

European Cluster Policy Group

Final Recommendations
– A Call for Policy Action

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In 2008, the European Cluster Memorandum and a Commission Communication on clusters took stock of the first phase of cluster programmes across Europe. The experience suggested that cluster programmes were indeed an important and powerful tool that policymakers should continue to apply. But there was also clear consensus that significant further steps were needed to improve the impact of these programmes.

38% of all European employees work in industries that concentrate regionally - in clusters. Studies have found that companies within clusters achieve higher levels of productivity and innovation, and that clusters are environments where new firms exhibit higher survival rates and growth. Given this evidence of clusters' relation to prosperity, there is a need to consider clusters as a central part of any economic strategy.

The European Cluster Policy Group (ECPG) was formed by a Commission Decision on the 22 October 2008 as one important element in the quest to strengthen the quality of cluster programmes across Europe. The group of twenty independent experts was tasked “to improve the Commission’s and Member States’ understanding of modern policy responses in support of cluster excellence” and “make recommendations on how to better design cluster policies in the Community.”¹ The ECPG was able to draw on the deep and diverse experience of its members from academia, business, and government, and received additional impulses from external experts, discussions with EU officials, and a study visit to Japan.

Over the last 18 months, the European Cluster Policy Group has met four times. On the request of the Commission, the group has in these meetings looked in particular at:

- support for international cooperation among clusters,
- the role of clusters in the development of emerging industries/services,
- the efforts to raise the excellence of cluster policies and cluster organisations, and
- ways to create better synergies between Community instruments with a cluster dimension.

In this report, the following definitions for clusters, cluster initiatives and cluster programmes are used:

- ***Clusters*** are geographic agglomerations of companies, suppliers, service providers, and associated institutions in a particular field, linked by externalities and complementarities of various types.
- ***Cluster initiatives*** are organised efforts taken by actors in a cluster to increase the cluster’s growth and competitiveness.
- ***Cluster programmes*** are organised efforts taken by government to increase the growth and competitiveness of clusters in its constituency.

On all of these topics, policy recommendations were provided to the Commission.² The Group also gave written input on the role clusters can play in the context of the European Innovation Plan. This final report puts these individual suggestions and the discussions that led to them into a broader context.

¹ Commission Decision 2008/824/EC

² Preliminary versions have been published on the PRO INNO Europe website. The final compiled set of policy recommendations on the four themes are published on the PRO INNO Europe website.

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Executive Summary

A sustainable recovery from the current crisis will require the EU to achieve meaningful improvements in underlying competitiveness based on the plans laid out in the Europe 2020 strategy. Cluster efforts can and should be an important factor in designing and implementing this strategy. The European Cluster Policy Group (ECPG) has been asked to develop policy recommendations for this new phase of cluster efforts across Europe, based on the significant experience gained in the last few years. The ECPG recommendations are organised into three core principles and eight action proposals. The three principles explain the role of cluster programmes in the overall policy mix and the nature of cluster programmes. The eight action proposals translate these general principles into more concrete suggestions for specific new policy actions. Further suggestions on the four topics raised by the Commission are available in the final compiled set of policy recommendations (published on the PRO INNO Europe website).

Three principles

The next stage of cluster programmes needs to be integrated in a broader set of vigorous efforts to strengthen critical framework conditions, and areas in which too little progress has been made in implementing the existing plans and strategies (Principle A). The focus of cluster programmes needs to shift from capacity building and compensation for poor performance towards a clear orientation on excellence, focusing on clusters with the ability and willingness to upgrade in the face of global competition and ensuring the consistent provision of public knowledge infrastructure to support them (Principle B). To implement these programmes effectively, there needs to be a clearer assignment of roles

responsibilities between the EU and Member States to remove insufficient overlaps and instead ensure complementary action (Principle C).

Eight action proposals

The first two action proposals, directed at the EU level, are closely related to Principle A. We argue for a stronger alignment of EU budget priorities with the goal of competitiveness, and for more determined action on specific framework conditions with particular importance for cluster development. The next two action proposals, directed at the European Commission and EU Member States, are closely related to Principles B and C. We argue for a review of current recipients of cluster funding with a view to achieve a better alignment with the objectives of Principle B. And we argue for a new way of spreading best practice on cluster programmes in EU member countries following Principle C. The final four action proposals are directed at the European Commission and address different aspects of how cluster programmes are run. We argue for the alignment of operating procedures across programmes, a reduction in their overall number, and structural changes in EU efforts to create a cluster knowledge infrastructure and collaboration platforms.

This document is not the end of a process, but merely a milestone on a longer path of changes. We suggest that one year from now the European Commission takes stock of the progress made on the items we raise. Europe does not lack good plans, in cluster policy as well as elsewhere; it is the consistent follow-through that needs to be improved.

The current context for European cluster programmes

Europe's recovery from the current crisis will only be sustainable if the macroeconomic policy response is combined with a structural upgrading of competitiveness in line with the ambitions of the Europe 2020 strategy.

Europe is slowly emerging from its deepest economic crisis in decades, with many parts of the Union still suffering. Alongside its painful short-term impact, the economic crisis exposed many of Europe's deeper structural challenges with adjusting to the realities of a new economic environment. The nature of innovation is changing – becoming more user-driven, more global, more service-oriented, and more openly interactive across different partners; and the nature of the global economy is changing – with economic activity shifting towards Asia and other emerging economies.

Europe has reacted to the crisis at different levels: Aggressive monetary and fiscal policies were adopted to deal with the short-term consequences of the contraction in GDP. More and more, however, the policy focus is shifting towards the longer-term sustainability of policies. At the European level, the Europe 2020 strategy has been defined by the European Council as the answer to the structural challenges the EU member countries are facing.

Clusters are of growing importance in the new global environment in which the Europe 2020 strategy has to succeed; European policymakers cannot afford to ignore their role and should actively explore their potential to modernise and improve economic policies.

The economic situation and the policy response it triggered define the context for the review of cluster programmes that the European Cluster Policy Group (ECPG) has been tasked with. Clusters are part of the new economic environment, and cluster programmes are increasingly also part of the new industrial policy needed to succeed under these conditions. Globalisation is one important driver for the growing role of clusters in the modern economy. Companies have many more locations to choose from, and the presence of a cluster (i.e. a concentration of specialised suppliers and service providers in their field – often driven by business environment conditions uniquely beneficial for their specific type of activities) is an increasingly important decision criterion. Companies increasingly rely on the dynamic interaction in clusters, with other companies as well as academic institutions, to generate new ideas and translate them into new products, services, and ways to provide value. The impact of this trend, as well as the changing nature of innovation, have been confirmed by an increasing number of studies that show the relationship between the presence of clusters and strong economic performance, growth and prosperity. This work has also indicated that Europe is lagging behind main global competitors on the presence and dynamism of clusters.

Policymakers, in Europe as well as elsewhere, have over the last decade become increasingly interested in the potential of cluster-based economic policy. On the one hand, governments need to find a new way to engage the private sector and others in dialogue and action to strengthen competitiveness. Clusters are a natural platform for such joint efforts. On the other hand, governments need to increase the effectiveness of their own policies in areas from regional development and investment attraction to skill development and innovation, which might be achieved by aligning policy efforts with clusters' needs. The European Commission and many EU Member States have gained significant experience from programmes of both types.

After a number of years with significant growth in the use of cluster programmes, the European Cluster Policy Group (ECPG) has developed policy recommendations to maximise the impact of these programmes across different dimensions of the Europe 2020 strategy.

The European Cluster Policy Group (ECPG) was formed by a Commission Decision on the 22 October 2008 as one important element in the quest to strengthen the quality of cluster efforts across Europe. The group of twenty independent experts was tasked “to improve the Commission’s and Member States’ understanding of modern policy responses in support of cluster excellence” and “make recommendations on how to better design cluster policies in the Community.”³

The core of this document is divided into two parts. First, we introduce three principles for the Commission’s and Member States’ cluster programmes and the broader economic policy agenda in which they are being pursued. Second, we propose eight actions to translate these three principles into practice. All of our proposals are in full alignment with the Europe 2020 strategy, building on its strategic intent. In particular, they aim to contribute to a new EU cluster policy agenda as a fundamental element of the EU’s new industrial policy approach.

³ Commission Decision 2008/824/EC



The next stage of European cluster efforts

Over the last decade, cluster programmes at the level of the European Commission as well as across many EU Member States have grown organically. Individual cluster programmes were launched to meet specific policy objectives, not as part of an integrated overall plan. This was natural as the experience with cluster programmes was limited, and policymakers tested their potential as a way to organise the delivery of existing policies or even as an entirely new policy.

To meet the ambitions of the Europe 2020 strategy, the next stage of European cluster policies will need to be characterised by a better integration of cluster programmes with other activities, including their reorientation towards more ambitious goals, and their operational consolidation.

Three principles

Based on its review of current experiences, the European Cluster Policy Group proposes that the next stage of cluster programmes should be based on the following three principles:

A. Cluster programmes need to be leveraged with vigorous efforts to strengthen framework conditions

Cluster programmes need to be integrated into the broader context of economic policy, in particular with efforts to improve framework conditions. Stronger framework conditions support the emergence and growth of clusters, and thus increase the returns from cluster programmes. Clusters can also provide important insights into where improvements of framework conditions are needed. Cluster programmes are not a substitute to upgrading framework conditions, but a complement that delivers its full value only if structural reforms are pursued in parallel.

What does this mean for EU level policy actions?

Over the last decade, Europe has made painfully little progress on achieving fundamental improvements in key dimensions of European framework conditions. Without such improvements, cluster programmes are sometimes seen as a politically easier way forward (because except on funding they do not threaten existing interests), but their impact will be limited. The extreme pressure on public budgets is a good reason to move ahead: many of the actions needed require little or no extra funding, but they can have a major impact. They do, however, require political will.

B. Public support for cluster programmes needs to be based on clusters' ability and willingness to upgrade in the face of global competition

The profile and funding guidelines of cluster programmes need to support Europe's efforts to better achieve its innovation and competitiveness potential (a key objective of the Europe 2020 strategy). Cluster programmes will have the highest return if they are targeted at clusters that show the strongest ability and willingness to renew and upgrade. Ability is reflected by the success that clusters have already achieved in their line of activities, or by capabilities to move into a new field. Willingness is shown by the ability to organise collaboration within the cluster and by a strategy that clearly outlines activities to upgrade competitiveness and leverage government engagement.

What does this mean for EU and Member State policy actions? The EU and Member States need to reorient their cluster programmes away from capacity building and compensating for poor economic performance. Instead, they need to move towards identifying those clusters and cluster-based activities where government engagement will create the largest improvement. Within all EU funding programmes, the principle of competition should be used more aggressively. The benchmark for assessing capability and willingness to upgrade has to be global. This is the level at which European clusters ultimately have to achieve. Competition on these terms will not only enable the allocation of scarce public resources to those that can leverage them the best. It will also send an important signal that public funding is not compensation for failure but support for success. The most efficient use of taxpayers' money is not achieved by focusing on either the strong or the weak, but by focusing on the dynamic.

C. Cluster programmes need to be delivered in an integrated policy framework with clearly assigned roles and responsibilities for the Commission and EU Member States

The organisational architecture of cluster programmes needs to align the relative capabilities of different levels of government across Europe in order to provide the best possible impact. The European Commission has unique advantages in areas where cross-border spillovers are high, or where common infrastructure is needed. EU Member States and sub-national regions are best placed to understand and react on the specific conditions in individual clusters. The overall efficiency of cluster support depends on each of these levels of government to perform its task appropriately. Importantly, it also depends on each of them performing their tasks with a focus on the common objective of maximising the impact on the global competitiveness of clusters.

What does this mean for EU level policy actions?

Creating more clarity about the respective roles and responsibilities of the European Commission versus the Member States is crucial. At a time of tight budgets, there is no excuse for overlapping programmes to be offered by different levels of government. This is not only a direct waste of resources, but often creates confusion among companies and cluster initiatives that further reduces their impact. The Commission needs to continue its activities in areas in which it can make a unique contribution. It is creating a European cluster knowledge and service infrastructure, and supports internationalisation and cross-border linkages between clusters. The Commission should refrain from any direct funding of cluster initiative management; this should be left to national or regional governments. The Commission and Member States both need to improve the alignment between their activities. This is not only a matter of implementing subsidiarity, but also of recognising where the impact of programmes depends on separate, but coordinated activities at the EU and Member State level.



Eight action proposals

The three principles provide a general orientation to European policymakers as they define specific policy actions. The European Cluster Policy Group proposes the following eight actions as an important step towards the implementation of the next stage of European cluster efforts.

- *Principle A: Cluster programmes need to be leveraged with vigorous efforts to strengthen framework conditions.*
- *Principle B: Public support for cluster programmes needs to be based on clusters' ability and willingness to upgrade in the face of global competition.*
- *Principle C: Cluster programmes need to be delivered in an integrated policy framework with clearly assigned roles and responsibilities for the Commission and EU Member States.*

Action proposals 1 and 2 are directed at the EU institutions, i.e. the Commission, the Parliament, and the Council, and are closely related to Principle A. We argue for a stronger alignment of EU budget priorities with the Europe 2020 strategy goal of improved global competitiveness, and for action on specific framework conditions with particular importance for cluster development. Action proposals 3 and 4 are directed at the European Commission and EU Member States, and are closely related to Principles B and C. We argue for a review of the current recipients of cluster funding with a view to achieve a better alignment with the objectives of Principle B. And we argue for a new way of spreading

best practice on cluster programmes in EU Member States following Principle C. Action proposals 5-8 are directed at the European Commission and address different aspects of how cluster programmes are run. We argue for the alignment of operating procedures across programmes, a reduction in their overall number, and changes in the structure of EU efforts to create a cluster information structure and collaboration platforms.

1. Align funding priorities in the EU budget with competitiveness

The budget priorities of the European Union need to reflect the strategic priorities that Europe has identified in the Europe 2020 strategy. The political commitment to innovation and competitiveness has to have real consequences for public spending and policy action. The current EU budget does not meet this test. At the overall level, agriculture remains the largest budget item, followed by structural funds. In the area of economic growth, funding for research and development is significantly higher than funding for innovation. These allocations reflect decisions made when a different economic environment prevailed.

We ask the European Commission, the European Council, and the European Parliament to change budget priorities to meet the challenges that the EU has itself defined in the Europe 2020 strategy. These changes are critical to allocate scarce resources to areas where they can have the most impact for Europe's future prosperity. And they are an important signal that the goals set out in the Europe 2020 strategy are more than political rhetoric.

2. Enhance cluster-related framework conditions

The contribution cluster programmes can make towards the Europe 2020 strategy depends partly on the state of framework conditions. While many of the necessary steps have been on the political agenda for some time, the list of leftovers and unfinished actions is considerable: The European patent system with unified litigation and lower cost has been on the list for many years. Standardisation is slow and inadequate, and the procurement directives do not allow for competitive bidding for innovation in the way the competitive dialogue instrument intended it. The internal market remains unfinished, with differences in the implementation of EU rules and regulations across Member States. The lead market initiative remains a great idea, but has so far failed to reach much traction. Investments in digital infrastructures are still insufficient, and more efforts are called for to expand broadband connectivity. Risk capital supply is inadequate in terms of expertise and size of funds. The number of successful high-growth SMEs in Europe is too low, and their access to funding stays insufficient – despite a number of recent policy initiatives. Cross-border mobility and exchange of personnel is still cumbersome.

We ask the European Commission, the European Council, and the European Parliament to renew the efforts to finally make real progress on, specifically: the EU patent, the lead market initiative, and the efforts to improve risk capital availability across Europe. This is critical to make progress in transforming the European business environment to be more supportive to smart growth

and innovation. This will enhance the emergence and dynamism of clusters and significantly increase the returns of cluster programmes.

3. Review current profile of funding recipients at EU and Member State levels

Europe needs clusters of many types to flourish. Existing mature clusters are an important contributor to current prosperity. Emerging clusters are critical for Europe to make progress on the needed structural change; they provide attractive returns to government engagement on an aggregate basis, but have much higher volatility in terms of individual results.

We ask the European Commission and EU Member States to conduct a comprehensive assessment of the current recipients of cluster funding. Based on this assessment, it will be possible to identify whether European governments find the right balance between supporting current strengths and enabling the emergence of new ones. The assessment will also provide important insights into whether cluster programmes have been able to mobilise new groups of participants to collaborate in the context of government-funded efforts.

4. Encourage better cluster programmes at the EU Member State level

Parallel to the efforts by the Commission, EU Member States have in recent years launched a significant number of cluster programmes. Some of these programmes have been encouraged by the Commission; the entities supported through these programmes often

also draw on different EU funds. The nature of these national programmes varies, and they are generally closed to participants from other Member States. The Commission relies on the method of open coordination (OMC), i.e. largely the facilitation of best practice learning between member countries, to enhance the quality of these programmes.

We ask the European Commission to enhance its efforts to improve the quality of cluster programmes across EU Member States. The Commission should – as it has already done in other policy areas – set out general guidelines on good practices in cluster programmes (covering both established practice and new initiatives). These guidelines should be based on the principles defined above, especially the focus on excellence. Moving beyond the current practice of OMC, we suggest that the Commission offers co-funding for national cluster programmes that are aligned with these guidelines, and that are open for transnational cooperation.

5. Streamline EU funding for clusters by creating a unified set of administrative procedures

The numerous cluster-related EU programmes that are run and funded by different European Commission DGs reflect the value clusters represent across a number of policy areas. This dispersion of cluster programmes across DGs has confronted clusters with multiple points of contact within the Commission, all with their own administrative procedures and demands. The project reporting requirements, for example, are often time-consuming and differ widely across DGs, but provide little

useful information about the actual impact that the policy measures generate. While recognising the efforts undertaken to increase cooperation between DGs, enterprises, clusters and regions still experience too many administrative burdens and a lack of alignment between the policy objectives pursued by different parts of the Commission. The resulting administrative burden is an obstacle, especially for SMEs, to take full advantage of the existing programmes.

We ask the European Commission to streamline the funding and administrative procedures, and assign a single DG (with DG Enterprise & Industry being an appropriate choice) to take the operational lead. This DG would propose simplified procedures for enterprises, clusters and regions to participate in Commission programmes, irrespective of the specific part of the Commission running the programme. Part of this integrated procedure should be a framework for evaluating the programmes and measuring their impact on participating enterprises, the clusters they belong to, and on the regional/national economy they are part of. Feedback information on effectiveness of different cluster programmes, projects and results is crucial for better allocation of limited resources.

6. Improve coordination of cluster programmes across DGs

The proliferation of cluster-related EU programmes has followed an incremental approach, where new programmes were initiated to address a succession of issues and policy areas. Thus, the portfolio of programmes that has been created over time does not always follow a coherent overall strategy. Despite an increasing level of coordination across DGs, programmes tend to reflect the internal logic of the DGs in which they were designed and take too little account of parallel efforts by other parts of the Commission. This is not a sign of failure. But cluster programmes are now ready to move from a stage of experimentation towards becoming a key component of European innovation and competitiveness policy.

We ask the Commission to conduct a comprehensive review of cluster-related programmes, their objectives and effectiveness within and across DGs. This review should eliminate overlaps between programmes and might result in a proposal to reduce their number. A focus on more coordinated and possibly fewer programmes will increase the efficiency with which EU funds are being used. Maybe even more importantly, it will send a clear message as to the strategic objectives of policy. To overcome the proliferation of cluster-related EU programmes, we recommend creating an inter-agency working group of the units that run cluster-oriented programmes, coordinated by DG Enterprise and Industry, to regularly discuss possible synergies between their activities and jointly review plans for the launch of new cluster-related efforts.

7. Institutionalise the provision of the cluster knowledge/data base

The European Commission has over the last years made an important contribution to the knowledge base about clusters and best practices in cluster programmes and management. The European Cluster Observatory has for the first time provided systematic data about agglomeration patterns across all European regions; it will soon include more data on cluster initiatives, business environments, and other factors valuable for companies and cluster organisations. The European Cluster Alliance and the EU Cluster Excellence Initiative have created platforms for policy learning and are now starting to provide systematic training and tools towards cluster management excellence. Despite these positive developments, this capacity building has been achieved in an *ad hoc* manner by tendering for projects to deliver specific, time-defined tasks. A new approach is needed to support these platforms and institutions on an ongoing basis.

We ask the Commission to create stable institutional structures for the provision of the key data and tools it has developed for cluster programmes. The Commission could task existing EU institutions, like Eurostat, to do so. The critical condition is that there needs to be a stable financial and organisational structure to provide ongoing service delivery, if demand for such services has been proven (during initial project periods).

8. Enhance European platforms for cluster collaboration

Collaboration between clusters can yield many benefits including expanded international linkages and global value chains, and strengthened cross-fertilisation and dynamism. Recent years have seen an increase in efforts (on Member State and EU levels) to develop strategic networking and commercial collaboration among clusters in Europe and internationally. *Virtual platforms* (such as the collaboration platform developed within the European Cluster Excellence Initiative to facilitate international linkages between cluster organisations) and *network platforms* (such as the cluster networks piloted within the Baltic Sea macro region, the Regions of Knowledge projects, or the Knowledge and Innovation Communities of the EIT) are representative of such efforts.

We ask the European Commission to enhance cluster programmes that encourage cluster collaboration: Existing programmes need to shift from encouraging networking and learning among cluster managers towards true commercial collaboration. The geographic scope of these programmes needs to be better aligned with their objectives, such as expanding international linkages and strengthening global value chains, as well as focusing on developing networks within macro regions (for example the Baltic Sea or Danube Regions) and accessing markets or critical technologies. Thematic EU programmes in specific economic or technology fields should be systematically connected with the relevant European clusters in this field.



Looking ahead

Some of the recommendations made in this document will realistically take years to fully implement. On others, progress can be made much more swiftly. In all cases, it is a matter of political will, not only within the European Commission, Council and Parliament but also in Member States. And it will require the hard work of the relevant parts of governments, cluster initiatives, and others to translate the recommendations into specific action plans.

This document is therefore not the end of a process, but merely a milestone on a longer path. We suggest that one year from now the European Commission takes stock of the progress made on the items we raise. This will provide an important check as to whether the European policy process is listening.

Appendix

Members of the European Cluster Policy Group



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