



i²4C
INDUSTRIAL INNOVATION
FOR COMPETITIVENESS

A MODERN INDUSTRIAL STRATEGY PRIORITISING INNOVATION, ECOSYSTEMS AND DIALOGUE

SOLUTION PROPOSAL SUBMITTED TO THE
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Context

The annual Global Economic Symposium organised by German economics institute IfW brings together global leaders from business, policy and civil society to discuss “Solutions” to the world’s most pressing issues.

The i24c platform was an official sponsor of the 2015 GES, which took place in Kiel on October 12-14 2015. This paper is i24c’s “Solution” to the following issues:

- How can Europe and its Member States best design and deliver an industrial policy that allows to simultaneously achieve growth and decarbonisation, while also stimulating innovation and competition?
- What are areas in which active cooperation could be most beneficial to achieve a transformative innovation agenda along the whole industrial value-chain?
- What should be the institutional process for designing a modern sustainable industrial policy for a country, and which stakeholders should be involved?

This Solution served as a basis for the panel discussion organised by i24c on the issue of “**Developing Modern Sustainable Industrial Policies through Innovation-focused "Co-opetition"**”. The following speakers attended that session:

- **Stewart Wallis**, Executive Director of the New Economics Foundation
- **Pascal Lamy**, former Director-General of the World Trade Organisation
- **Thomas Fricke**, Chief Economist of the European Climate Foundation
- **Martin Porter**, Executive Director of i24c

The Challenge

How to design an industrial policy for Europe, which spurs innovation and enables European industries to lead in the low carbon “space race”? This is a key challenge related to two agendas on which international attention is currently focused: the COP21 of the United Nations Framework Convention on Climate Change in Paris, and Europe's recent agenda for growth, jobs, and competitiveness. Much like climate policy, the need for a new industrial policy is widely acknowledged among politicians, businesses, and the wider society. However, there is little confidence that an innovative and effective industrial policy can be designed to fit all sectors, regions, and stakeholders alike. Yet, with a low carbon market estimated at more than 4.5 trillion euros, progress in this area is vital. One promising approach is to develop a modern understanding of the role of public policy and free markets. With this in mind, the idea of "co-opetition" seeks to stimulate industrial innovation through a combination of both cooperation and competition among countries and enterprises.



The i24c solution

INTRODUCTION

Companies are increasingly recognising that only sustainable production processes can secure profits in the long term, and that climate policies are a huge business opportunity (e.g., renewables, Electric vehicles, shared cars, circular economy). However, companies are not always provided with the right incentives (not only in the form of subsidies) or the certainty that they should go forward with developing low carbon solutions or making the needed investment. Moreover, deep industrial decarbonisation will only materialise and translate into comparative advantage if they result from coordinated actions by a multiplicity of actors within key value chains.

REMOVING UNCERTAINTY AND STIMULATING CO-OPETITION

Companies are in need of a clearly defined framework (public policy and free markets), which is supported by a more modern industrial policy that moves away from the old models of purely sectoral interventions (“picking winners”). Such a policy should aim to reduce uncertainty and stimulate industrial innovation through a combination of both cooperation and competition - or “co-opetition”.

- Cooperative in setting not just a clear common target for decarbonisation of the economy (within the UNFCCC agenda to reach the 2-degree target) but also in some specific actions for that; international, regional or local private-private partnerships can be established with an active risk-pooling approach for breakthrough technologies; or companies can forge alliances across traditional geographic and sectoral boundaries, namely to work on R&D, circularity and lower costs.
- Competitive in the sense that within this commonly agreed framework and clear, unavoidable decarbonisation process, countries and companies compete fairly and legitimately according to agreed rules (under WTO, for example) for advantage in a whole series of new and different global markets. This is the market driving economic activity, innovation and creativity in the low carbon “space race”.

NURTURING CHALLENGE-LED INNOVATION ECOSYSTEMS

The new innovation policy should also be purposive or challenge-oriented, which emphasises the broader outcomes of innovation (e.g., solving grand challenges such as climate change), rather than just their technical focus. It should strive to enable innovation within ecosystems of industrial actors working to deliver end-use services such as mobility or energy. Policymakers should target their interventions toward these ecosystems, which are the primary locus of innovation and industrial transformation, and combine the action of businesses, institutions, technologies and societies.



ESTABLISHING A VISION FOR EUROPEAN INDUSTRIAL TRANSFORMATION

Part of the solution also resides in developing a vision for European industry and support policies offering an investable policy framework, the same way that it has one for energy. We see the right movements in the Energy Union debate, where the European Commission announced it would prioritise the development of a forward-looking, energy and climate-related R&I strategy to maintain European technological leadership and expand export opportunities. However we need to extend that to industrial process and package it together in a low carbon industrial innovation package.

DEFINING NEW PROCESSES AND GOVERNANCE FOR EUROPE'S INDUSTRIAL POLICY:

Finally, also key in overcoming the innovation hurdles is developing a process whereby trust, experimentation, and dialogue is enabled. This comes with:

- Identifying areas in which active cooperation could be most beneficial to a transformative innovation agenda that achieves the decarbonisation goal, along the whole industrial value-chain.
- Developing or scaling ecosystems and grass root initiatives that are held together by a “conductor”, which brings different stakeholders together (public policy-makers, industrial interests and civil society), and pilots innovation within specific ecosystems. Famous examples of such strategic conductors include ARPA-E in the United States.
- Socializing the risk of innovation within ecosystems but also its rewards by adopting the position of a strategic investor.
- Rethinking current governance models, with a more integrated/co-ordinated/responsive institutional architecture that brings together European union, member states, regions and cities, and acknowledges that each level of government has an important role to play in enabling the emergence of ecosystems.
- Developing specific policies that help remove investor uncertainty and that enable / open markets for low carbon innovation / products in Europe (e.g., standards, government procurement).

This solution is likely to face significant obstacles in the form of resistance, active or passive, from incumbent firms to participating in experimentations whereas the perceived sustainability of their business models depends on protecting the status quo. As a corollary, spaces of constant dialogues and institutionalized proximity between public and private actors may lead to corporate capture and the locking out of emergent technologies and ideas.