



Better Framework for Innovation

Fuelling EU policies with an Innovation Principle

BUSINESSEUROPE, the European Risk Forum and the European Round Table of Industrialists

June 2015

Introduction

The EU is lagging behind major competitors in its ability to invest in research and turn these investments into marketable products and services. Economies such as China, South Korea and North America are competing for global innovation leadership and the pace of change is increasing. In these countries, the R&D intensity is up to two times greater than Europe, which will ultimately reduce competitiveness. Europe was once the innovation leader, but it must now compete with other faster moving markets, where capacity to innovate, adapt, and exploit new technologies will be critical for success. Regulation has an important influence on innovation and priorities of innovative companies. Regulatory frameworks can however be managed and influenced by policy-makers, when seeking to improve regional competitiveness.

Recent steps taken by the European Commission to recognise some of the links between innovation and regulation have been well received by the private sector. To build on the ideas set out in the new Better Regulation Guidelines and science based policy making agenda and to shape a more positive and progressive innovation policy, the European business community believes that EU institutions now need to incorporate the **Innovation Principle** as an integral component of the policy-making process.

This joint statement from BUSINESSEUROPE, the European Risk Forum and the European Round Table of Industrialists, indicates how the Better Regulation agenda may be used to stimulate confidence to invest in innovation in Europe. In particular, it discusses what the Innovation Principle should look like in practice and the additional changes that are required to European governance and policy-making to make this possible.

Innovation culture driven by the Innovation Principle

A culture change is required to protect Europe's ability to innovate and to stimulate investment, jobs and growth, for the benefit of Society; including consumers, regulators and producers. Embracing the "Innovation Principle" will help to achieve this objective. Ensuring that,

"Whenever EU institutions consider policy or regulatory proposals, impact on innovation should be fully assessed and addressed".

A key element of this approach would be to routinely evaluate and address potential impact of EU legislation and policies on innovation, during policy formulation, co-decision, implementation and when reviewing or reforming established legislation. Such a systematic focus would make an important contribution to better innovation policy. It would provide a powerful stimulus to invest in innovation and it would set the basis for more inclusive and sustainable growth, and prosperity for all. Conversely, hasty or poorly advised legislation and policies, which fail to address these concerns, are likely to result in disproportionate impact on European innovation and longer-term competitiveness.

Avoiding damaging decisions: The “innovation checklist”

The Innovation Principle initiative calls for culture change, not just a formulaic regulatory procedure. However, evaluating the impact of policies and regulations on innovation may be a complex process, as different interventions can generate different types of impact on innovation. This impact can be sector specific or it may have more profound and far-reaching implications, over short or longer-term horizons. However, it is nonetheless recommended that EU policy and legislative initiatives should be systematically evaluated against an “innovation checklist” of selected criteria, to avoid unnecessary, unforeseen and unintended consequences. This should for example include:

Improving implementation of existing legislation: Embracing the spirit of the Innovation Principle at both member state and regional level would help to avoid unnecessary regulatory burden and uncertainty for those who wish to invest in innovation. Member states have a tendency to “gold-plate” EU legislation at national level, making compliance by companies more arduous and costly, undermining one of the core benefits of the Common Market.

Keeping pace with a changing world: To keep pace with rapid scientific and technological progress, better innovation policy requires a shift of emphasis from prescriptive regulation to a more dynamic and adaptive model. A predictable, regular and timely review of existing regulation is therefore required. Too frequent and far-reaching reviews of regulations may also increase uncertainties and as a result reduce willingness to invest in innovation. A pragmatic and balanced approach, which keeps pace with rapidly evolving technologies but also provides predictability is therefore required.

Creating space for innovators to measure and manage technological risk: Regulation which solely concentrates on risk avoidance and removal of scientific uncertainty and fails to consider both risks and benefits, stifles technological innovation. This type of regulation tends to result in companies directing limited budgets towards “defensive R&D”, for compliance, at the expense of more innovative and discovery oriented research.

Without compromising safety, legislation should seek to provide frameworks which encourage investment in innovation while minimising loss of limited resources to unnecessary defensive R&D. Achieving this objective will be required to unblock Europe’s full innovative potential and to improve competitiveness in the longer-term.

Weighing risks of alternative solutions in comparison: Regulation which solely concentrates on the downsides of a single approach or solution may result in de-facto accepting an even bigger penalty for society due to either the acceptance of the status quo (i.e. not innovating) or the application of other approaches that carry different risks. Comparison with other available options should always be part of the analysis.

Risk governance for innovation-friendly EU decision-making

Generation and use of scientific evidence plays an essential role in stimulating confidence to invest in innovation. In order to justify investing substantial sums of money in technological innovation, investors need to believe that it will be possible to demonstrate sufficient safety to justify approval for market access. This type of credible and relevant scientific evidence provides an objective basis for both policy makers and investors to decide whether or not to

invest in new technologies. Governance procedures are therefore required to ensure that scientific evidence is generated and used as a reliable basis for policy making, across the EU institutions, and that it is not used as a tool with which to manipulate or justify the policy making process.

Credible and independent scientific advice should be established within EU institutions, with power to go beyond interests of any single establishment, directorate general or interest group, to ensure scientific method and standards are upheld.

However, it is also important to recognise that scientific evidence alone may not be sufficient. Other societal factors may need to be taken into consideration, but these legitimate needs should not be confused with the need for robust, credible and unbiased scientific evidence.

A new stimulus to drive innovation

The spirit of the Innovation Principle applied at key stages throughout the legislative process would send a powerful and positive message to innovative organisations. It would build confidence to invest in innovation and as a result would help to create jobs, growth, economic recovery and longer-term competitiveness.

To succeed, better innovation policy must be placed at the centre of EU policy-making, along with appropriate structures and processes to ensure good governance. This should for example include:

- provision of credible and independent scientific advice to the European Commission, the European Parliament and Council, to ensure high scientific standards and transparency,
- routine evaluation of impact on innovation, within the EU Commission's revised impact assessment procedures, including implementation of legislation and delegated acts,
- routine consultation with innovative organisations, from both public and private sectors, spanning the full range from university spin offs and SMEs to large multinationals,
- establishment of a law of administrative procedure to ensure appropriate quality, governance, and predictability when drafting and implementing legislation,
- development of a more holistic understanding of what it takes to succeed as an innovator and which barriers to entrepreneurship are encountered, and
- gathering of best practices in innovation policy to stimulate adoption at both member state and European levels.

Pledge

BUSINESSEUROPE, the European Risk Forum and the European Round Table of Industrialists look forward to a constructive dialogue with the EU Commission and relevant stakeholders, to stimulate investment in European innovation, through cooperation and development of better innovation policy.