

Saving industrial innovation in Europe

by

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Overview

Four years ago, the presidency of the Council of the European Union initiated an independent and tripartite group of experts to work on innovation policy management. Stefan Schepers, who manages this group, analyses the impact of dysfunctions of European governance on innovation policies. He believes that a solution may be found by setting up a core group aimed at restoring a 'team spirit', built on trust and co-operation, which existed when the European Community was first created. He also suggests the need for better management of the complexity of European policies and the ability to relate them more closely to socio-economic issues. Industrialists have a role to play in this reform by contributing to a shared vision in order to serve European interests. EU projects regarding energy, the digital sector or even the circular economy might then be powerful means for innovation.

Report by Élisabeth Bourguinat • Translation by Rachel Marlin

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Having been director general of the European Institute of Public Administration when Jacques Delors was president of the European Commission, I joined the private sector. A few years ago when I was advisor to the Polish government which held the presidency of the Council of the European Union, the Polish Prime Minister Donald Tusk and his Finance Minister decided to create an independent and high-level tripartite group to advise the European Council and the Commission on innovation policy management. It deals with more than just innovation as it handles innovation policy management to help in the creation of jobs which is currently difficult in Europe. European methods of governance are at least twenty years behind the times: it is like wanting to make an electric car using design tools intended for a mechanical car.

A successful system designed by Jean Monnet

The system of multinational governance established by Jean Monnet and the other co-founders of the European Community was certainly successful. Its achievements included the creation of a common market, followed by that of a unique market (even though this market has still not been completely achieved); the introduction of a common currency; the negotiation of trade agreements; the restructuring of sectors in difficulty (such as steel, coal, agriculture and transport); and the development of a culture of co-operation, both on a political level as well as between national administrations.

Three components were necessary to create a common market: legislation to break down national barriers; the creation of common industrial standards in order to establish fair competition; and financial funding to help to reconstruct sectors in difficulty and to support those who seemingly 'lost out' in this integration. All of these elements were implemented and worked well in the Europe of the original six member states, followed by nine, twelve and fifteen countries.

The system relied on the combination of two approaches: an idealistic approach symbolised by a broad vision of Europe; and permanent haggling (almost like in a street market) in order to find compromises between national interests. With this dual approach, the European Commission was considered to be independent of national interests which were defended by the Council of Ministers. This system was quite well balanced and worked well until the end of Jacques Delors' presidency. It started faltering towards the end of the 1990s but, as is often the case, this was not apparent until much later on.

Flaws in the system

Direct election of the European Parliament

The first flaw in the system appeared in 1979 as a result of the direct election of the European Parliament. I realise that just by saying this I am breaking a taboo, but it is easy to realise that when one allows to choose MEPs by national election systems (who are supposed to represent the common European good) this may well destabilise the situation. Consequently, MEPs are now in a rather uncertain position.

Adopting a principle of precaution

The second flaw is linked to the Treaty of Amsterdam, signed in 1997, which was based on a principle of precaution. Once this concept, which was originally devised by the Germans, was adopted on a European level, the European Parliament never let it go, and the Parliament has now devoted itself to the 'idealistic' protection of citizens and consumers without the constraints of any socio-political or economic responsibility which exists on a national level. This is one of the main causes of the regulatory overload which currently weighs heavily on European companies.

Joint decision between Council and Parliament

The third flaw appeared when the Treaty of Lisbon was introduced in 2007. Under the direction of the former French president Valéry Giscard d'Estaing who had already made a case for a 'United States of Europe' and did not take into account the fact that the Community had increased the number of member states from fifteen to twenty-three, there was an attempt to make European governance more democratic by having decision made by both the Council of Ministers and the Parliament. The decision procedure now concludes with a 'trialogue' phase during which the three presidencies of the Council and a multipartite delegation of the Parliament negotiate the final agreements between the Parliament and the twenty-eight member states.

Often, the only consensus which one is able to find consists of taking into account everyone's requests and demands, and this inevitably results in a new regulatory overload.

Enlargement of the European Union to twenty-eight members

The fourth flaw is linked to the enlargement of the European Union and the disappearance of the original culture of co-operation. At the time when the Council only had fifteen members, each of whom was accompanied by one or two advisors, it was possible to sit around a table and negotiate. The heads of state knew each other, they could discuss matters informally, and the ministers knew how to try to convince 'difficult' colleagues to accept a compromise. Today, a Council meeting can involve up to two hundred participants. How can one possibly have similar discussions in such circumstances? Not only is it complicated materially speaking, but the 'team spirit' which once prevailed has disappeared.

This spirit started waning because the members of the Council no longer spoke the same language. In the past, everyone resorted to speaking French. Even the British made the effort only to send diplomats to Brussels who were able to speak French. Today, English has become the working language, but not everyone speaks it properly. The English spoken by a prime minister of one of the founding countries of the European Community is not even up to secondary school standard.

The disappearance of 'team spirit' became more noticeable after the arrival in the European Union of countries which emerged after their liberation from the Soviet Union communist era, and they were not willing to give up the slightest part of their sovereignty. Furthermore, their administrative systems were often inefficient, with the exception of some countries among the Baltic states which had benefitted from rapid modernisation because of close co-operation with Sweden and Finland.

Finally, the 'team spirit' completely disappeared after the battering it received from Alexis Tsípras and Matteo Renzi. Their undiplomatic style somewhat offended Angela Merkel and her allies who ordinarily were supposed to help out Greece and Italy financially.

Difficult objectives to put in place

At the same time as dysfunctions multiplied in the governance methods of the European Union, the Union continued to give itself additional objectives. These included the adoption of a policy for research and innovation, the creation of an energy union, the launch of a digital policy, and the implementation of a circular economy. Not only are all these objectives difficult to support, but they are also hard to implement.

A rather unfavourable context

The impact of these dysfunctions was made worse by increasing interdependencies and the growing systemic complexity of the European Union; radical transformations and globalisation as a result of the progress of science and technologies; greater inequalities linked to chosen economic policies; and the growing discontent of populations.

Unemployment in Europe

When one has to govern a complex system, it is best to be inside this system, like a conductor who has to be present in the centre of the orchestra. However, the European Commission, because of the treaties it has signed and which force it to respect the sovereignty of states, is not allowed to play this conductor role. It can only take care of specific issues which are separated from each other.

A symptom of this dysfunction can be seen in the persistent unemployment now in Europe. One of the origins of this phenomenon is the confusion which exists because of the division of roles between various European bodies. The Commission is the sole competent authority under the mandate of the Council of Ministers, to conclude trade treaties. At the same time, it devises policies regarding health, sustainability and the protection of the environment which are perfectly legitimate, but which result in a strong increase in production costs of European companies. Also a different part of the European system is liberalising international trade excessively without taking the precaution of adding an adjustment tax, the result being a large discrepancy between production costs of European and non-European companies.

Faced with this situation, companies have started to relocate their production centres to Eastern European countries, but now that these countries have begun to apply European regulations, companies are relocating even further away. Since research and innovation are very closely linked to industrial production, all these activities are in the process of leaving Europe. This is one example of how certain aspects of European Union policy are creating unemployment in some member countries.

The impact of governance on innovation policies

The relocation of R&D centres is not the only result of the dysfunction of European governance in terms of innovation.

Confusion between research and innovation

A fundamental difficulty stems from the fact that the European Union is competent in research, but not innovation. This is why the two terms are constantly associated and even mixed up in European programmes. Obviously research is not innovation. A company can file thousands of patents without managing to put the smallest innovation on the market.

To facilitate the transition from research to innovation, it is necessary to remove a number of obstacles to the creation and development of companies on a national level, in particular in France. If one does not, there will be a brain-drain to other countries. The director of the Irish innovation agency recently explained that the second largest community of start-up creators in Ireland is young French graduates. Ireland has a more open, legal environment for them and in this climate an initial business failure does not stigmatise them for the rest of their lives.

Multiplicity, complexity and multiplication of policies

The work group which I jointly lead identified, among the various European programmes, sixteen different policies in favour of innovation. A system which is both intergovernmental and supranational, and which has increasing recourse to traditional methods is not capable of managing such complexity. Rather than create an additional layer of important projects which create competition between national governments, it would be more useful if the European Commission looked for all the ways in which it could facilitate work in a network of innovation clusters which exists in several countries.

Inappropriate use of strategic investment funds

The European fund created by President Juncker in favour of strategic investments is still too often used for traditional projects. If we want to create an energy union, and in particular encourage energy savings, it is important

that we digitalise the electrical networks. However, in the eyes of voters, building a bridge or restoring a former mine is more obvious. Consequently, only a part of these funds is devoted to objectives which are truly strategic.

'Rope bridges' between the European Commission and companies

In order to promote innovation, it is necessary for European leaders to know the corporate world better: they appear to live on a different planet, and are focussed on policies concerning health or the circular economy. The bridges between these two worlds are made of wood or even rope but not really bridges on which one can make deals. In the United States, the innovation support system which was put in place by the DARPA (Defense Advanced Research Projects Agency) works much better. Of course it is managed by a military-cum-industrial complex, but at least the innovations are commercialised.

A kind of 'betrayal of industrialists'

Companies and interest groups have their share of responsibility for the difficulties of the European Union. Julien Benda denounced the 'betrayal of the clerks'. As far as I am concerned, I deplore a kind of 'betrayal of industrialists' of the European cause.

In the 1970s, Philips and a few other important companies formed a lobby to produce a white paper on the single market. These industrial companies managed to convince both right – and left – wing governments of the advantages of a single market in terms of research, innovation and employment. Now that the single market and the Euro exist, industrial associations are not working at full speed and are in defensive mode. They do not even hide their contempt/scorn for politics. They openly present a series of demands to the Commission, like children giving Father Christmas a list of the presents they want, without trying to contribute to a common vision which serves European interests.

The absence of 'positive' lobbies attempting to establish a regular and constructive dialogue with the European Commission means that there is plenty of space for 'negative' lobbies which can be both individual and aggressive. Some industrialists do not think twice about spending 15,000 Euros on a dinner and a photo opportunity with a top politician, but curiously do not have 5,000 Euros to give to a think-tank working on European economic policy. As for the European Round Table of Industrialists (ERT), there was a time when it was invited to speak before each European Council meeting because it had something to say. Today, it continues to be received diplomatically, but the length of time it is allowed to speak has been greatly reduced. It is urgent that major industrialists come back to the table to talk about how to help us rethink Europe.

How does one help innovation in Europe?

One still has to realise that, thanks to reforms announced by the European Commissioner Carlos Moedas who is in charge of research, sciences and innovation, there is a new breath of fresh air. His project to create an innovation council is a good idea so long as it covers the entire innovation value chain on a European level from research to commercialisation, making it possible to identify and remove obstacles, or at least to reduce them. Having said that, I do not know whether this idea will be accepted or if it will be able to work because national innovation councils or agencies have dissimilar structures and mandates.

I believe more in inter-governmental co-operation under the management of the European Commission. National civil servants often regard the Commission as a body which tries to undermine their power and therefore their careers, and this makes them very distrustful. The Commission should give up trying to extend its powers continually, and try instead to play a role comparable to that of the OECD (Organisation for Economic Co-operation and Development) or that of the General Secretariat of NATO (North Atlantic Treaty Organisation), organising consultation and co-ordinating meetings between national leaders in various sectors of innovation. This might help them to be more unified.

The aim of creating an energy union should be to strongly stimulate research and innovation. One must nevertheless put an end to rearguard actions such as the defence of the Polish coal industry. The Polish Secretary of State for

the environment recently explained that she was hard-pressed to put forward any propositions to this effect because she did not have any means to finance industrial reconversion. We must urgently restore the restructuration funds.

The development of the circular economy could also stimulate innovation providing that the CAP (Common Agricultural Policy) is totally revamped from head to toe. However, it was decided three years ago that the CAP would remain untouched until 2020. Nonetheless, it would be a huge advantage for Europe to have a competitive and innovative system of agriculture. This would require modernisation and an identification of the decision processes which lend themselves too much to what the public wants. Meanwhile, demographics change, the world changes, and no-one is waiting for us.

Equally, achieving a digital union could be an important source of innovation, but this supposes that one must start by protecting our sovereignty and ensuring a stranglehold on data produced in Europe. An electrical goods manufacturer will soon have very precise information about the consumption habits of his clients. He will know when one uses one's oven or one's washing machine, or even what one puts in one's fridge. However, for the time being, we do not know whether it will be the electrical appliance manufacturer, the electricity producer, or the cable manufacturer who will own this data. These queries must be solved if European countries are going to benefit from a digital union.

Conclusion

Despite all these difficulties, I remain optimistic. Europe has gone through a number of crises and each one was supposed to be the last. All these crises helped Europe to move forward. One such example is the 1970s petrol crisis which led to the creation of the single market.

Nevertheless, we should undertake a reform which has never been launched now and which serves to revise the workings and even the founding principles of the system. One cannot manage a post-industrial economy with the methods taken from an industrial economy. The methods of the European Union date back partly to the 1950s, in other words when the typewriter came into existence. We must now move into the era of the tablet.

Discussion



A shared diagnosis?

Question: *In order to solve a problem, one must first agree about the diagnosis. Is the one you presented to us broadly shared by European bodies?*

Stefan Schepers: One often hears this sort of analysis in the corridors of power in Brussels, even if it is said in a more diplomatic way.

Just over twenty years ago, in 1994, Wolfgang Schäuble and Karl Lamers published an article which suggested creating a 'European core' (*Kerneuropa*). This document was recently resurrected, and in my opinion the approach it suggests is the only solution. For the time being, no-one is talking about it because everyone is eagerly awaiting the results of the next French presidential election. Without France, it would be very difficult to create a core. It would simply be the extension of the German core, and neither the Dutch, nor the Belgians, nor the Luxembourgers nor the Austrians would want that.

The Franco-German couple

Q.: *Could the Franco-German couple successfully achieve its objectives in the light of the current European crisis?*

S. S.: This couple is the cornerstone of the construction of Europe, and it is in the interest of us all that the opinion-makers of both countries strive to maintain their *entente cordiale*. This is why I am very saddened by the fact that there was not more reaction when Marine Le Pen (French National Front) and Jean-Luc Mélenchon (French Left Front Party) dared to talk about Germany using language which had not been heard since the 1930s or 1940s. If one undermines trust and a spirit of co-operation, the rest falls apart. One may completely disagree about certain policies, but one should express one's disagreement on a foundation of trust and mutual understanding.

A reversible process?

Q.: *You have described a process of deterioration which has been going on for the last twenty years. Is it still possible to reverse this process?*

S. S.: The European system had some remarkable successes until the mid 1990s. The creation of a single market in particular was a success, and we all still benefit from it today. It forced the heads of companies to project themselves on a European and then a world level. On the other hand, the implementation of uncontrolled liberalisation created growing inequalities and encouraged the rise of extreme right-wing parties. President Juncker summed up the current situation very well when he said 'We know exactly what we ought to do, but we do not know how to be re-elected.'

The prospect of Brexit

Q.: *What do you think about the possibility of Brexit?*

S. S.: Officially everyone hopes that the United Kingdom will remain in the EU and there is no Plan B. In reality of course there is a Plan B and many studies have been carried out about the consequences of Brexit. They have shown that the economic cost would be huge especially for the United Kingdom, and that the legal cost would also be considerable. It is likely that a new referendum would bring independence to Scotland which would then ask to be part of Europe. As for Ireland, the prospect of adding a further reason for the division between the two Irelands after so many efforts to make peace would not be at all welcome.

This situation makes me think that in the coming months there are going to be various theatrical antics including the slamming of doors, heated debates, tears, shouting and sighing, all aimed at helping David Cameron to get the desired result from the Brexit referendum.

I also think that thanks to the British, Hungarians, Poles and Greeks – to name but a few – the principle of a *Kerneuropa* will quickly gain ground.

The salutary role of crises

Q.: *Some organisations are managed dynamically, and others, thermodynamically. Some survive in unstable conditions and others do everything necessary to remain stable. Experience has shown that it is very difficult to move from thermodynamic management to dynamic management, and that for this to take place, there needs to be a serious crisis, like the French Revolution.*

S. S.: The refugee crisis will perhaps adopt this role. We have known for the past four years that this crisis was about to erupt in Syria, Turkey and Lebanon, and that the system of controlling European frontiers does not work. And yet, nothing has been done. The problem has been made worse by the lack of understanding of heads of state and governments, linked in particular to the fact that in Germany the concept of 'asylum' has a different meaning than in the rest of Europe. The right to asylum is guaranteed by Article 16 of the German constitution, whereas

in all the other countries it depends on international treaties, and we know why: in Germany, one in eight people is a descendant of a refugee family.

Q.: For a successful transition there must be an alternative, in other words a body of thought and methods which were devised at the beginning of the process and are available when change takes place. Without this, the transformation runs the risk of failing. This body was present when the French Revolution took place. Is there such a body today in Europe?

S. S.: Our group worked with this spirit. In principle, we ought to focus on innovations in the economic sector, but one cannot talk about economic innovations without discussing innovation in governance. This is why a whole chapter of the report which our group presented to the Council and the Commission in 2014 is devoted to governmental innovation. In this chapter, we suggest the concept of ‘collaborative governance’ to try to strengthen co-ordination and consistency between policies. One of our recommendations was to institute vice presidents without portfolio in the Commission. Their only job would be to ensure the co-ordination and consistency between the different policies. This is one of the first propositions to have been implemented by President Juncker, and a year later this measure seems to have started yielding results.

However, one must go even further. One cannot talk about economic and governmental innovation without also dealing with social innovation. If one does not restore the welfare state in Europe, the results of national elections will end up destroying the single market and the European Union.

Indicators of the Treaty of Lisbon

Q.: Every six months, Eurostat publishes the performances of member countries according to five indicators contained in the Treaty of Lisbon (employment, R&D, climate/energy, education and poverty). The results are very bad, and no-one is talking about them. However, I am convinced that if one presented these indicators to Europeans, 90 % of them would consider them to be pertinent and legitimate. Perhaps, with the Brexit referendum, the German general election and the French presidential election, these indicators would once again be in the public eye. If citizens measured the difference between stated objectives and what really takes place, they would not joke about it any more.

S. S.: These five indicators represent an attempt to reintroduce the key elements of the welfare state in European governance. They already play an important role in discussions of the Council of Economic and Finance Ministers which represents the second most important body after the Council of Heads of State or Government. However, on the one hand they remain in the background compared to the standards of Maastricht, and, on the other, they are not sufficiently mentioned by national media which prefer to discuss trivia. As for the economic media, all the heads of companies whom I know, including those in France, start their day by reading ‘The Wall Street Journal’ which is the main source of disinformation about the European Commission.

For these five indicators to really play their role, Eurostat would have to establish fair comparisons between the countries. However, this body works on the basis of national statistics which adopt different approaches. This is part of the difficulties facing the European Union. With twenty-eight members, it is very difficult to reach a conceptual consensus let alone a political consensus.

■ Presentation of the speaker ■

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