

Presidency issues note for session n°3 of the Informal ECOFIN

Innovation and risk-taking in the European Union

Innovation: a lever for strengthening the European Union's potential growth and strategic autonomy

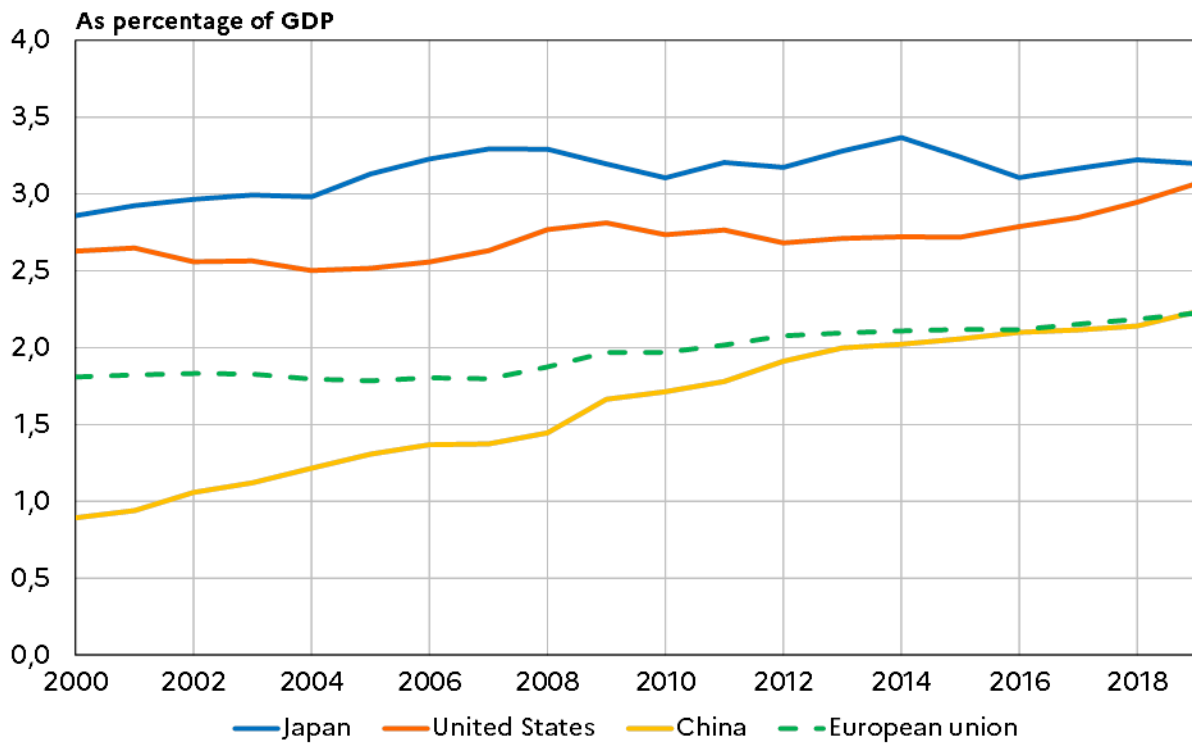
Innovation is a key determinant of long-term potential growth. Innovation policies are thus crucial to put the EU on a more ambitious growth path as it emerges from the crisis.

Furthermore, in order to put the European economy on a sustainable track, the European Union will have to accompany and support the development of cutting-edge technologies for the climate transition, particularly in the areas of low-carbon energy, sustainable transport and mobility.

Finally, innovation is a decisive factor in **strengthening the European Union's strategic autonomy and independence in key sectors** such as health, electronics and the defense industrial and technological base, where competition from other major powers is important. In today's world, European political and economic sovereignty depends more than ever on technological sovereignty.

The EU's performance in terms of investment in research and development remains below those of its main trading partners. In 2019, R&D investment represents 2.2% of GDP in the European Union, a rate of investment equal to that of China - which is however experiencing very strong growth dynamics - and below the one of the United States (3.1% of GDP) or Japan (3.2%).

R&D spending in the European union and our main partners



Source: Eurostat and OECD. R&D here includes public and private R&D.

This situation should serve as a wake-up call and be an incentive to build a new European economic model based on innovation. This is the ambition that the French Presidency of the Council of the European Union want to share with all Member States.

To increase Europe's innovation capacity, several obstacles must be removed. Upstream, top-class basic research must be supported. Europe must also be attractive to talent and develop the skills of its citizens. The regulatory and administrative framework must also evolve to encourage innovation and risk-taking. Finally, we need to finance disruptive innovation and support innovative companies in the final stages of their development, to enable them to become world-class technology companies. The removal of these obstacles must be considered at the European level.

Stimulating risk-taking and innovation in the European Union

Several levers are available to Member States to encourage the emergence of innovative European players and to set up an ecosystem that stimulate risk-taking and innovation. Beyond private funding, the positive externalities generated by innovations as well as the difficulties of financing intrinsically risky innovations justify that risk-taking can benefit from public support.

European innovative companies must find the means to grow in Europe. Indeed, at the critical stage of their international development, the most promising European

companies too often have to choose between growing with non-European innovation capital funds or selling before they reach maturity.

In this respect, the European Innovation Council, which is part of the Horizon Europe programme supported by the European budget, is one of the key European components to actively support breakthrough innovations, from early stage to market launch. Through this mechanism, the European budget is deepening the EU's capacity for innovation, encouraging risk-taking and building the competitiveness of tomorrow.

Furthermore, the Scale-up Europe initiative, presented on 8 February and in which a large number of Member States have shown their interest, is a strong signal of the will of the Member States to facilitate the financing of the last stages of business development through the creation of a pan-European fund, in order to transform our start-ups into world-class technology companies (scale-ups) and thus support their emergence on the international scene.

Finally, the EIB Group, consisting of the European Investment Bank (EIB) and its subsidiary, the European Investment Fund (EIF), is also a key tool for investment and support for innovation in Europe. The EIB and the EIF have extensive financial and technical expertise in identifying and financing high-impact investments with proven knock-on effects.

Questions for discussion :

- What obstacles to innovation do you identify in the European Union? On the contrary, what are our strengths?
- What levers, particularly at the European level, can be mobilized to increase risk-taking and stimulate innovation in the long term?
- What levers can be used to better disseminate innovations across all sectors of the European economy?