

Pre-commercial Procurement of Innovation

A missing link in innovation in Europe

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A growing demand for innovation in areas of public interest

- Europe should lead in addressing the societal challenges ahead
 - Important challenges ahead in areas of public interest
 - Health, ageing, inclusion, sustainable growth, security, transport,..
 - Several EU Member States are today world-wide references
 - Quality, inclusiveness and efficiency of public services
 - A position to be strengthened & more widely spread
- Success factors
 - long term thinking and strategies for public services
 - embracing innovations at the earliest possible
 - Driving, and benefiting from innovations to fit the needs of our citizens and businesses

Responding to the demand drive for innovation: more can be done

- Private sector: to be able to compete
 - Uptakes innovations at the earliest possible
 - Procures innovative products and services at commercial and even pre-commercial stage (R&D services)
- Areas of public interest
 - 45-50% of EU GDP, Public procurement is 17% of EU GDP
 - Can indeed do better in embracing innovation
 - e.g. ICT public sector market is only 14% of total market

The US: defence, energy and Health drive the public sector demand for innovation

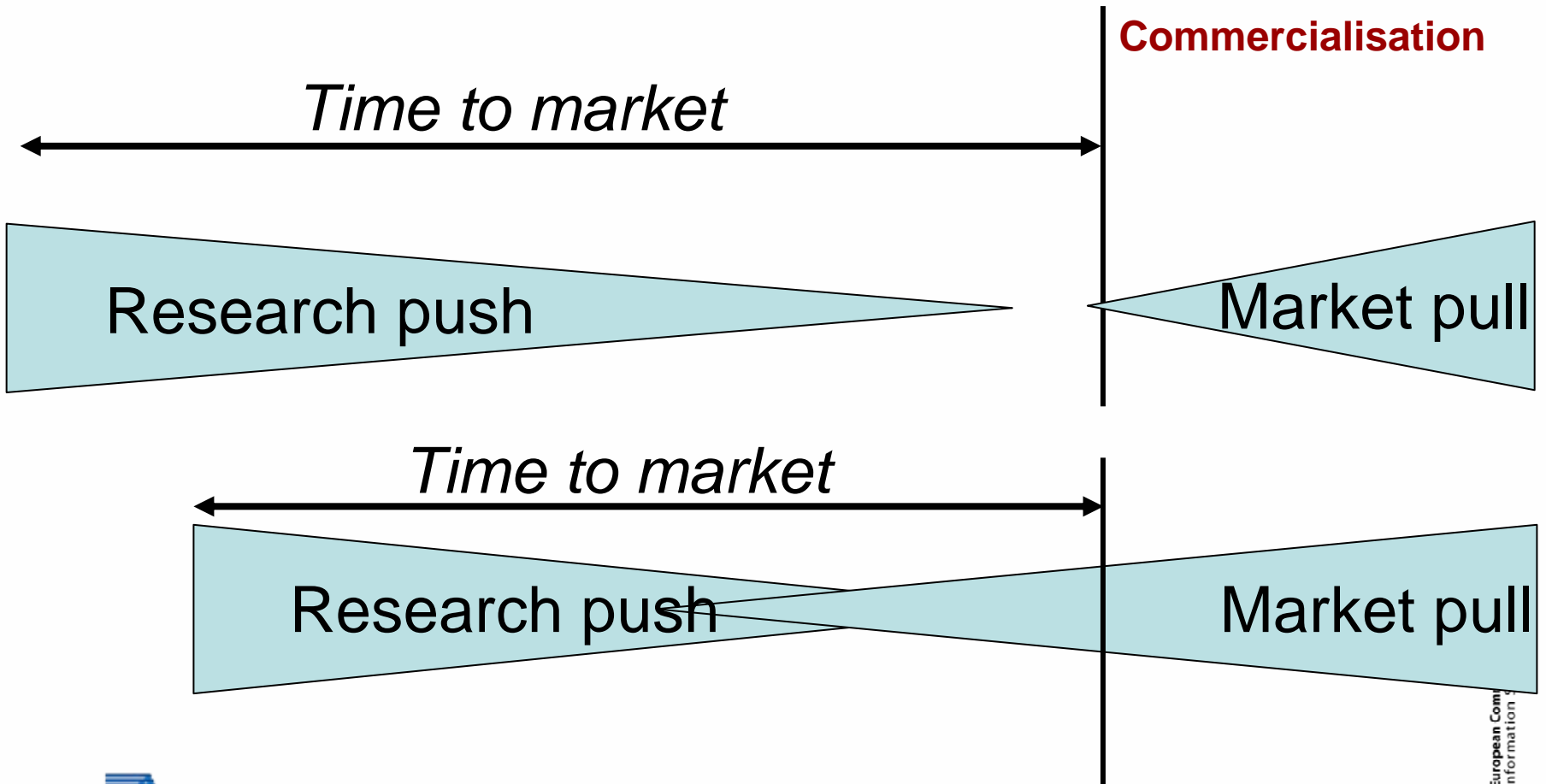
US

- Similar procurement budget as EU but,...
- 20 times more on high-tech, high risk than Europe (~50 B€/ year)
- Preferential policies by exception to WTO GPA
- Defence is dominant though

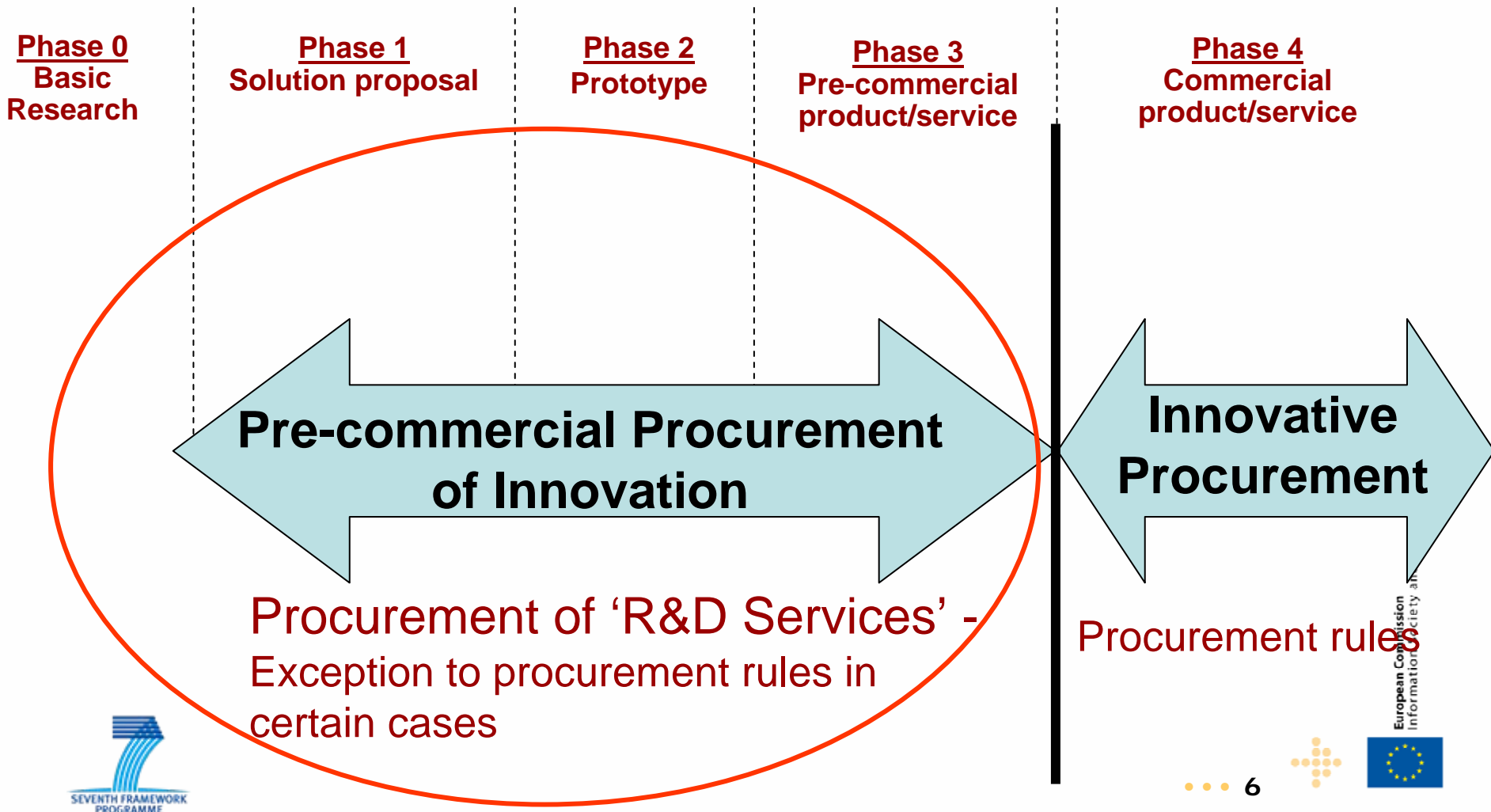
EU

- Highly fragmented public procurement
- So far, marginal role in innovation...
 - ~2.5 B€/year
- ...but growing interest
 - UK, NL, Fr,...
- Other areas than defence!!

Innovation Push-pull to make better and quicker use of innovations



Embracing innovation: the various stages



Call for action

- The 'Aho report' highlights the importance of demand drive for innovation in areas of public interest
 - Fragmentation of public markets or innovation, reluctance to engage,
- The EU action plan on Research and Innovation
 - Highlights the importance of public procurement, role of governments as first buyers
- An initiative on "Lead markets" under preparation
 - Identify hurdles for innovations market development
 - Regulation, awareness, public procurement,...

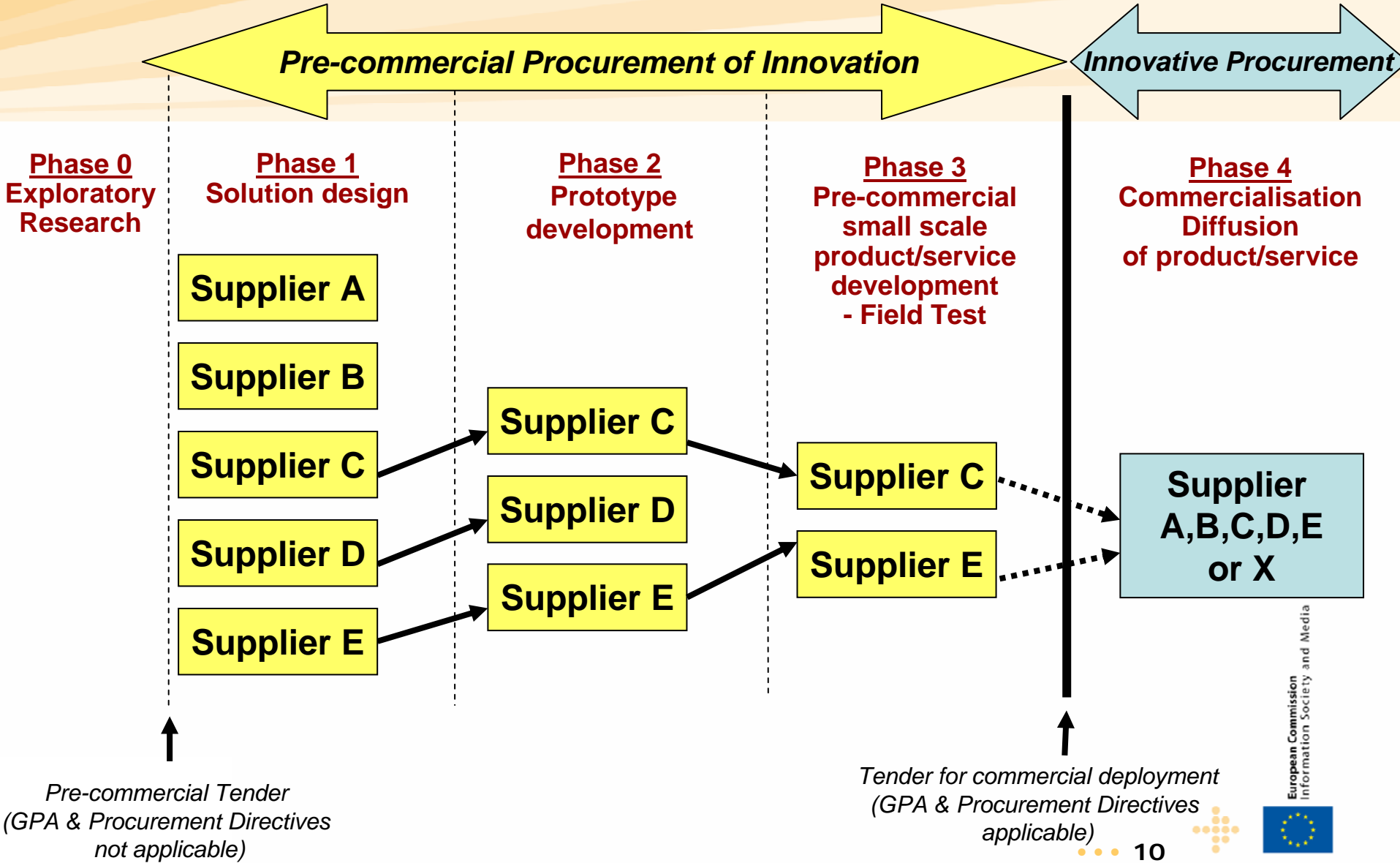
The legal framework is no hurdle

- New procurement directives
 - Strengthen 'Innovative procurement' possibilities
- New State Aid Framework
 - New measures for risk taking and experimentation
- The need for clarity in interpretation
 - Commission handbook on procurement of commercially available innovation
 - In preparation: Pre-commercial public procurement

Legal framework for pre-commercial public procurement

- Procurement directive:
 - Procurement of R&D services
 - If benefits only for the procurers than directive applies
 - If benefits shared by procurers and suppliers than directive does not apply, internal market rules only
- State aid rules
 - If done at market price then procurement of R&D services is not considered as a state aid

Pre-commercial procurement: an example of an open framework that guarantees mutual benefits



The scheme for Pre-commercial procurement of R&D services

- Compliant with European Union Treaty principles
 - Non-discrimination, transparency, objectivity
 - Excluded from Public procurement directives
 - Excluded from WTO GPA
 - Restriction to EU companies allowed
 - Risk-benefit sharing between procurers and suppliers allowed
- Compliant with New State Aids rules
 - Buying at market price.

Win-win for procurers & suppliers

- 'First time' right solution
- Shared costs, risks and benefits
- Increases public sector effectiveness
- Economies of scale reduces cost

- Shortens time to market
- Addresses market fragmentation
- Improves industrial competitiveness
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Next steps

- Awareness raising and clarification of legal boundaries
 - Document in preparation by the Commission
 - Workshops, events with procurers
 - Study on practices in EU, US & Asia
 - Incentives to trigger the process
 - e.g. within the Competitiveness and Innovation Programme
- Lead market initiative
 - Communication by the end of the year

Some figures: Pre-commercial procurement can fill half of EU-US R&D gap

