

EUROPEAN RESEARCH AREA BOARD

ERAB's views on the role of Public Procurement for the R&I strategy

The Issue

Addressing societal challenges with innovative technologies can boost market demand, while at the same time focussing the various public and private actions on the input, throughput and output sides of the innovation system are common goals.

If there is no market demand for innovative products and services or barriers exist in the market place, there is no point for firms in investing in R&D. The US public sector is spending \$50 billion per year in procurement of R&D, an amount which is 20 times higher than in Europe and represents approximately half of the overall R&D investment gap between the US and Europe¹.

ERAB proposes to develop a policy for ensuring that 2% of public procurement ERA-wide is earmarked for innovative and pre-commercial technologies, and is open to European-wide competition

Public procurement is the acquisition of goods and/or services for the direct benefit or use of governments. In 2007, total public procurement of goods and services in the EU amounted to 2.1 trillion euro or 16.9% of GDP. The value of openly advertised public procurement amounted to only 3.1% of GDP. Public procurement predominantly takes place at local and regional levels. At national level, most public procurement stems from ministries other than those responsible for research and innovation.

Earmarking 2% of public procurement expenditure in the EU for procuring R&D services and innovative technologies from the private sector would amount to some 40 billion euro, equivalent to almost five times total state aid for R&D and innovation in the EU (8.6 billion euro in 2008 or 0.07% of GDP²).

Although the EU regulatory framework for public procurement was revised in 2004 to better support innovation and the EC provided further guidance on innovation in public procurement in 2007, lack of awareness and unfamiliarity with the possibilities for procuring innovation and R&D within the legal frameworks for procurement and State aid are still widespread. This results in misplaced preconceptions and undue fears among procurers. Furthermore, risk avoidance is standard in current public procurement practices and by its very nature research based innovation is highly risky. Another major factor hampering public procurement of innovative technologies and R&D is fragmentation of public demand in the EU.

The EU has no central mechanism yet to separately report on the various subcategories of public procurement relevant for innovation and R&D.

¹ Pre-commercial Procurement: Driving innovation to ensure sustainable high quality public services in Europe, European Commission, COM(2007) 799, see

http://ec.europa.eu/information_society/tl/research/priv_invest/pcp/documents/commpcp_en.pdf

² Commission staff working document accompanying the State Aid Scoreboard - Autumn 2009 Update, see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:1638:FIN:EN:PDF>

To stimulate Europe's innovation system from the output/demand side, the EU Lead Markets Initiative is currently pioneering a novel approach entailing innovation-friendly regulation, standardisation and public procurement in six pilot sectors.

A specific new instrument for public authorities at national, regional and local levels to stimulate demand for innovation is Pre-Commercial Procurement (PCP³) of R&D services from the private sector. Modelled upon successful US examples (DoD, NASA, NIH) it was put forward by the Commission at the end of 2007. While exempted from the EU Public Procurement Directives and without constituting state aid, the PCP scheme entails risk-benefit sharing between public procurers and private suppliers in the R&D phase preceding commercial procurement tenders. However, in spite of endorsement by the European Council and a strongly supportive resolution from the European Parliament, the potential of this novel scheme still remains largely untapped.

Following the example of the US SBIR (Small Business Innovation Research), several Member States have implemented comparable SBIR schemes, focusing primarily on R&D by SMEs for developing innovative solutions and technologies for government.

The main challenge is to exploit the huge, largely untapped potential of the public sector purchasing power to drive innovation and stimulate private R&D, while at the same time enabling governments to perform their public tasks and address societal challenges more efficiently and effectively.

Recommendations

1. Make Europe's societal challenges into Lead Markets.
2. Explicitly make public procurement a policy vehicle to promote R&D and innovation, comparable to the Green Public Procurement approach.
3. Develop metrics to monitor public procurement of innovative technologies that are commercially viable and do not require further R&D, and systematically gather data on public procurement of R&D.
4. Expand the EU Lead Market Initiative and stimulate Member State to participate more actively, while developing similar initiatives at national level.
5. Mainstream Pre-Commercial Procurement (PCP) of R&D at national, regional and local levels.
6. Complement the use of PCP with the introduction of an SBIR scheme at European level, fully open to participation by procurers and suppliers across the EU.
7. Bundle procurement among Member States in order to create more interesting markets.
8. Consider also awarding prizes for developing innovative solutions, with guaranteed procurement as the reward.
9. Recognise that public procurement of innovative solutions and technologies entails risks, promote the acceptance of a certain degree of risks among governments, politicians and the general public at large, provide public procurers with tools for managing rather than avoiding risks, and develop incentives for public procurers in the form of risk sharing, for example by means of FP8, EIB, RSFF and Structural Funds.
10. Make (part of) EU co-funding in the context of the Structural Funds conditional to procurement of innovative technologies and R&D, also as a means of gearing cohesion policy more towards stimulating R&D and innovation.

³ See ref. 2.