matters for issues such as support for small and medium-sized enterprises, innovation, knowledge transfer, human capital, or access to risk capital financing. The regions are therefore often best placed to drive these vital elements for succeeding with our ambitious growth and jobs agenda by 2010.

In a rapidly changing world, a region's capacity to absorb knowledge is of strategic importance for creating and sustaining a knowledge economy. Each region needs to foster local knowledge, but also to appropriate non-local knowledge. The knowledge and competence of regionally located businesses is a determining factor for the application of knowledge into the market.

The replacement of raw materials with human capital and creativity are nowadays crucial for sustainable growth. To become successful in the knowledge-based economy, regions must develop, attract and retain talented and creative people who generate innovations, develop high technology, create quality jobs and fuel economic growth.

The Cohesion Policy framework for the period 2007-2013 has therefore opened the path to reorienting its investments – that represent after all about one third of the entire EU budget – towards the drivers and facilitators for attaining this innovation goal.

We have adopted a more strategic and integrated approach for the planning and programming of the investments. In other words we have now a framework that creates stronger, more explicit links with the ambitious development objectives set out in the Lisbon agenda and beyond: for instance the issues of life-long-learning in an aging society or the need to raise energy efficiency and develop renewable energies with a view to combating climate change and external dependencies.

I would like to draw your attention today not only to the quantitative results of the negotiations with the Member States and regions with regard to the investment priorities in their operational programmes, but in particular to the qualitative improvements that I believe will allow Cohesion Policy to better support the building of European Regional Knowledge Economies, in particular by deeper partnership with business stakeholders.

But first let me say a few words about our overall EU objective in relation to R&D.

Ever since the setting of the **Barcelona target of 3% GDP** for investments into R&D by 2010, the issue of how to mobilise private investments has been in the political forefront. From the beginning it was understood that 2 of those 3% should come from the business sector. Since then, policy measures and initiatives to foster business R&D investments have received keen political attention, including in the Lisbon strategy and in the new Cohesion Policy Guidelines.

So where do we stand for the moment?

EU R&D intensity has stagnated since the mid-nineties. Public and private R&D investments in the EU-27 remained in 2006 - the last year on which Eurostat has complete data - at around 1.84% of GDP. This is significantly lower than in the US (2.6%) and Japan (3.3%). If trends continue, China will have caught up with the EU by 2009 in terms of R&D intensity. The EU R&D expenditure in the business sector represents about 1.2 % of GDP and thus also remains at a lower level than in most of the other main world regions. Even more worrying is that business expenditure on R&D (as % of GDP) has been idle or even decreasing since 2001, while it increased at a steady pace in Asia. This rather dismal performance depends in large part on differences in industrial structure and the smaller size of the high-tech industry in the EU compared to the US.

The aggregate data, however, hide some good news. Our economies have been undergoing a structural shift and there are, indeed, some sectors with impressive R&D performances: In the motor vehicles, pharmaceuticals and computer sectors there were significant increases over the last decade both in terms of numbers of researchers and expenditure for R&D. The **service sector** became the key driver of business R&D investment growth in the EU-15 but also in the Czech Republic, Slovakia and Lithuania. In Spain, Ireland and Portugal, in particular, the service sector already accounts for a larger share of business R&D than manufacturing. This suggests a change in private sector R&D with the establishment of unique competencies in the service sector.

Even though private sector funds are a notable part of R&D, the **public sector still has a major role to play**. In particular, for those countries and regions that are catching up, government funding of R&D is critical for creating and developing science and technology capabilities.

Our renewed Cohesion Policy addresses precisely this by enhancing the R&D related investments. Already between 2000 and 2006 we did a pretty decent job in this respect as Cohesion Policy resources devoted to R&D and innovation accounted for between 5% (Spain) to over 18% (Lithuania) of gross expenditure on R&D in Member States eligible for the former "Objective 1" support [findings of an external evaluation concluded in 2006]. In the current new funding period this trend will be even stronger, as the share of Cohesion Policy funds for R&D will rise significantly from some €10.5 billion in 2000-2006 to some €50 billion in 2007 to 2013.

But Cohesion Policy's contribution to research and innovation is about more than money.

First, our programmes are designed to ensure a **strategic approach** to investments and do not see R&D investments in an isolated way. Cohesion Policy strategies are based on the analysis of regional and national specificities, long-term programming and an integrated approach which encompasses support to all aspects of economic and social modernisation (e.g. knowledge transfer, entrepreneurship, infrastructure and skills). This integrated approach helps to mobilise the R&D and innovation potentials in a more effective and efficient way.

Second, Cohesion Policy is based on **partnership** between not only different levels of government (national, regional and local) but also horizontally between different ministries and on partnership of governmental bodies with partners from outside government (business, civil society, universities, research institutes, financial intermediaries…). Partnership is essential for identifying areas where there is real regional value added in pursuing research and innovation activities. It is also essential for creating ownership and consensus among the stakeholders – the keys for successful implementation. In practical terms the partnership principle implies that industry and SME and enterprises are represented in the Monitoring Committees along with science and research as well as universities. And they have to define a common strategy for their region and monitor jointly the implementation of the Cohesion Policy programmes.

We have recently taken stock of the results of the negotiations with the Member States and regions for their operational programmes for the period 2007-2013. The results with regard to R&D and innovation are impressive and I will come back to this in a minute. But let me emphasise first that it was the discussion with the Member States that actually did the trick. In the beginning, some Member States were a bit hesitant, if not outright reluctant, to include a more "innovative" content in their programmes. But in the end we saw a change in their attitudes. So, I daresay that it was the **dialogue** between the Commission, Member States and regions led to a considerable **improvement in the quality of the operational programmes** in terms of better tailoring them to the needs of each region while integrating them in a wider overall strategy. It was this dialogue which also changed the debate inside Member States and regions on the design and development of more innovative, inclusive and forward-looking public-policy strategies and programmes – including with a view to overcoming the traditional division between research and enterprise policy. This division often led to research policies that did not match the needs of industry and enterprise policies that were not focusing enough on innovation. In sum, I would say that the negotiations opened minds and opening minds is today more important than opening roads.

The strategic reorientation of Cohesion Policy towards investments in competitiveness and innovation has been **prepared and tested over the past decade**, both in terms of developing experience with the planning of innovation strategies and the management of such projects. After all: compared to straight forward infrastructure investments, where you pay for "brick and mortar" and at the end there is a tangible result, it is more difficult to correctly manage projects in which the lion's share of the investments goes into intangibles, as it is often the case with knowledge economy projects.

Since the early 1990ies over 200 regions have benefited from support projects to develop their "*regional innovation strategies"* tailored to fit the economic, geographic, administrative and social conditions in the beneficiary region. Many used them as input for the design of their new operational programmes.

Between 2000 and 2006 some 180 *Regional Programmes of Innovative Actions* contributed to the promotion of innovation at a strategic level in the regions, by experimenting with innovative ways to improve the innovation capacities and systems in those regions. This also allowed them to test "soft" support measures necessary for facilitating innovation, alongside the "hard" infrastructure measures. This included setting up assistance services for innovative SMEs or financial instruments for leveraging venture capital or mobilising research-university collaborations in less developed regions. Many of those programmes also focused on the support to developing regional Internet content and services – both for business and for public bodies. The core of these programmes was, however, the design and testing of regional innovation strategies, tailored to fit the economic, geographic, administrative and social conditions in the beneficiary region. They all included a crucial element: the principle of **partnership** with all relevant stakeholders in a region.

After this successful experience which was nevertheless too patchy to bring about the sea change Europe needs, Member States and regions have made important shifts in their priorities in the present programming period. They are earmarking significant investment for competitiveness, jobs and growth in line with the **Lisbon** Strategy. For the less developed regions under the Convergence objective in EU27, 65% of the funds are to be invested in the Lisbon-related objectives. Regions with programmes falling under the Regional Competitiveness and Employment Objective even reach 82% with their Lisbon earmarking.

These numbers include the over **€ 86 billion** in 387 operational programmes[1] that will be used for **investments in innovation**, including R&D, entrepreneurship, innovative ICT and human capital. This represents 25% of the total Cohesion Policy resources in 2007-2013. The corresponding figure for 2000-2006 was €26 billion, which corresponds to 11% of the previous EU envelope. Thus the planned investments in innovation in 2007-2013 through Cohesion Policy are more than three times higher than in 2000-2006. In some of the EU-15 countries, the share of total cohesion resources allocated to R&D and innovation is very high (70% in Denmark and some 50% in Finland and Austria). But also in the EU-12 Member States, around 20% of their total cohesion budget is allocated to R&D and innovation. The activities involved include:

- Promoting technology and knowledge transfer, innovation clusters and research-development-business partnerships is at the centre of the agreed **innovation and research** priorities. Allocations of **€50.5 billion** (as much as for the entire 7th Research Framework Programme) have been set aside. Of course the approaches differ: Slovakia builds on existing research capacities and potential, the UK seeks new opportunities, and Slovenia, Latvia, Estonia, Hungary, Lithuania focus on support for researchers and postgraduate studies in science.

- **Information and communication technology** is indispensable to develop knowledge-based service economies. Therefore more than **€ 13 billion** will go

[1] There is indeed at least some R&D and innovation content in these 387 programmes, according to the DG REGIO's InfoView database This does of course not mean that there are large amounts or separate priorities on only innovation / R&D in the programmes. It means one or several of the innovatoin-relevant spending categories are in 387 programmes.

into ICT training, development of on-line services to business and citizens (sustainable broadband infrastructure accounts for an additional € 2.2 billion).

- Providing **high-quality education** and keeping human capital up-to-date is crucial for Europe's success in a globalised world. Of the overall effort in this area we only count the **€ 5 billion** dedicated to human potential in R&D in the RTDI envelope I mentioned earlier. But an overall allocation of nearly € 26 billion is available to increase the quality and availability of education and training, with a focus on comprehensive life-long learning systems.

- Some **€ 17 billion** have been allocated to help strengthen the ability of SMEs and workers to **anticipate and manage change**. Out of this sum, around € 9.4 billion is assigned to help companies introduce effective human capital development policies and thus invest more in their main asset: their people. This approach will be based, for instance, on cooperation between different institutions and cluster building (e.g. in Denmark), involvement of social partners (e.g. in the Netherlands) combined with motivating individuals to invest in upgrading their skills through their life time. € 2.5 billion have been allocated to help companies and sectors facing globalisation and restructuring to adjust, with proportionately the most significant efforts in Sweden, Finland, Slovakia, Ireland and Poland.

- Finally, the knowledge-economy and its need for increased **trans-national cooperation** and exchanges, was also recognised under the European Territorial Cooperation Objective. 27% of the total budget allocated to this priority will go into innovation. Trans-national cooperation can, for example, be used as platform for developing new ideas, joint action plans and strategic innovation approaches for a larger zone, such as the Baltic Sea region, the Alps, the Mediterranean or the Danube area. The "Regions for Economic Change" initiative speeds up the take-up of good practices in the implementation of the operational programmes through its "fast track option" for INTERREG IV C networks.

Business representatives and associations were intensely consulted and involved in the preparation of the operational programmes that rendered these impressive numbers. Through the Monitoring Committees of each programme, they will – in varying degrees – continue this partnership to give input during the implementation phase of the programmes. And what is more, enterprises will have the opportunity to use the Cohesion funding for getting fit for the global knowledge economy. The combined EU and national public support through Cohesion Policy is expected to also leverage substantial amounts of business funding for R&D projects.

Private actors, in particular businesses, will only actively take part in the shaping and development of a knowledge-based economy and society, if they are convinced of the benefits for themselves in terms of competitiveness and productivity.

This brings me now more specifically to the title of today's conference: "PPP and private funding of RTD, innovation and education".

Cooperation between the public and private sectors in the field of research and development takes many and varied forms. Sometimes such cooperation is formalised through long term contractual relations normally referred to as **public-private partnerships (PPP).**

Given the constraints on public budgets, in recent years there has been growing interest in developing public infrastructure projects – including research infrastructure - through public-private partnerships. This interest in PPPs stems not only from the potential advantages of bringing additional (private) capital into projects, but also from a desire to bring greater efficiency into the implementation of major investments thanks to business know-how. There are many formats for PPP legal and financial set-ups, but what PPPs all have in common is the - often complex - need to define suitable solutions for ownership and risk sharing. The problems sit in the details of each individual case.

The Commission therefore tries to help understand and master the complexities of PPPs. DG Internal Market presented for instance earlier this year guidelines on *Public Procurement and Concessions to Institutionalised Public-Private Partnerships*. Also the technical assistance instrument for the planning of major Cohesion Policy projects – JASPERS – provides guidance on PPPs, for instance a PPP multisectoral guidance study following a request by Slovenia.

Under Cohesion Policy most experiences with PPPs are, so far, in the field of public service infrastructures, such as roads and bridges. In the field of research and innovation there are rather examples of long term strategic cooperation between the public and private sectors, which are difficult to classify as PPP in the strict sense, but which provide nonetheless interesting ideas for contractual set-ups for cooperation between the public R&D sector and the business sector.

The Centre of Excellence in Nanoscience and Nanotechnology at the *Jožef Stefan Institute* in Ljubljana is one of these examples. This Centre brings together key researchers in physics, chemistry and electronics and their institutions as well as industrial players. As of April 2007, there were 26 enterprises involved. The firms participate on equal footing in multi-party cooperation projects and share the research equipment with public research units.

Also a recent winner of the RegioStars Award, the OpTIC Technium in Wales has a very interesting public-private set-up. The OpTIC Technium is a technology and incubation centre set up by the Welsh government assembly following an initiative of the enterprises and universities in the opto-electronics cluster in North Wales. It provides support, knowledge, and facilities for emerging technology businesses. The OpTIC Technium is managed by a private not-for-profit company and designed to become self-sustained.

I am interested to hear other views as to how the public and private sectors can work together more effectively to raise investment, especially private investment in R&D and innovation.

Ladies and Gentlemen,

Let me conclude.

In Cohesion Policy we are now at the stage of implementing what has been agreed in the last years. The challenge now is to keep the ball rolling both in terms of substance, governance and speed of implementation.

The groundwork in terms of Cohesion Policy is laid out, including the partnerships and the strategic approach to innovation and economic modernisation. I repeat - research and innovation are central to our objectives to an unprecedented extent. But our plans will only have their full impact if the regional and national partnerships work effectively: if the administrative, fiscal and economic environment, as well as supporting policies in education and entrepreneurship, are adapted and well synchronised to support the strategies we have agreed.

There is a lot we can learn from our previous experiences and from those of others. I therefore look forward to fruitful discussions at the event today.

Thank you for your attention.