

Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the European Union

30 September to 1 October 2019, Helsinki

Background Note 4: How to support innovations for sustainable growth?

Sustainability and the transition to a low-carbon, more resource-efficient and circular economy are key in ensuring long-term competitiveness of the EU economy. Sustainability has long been at the heart of the European Union project and the EU Treaties give recognition to its social and environmental dimensions.

According to the European Commission [reflection paper of January 2019 towards a sustainable Europe by 2030](#), the key enablers for the transition towards a sustainable Europe by 2030 are:

- **Education, training, science, technology, research, innovation and digitisation.** Artificial intelligence, for example, can greatly increase productivity in many areas from healthcare to more efficient farming;
- **Finance, pricing, taxation and competition:** The Investment Plan for Europe can mobilise part of the resources needed for a sustainable transition, and the Action Plan on Sustainable Finance will help put finance on to a sustainable path. Tax systems and pricing need to be designed to reflect the true environmental and social costs of production and ensure that sustainable products and services become the most affordable ones;
- **Corporate social responsibility:** Creating socially and environmentally responsible businesses can lead to more sustainable profits and growth, new market opportunities, and long-term value for shareholders;
- **Open and rules-based trade:** By promoting international rules and global standards in line with the Sustainable Development Goals (SDGs) and making sure that trade benefits all, we can help achieve a sustainable Europe in a sustainable world;
- **Governance and policy coherence:** Rule of law, democracy and fundamental rights; peace, justice and strong institutions; good governance and better regulation principles are the foundations upon which we build. All actors – individuals, businesses, civil society and the public sector - need to be on board;
- **The EU as a global trail blazer:** The EU, as the most successful peace project in the world and at the origin of many of the most comprehensive sustainability solutions, has the necessary credibility as well as the practical solutions needed for sustainable growth.

The action plan on sustainable finance

The recommendations of the High-Level Expert Group on Sustainable Finance form the basis of the [action plan on sustainable finance](#) adopted by the Commission in March 2018. As the Commission points, the action plan sets out a comprehensive strategy to further connect finance with sustainability. Its key actions include:

1. Establishing a clear and detailed EU classification system – or taxonomy – for sustainable activities. This will create a common language for all actors in the financial system;
2. Establishing EU labels for green financial products. This will help investors to easily identify products that comply with green or low-carbon criteria;
3. Introducing measures to clarify asset managers' and institutional investors' duties regarding sustainability;
4. Strengthening the transparency of companies on their environmental, social and governance (ESG) policies. The Commission will evaluate the current reporting requirements for issuers to make sure they provide the right information to investors;
5. Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies. This means incorporating climate risks into banks' risk management policies and supporting financial institutions that contribute to fund sustainable projects.

Building on the key actions of the action plan the Commission adopted three [proposals for sustainable finance](#) on 24 May 2018. The proposal for a regulation on **a framework to facilitate sustainable investment** aims to establish a unified EU classification system (EU taxonomy) which will help determine whether an economic activity is environmentally sustainable and guide investors towards investing in environmentally sustainable activities. The two other proposals in the package aim at informing end-investors about the impact of their investments on sustainability by requiring **the disclosure of information on the sustainability of investments and sustainability risks**, and by establishing and governing the provision of **low carbon and positive carbon impact benchmarks** in order to enhance the transparency of the benchmark methodologies. The first proposal is still pending political negotiation, whilst the other two have already been agreed on.

EU research and innovation programme

The Commission also adopted its proposal for the next [EU research and innovation programme](#) - Horizon Europe - on 7 June 2018 in the context of the 2021-2027 [multiannual financial framework](#). The aim of the programme is to reduce the EU research gap by strengthening science, technology and innovation, fostering industrial competitiveness and delivering on the EU's strategic priorities. According to estimations the programme could generate up to 100 000 new jobs in research and innovation in 2021-2027.

Some of the new features of the programme are the [European Innovation Council](#) and EU-wide research missions. The European Innovation Council would provide direct financial support to high-risk, market-creating innovation projects whereas the research missions would promote innovation in various areas such as the fight against cancer, reducing plastic in the oceans and clean transport. Other changes include new European partnerships for all stakeholders and open access to all publications, data and research data management plans.

The Commission has proposed a budget of €94,1 billion for the Horizon Europe programme for the 2021-2027 period. Together with the €2.4 billion for the Euratom research and training programme and a contribution of €3,5 billion from the [InvestEU](#) Fund the total budget will be €100 billion. Parliament and Council reached a partial agreement covering the programme's content in April 2019. They agreed on five potential research focus areas: 1) adaptation to climate change, 2) cancer, 3) healthy oceans, seas and waters, 4) climate-neutral and smart cities, and 5) and soil health and food. At least 35% of the budget should go to contributing to climate objectives. Moreover, they agreed on establishing a mission board comprising a maximum of 15 independent high-level experts for each research and innovation mission.

For an overview a comparative analysis of innovation performance in EU Member States, other European countries, and regional neighbours, including relative strengths and weaknesses of national innovation systems, please see the [European innovation scoreboard 2019](#) that was released by the European Commission in June 2019. For an overview all the research and innovation aspects in the EU Member States, please see also the document on [Research and Innovation analysis in the European Semester 2019 Country Reports](#).

Some framing questions to the participants:

1. What key elements are needed to encourage investors towards more sustainable investments?
2. Is the design of the EU innovation and research policy adequate in supporting sustainable growth?
3. What role can the private sector play and how can the public sector support their innovations to grow?