ERT

EXPERT PAPER

ERT Recommendations for FP10 & the new European Competitiveness Fund

R&D INNOVATION & SKILLS

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Technological leadership sets the baseline for Europe's future

Europe has to define 'what it wants to achieve' for its future global positioning, and 'how it wants to achieve this'.

Our political leaders recognise that **technological leadership is one of our continent's remaining assets** – and that it is embodied by large industry, hidden champions and start/scale ups, and underpinned by strong research and innovation ecosystems.

With the envisaged European Competitiveness Fund and the future Horizon Europe programme, the next Multiannual Financial Framework (2028–2034) will contain essential building blocks for technological advancement. In this note ERT highlights priority actions to ensure that they will be effective means to '**strengthen our strengths**'.

ERT brings together the leaders of Europe's leading industry and technology companies, covering key industry sectors and active at global scale. As innovation leaders in their fields, these companies conduct R&D activities both in Europe and globally. They partner with customers, suppliers, and local / regional innovation ecosystems, including academia, Research and Technology Institutions, public sector entities and start-ups & scale-ups.

In July 2024, ERT called for an upgrade to FP10[1]. This vision is as relevant as ever and underpins the recommendations made now.

In February 2025 ERT published its vision for a Clean Industrial Deal, highlighting the potential for Europe to lead in sustainable technologies for decarbonisation and circularity.

ERT is convinced that **a holistic strategy for technology-based growth** is Europe's best chance to secure its future.

The starting point would be a **strategic alignment to revive innovation in areas of EU competitive advantage**, then to facilitate the scaling of innovative ventures and strategic projects, and ultimately to **ensure a robust market for new technologies**. Access to talent – including scientists and top-professionals from third countries – should be promoted as a shared EU and national/local effort via concrete, supportive action.

The initial recommendations focus on Horizon Europe and the Competitiveness Fund, followed by the additional building blocks of a holistic, technology-driven growth strategy

1 Europe's next Framework Programme for Research and Innovation (FP10) needs a major upgrade - ERT

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Eight Recommendations:

1. A sufficient budget for Horizon Europe to secure mid-term and long-term impact:

ERT supports a €200–220bn budget for the next Horizon Europe (HE), as recommended by Manuel Heitor and Mario Draghi. Europe's future competitiveness can only be put on a sound basis, if mid-term and long-term competitiveness gains are treated as complements – because science is the mother of all industry. Playing-off short-term versus long-term perspectives against each other, however, will have fatal consequences because it will prevent leadership in future-defining technologies as well as endanger Europe's ability to attract leading scientists.

- At least 26% of the next HE budget – and in no event less than double the amount under the current HE framework – needs to be allocated to the European Research Council, which moreover needs to preserve its independence.

- At least 55% of the next HE budget should be allocated to Pillar II projects, provided that Pillar II participation continues to attract participation from all relevant participants.

2. A targeted effort to secure competitive advantage:

Instead of spreading resources thinly, HE Pillar II and the Competitiveness Fund need to dedicate their power-for-impact to supporting & driving innovation in areas where Europe has and can increase/expand its competitive advantage.

- **These areas are: life sciences and healthcare, biotechnology & biomanufacturing, advanced (sustainable) materials, clean electrification and energy storage, sustainable fuels and processes, decarbonisation / carbon capture solutions aeronautics, industrial AI and Edge/Physical AI, smart manufacturing, industrial metaverse, resilient digital infrastructures, cybersecurity advanced services, quantum technologies – including for dual-use applications.**

- Resource allocation needs to be optimised along reasonable value chain steps where the EU demonstrates existing strengths to amplify competitive advantages.

- The Competitiveness Fund should provide a push for strategic infrastructure and resiliency projects that will benefit the whole EU economy. Examples include the build-up of smart infrastructure also needed for aerospace and defence (counting in advanced trusted connectivity networks and advanced semiconductor manufacturing, smart grid infrastructure, energy storage systems and supporting/supplying material-science based industries). In view of Europe's ageing society and the impact on competitiveness and prosperity, the Competitiveness Fund is a transformational opportunity for optimising healthcare provision and its digitalisation.

3. EU action for Europe's top innovation ecosystems:

Successful and sustainable deep-tech innovation depends on rich ecosystems and the availability of information flows, tools, finance and talent. Also key are channels for innovation to find its markets / deployment, and links to relevant surrounding industrial ecosystems to enable production at scale and/or diffusion/adoption.

- EU funds need to be channelled to the European innovation ecosystems that are most relevant / of highest potential for strategic technology fields and for

European competitiveness. This involves tough choices which need to be informed by a single-minded and objective – i.e. not EU-internal-politics driven – mapping exercise. ERT stands ready to support this.

- Key criteria for this mapping include a) where deep expertise and top Technology Infrastructures currently are situated across the EU and b) where – learning from global best practices – deep clusters can be replicated.

- The EU must strengthen its global partnerships in instances where certain elements of an ecosystem cannot be replicated in Europe but are key to supporting global value chains for sectors where Europe has to cultivate its strengths.

4. Strong governance for resources to translate into impact:

Horizon Europe and the Competitiveness Fund will achieve most impact if they successfully mobilise both public and private resources (financial or in-kind). Joint resources must be channelled into relevant projects and appropriate clear follow-up action must be assured. Success is conditional on:

- Strong and effective governance for Horizon Europe Pillar II, and the Competitiveness Fund. Their interaction will be essential.

- To ensure the right steer, governance must involve partners and stakeholders at the forefront of science and markets. Industry needs to be structurally involved in the relevant governance bodies in a way that provides a built-in holistic, 'real-time' and global perspective on technology advances, policy drivers and the evolution of value chains.

Clear governance is also the best way to ensure that, as funding mechanisms, Horizon Europe and the European Competitiveness Fund are transparent, agile and user-friendly, particularly for start-ups and scale-ups, but also for corporates.

5. Crowding in private investment, financial or in-kind:

On an operational basis, the goal of Horizon Europe (Pillar II and III) and Competitiveness Fund must be to attract and incentivise (rather than crowd out) private capital / investment of resources. This will only succeed if participation requirements fit with the nature of programs, the value they create, and resource allocation choices of stakeholders to be involved:

- For Pillar II projects in-kind contributions by industry have proven to be an effective way to incentivise industry participation, foster direct peer-to-peer collaboration with academia and drive project success. In these projects, large companies typically contribute by sharing expertise, providing access to infrastructure and facilities, offering data, and leveraging their networks.

- Cash-contributions, on the other hand, are highly impractical, simply because they cannot be allocated upfront in the annual budget cycles of large companies. This is due to the uncertainty of whether and which Pillar II projects will be granted.

- Moving away from the established way of working and making large industry participation in HE Pillar II conditional on financial contributions will – instead of crowding-in capital – only lead to a cessation of corporates' participation.

- The disinvolvement of corporates will fundamentally change the nature of Pillar II and diminish its usefulness for Europe's innovation ecosystem by breaking important stakeholder links and prospects for commercialisation of project results. In such a scenario it becomes questionable whether Pillar II still merits a 55%-plus share of Horizon Europe resources.

To attract further industry participation and directly contribute to competitiveness, Pillar 2 should prioritise innovation with clear perspectives for commercial applications and economies of scale. A robust industry-led approach should steer resources towards innovations that can become the basis on which strategic market positions will be built and that can be integrated in value chains at scale.

6. Connecting new with old – greater impact for R&D&I programmes:

Despite political declarations, Europe's reality is not 'scale-up friendly': venture capital is scarce, regulation complex and our (single) market fragmented. Partnering with large industrial companies is often the fastest, if not the only, way to achieve scale and access to up and downstream value chains. EU programmes have to generate greater and more sustainable impact by fostering symbiotic relationships between deep-tech / disruptive start & scale-ups and large companies.

- Horizon Europe Pillar 3 should extend to anchoring cooperations between new and old companies as part of its support offer.
- The Commission should use the next year to look at best practice examples like DARPA and identify the mechanisms / dynamics that can realistically be replicated to similar effect in Europe. Ambition should focus on fast and pragmatic solutions, including new and more efficient ways of working of existing institutions[2]. Insights should stimulate the (new) culture for Horizon Europe and the Competitiveness Fund and also be shared with national R&D&I programmes.
- In the EU, DARPA- and BARDA-like single-beneficiary instruments for defence, crisis preparedness and response should be open to companies of any size to make use of available production and manufacturing capacity in emergency situations.
- FP10 should put greater emphasis on innovation activities that help move research outcomes up the TRL (Technology Readiness Level) ladder and increase the chances for real-world applications and the value for both start-ups and industry as technology adopters and/or end-users.

7. Recover lost ground on standardisation via the European Competitiveness Fund.

Dominance in standardisation and global relevance are closely linked and yet Europe has been neglecting to secure its influence in this important arena – to the benefit of those competitors who are now dominating standard setting as part of their geopolitical strategy. European policymakers must – finally – recognise that technology leadership, competitive advantage and economies of scale in key sectors cannot be sustained without global leadership in standard setting[3]: the latter will determine the global marketability of European technology versus competing offers from other regions.

- The European Competitiveness Fund must be set up in a way that embeds standardisation activities into all ECF policy windows and boost Europe's presence in international standardisation bodies (expert technical committees).
- In Horizon Europe, dedicated standardisation activities must be incorporated into funded consortia.

2 Example: independent programme managers, a "fail fast, learn fast" culture, and sharp missions that create demand (beyond dual-use spillovers)

3 Europe's suboptimal engagement in international standardization bodies has been highlighted as a huge problem in ERT's 2023 Innovation Flagship: https://ert.eu/innovation/

As markets and leading companies both are global, a renewed European ambition for stronger participation in standard setting should be pragmatic and aimed at global harmonisation (rather than geographical fragmentation) of standards where possible.

8. Consume to combine technology leadership with industrial scale:

Europe can only secure global competitiveness and technology sovereignty by combining technological leadership with industrial scaling. If used to full potential, the European Competitiveness Fund can anchor EU's tech creators and users and help engage SMEs and scale-ups in the innovation value chain – i.e. it would achieve the implementation of concentrated industrial policy action. Strategic use of the fund includes:

- Projects led by the Competitiveness Fund can channel EU, national and private funding into large-scale innovative projects which will strengthen vertical and horizontal collaboration among Europe's key actors from strategic sectors.

- The Competitiveness Fund also should serve as a vehicle to improve and accelerate existing industrial policy instruments. Here the goal should be to simplify, streamline and make accessible across the EU i.a. IPCEIs, the Chips Act, the Critical Raw Materials Act, the Net Zero Industry Act, and AI Gigafactories. The Fund can also serve to support the upcoming Apply AI initiative for a bolder deployment of AI across Europe's key verticals. as well as effective and successful implementation of the common European data spaces.

Beyond Horizon Europe and the Competitiveness Fund: more building blocks of a holistic technology-led growth strategy

The European Competitiveness Fund and Horizon Europe – as well as national initiatives to support R&D&I are part of a bigger picture. To have full effect, an R&I-centered growth agenda must be embedded in and amplified by a holistic approach across the innovation lifecycle.

Seven additional Recommendations

Anchoring EU R&D&I policy in an innovation-friendly regulatory environment:

9. Innovation-friendly National and Regional Partnership Plans (NRPPs):

National and Regional Partnership Plans NRPPs proposed by the European Commission for the next EU long-term budget should structurally link national and regional funding and investment to innovation-enabling reforms in strategic sectors like healthcare, energy or digital. This is essential for the uptake – in Europe – of innovation created under the Competitiveness Fund and Horizon Europe. Clear Key Performance Indicators should measure progress e.g. national R&D&I investment.

10. Expanded use of regulatory sandboxes:

Other jurisdictions already successfully use regulatory sandboxes. If implemented in a pragmatic way and accessible to all types of industry participants, Europe's innovation ecosystem would benefit greatly from an EU-wide framework in which innovative solutions are tested in close collaboration between industry and regulators.

- Follow-through on regulatory sandboxes via the European Innovation Act is key. This would both substantially accelerate the deployment of innovation and contribute to the quality of regulatory outcomes.

- A coordinated EU system of regulatory sandboxes should become a common feature of all EU laws, advancing regulatory science and addressing complex legal questions where gaps occur in existing regulatory frameworks. This would go far beyond just providing help-desks for the application of current rules.

11. Simplified access to technology, data, and computing & cloud/edge infrastructures:

These are fundamental assets for innovation and business creation. Innovation increasingly depends on access to / use of cloud/edge computing, data and AI/ML, supported by high-capacity connectivity (fibre and 5G). Drawing on aggregated data plays a huge role (e.g. in life sciences). This also requires a critical evaluation of the necessity of present and future legislation, withdrawing it where necessary. Regulations should be guardrails rather than detailed requirements. For this we need to:

- Simplify the AI Act and the Data Act (and interlinked sectoral legislation, where appropriate) as part of the Digital Omnibus and upcoming Digital Fitness Check to ensure that European companies are not thwarted in their growth and innovation and can easily access and deploy connected manufacturing, business cloud and AI, including industrial and edge AI.

- Accelerate administrative approvals and differentiate between B2B and B2C rules. Implement one-stop shops, presumptive approvals, and a competitive tax regime reflecting the contribution of tech champions

12. Making Innovation Stress Tests reality:

Innovation Stress tests have been proposed by Mario Draghi and the European Economic and Social Committee. This approach is strongly supported by industry. Running innovation stress tests in a systematic way would be a major innovation of EU law making.

To be meaningful, they would have to include stakeholder consultations on the basis of sufficiently developed legislative proposals, combined with transparency and appropriate feedback periods.

Scaling R&D&I successes: Mobilising capital and empowering consumers

13. Facilitating access to capital (at risk):

Greater openness to risk-taking and expanding European equity markets are the only way to reduce dependencies on foreign investors and halt the outflow of discoveries to competing markets. As ERT we see a vibrant venture/scale up community as an important source of collaboration or acquisition. Capital markets are particularly important for those who successfully navigate independence, but also for industry at large.

The EU needs to develop deep capital markets to enable EU innovation ventures to grow and drive wealth creation. To compete here with the US, the fastest route is to do so in conjunction with other regional partners like UK/Switzerland. In any case, the EU has to urgently:

- Adjust financial sector regulation to allow 'risk equity' and venture capital sourced in Europe to become 'normal'. Releasing long-term savings to finance ventures and scale-ups and addressing a 'low-risk, low-fee' culture has to be a cornerstone of the Savings & Investment Union. This includes expanding incentives for founders and earmarking dedicated public budgets for risk investments in advanced technology and R&D to crowd in private capital and strengthen Europe's innovation landscape.

- Fully commit to the ScaleUp Europe Fund as an essential step to mobilise risk equity within the EU (on market terms and free of political interference). This should be amplified by strong signals to institutional investors and industry that there are no hurdles to their contributions.

14. Deeper capital markets and easier public listings:

Access to capital remains a major obstacle across the board. Scale-ups that successfully navigate independence need the perspective to become publicly listed in Europe. And for other scale-ups (the majority), whose strategy is to attract investment or acquisition by established (European) industry, deep capital markets are essential as they increase corporates' financial firepower.

15. A robust market for Innovation 'consumption':

Speeding up 'time-to-market' is essential for Europe to become a more attractive basis for innovators – otherwise migration away from Europe and across the Atlantic will remain the safer option for young entrepreneurs in relevant technologies.

One key instrument with very strong signalling character - and already fully at the disposal of public authorities - is public procurement. National and regional authorities should not wait for the upcoming revision of EU public procurement legislation which will only have full impact at some point beyond 2030. They can already draw on the Commission's Guidance of 2021[4] [5].

4 Guidance on Innovation Procurement, C(2021) 4320 final

5 Today procurement frameworks heavily utilise price-only award criteria vs wider economically relevant considerations. Innovative products must be appropriately valued in public procurement processes to fuel the innovative ecosystem in Europe or otherwise risk Europe jeopardizing sovereignty over critical and cutting edge sectors over time

This Expert Paper has been prepared by the
ERT R&D Innovation & Skills working group.

More info and previous papers are available on:
ert.eu/focus-areas/rd-innovation-skills/

The **European Round Table for Industry (ERT)** is a forum that brings together around 60 Chief Executives and Chairmen of major multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe as a driver for inclusive growth and sustainable prosperity. Companies of ERT Members are situated throughout Europe, with combined revenues exceeding **€3 trillion**, providing around 5 million direct jobs worldwide - of which half are in Europe - and sustaining millions of indirect jobs. They invest more than **€100 billion** annually in R&D, largely in Europe.

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