

Executive Summary

Rarely before has innovation been so important.

Europe's competitiveness has been on a downslide for quite a while. The reasons are largely home-made¹. Now additional pressures arise from renewed geopolitical uncertainty, the energy market implications of Russia's war in Ukraine and the attraction of business to the US as a result of the US Inflation Reduction Act.

ERT has mapped Europe's global industrial competitiveness and made policy suggestions in our latest Benchmarking Report. This flagship paper sets out ERT Members' views on where Europe can and has to do better to remain an innovative powerhouse, a leading industrial base and a prosperous continent.

Our paper contributes five core observations and three priority policy messages. We have also collected 34 Innovation Stories as told by our Members – ten are included in this report, and all can be accessed on our website².

Five observations on Europe's status-quo in innovation

First, compared to our global peers and competitors, Europe's investment in R&D is relatively low. With a few exceptions, we are far behind in the tech race in the ICT area, and this endangers Europe's position in the next industrial revolution (i.e. Industry 4.0). An

underlying cause is that in Europe's regulatory system, transformation is steered by regulation, rather than encouraged by incentives and business opportunities.

Second, with tools such as Horizon Europe and IPCEIs, Europe has a very elaborate innovation support system in place. It still has significant untapped potential which can be realised by scaling up scope and funding, and improving efficiency and impact. Simplification of bureaucracy and easier access to funding and common projects would be key.

Third, in the European R&D mix experimental development – which is 'high-risk, high-return' – plays a much smaller role than for other innovation leaders, such as Israel, South Korea, the US – and also China.

Fourth, our global peers and competitors take a strategic approach to creating synergies that stimulate innovation. This includes programmes enabling civilian and military research cooperation or specially designed ecosystems for product development.

Fifth, innovation increasingly builds on collaboration – whether cross-sectoral or between different types and sizes of companies. This makes triggering innovation even more complex. It also implies that current and future innovation support systems need to cater for a very diverse and interlinked ecosystem.

Three priority policy messages to help unleash Innovation made in Europe

1. Rethink regulation. Europe can only be a frontrunner in innovation if EU decision makers put the business case for innovating and investing in Europe at the core of EU regulation.

This requires a regulatory framework that is coherent with political goals and that is kept up to date to accommodate innovation timely enough for quick commercialisation. A coherent framework also includes fast approval processes and the facilitation of testing under real-life conditions. Moreover, we need a more pragmatic approach to IPCEIs – and have to foster private sector funding for R&D, which would be supported by an overhaul of the taxonomy rules and the fast completion of the Capital Markets Union.

2. Re-focus on robust Intellectual Property rights and international standardisation. Solid globally competitive intellectual property (IP) rights are key for the business case of innovation.

Stepping up on international standardisation is important to avoid delays in innovation and commercialisation. It is also the only way in which Europe can preserve its role and values in global standards. This will be key for the digital and green transition and to avoid

¹ See ERT Benchmarking Report 2022 <https://ert.eu/2022BMR/>

² ERT Innovation microsite <https://ert.eu/innovation/>

delays and disadvantages in innovation and commercialisation.

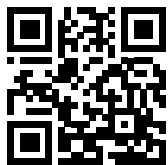
- 3. Realise** the scale-up of investment-intensive innovation. To move forward with the green and digital transition, we have to de-risk technology development. We can do so through public-private partnerships and innovation oriented public funding.

Europe's response to the US Inflation Reduction Act

As this paper is being finalised, the European Commission has just published its Green Deal Industrial Plan. This could be a huge opportunity to improve the EU's innovation support system and competitiveness – provided it is crisp, pragmatic and effective to facilitate economic investments in the EU.

Specifically on the innovation process, the Commission delivers a promise to support innovation through faster permitting and better testing conditions for selected sectors. We urge the EU to broaden this promise to all sectors and industries and make sure that the promise becomes reality by immediately tackling the issues addressed by this Flagship paper.

Additional policy messages targeted at specific challenges can be accessed on the ERT Website.



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