

INNOVATION FOR GROWTH
OECD Council Meeting at Ministerial Level

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Business welcomes the focus of this year's OECD Meeting of the Council at Ministerial Level on "Innovation: Advancing the OECD Agenda for Growth and Equity," and appreciates the opportunity to discuss this important issue with Ministers and OECD leadership.

I. INNOVATION – A KEY DRIVER OF GROWTH AND EMPLOYMENT

Innovation is a key contributor to growth and employment and has been a major driver of globalisation which, in turn, has multiplied the effects of innovation. Developments in information communications technology (ICT) and transportation are laying the foundation for the important infrastructure necessary for improved productivity, distribution of wealth and opportunity for employment. Innovation enables greater access to and efficiencies in social services, such as health-care and education, and improves the management of key resources such as water and energy. Furthermore, product and services innovation creates new markets and through this permits additional growth and better-paid employment. Innovation in business processes raises the wealth of populations by increasing productivity, which in turn allows prices to be reduced, pay-levels to be increased and investment to continue.

Globalisation also brings changes in both where and how innovative ideas are developed and brought into widespread use. With tremendous opportunities offered by new technologies in providing better products and services for increasingly well-educated societies and workforces, there are also important questions about how societies perceive the benefits and how they will respond. At the same time, crucial challenges exist in terms of the economic, environmental and social pillars of sustainable development, which will require innovation on a large scale.

In this climate, business calls on governments to establish conditions and policies for successful, effective innovation in support of sustainable value creation and social benefit in globalised economies. The OECD plays an important role in understanding what these conditions will be and how they can be achieved in documenting alternative policy approaches; and in securing the quality, relevance and coverage of international comparable data that is needed to determine direction, to monitor progress and to assess outcomes.

II. INNOVATION – KEY FACTORS

An integrated approach to innovation policies

"Innovation can be considered as the successful development and application of new knowledge. As such, innovation is distinct from invention. This emphasises the fact that innovation requires much more than greater input into the research process."¹ The framework conditions needed to support effective innovation extend to cover a wide range of issues.

¹ OECD: "Innovation Policies: Innovation in the Business Sector", ECO/CPE/WP1(2005)2, p. 7

A stable macroeconomic framework is a fundamental condition for innovation. While sustained high output growth allows companies to introduce new products, low inflation and real interest rates stimulate innovation by reducing the cost of capital for more investment in innovation. Well-functioning financial markets, including venture capital, foster innovation as they facilitate access to financing. Competition stimulates innovation as it forces companies to seek efficiency gains, which emphasises the importance of product and services market regulation that reduces regulatory barriers for competition. Open markets for cross-border trade and investment increase competition in product and services markets and the positive effect this has on innovation. Moreover, cross-border investment generates technology spill-over effects including through the transfer of proprietary technologies, know-how, and management techniques. OECD studies confirm that foreign owned firms can bring with them higher labour productivity, skill and R&D activity than domestic firms in host economies.²

Innovation also requires framework conditions that justify investment in new approaches, the protection of intellectual property rights, effective standards, a public sector that itself requires innovative products and services, ease of company formation and company growth, and a sufficient supply of high-quality, well-connected human, scientific and financial resources. Also, there is general recognition of the need for institutional and policy reform, linked to achieving greater benefit from existing institutions, enhancing the quality and output of public research institutions, achieving better knowledge transfer, and otherwise reducing barriers to successful innovation.

OECD governments have devoted considerable effort to understanding these points. Looking forward, the priority will be to implement and establish effective framework conditions that reflect this understanding. In BIAC's view, this will require taking a more holistic view of innovation, involving close cooperation among OECD Committees and Directorates to address innovation in an integrated manner. BIAC therefore welcomes the OECD proposal to develop a broad-based and forward-looking innovation strategy involving a mutually-reinforcing policy package of elements and recommendations aimed at boosting innovation performance and leading to sustainable economic growth.

- We call upon the OECD to integrate innovation as a high-priority issue in the strategic objectives of all relevant OECD committees, with the Directorate for Science, Technology and Industry taking the lead in coordinating innovation-related activities, based on a forward-looking approach targeted towards the needs of the coming decade.

Building a high-skilled workforce, supportive of innovation

The importance of adopting an integrated approach to innovation policies is nicely illustrated by the close link between education standards and economic success. The need for more people who are entrepreneurial and skilled in areas of science and technology, yet also aware of how to apply their skills for common benefit, and the need for more effective "brain circulation" is clear.

Recent success stories highlight the benefits of attracting and retaining talented, motivated people in both the public and private sectors, and of improving connections between these sectors, particularly between public and private sector research, as well as the challenges that such framework conditions be present. But, with children losing interest in science and technology at a young age, it is not evident that civil society will continue to support innovation-based economic policies unless these are seen to create accessible, well-paid jobs, relevant to people's concerns and interests. Education systems must enthuse and inform students about science and technology with a strong values base, so that the link to career prospects and to personal and societal interests is more evident. The OECD plays a key role in improving the statistical basis for measuring flows of people and technology; documenting the policies that facilitate these flows; establishing suitable metrics for measuring outcomes; and thereby developing recommendations on how to benefit from these trends.

² OECD: Economic and Other Impacts of foreign Corporate Takeovers in OECD Countries", DAF/INV/WD(2006)15REV1, p. 10

- We encourage the OECD to work closely with governments to help establish relevant, high-quality education systems, particularly in the fields of science and technology, and to help encourage sufficient international mobility and links between countries and between the public and private sectors.

Innovation in a global, increasingly open, context

Innovation now takes place in a global context. The growing cross-border interaction of public and private sector research and development, international networking of research schemes and sharing of knowledge provide new opportunities to combine local strengths with specialisations available on a global scale. At the same time, patterns of innovation are becoming increasingly open in many sectors of economic activity, involving greater collaboration and creating more strategic interdependencies between companies and partners in the public sector.

These trends raise questions concerning the role and effective governance of research institutes, while also creating tremendous opportunities for regions that are favourable to innovation. Network-based innovation activities will concentrate in environments that offer the most supportive policy frameworks and conditions, a self-reinforcing process that will attract further investment. In establishing these pro-innovation environments, BIAC recognises the important role of the university system and public research organisations, and is keen to see better connections develop between these organisations and the economy as a whole. Public-private partnerships and increased interaction among research projects can add value by combining strengths and addressing the needs of both companies and universities or public research organisations.

The growing importance of non-OECD countries, in terms of their innovative capacity as well as their contribution to production and market growth, highlights the need for the OECD to include key non-member countries in its analysis of national innovation systems and draw conclusions that are relevant to international competitiveness and growth. BIAC therefore welcomes the inclusion of non-member countries in the OECD innovation reviews, most recently China, and generally recommends giving due attention to the role that BRICS countries play in the area of innovation. Such work also needs to address the specific challenges that foreign investors face in emerging economies, such as in the areas of standards and intellectual property rights infringements, and how these challenges can most rapidly and effectively be overcome.

- We encourage the OECD to help countries shape their innovation policies in a way that allows them to benefit from globalisation and the shift towards more open forms of innovation, and to further strengthen outreach efforts to key non-member countries.

Addressing counterfeiting and piracy

Effective intellectual property protection is one of the central pillars on which the knowledge-based economy rests and is an essential prerequisite for innovation. High-quality intellectual property right systems, capable of responding to the needs of the knowledge economy, will remain a prerequisite for productive innovation, while infringements, piracy and counterfeiting on a large scale will limit investment and pose significant threats to business, governments and consumers.

The initial findings of the first phase of the OECD project on the economic implications of counterfeiting and piracy illustrate the magnitude of counterfeiting and piracy in international trade, while counterfeiting and piracy are also serious problems at the national level. Strong efforts will be indispensable to combat counterfeiting and piracy, including of digital material, and to effectively deter infringements in order to set a predictable and enabling innovation environment.

- We encourage the OECD to highlight at national and international levels the negative implications of counterfeiting and piracy and seek to address these issues in close cooperation with non-member countries.

III. INNOVATION AND A WELL-FUNCTIONING LABOUR MARKET

A well functioning labour market is a key element in fostering the competitive innovative business environments that are the basis for sustainable economic growth and job creation. Innovation has the potential to bring greater efficiencies to the labour market by contributing directly to higher productivity, and is a necessary factor for sustainable and more inclusive economic growth.

The OECD Growth Study found that during the 1990s, labour productivity growth accounted for at least half of GDP per capita growth in most OECD countries.³ Ensuring innovation is the critical factor to sustaining such positive growth. Furthermore, recent OECD studies confirm that good economic policies coupled with labour market institutions adapted to the dynamics of open markets, enable countries to better address change brought about by globalisation, including enabling income security and wages to reflect productivity gains.

As such, innovation plays a key role in providing more opportunities for more people to engage in productive jobs. Development and diffusion of ICTs, for example, is contributing to more inclusive and flexible working arrangements and greatly enhances labour mobility. Innovation is a major factor in driving international investment and integration of labour markets, including in the large emerging economies such as China, India and Brazil, and is a necessary factor in maintaining economic growth and development.

For business, well-functioning labour markets depend upon macro economic stability, good public governance, open trade and investment policies, pro-competitive regulatory frameworks coupled with active labour market and social policies, and a regulatory environment that supports entrepreneurship and business creation.

Education and lifelong learning are essential for enabling the workforce to adapt to, and realise the benefits of, working in the globalised economy. Innovation in learning and in the provision of education services is all the more important in the context of demographic change. Education is critical to a more inclusive workforce in OECD countries as well as in developing countries, which constitute an increasing part of the global work force. It is also a critical element of successful structural adjustment policies.

Recognising that there is no 'one size fits all' policy package for good labour market performance, business urges governments to implement the recommendations of the OECD Jobs Strategy with the aim to remove obstacles to innovation and job creation. In order to implement active labour market and social policies that "make work pay", overly rigid employment protection legislation needs to be reformed. Moreover, frameworks that support flexible working arrangements, enhanced labour mobility, modernisation of social benefit systems, high quality education and lifelong learning need to be put in place.

Innovation contributes to more effective employment and social services, as well as quality of, and access to, education and training opportunities. Such benefits are confirmed by the OECD Growth Study, which emphasises the central role of labour market policies and innovation to economic growth and long run improvements in productivity and living standards. While business wants to maximise the benefits of innovation, the OECD can play an important role by studying the distribution of such benefits among stakeholders and different types of workers in both developed and developing economies as globalisation deepens.

- BIAC encourages continued OECD work on globalisation and labour market policies in support of implementing the OECD Jobs Strategy and Growth Study recommendations.

³ OECD DELSA Working Party on Employment draft note [DELSA/ELSA/WP5(2007)2]

IV. SECTOR-SPECIFIC RECOMMENDATIONS

BIAC feels that it is important that OECD work be well-grounded in an understanding of key areas for future progress. We point in particular at energy, health-care, biotechnology, nanotechnology and software/ICT as illustrative of main dimensions.

Innovation in energy

Innovation in energy will be essential for economic growth that goes hand-in-hand with addressing environmental and geopolitical challenges, including concerns about climate change and energy security. The challenge is to beneficially link these objectives. With global primary energy demand expected to grow by over one-half between 2006 and 2030, continued innovation in the supply, diffusion and use of energy, and in the use of clean energy technologies will be indispensable. Technology affects the choice and the costs of future energy systems. While governments need to give due attention to scientific research related to energy, the private sector will remain a main vehicle for developing and diffusing technology. Business has a crucial role in promoting the rapid introduction of advanced and innovative energy technologies in both developed and developing countries. The spread of these approaches and technologies to non-OECD countries will be crucial for environmental improvements worldwide. Energy efficiency, which can play a crucial role in saving energy, has to be considered broadly, targeting production, distribution but also the range of consumers, including industry, transport and private households.

- We encourage the OECD and the International Energy Agency to consider energy technology and R&D as a key priority area, and to devote effort to understanding how these developments can effectively be brought into widespread use. We also call upon governments to step up their fundamental research on energy, while working closely with business to find sustainable ways to implement the results of this research.

Innovation in health-care

Providing effective health-care is a key concern for many countries and a policy area where the involvement of the public sector is particularly significant. It requires specific attention by policy makers who seek to increase efficiency while at the same time ensuring the sustainability of the health care system. It is particularly important to understand the factors that enable innovation, as well as the interventions that stifle innovation, in health-related technologies and services, identify policy tools and incentive structures, and develop policy recommendations on how to capture the benefits from innovation in health. Such work also has the potential to provide a substantial test of our current understanding of innovation policies; reflecting trends such as open innovation, new ways of organising the innovation process, opportunities offered by digital technologies, and the emergence of new tools and testing regimes.

- BIAC encourages the OECD to include specific effort targeted at health-related activities within the broad innovation umbrella and to assess the policy environment required to sustain the development of knowledge in this area.

Innovation in biotechnology

In all its applications, biotechnology has an increasingly significant effect on the economy as a whole. The expansion of biotechnology in a growing number of economic sectors has played an important role, and has an enormous potential to benefit society in the areas of health, environment, agriculture, food and a range of industrial processes. Furthermore, a number of emerging opportunities arise when considering biotechnology, including in the areas of bioinformatics, genetics, genomics and others. The OECD has a successful record in providing science-based, statistical information and analysis. As a result, biotechnology should be integrated as a priority topic for the OECD's work on promoting innovation and global sustainable growth.

- We actively support the OECD work on biotechnology, including on enabling health innovation, and on the bio-based economy as well as scientific principles and common methodologies for environmental assessment.

Innovation in nanotechnology

By taking up nanotechnology in two OECD Committees, the OECD has shown that it is able to react quickly to emerging technologies. BIAC welcomes the creation of the new Working Party on Nanotechnology under the auspices of the Committee for Scientific and Technological Policy, which will be complementary to work on environment, health and safety issues. We believe that the OECD can play a critical role in realizing the enormous promise of nanotechnology for driving economic growth and development by: assessing the key emerging trends and policy challenges; developing high value-added policy tools; using its strengths in economic analysis and statistics to understand the nature and direction of the profound changes associated with nanotechnology; helping to create the research and innovation frameworks that will enable nanotechnology's development and diffusion; ensuring effective and efficient regulatory frameworks governing nanotechnology; and integrating nanotechnology in the OECD's new outreach efforts with transition economies.

- BIAC calls upon the OECD to adopt a proactive global leadership role in nanotechnology based on its unique strengths and its broad experience with other core, emerging technologies.

Innovation in software

Information and Communication Technologies (ICT) in general, and software in particular, are important enablers of innovation throughout the economy. It is important that this is recognised in the OECD's work, and that the special characteristics of innovation in ICT are addressed. BIAC welcomes the new project on innovation in the software sector. With information technology playing an increasingly important role in many products and services throughout the economy, software is essential for continued productivity and growth. It is therefore important to understand the innovation processes that are now driving both the use of IT systems and the software components that underlie these systems, and to understand the role that public policy measures play in enhancing these innovation processes.

- BIAC calls upon the OECD to provide a balanced and forward-looking examination of innovation in the software sector and work closely with the business sector on this analysis.

Data and Statistics

An important element of the OECD's work is to establish the methods and standards for measuring and monitoring the performance and quality of national systems. Today's focus on innovation creates requirements for appropriate indicators of inputs, throughputs and outcomes. The particular challenge is to establish such indicators which are at the same time robust and forward looking.

These indicators depend in large part on data obtained from the private sector. Many firms are concerned to reduce any tendency towards poorly-focused, overlapping or incompatible studies and to ensure that the findings that emerge from these studies are capable of translating into effective policy from local to global scales. The OECD has the experience to establish effective monitoring systems, and should be given the resources to do so.

V. CONCLUDING REMARKS

Scientific and technological progress offers the basis for continued sustainable economic development in developed and developing countries alike. Innovation depends on these, and on much more besides. Offering a business-friendly environment for innovation requires well-functioning markets, openness in international trade and investment, education systems that encourage entrepreneurial spirit and scientific understanding, and the mobilisation of skilled labour.

It is important to understand the interdependencies between policies, including the consequences of increasingly global innovation and the implications of measuring performance or setting performance targets in different ways. The work will involve multiple objectives, and it is unlikely that optimal solutions can be found on a piecemeal basis. It will only be possible to promote the benefits of innovation effectively through a truly horizontal approach, incorporating innovation as a high priority of the OECD as a whole and ensuring effective dialogue and cooperation among different Committees and Directorates.

The OECD as a multi-disciplinary organisation has an important role to play in proposing coherent, integrated policy packages to support innovation for growth. BIAC remains ready to partner with the Organisation in its future work, both in cross-cutting and specific policy areas.