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I will start on what I would call a slightly negative note and then I will be all positive. There are so many debates and meetings around Europe where the topic is innovation that I am worrying that we see innovation as a solution to all our real and potential problems. To all those who believe in this, I would say, no, this is not the case. Much more effort is needed in Europe, to get our economy of the crisis. Reform of governance, reform of the financial sector, building stability mechanism and profound structural reform in many areas, a miracle ultimate solution to what we call the Greek problem, are needed. Innovation will not replace all these reforms. But innovation is not just a buzzword, it is a major factor behind growth that can be sustainable, behind growth that can produce productivity gains to increase competitiveness, which in turn can create long-term sustainable jobs.

It is growth, or rather the lack of it, that worries us today. What is even more worrying is that austerity packages lead to cuts in investment, education, research and innovation capacity. This weakens foundations for long term growth. This vicious circle of growth deficit can be interrupted by innovation.

Innovation is of course not about having an idea in a garage and going directly from the garage to the market. Nor is it a research-plus policy. It is about systems and strategies, innovative policies and policy tools and the best choices of the place for public intervention. That is why for years we have discussed and indeed a lot has been done to put innovation at the heart of

regional policy. In short, this is because we have learned that a crucial role is to be played by actors at the local and regional level of governance in designing and exploiting innovation systems. We have discovered that innovation-led growth is increasingly place-based and must be place-tailored with regions and cities taking the lead. Regions and cities are places where universities and talents, entrepreneurial spirit, attractive lifestyles and innovative funding schemes can come together.

As most of the responses to current challenges - climate, energy efficiency, demography, global competition - can be identified at local and regional level, regions and cities increasingly reach out to innovative solutions to the problems they face, but also to opportunities that they can exploit. And they know that investing in innovation is not a one-time boost; it is a process, as all regions and cities will be confronted with a permanent need to restructure, to modernise, to foster knowledge-based innovation, to meet the challenges mentioned previously and to exploit the opportunities that those challenges bring ahead.

Unfortunately, as of the mid-1990s, a growing gap on innovation between the EU and the US has manifested itself. Now China has joined this race with its innovation potential growing annually by 7%. It is due to many facts. A very important one comes from our dominating focus on innovation supply (R&D) and not on the demand side (regulatory framework, public procurement and standardisation). We are now a year into the Innovation Union process and a lot has changed on the demand side. Still the links with enterprises are too weak, education fails on this as well, in areas important for innovation, single market is imperfect (internet and digital services). Too many factors which are holding back innovation in Europe still belong to the single market. For modern future-oriented industries there is not a European level playing field yet. So, while further improvement on the innovation supply side is needed, weakness on demand side must be urgently addressed and further investment in linkages between demand and supply are needed to strengthen

European innovation systems. We need more encouragement to profitable collaborations between businesses and research institutions.

So yes, a lot still remains to be done. But the good news is that it is difficult, if at all possible to identify a policy field, a sector of economy or an enterprise that would not benefit from innovation. So we must be smart and take innovation seriously as a challenge and opportunity for all. And the poorer you are, the bigger your catching-up distance is, the more innovative you must be.