

THE EUROPEAN CLUSTER MEMORANDUM

Promoting European Innovation through Clusters

- *The strategic importance of clusters for European innovation and global competitiveness is only now becoming fully recognized*
- *Cluster policy in Europe needs a step-change in ambition and effectiveness to reach its potential as a real driver of European prosperity*
- *Success depends on concerted changes in policies, programmes, initiatives, and thinking at many different levels and in many different places across Europe*
- *This Memorandum supported by national and regional agencies for innovation and economic development and addressed to policy makers at the national and European levels - lays out a path forward; it commits its signatories to concrete action and identifies the changes necessary in regional, national, and European policies*

DRAFT Date: 12 July 2007

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The following document has been prepared based on discussions in the High-Level Advisory Group on Clusters, the European Cluster Alliance, and other groups. It's content, in particular the 4x5 principles for European Cluster Policy, will be further refined and discussed in the coming weeks.

1. Europe's Innovation Challenge: Why we need stronger clusters

Europe faces an innovation challenge. The Aho-Report was only the last of many in-depth analyses to conclude that Europe needs to improve its innovation performance to sustain a high and rising standard of living. Europe is particularly weak in the transformation of ideas into new products and services, but it also needs to improve the creation of new ideas. Over the last few years, Europe has not narrowed down the innovation gap with the United States and the leading Asian countries. The most recent data on economic performance and innovation shows a cyclical upswing, but unfortunately there is little reason to believe that this welcome improvement already signals the fundamental trend change that is required.

Clusters are critical drivers of 'open innovation', a key source of competitive advantages in the global economy. Innovation is heavily concentrated geographically, much more so than high prosperity or productivity. Clusters—regional concentrations of specialised companies and institutions linked through multiple linkages and spill-overs—provide an environment conducive to innovation. They enable 'open innovation', the creation and refinement of new ideas in networks of cooperating companies and institutions, and they lower the barriers for transforming new ideas into businesses. Regions with strong cluster portfolios are hotbeds of innovation, while regions with no clusters or isolated research risk falling behind. Globalization has even increased the benefits of strong clusters and raised the economic and societal costs of failure to develop a clear specialisation profile.

Strong clusters emerge and flourish best in open markets where intense rivalry and cooperation within and between clusters coexist. Clusters emerge, where competition across regions enables companies to choose the location of their activities based on underlying economic efficiency, and not in response to artificial barriers for cross-border trade and investment. Clusters reach their full potential, when there is both competition and cooperation among its participants. Clusters can leverage this potential if they create linkages with other clusters that provide complimentary capabilities. Globalization has increased the need to combine strong internal dynamics within the cluster with solid linkages to clusters and markets located elsewhere.

Europe's innovation problem is at least partially a problem of weak clusters. The average region in Europe is less specialised than the average region in the U.S., with a lower share of employment accounted for by a region's strong clusters. The strongest regional clusters in Europe account for a smaller share of the total employment in their cluster category, particularly in knowledge intensive areas like information technology. This is an alarming signal as strong knowledge based industries such as ICT have a widespread impact on innovation and competitiveness.

The European innovation debate needs to shift from a focus on inputs to a discussion of clusters and the broader innovation environment. The European debate is still too often based on the assumption that more R&D inputs automatically lead to more innovation. The evidence, however, supports a more holistic view: Innovation depends on the inputs made available *and* on the

environment—clusters in particular—in which they are being applied, and the business environment drives companies' decisions on whether to spend and compete on innovation. Europe needs a better business environment and stronger clusters to attract more investments in innovation and become better in harnessing these investments.

2. Strong clusters of innovation: How a government can help

Government policies have a significant impact on clusters. These policies can enable *effective competition*; clusters only emerge if companies compete within and across regions and can choose locations based on their ability to support productivity and innovation. They can strengthen *business environments*; clusters grow in regions that provide specific advantages as a location for companies' activities in a particular field. They can enable *linkages*; clusters reach their full economic potential if they are well connected to markets and clusters elsewhere and cluster participants cooperate to strengthen linkages and align decisions. Also a government can mobilize efforts within regions and clusters to increase joint action.

Effective government cluster policies need to unite broad coalitions of partners around action agendas that integrate activities to meet the specific needs of a cluster. The success of government policies towards clusters depends on the *concerted actions of many different actors*—multiple levels of government and public agencies, companies, educational and research institutions, and many more—that need to be convinced to take coordinated actions; policies that influence behaviour directly through legislative action are less effective. Their success depends on defining and implementing *action agendas that reflect the specific needs of a particular cluster or region*; general guidelines identifying policies that are beneficial are 'on average' less effective, and their success depends on the *integration of a broad range of government policies and private sector activities*; cluster policies are to a large degree a mechanism to apply existing policies in a more effective way, not an additional policy tool.

National and regional policies have a crucial impact on clusters, especially the mobilisation of their full potential. Strengthening the potential of clusters—moving them from co-located companies to dynamic clusters with high levels of interaction and spill-overs—is a central task that regional and national governments are best placed to address. *Cluster initiatives* are an important tool to achieve this goal; creating a new type of policy process that meets the requirements for effective cluster policies. National and regional government policies also continue to be crucial for *business environment upgrading*; the work of cluster initiatives and the orientation on clusters as a delivery mechanism can significantly increase the effectiveness of these policies. Overall, clusters underline the importance of strong regions in modern economic policy.

Policies set at the European level have an important influence on clusters, especially their emergence and their transnational linkages. Increasing *competition* by deepening the internal market remains a central challenge that the European level is best placed to address. Enabling *transnational cooperation between clusters* needs to be further strengthened as well and again the European level can do this more efficiently

than nations or regions alone. European policies also affect the *business environments* across Europe where improvements require the coordination of activities across different countries. In addition to these activities in which European institutions exert influence directly, they also play an important indirect role through *providing knowledge and support to improve national and regional policies*.

3. Towards world-class clusters: The 4x5 principles for European policy

European countries and regions have launched a wide range of cluster initiatives. Some of them have started clusters policies long ago—Catalonia and the Basque Country in Spain, Veneto in Italy, Scotland in the UK, Denmark, the Netherlands—while others have started within the last few years—a number of Austrian regions, the Czech Republic, the UK, Sweden—or have further developed them through national initiatives—France, Germany. In the sheer number of cluster policies and programmes, Europe is now among the most active regions in the world economy.

The European Commission, too, operates many policies that affect cluster development. European policies either affect cluster development directly, or support national and regional cluster policy efforts. Activities specifically related to clusters are currently under way in several parts of the European Commission. The CIP, the Structural Funds, and the 7th Framework Programme include a wide range of activities open to clusters, innovation and competitiveness.

Cluster policy is at a critical junction. Earlier concerns about cluster policies being distortive industrial policies in disguise have largely abated. Experience has shown that conceptually and practically cluster policies are a tool to improve competition, not reduce it. The real challenge for cluster policy is now to show that it is an effective tool to achieve significant improvements in innovation and competitiveness, not just a minor new process tool for economic development practitioners.

Recognizing the potential to build on and improve existing programmes and initiatives, the signatories of the Memorandum, representatives of regional and national initiatives and government agencies for innovation and economic development, share the view that

1. Clusters are a key driver of innovation and prosperity, helping regions to build unique profiles of *specialized capabilities* that enable them to strengthen their role as active and attractive partners in the global economy;
2. Clusters develop naturally in competitive markets and are often successful without organised efforts to support them. *Cluster policy* can make their emergence more likely, strengthen their competitiveness, and enable regional economies to leverage their full economic potential.
3. Clusters thrive where *competition* within and across regions is strong. Europe needs a further *removal of barriers to trade* and an environment

that allows competitive clusters to *grow* and uncompetitive clusters to *disappear*;

4. Clusters reflect the presence of *spill-overs* and *cooperation* across institutional boundaries. Europe needs more *results-oriented collaboration* between companies, government agencies, academic and educational institutions, and other relevant institutions;
5. Clusters become more visible and attractive if they have strong *linkages* with related clusters in other regions and countries. Europe needs stronger trans-national co-operation between clusters with complimentary strengths and between cluster initiatives learning from each other;

...are in their role as economic development agencies committed to

1. *Strengthen* their own efforts to support the emergence and growth of dynamic clusters driven by competition and cooperation, internally as well as across regions;
2. Apply *evidence-based strategies* and implement more effective impact assessments based on a broad mix of relevant data sources, including the European Cluster Observatory;
3. Define *differentiated action agendas and strategies* that draw on the full range of European, national, and regional economic policy programmes and tools to address the unique needs of specific regional clusters;
4. Strengthen the *transnational cooperation* between cluster initiatives to create strategic business linkages that leverage complementary assets and capabilities of different clusters and enable policy learning;
5. Work closely together at *strategic level* in areas of common interest, with the view to promoting the development of world-class clusters in Europe and strengthening practical cooperation between cluster initiatives.

...fully support increasing efforts by national and regional governments to

1. Design cluster programmes and initiatives that are open to and actively seek the *participation of all relevant stakeholders* as active members in the design and execution of action agendas;
2. Provide active government cluster programmes only where they are needed, using *open competitions* to concentrate specific policy tools on those initiatives that have the strongest willingness and capacity to generate results;
3. Develop *portfolio approaches* to cluster policy that take account of overlaps between clusters and reflect changing needs over their life cycle; mobilizing existing clusters, facilitating the emergence of new clusters from existing capabilities, and enabling structural change where clusters have lost their competitive advantages;

4. Integrate cluster efforts with *cross-cluster (horizontal) policies* by providing feed-back mechanisms from cluster initiatives to horizontal policies and leveraging clusters to define and communicate the unique economic value a region or nation provides;
5. Upgrade the *overall environment for innovation* in Europe through the development of lead markets, the strengthening of risk capital, the support of world-class research, and other investments in innovative capacity.

...call upon the European Commission to

1. *Streamline* the support it provides to cluster efforts through different programmes to enable a more effective use of the available instruments;
2. Review the *impact of its existing policies* on clusters and on structural change towards a more efficient geographic distribution of economic activities across Europe;
3. Strengthen its support for results-oriented *transnational cooperation* between clusters, taking into account proximity involving neighbouring countries, and mutual interests as motivating factors of the participants;
4. Continue the development of *neutral information* on clusters, cluster policies, and the impact of cluster policies on the economic prosperity of regions and countries through the launch of the European Cluster Observatory and other efforts;
5. Provide efficient platforms for policy learning and policy cooperation through the *Method of Open Coordination*.

Europe needs better cluster policies rather than more cluster policies. European clusters need active collaboration contributing to clear business objectives, not an overfeeding through subsidies. Taking into account the 4x5 principles of European cluster policy and working actively with the European Cluster Alliance, we invite the European Commission to prepare a *framework concept* to outline the strategy for supporting the emergence and growth of world-class clusters in Europe.

Signatures

1. Members of the European Cluster Alliance

BSR InnoNet

Coordinator:

Name

NICe - Nordic Innovation Centre (Norway)

Name

NCM - Nordic Council of Ministers (Denmark)

Name

VINNOVA - Swedish Agency for Innovation Systems (Sweden)

Name

FORA - Ministry of Economy & Business (Denmark)

Name

EAS - Enterprise Estonia (Estonia)

Name

MKM - Ministry of Economics & Communication (Estonia)

Name

TEKES - Finnish Funding Agency for Technology and Innovation (Finland)

Name

Rannis - Icelandic Centre for Research (Iceland)

Name

LIDA - Latvian Investment & Development Agency (Latvia)

Name

Innovation Norway (Norway)

Name

ZARR - West Pomeranian Regional Development Agency (Poland)

Name

LIC - Lithuanian Innovation Centre (Lithuania)

Name

TBI - Technologie-Beratungs-Institut (Germany)

CEE-ClusterNetwork

Coordinator:

Name

TMG - Upper Austrian Technology and Marketing Ltd. (Austria)

Name

Ecoplus - Business Agency of Lower Austria Ltd. (Austria)

Name

West Pannon Regional Development Agency (Hungary)

Name

Innovations- und Technologietransfer Salzburg GmbH (Austria)

Name

Tiroler Zukunftsstiftung (Austria)

Name

Maribor Development Agency / Euro Info Centre Maribor (Slovenia)

Name

Czechinvest - Investment and Business Development Agency (Czech Republic)

Name

BIC Bratislava - Business and Innovation Centre Bratislava spol s.r.o. (Slovakia)

Name

ARP - Agencja Rozwoju Przemyslu (Industrial Development Agency) (Poland)

Name

TIS - Techno Innovation South Tyrol (Italy)

Name

Croatian Employers' Association National Centre for Clusters (Croatia)

Name

Clusterland Upper Austria Ltd. (Austria)

CLUNET

Coordinator:

Name

Northwest Development Agency (United Kingdom)

Name

HWF - Hamburgische Gesellschaft für Wirtschaftsförderung mbH (Germany)

Name

Wirtschaftsförderung Karlsruhe (Germany)

Name

Development Agency of Berlin Brandenburg (Germany)

Name

Fundación Madrid para el Conocimiento (Spain)

Name

ITA - Instituto Tecnológico de Aragón (Spain)

Name

Regione Abruzzo (Italy)

Name

Filas - Financial Investment Agency of the Lazio Region (Italy)

Name

Etruria Innovazione (Italy)

Name

Méditerranée Technologies (France)

Name

Bretagne Innovation (France)

Name

One North East (United Kingdom)

Name

Municipality of Ljubljana (Slovenia)

Name

South Great Plain Regional Development Agency (Hungary)

Name

LAKES - Lahti Regional Development Company (Finland)

INNET

Coordinator:

Name

OSEO anvar (France)

Name

VDI/VDE Innovation + Technik GmbH (Germany)

Name

Pera Innovation Limited (United Kingdom)

Name

CDTI - Centro para el Desarrollo Tecnológico Industrial (Spain)

Name

DGPYME - Ministry of Industry, Tourism and Trade, Directorate General for SME Policy (Spain)

Name

Innovationsbron AB (Sweden)

Name

EOMMEX - Hellenic Organization of Small and Medium Sized Enterprises and Handicraft SA (Greece)

Name

PAED - Polish Agency for Enterprise Development (Poland)

Name

IWT - Instituut voor de Aanmoediging van Innovatie door Wetenschap en Technologie in Vlaanderen (Belgium)

Name :

CRIF - Région Ile-de-France (France)

Name

VDG - Rhône Alpes Regional Council (France)

Name

EUROBULEGOA - Asociación Eurobulegoa Agencia Vasca Para el Desarrollo de la I+D Internacional (Spain)

Name

ZAB - ZAB ZukunftsAgentur Brandenburg GmbH (Germany)

Name

TSB - TSB Technology Foundation Berlin (Germany)

Name

City of Dresden (Germany)

Name

EMDA - East Midlands Development Agency (United Kingdom)

Name

SVIT - Sviluppo Italia Toscana S.C.p.A. (Italy)

Name

VenInn - Veneto Innovazione S.p.A (Italy)

Name

MAZOVIA - Mazowieckie Voivodship (Poland)