

Working Together to Strengthen Research in Europe
European Research Area Conference 21-23 October 2009, Brussels

Summary of presentations and discussion of plenary session
'Research and innovation in times of crisis'

The issue and context:

The ongoing financial crisis has had and will have considerable repercussions for European industry. Evidence¹ indicates that investment in research and innovation by the private sector is seriously affected.

Six panellists from industry² participated in this plenary session discussion led by Javier Vallés, the Spanish Lisbon Coordinator and Head of the Economic Bureau of the Spanish Prime Minister. The panellists presented the ways in which the crisis influences the level and orientation of their companies' R&D activities and potential policy responses, with reference to the following questions:

- How have companies' R&D and innovation (RDI) strategies changed since the end of 2008?
- What are the main factors influencing the decision to adjust RDI strategies (i.e. outsourcing, location, etc.)?
- Which policy measures are appropriate to address these factors?
- How can shorter term actions be reconciled with longer term goals?

Analysis of the challenges and European dimension

It was reported that that, in spite of the severe consequences of the economic turndown, industry is not cutting down its investment in research and development. But that is not easy. Risk capital is hardly available and this affects companies in all stages of growth. Developing solutions for today's and tomorrow's societal challenges offers a way out of the crisis. The conference speakers called for public authorities to pool resources to address these challenges and develop programmes that are application-oriented, quick and significant. Maintaining a skilled workforce by educating employees and attracting new talents is key.

None of this makes sense without a European market with legislative and procurement practices that facilitate more research and innovation to be converted into successful products and services. The markets in which companies operate are more and more regulated (e.g. energy, health, housing). It is as important to make sure that legislation does not become a barrier to innovation.

Conclusions/Recommendations:

the following funding-related proposals were mentioned:

- Framework Programme: adapting FP7 consortium requirements, specific grants to fund high risk research, demonstration projects to prove viability of new technologies
- Risk capital: reduce risk aversion to R&D projects by the EIB. Develop a short term investment tool to increase risk capital for VCs, reducing covenants for their loans
- Other: full use of EU State Aid regulations (promoting the Young Innovative Company – YIC- tax status); set up professional assistance for SMEs/YIC, facilitating access to capital markets; government as a lead investor in a venture capital fund to catalyze private investment; keep/increase tax incentives for long-term entrepreneurship.

Speakers mentioned some examples of framework conditions they believe should be changed.

- uncertainty about the future energy-efficiency performance targets for buildings is preventing the building sector from investing.

¹ The 2008 EU Survey on R&D Investment Business trends reveals that the global R&D investment is expected to grow with 4%, while it was expected to grow with 7% in the year before.

² Michel COTE, Bouygues (construction sector); Anne GLOVER, Amadeus Capital (venture capital); René PENNING DE VRIES, NXP (semiconductor industry); Sten TAMKIVI, Skype (internet); Gernot KLOTZ, CEFIC (chemical industry) ; José Maria Fernández Sousa-Faro, Zeltia (pharmaceutical industry).

- The Directive on Alternative Investment Fund Managers (AIFM), currently being discussed in the EU institutions poses a threat to the creation of new venture capital funds. The minimal capital requirement for AIFM (currently 125.000 euro) and the provision that only AIFMS established in Europe can provide their services in the Community, will prevent any new funds to be launched in the EU.
- The IP protection awarded to innovative drugs for rare diseases does not compensate for the R&D investment.
- Trade tariffs for Brazilian bio-ethanol prevent the growth of the European renewable resources market.