

Public consultation on Community innovation policy

All interested stakeholders are invited to submit comments by **Monday 16 November 2009** to entr-innovation-policy-development@ec.europa.eu.

The results will be made publicly available on http://ec.europa.eu/enterprise/policies/innovation/policy/future-policy/consultation_en.htm.

Please indicate if you do not agree to make your comments publicly available on the internet.

Questions:

(1) Do you agree with the Commission's assessment of the main achievements and shortcomings of Community policies in support of innovation?

In general yes, although EGDF supports a more open innovation strategy. Until now European innovation policies have relied purely on technological push, but this focus has not been as effective as the pure concentration on marketing and non-technological factors would have been. E.g. today business models interlink with technology and innovation is not necessarily technological. This means that technology in general follows the business model, not vice-versa.

Thus EGDF welcomes all efforts to extend the definition of innovation from purely technological innovations to innovations related to content, services and business models. An intelligent innovation strategy should be both flexible and a combination of different elements of innovation, in order to make the difference.

Therefore EGDF would like to see even more user driven approach from Commission when it comes to innovations. As Commission has concluded, non-technological aspects of the innovation process, such as design and marketing, are increasingly important to getting more innovative products and services in the marketplace. But beside design and marketing, also content and business models are crucial areas of innovation.

Consequently EGDF is pleased to note that Commission has now stated it to be necessary to better acknowledge the weight of services as an attribute of modern industrialised countries and their innovation potential for the economy and the society at large. Hence it should be one of the main priorities of Commission to better customise research and innovation support to the specific needs of services, as well as completing critical infrastructures and unlocking their potential with new services and applications. However, these maneuvers should be implemented in a non-discriminatory way in order to keep the level of competition high.

For example user driven technology (see also www.nem-initiative.org) can be seen in open combinations with different elements. E.g. game development studios are at the same time technological (R&D relevant) and creative (design relevant), but it shows often that the transition and the innovation do not follow these paths. Instead content and business models are real drivers of innovation on that area.

Another good example is the sector of online mobile music distribution. In this case innovation does not necessarily mean technological innovation network. Music downloaded

from the Internet has made large parts of storage media (based on complicated technological standardisation procedures with strong European implications) obsolete. The real innovation lies not in the technology, but in the radical business model. This demonstrates how the relevance of content for the advancement of ICT technology has been underestimated in the current generation of ICT support.

Furthermore, as in digital age one does not need large companies to innovate, the most of the innovative business models, services and content are developed by small entities. Therefore EGDF supports strongly a SME approach to innovation, as it should be remembered that innovation cannot be produced; real innovations are usually hidden where one would less expect to find them.

EGDF is pleased to note that EU has introduced efforts to strengthen conditions for entrepreneurship and for growth of new ventures. Content and user driven SMEs like Europe's game developer studios can really make the difference. But a SME approach needs not only to be preached, but also practised. This means that also in reality, not just in the level of political statements, SME's have to be specifically taken care of, including that they are efficiently and successfully informed about their possibilities. Unfortunately so far this goal has been only partially reached.

Consequently innovations should not be supported isolated from markets e.g. by relying too much on just technological breakthroughs. SMEs or other market actors are needed to create jobs and growth from them. Thus one should be careful not be blinded by focusing solely on innovations; one should always see innovations just one important part of the economy as a whole.

In addition, EGDF agrees with Commission that current economic recession is making fund-raising and the exit environment difficult for entrepreneurs. As there is currently no EU-funding program directed for the needs of the video game industry, preparations for setting up one for the new programme period 2014-2019 should be started as soon as possible. Meanwhile, as EGDF finds the Lead Market Initiative (LMI) especially successful tool for supporting innovation, EGDF calls Commission to start a LMI of digital content as soon as possible.

When it comes to Joint Technology Initiatives (JTI) EGDF stresses that some of JTI models used do not necessarily support the goal of strengthening collaboration among different innovation actors and supporting mutual policy learning between innovation policy makers and public innovation support bodies at different levels.

A successful implementation of JTIs, and the RTD policy of EU in general, requires strong involvement of relevant industry in the RTD framework. While engaging actors of the industry in the framework, it should be remembered that strong actions taken to support RTD of big well-established companies also create a serious risk of emerge of companies with dominant market position. In addition, it is in the interest of companies already having a dominant market position to do what ever is necessary to stop the emergence of rival companies. This kind of motive for co-operation clearly cannot be described as collaborative.

When the model of JTI 'Clean sky' is used, the core owners of the JTI are fixed to the limited amount of named companies. Thus this model clearly carries a high risk of dominant market players using a JTI to secure their dominant market position also in the future. Consequently

the model of JTI ‘Artemis’ should be favoured over the JTI ‘Clean sky’, because such an initiative can only be successful, if all major stakeholders of the field of industry are successfully represented and the process is dynamic. This kind of openness should not only be preached, but practiced in the regulatory framework.

On the other hand it is true that large European technology or network driven companies should for one reason or another participate in such an activity. However they should rather consider themselves as “supporting members” than as “owners” of such an activity. Thus JTI ‘Artemis’, that is run by an open industry association, is possibly more open, transparent and dynamic and thus it carries much lower risk of being used to secure dominant market position by major economic players on the field.

EGDF would also like to point out that on the area of enhancing the governance of the EU innovation system EU should not place special focus just on best practice exchange with the US. Besides US, EU should substantially enhance the exchange of best practices with many Asian countries like Australia, South Korea and Japan that are currently raising more and more important role in global economy.

All in all EGDF underlines that EU should be very careful with new regulations considering digital services. As internal market for dematerialized goods and services is just emerging in Europe, it is currently at a very vulnerable state. Thus if EU wants to become the most competitive digital economy, it should pay special attention not give advantage to competing digital economies by over or under regulating its own markets. Thus at the moment all the regulation effecting on digital markets should be evaluated with extra care, as securing the competition in the markets is highly important.

For example, the basis of innovation in the media sector in Europe in recent years was the free and neutral Internet. Before the most of the distribution chains in media content were in the hands of overseas distribution giants. European content makers received not enough to live and too much to die. The free Internet is and was the historical chance for European content producers to overcome post-war distribution structures and to touch down directly to the consumer. For those, who were able to find users, this was usually also an economic success.

Few years ago network and Internet service providers had no systematic overview about the content in their network. Regulation did not allow a closer look. The separation of network infrastructure and online content was the man made “Holy Grail” of Internet regulation. But the situation changed: in the aftermath of homeland security policies of the Western world and the war on terrorism, providers started to install infrastructure to allow systematic scanning of content while being distributed. The legitimate fight against child pornography builds the second layer. Providers need to look even closer at the content in their sphere of responsibility. The next step seems to be the fight against piracy; this debate is still open.

From a content perspective very legitimate motivations in every single case sum up to a new Internet – very different to the Internet which has been known so far. As a whole, there is a danger to network neutrality, the basis of freedom and innovation at this new frontier. The regulatory efforts face themselves constitutional and legal problems in the member states, but much more they might lead to an abrupt ending of innovation in the sector.

There is a risk that infrastructure and service providers will try to leverage barriers-to-entry and key strategic positions into online distribution. This is a danger for content innovation.

Providers might misuse exceptions and “hide” behind it to prioritize their preferred content in order to recoup their investments on the network. In the meantime network capacity becomes more relevant – and even more priority becomes an issue.

Thus easing up net neutrality raises a serious risk of dividing Europe based on national mobile and broadband networks, as network providers would have a possibility to slow down access to the virtual services competing with their own. Consequently this would also raise new borders for the free movement of innovative services and knowledge inside EU.

(2) Should EU innovation policies have a stronger orientation towards addressing major societal challenges? If so, which ones should be prioritised?

Innovations will and should reshape our society. While innovations will bring enormous progress for human beings, they will also create new social challenges. E.g. digitalization of society has created digital gap between people. Therefore the innovation policies of EU should have a more proactive orientation towards social challenges. Thus the innovation policies should not just reactively address the societal challenges. They should proactively support new business models, content and products that help us to overcome those challenges. Consequently this means that European innovation policies should see innovations concerning business models and content equal to innovations concerning technology.

(3) Should innovation policy have any specific sector approach? If so, which sectors should be supported and which specific policy measures should be developed?

As different business sectors have significantly different markets, also policies concerning them should be separately developed based on the realities of these specific business sectors. E.g. computer games are located at the cross road of ICT and cultural industry.

The green future of EU depends highly on the level, which European markets become dematerialized. This means that especial focus should be placed on the innovations supporting the development of European virtual markets. This requires that the whole concept of innovation will be extended from technological innovations concerning business models and digital content. This would also boost up technological innovation in Europe, as technological advancement is only successful in a context of services; alone it is useless.

(4) Do existing instruments to support innovation need to be adjusted to reflect the changing nature of innovation and integrate new innovation patterns (services innovation, open innovation, user-driven innovation etc...)?

Yes, as today it is the technology that follows the business models and content. It should be noted that business models interlink with technology, and innovation is not necessarily technological. In the end, new business models are the innovations that make the technological innovations to create jobs and growth. Therefore testing and developing them should be one of the priorities of innovation programs

TEKES, the Finnish Funding Agency for Technology and Innovation, has taken a broad-based view on innovation: besides funding technological breakthroughs, TEKES emphasizes the significance of service-related, design, business, and social innovations. This approach should be largely adapted also when it comes funding for ICT in EU RTD framework. By extending the definition of innovation and the focus of it in ICT RTD funding, EU will secure its competitive edge on the rapidly expanding content industry.

(5) What are the most important remaining obstacles for the EU to unleash its full creative and innovative potential, in particular through innovative SMEs?

Firstly, although European innovation policies do acknowledge the crucial role of SMEs as a flourishing field of innovations, the programmes supporting innovation have rarely been able to reach the most innovative SMEs, at least when it comes to computer game industry. Two main reasons for this are inflexibility and bureaucratic nature of the programmes and the invisibility of the programmes among those actors who actually could benefit the most of it.

Therefore EGDF welcomes all actions of European Commission to keep the evaluation process of innovation programmes dated so that it is able to come more focussed on real innovation within the reality of the market place and less formalized. In general this means that structures of innovation programmes should be stronger to be able to be more flexible, less guideline oriented and less bureaucratic.

Programmes supporting innovations should be able to communicate their possibilities also to the innovative actors under the surface of big companies and actors specialised on writing project applications. Only those who are interested in the programmes anyway will travel to Brussels to participate to events organized to promote them. The innovation programmes should be present on major industry events, where their target groups are gathered anyway.

Secondly the focus of innovation funding for SMEs should be directed from loans and loan guarantees to direct funding for innovation projects in SMEs. In SMEs working with low resources the most innovative and promising R&D projects can be cancelled, because they are too risky to be funded with loan money. Therefore direct innovation funding would boost more innovation projects in Europe than funding in form of loans.

(6) What are the implications for research policy of the changes needed to policies in support of innovation (e.g. the goal of addressing major societal changes, etc ...)?

Research and innovation support should be better customized to the needs of innovative services. At the moment ICT focus of EU RTD framework does not fully include creative industries using ICT as medium of their creative cultural products and services. As European ICT markets are getting more and more driven by digital content there is a clear need to modernise aid frameworks to reflect the changes brought by the digital world e.g. by mobilizing and coordinating them to respond to the need to develop the creative sector.

Good example of the demand for new innovations as a result of digitalization is the sector of interactive mobile content: the content production was many years hampered by technical standardisation on handsets as well as by little cooperative business propositions from the operator side for the content community. The APP Store driven by Apple (and now followed by OVI Store from Nokia) has solved the problem now: the free internet has once again made it possible to overtake complicated restrictions on flat rates from the operators with little technological implications. But the price is that Europe's leading position in the mobile sector is under pressure and the content – once again – does not necessarily vest from Europe.

This insight is enriched by the experience of storage media. The strategic choice on the storage media of the future (HD-DVD or BLUE RAY) has been made exclusively on the basis of content back catalogues of Hollywood studios. This means not only business models,

but also content (and the ability to produce content) takes the final stake in standardisation efforts. Standardisation works without content only in cases, where no content is relevant (e.g. only voice telephony, business software). Research must be built in the context of the real media distribution system. In every single case the relevance of content and relevant business models should be justified. And the end user's perception of media happens through the content layer.

TEKES, the Finnish Funding Agency for Technology and Innovation, has taken a broad-based view on innovation: besides funding technological breakthroughs, TEKES emphasizes the significance of service-related, design, business, and social innovations. This approach should be largely adapted also when it comes funding for ICT in EU RTD framework. By extending the definition of innovation and the focus of it in ICT RTD funding, EU will secure its competitive edge on the rapidly expanding content industry.

(7) Which scope exists to better facilitate the consolidation of world-class innovation “eco-systems” or clusters in the EU at regional level, taking into account emerging industries?

Entrepreneurs themselves should be placed in the centre of the focus of world-class innovation clusters and ecosystem. Way too often the public structures supporting innovation clusters come far more important for policy programmes than their actual support for emerging industries. As the example of currently emerging computer game industry shows, often the prejudices on the side of emerging enterprises and on the side of structures created to support them form a barrier that in the end hinders the development of industry sector.

Therefore just creating the structures making the clusters visible should not be the goal, much more emphasis should be placed on the actual methods that the clusters can use to modify their way of work in order to be able to answer the quickly changing realities on the markets.

Thus on regional level it would be highly important to built up systems where research, educational institutions and SMEs support each other in order to create jobs and growth to the region. All too often, instead of co-operation, these actors are severely competing with each other from same public funding.

(8) How could the cooperation between regional, national and European innovation support programmes be reinforced to address the new challenges faster and more efficiently?

One of the biggest problems of EU funding for SMEs are delays in handling funding applications in the regional, national and European level. For SMEs, working with small capital, even small delays in funding may mean that they are forced to temporary dismisses their employees. Frequent delays show that currently innovation support programs are rarely capable of coping with existing challenges (e.g. urgent need for clearer forms for providing funding). Before trying to reinforce them to cope with new challenges, they should be able to face the existing ones.

Especially the preparations for new budgetary period of EU should be started well in advance. So that new funding programs will not be delayed and regional and national funding bodies delivering EU money and SMEs applying for it have time to prepare themselves for changes in funding procedures.

In general it should be remembered that the real innovations should be identified behind the most innovative project applications. One of the byproducts of European framework conditions has been the emerge of enterprises and officials burying themselves in mastering ever-changing framework regulations, currently fashionable political rhetoric and building an extensive contact network among those running the framework. As a result, there is a remarkable risk of innovation funding ending up to the most brilliant project applications instead of the most innovative goods, content and services. Therefore capability of programs supporting innovations should be developed to actually identify real innovations behind the formal quality of applications.

In order to be able to reach the most innovative actors the EU RTD framework has to be much more risk-taking, risk tolerant and competent to identify the most innovative initiatives behind the formal quality of applications. If more support from EU RTD framework would be successfully targeted to the needs of the most innovative SMEs instead of actors mastering the art of writing EU project applications, it would lead to increased competition on European single markets and direct the funding to the most successful European products, which in the long run would increase the competitiveness of the whole Union.

In addition the expectations of stakeholders should be heard on all levels of innovation funding to maximise its benefits to its target groups.

(9) What could the EU do to provide adequate access to finance to SMEs and entrepreneurs?

EGDF supports a SME focused approach. Content and user driven SMEs like Europe's game developer studios can really make the difference. But a SME approach needs not only to be preached, but also practised. It means in reality, that SMEs are specifically taken care of, including that they are efficiently and successfully informed about their possibilities.

Therefore, firstly, programmes supporting innovations should be able to communicate possibilities they are offering also to the innovative actors under the surface of big companies and actors specialised on writing project applications. Only those who are interested in the programmes anyway will travel to Brussels to participate to events organized to promote them. The innovation programmes should be present on major industry events, where their target groups are gathered anyway, and in addition to collaborative support also individual support should be provided.

Secondly, the focus of innovation funding for SMEs should be directed from loans and loan guarantees to direct funding for innovation projects in SMEs. In SMEs working with low resources most innovative and promising R&D projects can be cancelled, because they are too risky to be funded with loan money. Therefore direct innovation funding would boost more innovation projects in Europe than funding in form of loans.

Thirdly, as there is currently no EU-funding program directed for the needs of the computer game industry, preparations for setting up one for the new programme period 2014-2019 should be started as soon as possible. Meanwhile, as EGDF finds the Lead Market Initiative (LMI) especially successful tool for supporting innovation, EGDF calls European Commission to start a LMI of digital content as soon as possible.

Fourthly, also the application procedures should be simplified.

- (10)** As there is currently no EU-funding program directed for the needs of the video game industry, preparations for setting up one for the new programme period 2014-2019 should be started as soon as possible. **Could the EU contribute to exploit the innovation potential in public services?**

The main focus of EU contributions should be extended from guidelines for public procurements to mainstreaming new innovative ways of offering public services. E.g. so called applied games, also known as serious games, offer effective tools on increasing efficiency of human actions by skill building and skill development. Instead of inventing the wheel again, they increase the efficiency of human actions e.g. in controlling traffic flows and in many other ways that will help to increase the efficiency of public services.

- (11) How could the Community funding programmes for innovation, including FP7, CIP and Structural Funds, be simplified and streamlined?**

EGDF sees public funding programs as highly important tool to boost innovation in Europe. Therefore it welcomes all efforts to make applying funding from them simpler.

Firstly, the real innovations should be identified behind the most innovative project applications. One of the byproducts of European framework conditions has been the emerge of enterprises and officials burying themselves in mastering ever-changing framework regulations, currently fashionable political rhetoric and building an extensive contact network among those running the framework. As a result, there is a remarkable risk of innovation funding ending up to the most brilliant project applications instead of the most innovative goods, content and services. Therefore capability of programs supporting innovations should be developed to actually identify real innovations behind the formal quality of applications.

Secondly, SME associations and their umbrella organizations are not automatically equated to SMEs in the FP7 guidelines. As SME associations and their umbrella organizations are attending to their members' interest, they are experts of the challenges faced by their members and are efficient on the mainstreaming of best practices, new knowledge, norms and standards among their members. It should be noted that SME associations work as multipliers among SMEs and thus the most effective way of achieving many of the goals of the FP7 for SMEs is to engage a SME association as a representative of SMEs to projects under FP7.

At the moment SME associations are accepted as a SME on a case per case basis. A general rule does not exist, which makes it sometimes complicated. Therefore in order to simplify often confusing status of SME associations under the FP7 framework, SME associations should be considered in general equal to SMEs. This would significantly clarify the role of SME associations under the FP7 framework and thus increase their involvement in the FP7 activities and help them to better mainstream the benefits of FP7 to European SMEs.

Thirdly, currently the effectiveness of EU RDT activities is not as high as it could be, because lots of energy, time and funding is used only to building up partnerships on European level that do not necessarily offer any additional benefits on the long run. Therefore there should also be possibilities for non-collaborative projects for SMEs in the FP7 framework.

As the old fallacy stating that only large companies can innovate does not apply at all for the digital age, a similar program to current Ideas programme for researchers is needed to be split

from Co-operation programme of FP7 for them. This should not be linked to any formal requirements on university level or research level. It should really be open for new ideas from the whole community. To secure that funding goes to SMEs, this kind of funding should be directed only to projects of about 500 000 euros and one should be allowed to reapply it only once for the same project.

Fourthly, the successful implementation of EU RTD policy for creating jobs and growth requires strong involvement of relevant industry in the RTD framework. While engaging actors of the industry in the framework, it should be remembered that strong actions taken to support RTD of big well-established companies also create a serious risk of emergence of companies with dominant market position. In addition, it is in the interest of companies already having a dominant market position to do what ever is necessary to stop the emergence of rival companies.

Mobile games for example could not take off, because the European network operators tried to control this business and refused new and more adapted solutions. The result is that the iPhone took back the competitive advantage where the distribution of content happens outside of the control of the European operators; they lost their share in the game and Europe lost most of its competitive edge.

Therefore, in all levels of EU RTD framework it should be secured that a broad base of companies, especially SMEs, are benefiting from it. In particular, SMEs should be more present in the core of the framework projects. This is especially important when it comes to creation of JTIs. Also the risk of dominant market players using a JTI to secure their dominant market position in the future should be minimized.

Further, in order to avoid market failures, it is important to take into account the specific economic situation of different markets and their actors while building up JTIs. E.g. it is necessary that the specific economic situation of the content industry as driver of the internet, but in a more networked – internet based way – is taken into consideration while building up a JTI of the Internet of the Future.

This is vital for emerging markets, where the possibility of global success stories for European companies is higher than any other field. Real success stories like Facebook and Twitter have risen from small initiatives to global players just in few years, Europe should not kill these kinds of initiatives on its continent by supporting emergence of dominant market players.

Especially in markets of unpredictable and rapid changes an unflexible approach could be counterproductive and eventually face utter failure. E.g. in some markets it is not helpful, when companies try to leverage market positions from one distribution channel to the next one. Therefore e.g. in the context of the planned JTI for Internet of the Future the situation is different than in the case of ‘Clear sky’: there are much more and different stakeholders and the surrounding is changing very quickly and is not very predictable.

JTI ‘Artemis’, that is run by an open industry association, is possibly the most open, transparent and dynamic JTI model and thus it carries much lower risk of being used to secure dominant market position by major economic players on the field than other models.

(12) What could be realistic and meaningful quantitative and qualitative targets for future European innovation policy?

As digitalization of markets is a clear global mega trend and most of the innovations leading to introduction of new technologies are made in digital business models and services, the growth of European markets of dematerialized goods is an excellent indicator on how fast new innovative business models and services are introduced.

As Internet is today the main platform for exchange, the broadband access and number of Internet users are good indicators of the development of digital economy in Europe. Therefore quantitative targets set in Riga declaration are still valid indicators for the success of European innovation policy.

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