



HOUSE OF LORDS

European Union Committee

13th Report of Session 2006–07

**Proposal to Establish
the European
Institute of
Technology:
Interim Report**

Report with Evidence

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(Q) refers to a question in the oral evidence
(p) refers to a page of written evidence

FOREWORD—What this Report is about

This Interim Report makes available the evidence provided to Sub-Committee G, by the organisation Universities UK, about the issues raised by the European Commission's proposal to establish a European Institute of Technology. It includes also copies of our correspondence relating to these issues with the Commission and the UK Minister responsible.

Proposal to Establish the European Institute of Technology: Interim Report

1. This Interim Report refers to issues raised by the European Commission's proposal to establish the European Institute of Technology.¹
2. The Commission's view is that there is a weakness in the EU in technological innovation arising from its limited capacity to convert research results into commercial opportunities. The aim is for the establishment of the EIT to address this weakness and to establish a global reputation by integrating effectively education, research and innovation. This, in turn, would support the EU's aims of promoting growth and employment.
3. The Commission's early thinking about the possible form of an EIT included the concept of a new physical entity which would be attended by students and would form a focus for research into the application of technology in Europe.² Following consultation, however, this controversial approach has disappeared in the present proposal.
4. The Commission now envisage the EIT operating through the activities of a number of Knowledge and Innovation Communities (KICs). These KICs would consist of partnerships between the private sector, research organisations and higher education institutions; it is envisaged that six of them would be established during the period up to 2013. The KICs would use state-of-the-art research networking and computing infrastructures in order to achieve their aims of integrating activities between participants in their partnerships. The EIT would have an independent Governing Board, including high level representation from academia and industry. The Board would set the strategic objectives of the EIT and would define the areas in which KICs would be established. Supporting the Board would be a central staff of up to 60 people composed in equal proportions of scientists and support staff.
5. We share the general agreement among stakeholders about the Commission's identification of the European Union's relative weakness, compared to its main international competitors, in applying knowledge and research to innovation in order to enhance business activity and jobs. However, we are yet to be convinced that there is a need for a new European institution, in the EIT form currently proposed, in order to address this problem. Our grave concern is that, in practice, the EIT model put forward by the Commission would cost a great deal of money and would be largely ineffective.
6. We therefore invited Baroness Warwick of Undercliffe (Chief Executive) and Mr Chris Hale (Policy Adviser) from the organisation Universities UK to speak to us, on 22 February 2007, about this subject. In this Report, we

¹ Proposal for a Regulation of the European Parliament and Council—Establishing the European Institute of Technology (EIT), COM(2006) 604 final

² For comment on this original proposal see: (a) European Union Committee 33rd Report of Session 2005-06, "Seventh Framework Programme for Research" (paras 49 and 50); (b) House of Lords debate "Universities: Research and Development" (27 April 2006) Hansard, column 278

make available for the information of the House, the oral evidence that they gave to us.

7. In answering questions from the Sub-Committee, the evidence from Universities UK covered the following topics:
 - the problem faced by EU Member States in converting education and research results into commercial opportunities (Q 1);
 - the shift in the Commission's EIT proposals from an EIT as a physical entity to one based on a network approach (Q 2);
 - the likely effectiveness of the Knowledge and Innovation Communities (KICs) now proposed by the Commission as a basis for the EIT (Q 3);
 - the Commission's proposals for the Governing Board and support staff of the EIT (Q 4);
 - funding of the EIT (Q 5);
 - the strategic direction of the EIT (Q 6);
 - measures to ensure the quality of EIT activities (Q 7);
 - the award of EIT branded degrees (Q 8);
 - Universities UK's view of desirable modifications to the EIT proposal (Q 9); and,
 - Universities UK's view of how the EU's technological innovation problem might be addressed in the absence of an EIT (Q 10).
8. Our meeting with the representatives from Universities UK helped to improve our understanding of the significant issues raised by the Commission's EIT proposal. The evidence they provided confirmed to us that our concerns about the lack of precise information relating to the proposal and its costs are well founded. We therefore decided to write to the European Commission about our concerns, asking for the Commissioner's views on the following issues:
 - The merit of the idea of carrying out a review, in advance of establishing the EIT, in order to identify, much more clearly than is now the case, the nature of the knowledge transfer problem in the EU that needs to be tackled, and to establish how incentives could be introduced for the business community to become involved in the proposed Knowledge and Innovation Communities (KICs).
 - How the central funding of the EIT would be established from both internal EU and external sources; and whether the need to find internal EU funding would divert funding from the existing EU Framework Programme for Research and Development (FP7).
 - The need to ensure that the administrative arrangements for the EIT should be as light-touch as possible in order not to deter support from business; and our concern that the present proposal for as many as 60 staff (30 scientists and 30 others) directly employed by the EIT might not be seen in this way.
 - The provisions in the Commission proposal with regard to the degree-awarding powers of the EIT; and whether it was now envisaged that degrees should be awarded by the individual higher education institutions

in each KIC, with the possibility of the EIT name being included in order to demonstrate that the degree has been awarded as part of the work of a KIC.

9. In concluding our letter to the Commission, we emphasised that we agreed that the EIT proposal does address a serious problem. We said also that we accepted that an EIT, in an appropriate form, could potentially make a positive contribution to solving that problem. We explained, however, that we would very much appreciate the Commissioner's thoughts on the matters of concern we had raised, so that we could make a fully informed judgement on the issue.
10. In this Interim Report, we make available for the information of the House: the document sent to us by Universities UK as background information for our meeting with them (Appendix 1); and a transcript of the oral evidence they gave us (Minutes of Evidence reproduced at the end of the Report (pp 1–11)).
11. We also make available our letter to the Commission (Appendix 2); and our correspondence with the UK Government Minister responsible for the EIT dossier (Appendix 3). We will return to this matter when we have received the responses to our letters.

APPENDIX 1: MEMORANDUM BY UNIVERSITIES UK

Universities UK is pleased to provide the House of Lords EU Sub-Committee G (Social Policy and Consumer Affairs) with this memorandum outlining our current views on the proposals, put forward by the European Commission, for a European Institute of Technology (EIT). We would be pleased to provide any further input to the Committee on this issue.

Background to EIT proposals

The European Commission adopted its formal proposal to create an EIT on 18 October 2006. The intention to create an EIT was announced by President Barroso in Spring 2005 as part of the Commission's review of the Lisbon strategy. The proposal was intended to be one means of raising the quality and profile of European research, drawing together the academic, research and business worlds to maximise Europe's potential and global competitiveness.

It is proposed that the EIT should be an autonomous institution, with legal personality and with a light-touch independent Governing Board defining its strategy, activities and budget. The Board would fund partnerships of teams and departments from universities, businesses and research organisations, tasked with carrying out research, innovation and teaching of post-graduate students in multi-disciplinary fields over 10–15 years. These partnerships would be termed Knowledge and Innovation Communities (KICs). The Commission proposes that the EIT should create approximately six KICs by 2013, addressing strategic long-term challenges in fields of key potential economic and societal interest for Europe.

The overall budget of the EIT for the period is estimated at some € 2.4 bn. This funding will come from a variety of sources, including a contribution directly from the Community budget and contributions from the private sector. It is also expected that the KICs will attract funding on a normal competitive basis from relevant programmes such as the Seventh Research Framework, Lifelong Learning and Competitiveness and Innovation Programmes, as well as the Structural Funds.

The EIT will encourage partner institutions to award joint degrees and diplomas and actively promote the process of recognition of EIT degrees by the Member States.

UUK view on the EIT

We are encouraged that since the idea of an EIT was first put forward the Commission's thinking in this area has evolved and now takes account of some of the initial concerns the UK HE sector and others had outlined. We are particularly glad that the Commission have moved away from the idea of creating a physical entity from scratch; dropped the proposals to second staff from participating institutions; and, moved away from the proposal for the EIT to have its own degree awarding powers. There remain, however, a number of areas of concern and areas where further clarity is needed, particularly around the funding arrangements.

Whilst we welcome the move away from the original proposals for a physical entity, towards a more 'virtual' and 'networked' approach, this does mean that the

EIT concept strays into territory that is already very well populated.³ Evidence suggests that universities and business already find the current landscape difficult to navigate, which works against their participation and engagement in European initiatives. There is a real danger of over initiative and we believe that the success of the EIT will depend on its clarity of focus and purpose, so as to differentiate it from other initiatives. The Commission has so far provided only limited information on funding of the EIT.

Although negotiations are ongoing, there is still no clear picture of where the funding will come from, how private funding will be attracted, or how this will impact on other budgetary priorities. The EIT document published on 18 October 2006 suggests that the funding needed to support the EIT's 6 KICs will come from a range of sources on a co-funding basis (member states, private sources, income generation and endowments), though for this initial 6-year period it is expected that a substantial amount of 'front loading' will come from the Community budget.

It is proposed that the direct Community support will come from the unallocated margins of sub-heading 1A of the EU budget (covering competitiveness and employment) directly up to an amount of €308,7 million. This does, however, leave a very large sum of money to be found. There is no explicit guarantee as to where this will come from. It is unlikely that sufficient private income or endowments could be generated by a new and unproven entity. Universities have been working at this for years with only moderate success and as of yet the EIT concept has nothing to suggest it can overcome the challenges in this area in any significant way.

It is also suggested that the EIT will bid for Framework Programme, Structural Funds and Competitiveness and Innovation Programme as an institution in its own right. There is, however, no reason to assume that a new and unproven entity will have success in doing this. EIT participation in these programmes would also raise question over how distinct the EIT is vis-à-vis other EU instruments that have been put in place to support R&D and knowledge transfer.

Other areas that continue to require close scrutiny are the question of EIT degrees and the governance and operation of the new organisation.

UUK had expressed concern over the initial proposals that would have seen the KICs being able to award EIT degrees. We therefore welcome the Commission's move to state that the EIT shall only encourage partner organisations to award joint degrees and diplomas to reflect the integrated nature of the KICs.

It will be important that participating universities have complete autonomy in this regard. Whilst we welcome the proposal that EIT degrees would seek to embed innovation and entrepreneurship within degree programmes, participating universities will need to have the autonomy to respond to demands from employers and students.

There are still questions over how EIT degrees would be recognised or quality assured, particularly within the context of the Bologna process. Further clarity in this area is still required.

³ For example, the distinction between the EIT and European Technology Platforms and Joint Technology Initiatives is still in particular need of clarification, as there is the potential for significant overlap of purpose and over initiative. We also have Networks of Excellence (NoE) and Integrated Projects (IP) under the Framework Programme which seek to do similar things to the EIT e.g. IPs aim to integrate the critical mass of activities and resources needed to achieve ambitious clearly defined scientific and technological objectives.

Despite the concerns and uncertainty highlighted above, UUK recognises that we need to work with the EIT concept and help shape it into something that can work, though it will be crucial that all stakeholders involved in the discussions provide close scrutiny. In our view if the EIT were to go ahead we would prefer to see a more modest first phase than that that currently proposed (perhaps two KICs, rather than six), with a built in review to assess progress and the possibility of expansion. This would seem a sensible approach for what is essentially a new and untried concept.

UUK continue to liaise with the UK government on this to ensure the views of the HE sector can be represented in the European Council, as well as raising awareness with MEPs and Commission officials.

APPENDIX 2: LETTER TO THE EUROPEAN COMMISSION FROM THE CHAIRMAN OF THE EU SELECT COMMITTEE

Letter dated 8 March from Lord Grenfell to Commissioner Figel at the European Commission.

The Social Policy and Consumer Affairs Sub-Committee of the House of Lords' EU Select Committee has studied with some interest the European Commission's Proposal to establish a European Institute of Technology (EIT).

As part of the Committee's scrutiny of the Proposal we decided to take evidence from the organisation "Universities UK"; and we have also been in correspondence with the UK Government over the issue. On the basis of this information and of the professional experiences of members of the Sub-Committee, we are writing to express our views on the Proposal and to seek your thoughts on these.

We recognise that there is a problem to be addressed within the European Union with regard to knowledge transfer. The latest Eurostat Community Innovation Survey (22 February 2007) demonstrated that co-operation with the higher education sector amounted to only 9% of innovation co-operation led by innovative enterprises.

We do, however, have some concerns as to whether the EIT, in the form currently proposed, will provide the best means of encouraging knowledge transfer within the EU and, hence, of increasing competitiveness. A crucial basis of encouraging knowledge transfer is to adopt a "bottom-up" approach with various "drivers". Most notably, these must include the support of researchers, students and, above all, business. A major concern we have is that the present Proposal provides no obvious incentives for the involvement of, and the injection of funding by, the business community,

As you will doubtless be aware, "Business-University Collaboration" was the subject of a December 2003 Report commissioned by the UK Government and written by Richard Lambert⁴. The "Lambert Review" has been helpful in focusing minds in the UK on the problem of poor knowledge transfer, including the "commercialisation" of research. It may not be the case that the lessons of the Lambert Review can simply be transplanted to the EU level, but we do feel that serious consideration should be given to the suggestion made to us by Universities UK, that a similar style of review should be carried out across the EU. This would have the purpose of identifying, much more clearly than is now the case, the nature of the knowledge transfer problem that needs to be tackled. Our view is that it would be valuable to carry out a review of this kind, in advance of establishing a European Institute of Technology, in order to help to establish how incentives could be introduced for the business community to become involved in the proposed Knowledge and Innovation Communities (KICs).

We would be most interested to hear your views about the merit of carrying out a Lambert style review across the EU in advance of establishing the EIT.

Another of our concerns is about how the proposed Institute will mesh with the 7th Framework Programme for Research and Development (FP7) and the European Research Council (ERC). We would be interested in your views about

⁴ http://www.hm-treasury.gov.uk/media/EA556/lambert_review_final_450.pdf

how the proposed EIT will add value to FP7 and the ERC, and how this can be guaranteed.

Closely linked to concerns regarding FP7 is the issue of the budget of the EIT and the various KICs. This is outlined in the Legislative Financial Statement appended to the Commission's Proposal. Various Community sources of financing are identified, including FP7, the Structural Funds and "unallocated margins beneath the ceiling of sub-heading 1A". Is the Commission able to explain the potential financial impact of the Proposal upon FP7? We have some concerns over the extent to which it is appropriate to direct Structural Funds towards the EIT and KICs and we would appreciate clarification on how the unallocated margins referred to might otherwise be spent. In addition, the external sources envisaged include Member State, regional or local authorities in addition to private enterprise and other sources. Again, it is not clear from the Proposal how this will work in practice, most notably in terms of providing incentives for private enterprise to invest and the impact upon national and regional budgets.

A topic that we touched upon in our discussion with Universities UK was the proposed administrative structure of the EIT. They referred to one of the findings of the Marimon report reviewing progress on FP6 which related to the factors affecting business participation in the framework programme. The report suggested that lower levels of bureaucracy were needed in order to encourage the participation of small and medium enterprises (SMEs) in the framework programme. We share the view of Universities UK that the administrative arrangements for the EIT should be as light-touch as possible in order not to deter support from business. Our concern is that the present proposal for as many as 60 staff (30 scientists and 30 others) directly employed by the EIT might be not be seen in this way, but we would welcome your views on this.

Finally, we did initially have some very significant concerns about the provisions in the initial Commission proposal with regard to the degree-awarding powers of the EIT. We would favour an arrangement under which degrees are awarded by individual higher education institutions in each KIC, with the possibility of the EIT name being included in order to demonstrate that the degree has been awarded as part of the work of a KIC. We would welcome your clarification that this is now what is envisaged.

May I conclude by reiterating that we do agree that the Commission's EIT Proposal does address a serious problem. We accept also that an EIT in an appropriate form could make a positive contribution to solving the problem. However, we would very much appreciate your thoughts on the matters of concern we have expressed in this letter before we are able to make a fully informed judgement on that issue.

APPENDIX 3: CORRESPONDENCE BETWEEN THE CHAIRMAN OF THE EU SELECT COMMITTEE AND THE GOVERNMENT

Letter dated 12 December 2006 from Lord Grenfell to the Minister for Life-long Learning, Further and Higher Education at the Department for Education and Skills

Thank you for your Explanatory Memorandum of 22 November. This was considered by Sub-Committee G at its meeting on 7 December.

We share the general agreement among stakeholders about the Commission's identification of the European Union's relative weakness, compared to its main international competitors, in applying knowledge and research to innovation in order to enhance business activity and jobs.

However, we are still far from convinced that there is a need for such a major initiative by the European Commission in this area. The latest proposal represents a fundamental shift away from the concept put forward originally—of the European Institute of Technology (EIT) as a new physical entity in Europe. This shift is welcome to us because we felt that the earlier concept would actually be likely to damage the capacity of existing universities to collaborate with private industry and others in order to help to secure commercial opportunities from knowledge and research.

The proposal now put forward, however, does look to us very much like a bureaucratic solution designed, against the background of criticism of the previous proposal, to keep the EIT concept alive in some form. Our grave concern is that, in practice, the model put forward would cost a great deal of money and would be largely ineffective.

We would be grateful therefore to hear the Government's views about why an EIT is needed at all and why it should be supported.

Moving on, we would also like to have your views on how to gain some value, and to minimise the damage, from the establishment of the EIT, if this becomes inevitable. Our specific concerns relate to the concept, strategic direction and funding of the EIT; and to its proposed creation of EIT labelled degrees.

The concept of the EIT

While the move away from a physical entity for the EIT, towards a more virtual and networked approach is welcome, we are not convinced that such a resource intensive solution would be the most effective way of addressing the problem that has been identified. We would welcome your views as to whether a lighter touch approach might be more effective—designed to build on and help the many networks that have already been established between universities and business for advancing technological innovation.

The EIT's strategic direction

We share the Government's view that, if an EIT is set up, it would be important to strike an appropriate balance between 'top-down' strategic guidance and monitoring undertaken by the proposed Governing Board and 'bottom-up' flexibility and autonomy for the KICs. It seems to us, however, that in practice it might be quite difficult to find an organisational model that allowed for this under the arrangements set out in the Commission's proposal. The "lighter touch" approach in which we are interested would give greater weight to the KIC's

priorities. Please could you let us have your views about whether this would be in the direction of balance that the Government would favour.

The EIT's awarding of degrees

We are unconvinced that the awarding of EIT degrees would help to meet the desirable aims that the Commission has identified; and we have concerns about the quality control arrangements for such degrees if they were introduced. We therefore share the Government's view that degree-awarding powers should remain the preserve of individual institutions and the systems of Member States, and not under the central control of the EIT or any potential Governing Board.

Please could you explain though why, and in what circumstances, the Government would support the notion of encouraging universities located in different Member States to award joint degrees. We would also welcome your views on the idea of postponing consideration of the issue of awarding degrees for a period until the EIT has had time first to build a critical mass and to establish its reputation.

The EIT's funding

We share the concerns of the Government about the large scale of funding envisaged for the EIT by the Commission—€ 2.37 billion (c. £1.60 billion) over the period 2007–13. You state that there is a current lack of justification for the size of the budget envisaged and that no break down has been provided of what the funds are likely to be spent on. Moreover, you say it is unclear where the funding would come from and question: to what extent Member States would be expected to contribute outside their EC Budget contributions; how market funding would be attracted; and what might be the impact on other Community budgetary priorities.

We encourage the Government to pursue these EIT funding issues vigorously and we ask you to let us know of any clarification of them which is provided by the Commission. We would also welcome your views on whether an alternative, much lower cost EIT proposal, might be as, or more, effective than what is currently proposed. If so, please would you confirm that the Government will press the Commission to put forward such an alternative proposal.

Letter dated 1 February from the Minister for Life-long Learning, Further and Higher Education at the Department for Education and Skills to Lord Grenfell

Thank you for your letter of 12 December 2006 regarding the proposal to establish the EIT, and for your Committee's comments. I apologise for the delay in replying to you.

The Government believes that the EIT could potentially provide a means of strengthening Europe's competitiveness and capacity to innovate, part of Europe's ongoing drive in the context of the Lisbon agenda. If framed in the right way, the EIT could bring together the three sides of the 'knowledge triangle' (education, research and innovation) in a manner not accomplished before, and provide a new, clear focus on innovation and knowledge transfer. Existing instruments tend to join up two of the three sides, and so the EIT would be unique in bringing key factors together from all three communities. The EIT model would be based on a series of partnerships, and could potentially act as a catalyst in generating a 'critical mass' of innovation output. It could potentially achieve a critical mass of innovation output, which would be helpful in strengthening EU competitiveness.

Though the Government can see the potential for benefit, any future European Institute of Technology needs to have a clear focus and purpose. Furthermore, the Government shares broadly similar concerns to those raised in your letter and in the House of Commons European Standing Committee debate on this dossier. My officials continue to engage constructively with counterparts in the European Commission and in other Member States to ensure that these issues are considered carefully.

The EIT needs to add clear value in its own right, and complement the existing range of EU instruments and initiatives in the field of innovation and research, such as the Seventh Framework Programme and the European Research Council, without unnecessary duplication or overlap.

A new initiative of this nature requires a clearly identifiable role and purpose, which the Government will seek to clarify in the course of ongoing negotiations.

I agree with you that the EIT needs to be as light-touch and unbureaucratic as possible, and should function in a bottom-up manner. The Knowledge and Innovation Communities (KICs) should be accorded as much autonomy as possible. Furthermore, a combination of high-level strategic direction for the EIT and a bottom-up functioning of the KICs would allow them the freedom to achieve positive results. This should be balanced carefully with appropriate levels of transparency, quality assurance and accountability for both KICs and the Governing Board of the EIT.

Education is one of the three sides of what is known as the 'knowledge triangle', and as such will have a key role in the EIT's operation. However, it is crucial that the systems and institutions of the Member States maintain their competences over the awarding of degrees and qualifications. While degree-awarding powers should remain the preserve of individual institutions and the systems of Member States, and not under the central control of the EIT or its Governing Board, the Government supports the notion of encouraging different institutions in the same Knowledge and Innovation Community to award joint degrees, where appropriate.

The question of funding remains the Government's primary concern. The Commission has given very little justification for such a large budget and has provided no obvious value-for-money case. Furthermore, the EIT was not foreseen in the 2007–13 Financial Perspective negotiations. The Commission proposes to fund the operational costs of the EIT out of the margin of Budget Heading 1A, which the Government firmly believes goes against the principle of budget discipline. It is also likely that the EIT would impact on UK priorities in Heading 1A such as the Seventh R&D Framework Programme (FP7), as Knowledge and Innovation Communities will be encouraged to bid competitively for funds from such programmes. In addition, the Commission envisage that a substantial part of the financing for the EIT will come from outside the Community budget, for instance from universities and business, although stakeholders have so far expressed only limited interest in doing so.

In view of the above concerns, and because the EIT model is untested, the Government considers that there is some merit in your suggestion of a more gradual launch of the EIT with consequently lower liability for the Community budget during the period of the current Financial Perspective. I assure you that we continue to engage proactively to seek further clarification from the Commission, and to discuss the options open to the EU in terms of financing this project.

I hope that these points of clarification provide you and the Committee with the assurances you require at this time. Negotiations remain at a very early stage, but

as discussions in the Council of Ministers progress, I am confident that the UK's constructive stance will ensure that our issues are properly addressed.

I remain hopeful that the final legislative text will reflect this progress, and that a future European Institute of Technology will be framed in such a way as to provide the best possible benefits to the EU and its Member States as we strive to boost innovation and competitiveness as part of the Lisbon Agenda.

Finally, I should inform you that Malcolm Wicks, Minister for Science and Innovation at the DTI, will assume the Government lead on this dossier from now on, given the focus of the proposal on innovation, and the decision to formally negotiate and decide on this dossier at the Competitiveness Council.

Letter dated 8 March from Lord Grenfell to the Minister for Science and Innovation at the Department of Trade and Industry

In his letter to me of 1 February 2007, Mr Bill Rammell MP explains that you have now taken over the Government lead on the EIT dossier because of the focus of the proposal on innovation. Mr Rammell's letter and the transcript of his oral evidence to the House of Commons European Scrutiny Committee were discussed by Sub-Committee G (Social Policy and Consumer Affairs) at their meeting on 8 March.

We are alarmed to learn from Mr Rammell's letter that the need to fund the EIT was not foreseen in the 2007–13 Financial Perspective negotiations, and that to fund it would be likely to impact negatively on UK priorities such as the Seventh R&D Framework Programme (FP 7). Nevertheless, we are encouraged to learn that the Government broadly shares our concerns about the Commission's proposals. In particular, we welcome the Government's recognition of the merit of the suggestion we made that the establishment of the EIT should be on the basis of a lower cost model than that currently proposed, and that its launch should be more gradual.

As you may be aware, Sub-Committee G took evidence at its meeting of 22 February 2007 from Baroness Warwick (CEO) and Mr Chris Hale (Policy Adviser) from the organisation Universities UK. The key issue that came out of that session was the need for business involvement and the lack in the current proposals of any clear incentives for business to wish to become involved. Mr Rammell makes the point in his letter that it is envisaged that a substantial part of the financing for the EIT will come from various sources outside the Community budget. He cites business as one of those sources although emphasises that stakeholders have so far expressed only limited interest in providing finance. Could you expand on the extent to which the Government has been in discussion with the business community about their interest in the EIT, and how involved have business representatives been in making suggestions as to how the Proposal could be improved to maximise commercial interest?

We note from Mr Rammell's oral evidence to the House of Commons European Committee that the issue of the degree-awarding powers of the EIT appears to have been resolved. We would nevertheless be grateful if you could confirm this to be the case, and if you could outline how the award of degrees by individual higher education institutions, carrying the EIT brand, would work in practice.

Finally, Mr Rammell's letter conveys the impression that the Government is supportive of the concept of the EIT, but would like to see changes in some of the details. However, when giving evidence to the House of Commons European Scrutiny Committee on 30 January, he stated with reference to the Proposal: "We

are opposed to it as it stands now. We have made some progress in the right direction, and with further detail and clarification and with more movement it could be worth supporting, not least because of the knowledge transfer deficit". Please could you clarify your own overall view of the Commission's Proposals and the priorities you will have in negotiations for seeking changes in them?

In the meantime, we will retain this proposal under scrutiny. We look forward to your responses on the issues raised in this letter and to an update from you on the negotiations as they progress.

In view of the Sub-Committee's close interest in the issues raised by this Commission proposal, I am writing also to Commissioner Figel raising our concerns. I am copying that letter to you.

Minutes of Evidence

TAKEN BEFORE THE EUROPEAN UNION COMMITTEE (SUB-COMMITTEE G)

THURSDAY 22 FEBRUARY 2007

Present	Dundee, E	Moser, L
	Gale, B	Neuberger, B
	Greengross, B	Thomas of Walliswood, B (Chairman)
	Howarth of Breckland, B	Wade of Chorlton, L
	Morgan of Huyton, B	

Examination of Witnesses

Witnesses: BARONESS WARWICK OF UNDERCLIFFE, a Member of the House, Chief Executive, Universities UK, and MR CHRIS HALE, Policy Adviser, Universities UK, examined.

Q1 Chairman: Welcome to our meeting today and thank you very much for coming and thank you for bringing Mr Hale with you. I am sure you will both be able to make a good contribution. When we first saw the Commission's proposals about the EIT as a physical entity, as a kind of MIT for Europe, we were concerned about the implications for the UK universities and research institutes. I vividly remember the debate that was held in the House on that very subject, as I think a lot of us do. That is why we wanted to explore the issues as they stand at the present moment, and that is why we have asked you to come and tell us how Universities UK are looking at it all. We have scheduled an hour. The session is open to the public and will be recorded for possible broadcasting or webcasting. A verbatim transcript will also be taken of your evidence and it will be put on public record in printed form and on the Parliamentary website. We will probably write one of our very brief reports on this matter following your evidence session. A few days after the session, you will be sent a copy of the transcript so that you can check it for accuracy. That is your opportunity to change it if you think you have been misrepresented in some way or if a mistake has been made, or even if there is some small thing you meant to say and did not say, that is your opportunity to make minor corrections, but please advise us of those as soon as possible. If you want to formally submit supplementary evidence, you can do so and that will be useful to us. I used to have to tell everybody that the acoustics in the room in which we took evidence were so awful that everyone had to speak at the top of their voices but, as you can hear, it is not like that in this room but obviously, for recording purposes, clarity is a good thing. You may wish to make a statement to begin with—I do not know how you are thinking of handling that—just to give us the general view of how Universities UK is approaching this matter at the present time. Before you start, could you for the record state your names and official titles.

Baroness Warwick of Undercliffe: Thank you very much for giving us this opportunity. I am Diana Warwick, Chief Executive of Universities UK.

Mr Hale: I am Christopher Hale, Policy Adviser at Universities UK, looking after research policy issues.

Baroness Warwick of Undercliffe: We have submitted a memorandum and I thought possibly the best way that we could help would be to answer your questions based on that, but I think it might be useful if I said a few words. Like you, we had very considerable initial concerns when this proposal was first mooted. There have now been developments which give us some reassurance that some of those concerns have been met but we remain anxious, particularly about three things. One is the funding, the sustainability of the funding and the adequacy of the funding. The second is that the proposal is still very unclear about the nature of degree awarding powers for this particular body. Third and perhaps most important, because in the end this is what this is all about, whether there are going to be sufficient incentives for business, for the industrial and commercial sectors to become engaged, because the whole purpose of the EIT was to try to improve knowledge transfer within Europe. We remain concerned in those three areas because we do not think there is any greater clarity now, despite the discussions that have taken place, than there was when we first looked at this proposal. I think there is real scope for a Committee like this to seek to develop that clarity.

Q2 Chairman: That really leads me to our first question, which is directed in a way to some of the concerns which you have raised. Obviously, the Commission thinks there is a weakness in European Union technological innovation, particularly in the transfer from, as it were, the academic to the practical and business sector. The aim of the EIT was to address this weakness and to get a global reputation by integrating education, research and innovation and support for the Lisbon agenda of promoting

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growth and employment. At this moment perhaps you can tell us what your view is of the nature and the seriousness of the problem faced by the EU Member States in converting education and research results into commercial opportunities. I think that will lead us into the rest of the discussion quite well.

Baroness Warwick of Undercliffe: I think the problem has been analysed well and we would concur with the diagnosis. Europe's future depends on our successful exploitation of what is itself a hugely successful knowledge base. If I can use one statistic, all the main regions in the world showed an increase in R&D investment in 2004 compared with 2003—they are the latest data that we have—but EU companies performed worse than non-EU companies in terms of R&D investment growth. It is quite clear there is a problem to be addressed. There is a real need to encourage business investment in research and development. The issue is whether this is the appropriate mechanism to ensure that that happens but we certainly think that there are processes that need to be put in place to address the problem.

Q3 *Chairman:* Can I pursue that just for a moment? Do you have an idea in your own mind, or does the institution have a way of looking at it, of what would be a better way of going forward? Is there something which the Commission in its proposals is missing?

Baroness Warwick of Undercliffe: There is one very big gap in the proposals, and it is partly to do with funding but it is also to do with incentives. Better fiscal and regulatory incentives would be required, as we have found in this country too, to entice industry and business to play a part. At present they are not there and I think it is that area where we are most concerned.

Mr Hale: I would agree with that. Our initial concerns were around having a bureaucratic solution to a problem which is perhaps more of a strategic problem for Europe as a whole around having the right fiscal and regulatory incentives in place, as Diana suggested. The EIT can only be seen as part of an ongoing process of reform. Further reform, ensuring that appropriate tax incentives, for example, are in place are equally as important.

Baroness Warwick of Undercliffe: One of the ways that we approached this in the UK was through the Lambert Inquiry, the Richard Lambert Report, which looked at precisely this problem, because we share the problem in the UK, and we have, I think, benefited enormously from the recommendations that the Lambert Committee produced. One of the things that we were inclined to suggest—and this may be something the Committee might want to pick up—is perhaps a Lambert-style review across Europe to try to identify better the nature of the problem. The initial proposal for the EIT was a really quite complex and over-bureaucratic solution to the

problem, but the problem itself has still not really been properly clarified or well defined. So having a review might well be one way of ensuring that, if we are going to put in Europe a large amount of euros into this project, at least it would be better focused.

Mr Hale: There is an issue about understanding what actions might be required at a national level and at a regional level and also what added value might be achieved at an EU level through something like an EIT and then how that money can best be focused, as Diana suggested.

Chairman: I come from Surrey, where they have a university which is plugged in at every level into all sorts of research and also the business sector as well. So I hear what you say with some familiarity. I am going to pass on to Lord Moser for the next question.

Q4 *Lord Moser:* The second question really is about how this project evolved, and your paper goes through that. Taking the main purpose of the whole exercise as being not to create universities for their own purpose but to improve the passing on of information for research and education for commercial purposes—that is the point of the whole operation; that is where the gap is—so accepting the gap, the first model was a sort of MIT, was very grand and was opposed from many quarters—rightly so, and certainly in this Committee. Then whoever it is in Brussels moved to a second sort of scheme, which seemed more of a research institute, was very scaled down and financially more attractive but still with all the basic weaknesses that we all expressed on the first model. Now we are on the third model, which is, as you yourself say in your paper, a virtual/networking operation, and I have to confess that I see very little merit in that at all and I would like to hear from you on it. The reason why I am doubtful is because, if the purpose is to pass on the best of research and education for commercial purposes, which, as you say, Richard Lambert did in his review, that is not going to happen from a virtual institution. That could happen from a very good university, as it does in many German universities already. I certainly know Bonn and Berlin are very strong. By moving to this virtual and networking model, as far as I can see, they have in a sense killed the initial purpose, which was the commercial exploitation. I would like to hear you on that. Really, the basic point is whether it would be better to find ways, perhaps through a kind of Lambert review, of strengthening other European universities in the Lambert direction rather than this slightly mistaken project.

Mr Hale: As Diana said earlier, we were very concerned about the initial proposal for a physical entity or a legal entity and we were glad that the debate has evolved and that the Commission has at least been listening. We are also very grateful to the UK Government for reflecting a lot of our concerns

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in the discussions that they have had in Brussels. What happens is, however, as you move away from the physical entity towards a more networked, virtual approach, you stray into territory which is already very well-populated. You have the R&D framework programme, which has all sorts of instruments within it such as integrated projects and networks of excellence, which try to do similar things by bringing in industry. You also have joint technology initiatives, which build on the work of the European technology platforms, and are trying to bring business in as well. The key issue—and I think you are right—is this issue around the clarity of purpose of the EIT once it is within this environment with all these European initiatives. The key issue is focusing on knowledge transfer. Initially we had suggested that the EIT may provide a mechanism which could fit usefully with the European Research Council. The European Research Council would generate the knowledge and basic research, and then you could have an EIT-type mechanism which could focus on encouraging exploitation and getting a focus on the Lambert-type issues. That is very much the direction the EIT needs to go in because that is where a lot of the problems lie, but it needs to be clear that that is what it is meant to be doing. At the moment I do not think it is clear. It is trying to do a lot of things and it is probably going to duplicate a lot of things that are already going on through the European Technology Platforms, through the Joint Technology Initiatives and other aspects of the Framework Programme.

Baroness Warwick of Undercliffe: Part of the problem is that it was very ambitious but nebulous and, as they tried to put greater clarity on the concept, although the ambition was a little bit contained, the purpose became even less clear, so whether the mechanism that is now being developed is actually fit for purpose, I think the jury is still out on that.

Q5 Lord Moser: Your view would be a query?

Baroness Warwick of Undercliffe: Definitely. On the other hand, I think there is a lot of political clout behind this proposal.

Chairman: We all feel that. That has become clear as the months have gone by and various efforts were made to put it in place.

Q6 Earl of Dundee: How do you think the Knowledge and Innovation Communities as proposed will actually assist the commercial application of new technology?

Baroness Warwick of Undercliffe: In a way, this goes back to Lord Moser's point about the networks. Theoretically, yes, the development of high-level contacts between universities on the one hand and research centres and businesses or networks of businesses on the other ought to be productive. The difficulty is, of course, that we are producing

something here which is a supply-side answer to an unknown demand-side problem. We do not have the mechanisms that will either identify just how much of a demand there is out there for this kind of process, nor, if the demand is there, do we know precisely what the right incentives will be to encourage that demand. From the point of view of the universities, they are very accustomed to bidding for projects, for ensuring that they maximise the efficiency of the work that they are doing so that they can put in a very good project proposal, and they have become a great deal better over the years at working with the commercial sector, working with business and industry. But what we still do not know is whether even if we offer much greater opportunities for business to engage—and when I say “we” I mean the universities across Europe—whether or not business will indeed engage, and I cannot think at the moment of why they should, because there is not anything in place that would encourage them to do so.

Q7 Earl of Dundee: To pick up your point of the supply and demand being an unknown quantity, we do not want something which is too solid, which seems to predict a supply and demand which is not known. We want something which is flexible. If you think of these KICs in their own right, could they perhaps be deployed as something which could give that flexibility? Perhaps it could be argued that, even when yoked to the EIT, they might be able to provide that flexibility, but a lot of us believe that they probably would not. If disassociated from the EIT, could they perhaps, in your view, be used as a useful model to give the very flexibility that you are talking about?

Baroness Warwick of Undercliffe: I think that is a good point. Again, one would need incentives but there is no doubt that there needs to be a mechanism to encourage greater bottom-up ideas coming forward. I can't offer any thought on this.

Mr Hale: I think part of it comes back to what we were saying earlier about the absorptive capacity within the system. You can have all these supply-side initiatives but until you actually make sure that the environment is right for business to engage, then they may not succeed. Coming on to the governance structure of the EIT, if it were to go ahead, I think you would need a very flexible approach because the innovation process is very complex and it would need the freedom to respond to demand. I think you are alluding towards a more autonomous model for the KICs and that would be vitally important. The bureaucracy would need to be very light touch because you could set the research priorities for four or five years for the EIT and then they changed. There are some good examples of how, for example, the Foresight Programme did not pick up the

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development of the internet and that kind of thing, so I think it needs to be very responsive.

Q8 Chairman: Within the university sector in this country, where, as we know, there has been some very successful interaction between industry, commerce and business and the university sector, how does that work? Who makes the initial contact? Does somebody go to the right university, Aston or whatever it might be, or the right bit of Oxford or Cambridge—I do not know where they are looking for their research—and say “We have a problem which we can’t solve. Can you assist us with that?” Does it work like that, or does it work the other way around, where you have people working in a fairly non-commercial atmosphere who come up with something and then try and sell it, or does it work both ways?

Baroness Warwick of Undercliffe: I will ask Chris to say something about this but it works both ways, because universities have become much more commercially minded and have already made contacts with the commercial sector. They are also very anxious to ensure that they retain some control over intellectual property, of course. There is a lot of interplay between business and universities, and not just in science areas: in the cultural industries, in a whole range of areas, in social science. So there is quite a lot of penetration; the walls are now quite permeable, I would say, between universities and commerce. Similarly, the universities themselves have ensured that they have staff in place whose specific job it is to encourage links with industry and to ensure that industry, who, after all, often do not understand how a university works, and indeed need not necessarily have to understand how a university works, can get to the people that they need to get to. There is now in every university at least one member of staff whose job it is to undertake that task. So it works both ways.

Mr Hale: I would agree. It happens in all sorts of different ways, and a lot of good work that has been done off the back of the HEIF funding, the Higher Education Innovation Fund, which has been very useful and supported the infrastructure which Diana has been talking about, which is about allowing universities to become more focused on not only exploiting their activities but also bringing business in. There are a lot of long-standing partnerships between universities and business. If you look at the example of Rolls Royce University Technology Centres, partners will develop their research priorities jointly and take those forward.

Q9 Chairman: The question is really how will a new institution, however virtual it is, fit into relationships which have already been established? Do you think that within other countries in Europe the situation we

are in does not obtain or do you think that it does generally obtain, that there is the same kind of permeability between business and the university sector in general?

Baroness Warwick of Undercliffe: I certainly get the impression in my discussions on the European scene with other European universities that here in the UK we are somewhat ahead of the game. I think there is a different perception about the role of universities, but Europe is moving in this direction. Certainly, talking to my German, Dutch and French colleagues, they appear to be moving in that direction but there is a sense that somehow the Anglo-Saxons have become a little more hard-nosed and have done rather more on this front, but equally a growing realisation that universities have a huge contribution to make to economic development and that we need to do better collectively across Europe in linking with the commercial world.

Q10 Lord Moser: Just on this point, taking the two universities with which I retain a connection, LSE and Oxford, it is part of the job, as you well know, Diana, of any academic nowadays to focus considerably on knowledge transfer into the commercial sector. It is part of the job for the researchers and the teachers and, conversely, as you both well put it, that means that the world of commerce looks to the universities to play that role. This animal that is being created here will not have, as far as I can see because it is all virtual, those excellent people with whom business will want to do business.

Baroness Warwick of Undercliffe: I guess it depends really on how the virtual process works because in a sense, academics are in virtual contact with each other regularly now where you build partnerships across national boundaries. Often academics collaborating with other academics do it through the internet or through papers or through conferences and so on. It is possible to envisage that some sort of virtual mechanism that might work. It is not clear quite how the innovation side, the commercial contact will be developed. That I think we have no real information on that as yet.

Mr Hale: No.

Q11 Baroness Howarth of Breckland: I wanted to ask a question about that. To me, it is the interest in the drivers, what makes people want to engage. Universities are usually trying to get contracts because it pays them and keeps the research that they want to do going for the contractor. I know that with the Food Standards Agency and other places where we have a lot of contracts on research, it is because you want a task undertaken. That seems to me very much between the parties, and I just do not see how this EIT has any of those drivers whatsoever, but

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there may be another way of looking at how we can get more European or global in terms of working these things out across countries. This seems to be a totally inappropriate mechanism to do it.

Baroness Warwick of Undercliffe: I agree with this. I think the difficulty is, if you think about the concept as it started, it was a physical entity; it was MIT—a bizarre concept but nonetheless, it was MIT for Europe. Once you get away from that concept where you drew in the best researchers, you had contact with the CEOs of multinational companies or pan-European companies and somehow they all came together and fizzed, once you get away from that, you then get into the detail which was precisely the point that the Earl of Dundee raised, of what they will actually physically do and how it will operate. This is where we ourselves are struggling to try to understand and to put a little bit more flesh on those bones. It is perfectly feasible, I think, to develop, with the right kind of financial support and financial stability, groups of researchers focused on particular activities where industry and commerce have been engaged in the process and together identify the nature of the problem which those researchers might try to solve, and then identify the nature of the commercial opportunities that are available. So all those things are feasible. It is knowing quite how to put the mechanism in place to do that. That, I think, is the big gap at the moment.

Q12 Lord Wade of Chorlton: The discussion is developing very interestingly. I should explain that I have been involved in this business for the last 10 years or more. I started the Commercialisation Unit at Manchester University, Campus Ventures, in 1995. I chaired it for six years, and it was the first major one that we had started. It was purely for the purpose of commercialising technology coming out of Manchester University. We based the idea very much on what I had seen in California, which no doubt you have seen, which is the commercialisation unit that was set up there by all the universities of California. They created a central place, not staffed with academics but staffed with business people, who understood the need and how you can develop the company. That is the key to it, and what surprises me is that nobody has talked about this, particularly in this place. You need money to start businesses, and you cannot create a commercialisation unit unless alongside it you have a venture capital fund of some kind. I have started two venture capital funds now in the north of England, one called the Rising Stars Growth Fund, which we started some five years ago, which covers the North West of England, and I have just started one that covers the eight new research universities across the whole of the North, which is Rising Stars II. The first one was for £19 million and the second one will be for something like £15 million

or £20 million when we have finished. This is all coming from financial institutions; it is not European money. It is a commercial operation. This is what this is all about. It is a local entity that can provide the finance, the mentoring, the financial support of business, experience, knowledge and the technology developers in one unit on a relatively local basis. It seems to me that the concept of this being run by some people in odd places all over Europe, would not work. But there is a tremendous need to encourage proper local formations, that could be done on a regional basis, on a university basis. We are involved now in doing something in Liverpool University, which will be a similar concept. There is work taking place there already and I can see that. As you say, at Suffolk you have an opportunity there to build something around the university, bring in local money, and then you can actually create a driving force that will do something. Somehow or other, that is completely missed in all this. I know I was going to ask the strategic question but I just thought I would make the point now that, somehow or other, unless we can get back to a practical proposal that we know is going to bring people together who know how to make the thing work, it never will work. Do you agree with what I am saying?

Baroness Warwick of Undercliffe: Yes.

Q13 Lord Wade of Chorlton: How can we actually get people off this idea and get them on to an idea that is going to work?

Baroness Warwick of Undercliffe: I will ask Chris to say something about the practicalities but perhaps one of the ways of doing it is going back to one of the suggestions I made earlier about the way in which the Lambert Inquiry helped us here in the UK to focus on some of the key drivers. There are problems on both sides of lack of understanding lack of awareness of possibilities and lack of capacity, so if we could get to a point where we understood better the nature of the problems—because they vary between different European countries—I think we might have a clearer view about the kind of initiatives which might be needed rather than one big overarching initiative, which is a very European solution to a problem. I agree with you entirely; the commercial sector has to have some degree of engagement in this process, and you certainly have to have a degree of sustainable financial backing to allow these initiatives to fly. If they take root, that is marvellous, and they will build on their strengths, but at the moment that is not there and there is no indication that anybody in the business sector has even yet been engaged in this debate. It has all been at European level through the presidential discussions. The Parliament, as I understand it, will now be involved, which I think is helpful because it means there will be more voices, hopefully making these points, but there has not been

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the involvement of the commercial sector in this process at all, as far as I understand.

Mr Hale: I think that is developing. A number of working groups have been set up in Brussels and industry people and university people have been invited. I suppose, at a practical level, the proposal is still on the table in Brussels and one of the key objectives will be to try to iron out some of these problems and help shape the EIT into a more—not robust, but more fit-for-purpose model that will actually have the right incentives in place, have the sustainable funding and may actually be helpful. To me, it looks like the proposal is here to stay, so I think the key issue will be about knocking it into shape.

Q14 *Chairman:* If we were to follow Lord Wade's thinking, which I must say sounds pretty solid and grounded on experience, which is always important, we would be rather suspicious of something which said everybody had to come to Brussels to talk about things and then somehow that would stimulate a process whereby a company would immediately know where to go to establish a relationship with an intellectual organisation, a university or whatever, so that they could supply each other's needs. That does not seem to me a very realistic view of how these things happen. They happen because, either on the one side or on the other, or sometimes both at the same time, people actually need to get things done at a practical level. Is that right?

Baroness Warwick of Undercliffe: I am sure that is right, and it reinforces a point that we have made also. It is one way of approaching this, given that we are all aware of some of the politics that are behind this, and since it does seem likely that in some form this proposal will go ahead. Therefore, I think one of the ways that we might approach this is to suggest that it is done on a much more modest basis, that if some form of this proposal is eventually what emerges, then let us try and test it and see whether it delivers the outcomes that are hoped. If instead of having say six KICs, we have possibly two, better thought through, with much greater focus of engagement with the commercial sector and more realistic budgets, we could actually see whether it delivers. There are all sorts of structural problems associated with the links between knowledge and the transfer of knowledge, and we need to unpack those and try and understand them better. Doing it with a much more modest proposal will also help us on the funding front, because nobody is yet clear where the money is going to come from. We have been told it is going to come out of the margins of the Community budget, in other words from a contingency, but if you take money at this early stage in the budget process out of your contingency fund, that means there might be all sorts of exciting developments that you are not able to fund subsequently, and I think that is really

quite dangerous. Also, it means that the EIT, whatever its final form, will be in competition with all the other well-established organisations for funding streams and the likelihood of it succeeding without much greater care is remote because it will be a new body, it will not be tested, and the other bodies that Chris referred to earlier are all well-established and effective, or building upon or strengthening current initiatives. I just think a more modest proposal might be something we could aim at.

Chairman: We did have some concerns about the governing body and how that works. In a sense, you are saying you do not really want to go straight into that sort of an organisation; you want to go into something more modest, which is like a test programme. Is that right?

Q15 *Baroness Neuberger:* To some extent you have made it very clear that your view is it should go much smaller, and before you came in there was a certain amount of eyebrows being raised at the idea of a huge independent governing board, 60 people supporting it, and being rather unclear what this board was actually going to do, set the strategic direction, and the subtext, reading your own paper, was that you are not too keen on that either. Could you tell us a little bit about what you feel about this proposed structure of the governing body and support staff?

Baroness Warwick of Undercliffe: Our aim would be for it to be unbureaucratic, with as little bureaucracy as possible. Clearly, a governing body would have to set the strategic direction but again, it really ought to be those who are involved in the knowledge development and in the knowledge transfer who are engaged at the running of the organisation level, and I suspect that having 60 people, they will have to find something to do, and that, I think, is a recipe for yet another European regulatory body, which will have a rather dead-hand approach. So I fear that that itself could be a problem.

Mr Hale: The Marimon report, which was the report that reviewed progress on Framework VI, actually showed that European bureaucracy was a disincentive particularly to business participation in the Framework Programme, so I cannot see that that would be any different for a body like this. A light-touch bureaucracy is essential. I would just like to reiterate the point I made earlier about having freedom within the KICs to respond to strategic change and changes in direction. Business will need to be able to respond to changes in the market and if they have too much of a rigid contractual relationship with the EIT governing body, whatever that may be, without the flexibility for them to be able to respond and change, that could be dangerous. No, I do not think people would partake in it if they felt that they were going to be straitjacketed in that way. If the Commission were sensible, they would set up a

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light-touch body which had that kind of inbuilt flexibility otherwise it will not be attractive.

Baroness Howarth of Breckland: I think it is just worth saying something about what we mean by “light touch” because as soon as you have a governing body—and I sit on several—you have the need for what that strategic direction is going to be, you want your business plan, you want your various documents that back up your work because that is what everybody likes to be able to see. My worry is that you are getting to the whole process that actually sets boundaries rather than breaks boundaries, and I think it is a very different kind of body that would have to be created and I have not seen Europe do that yet. It really does concern me that if we were going to be saying something about this, and my question is what could make it better if we were going to do it at all, and you answered some of that about restricting the size but I do think we will have to say something very firm about the governing body in any short report.

Chairman: I think that is quite right.

Baroness Greengross: Perhaps I could ask you something else. You said you feel this is going to go ahead. Why? Is this majority voting? Everybody has such reservations. Looking through the rest of the questions, many of which have been answered, why not have this as an add-on to what goes on anyway? We are going to ask about degrees but instead of degrees—and that is a different question, I know—why not have this brand as being something absolutely brilliant that somebody at Manchester can also take as an additional qualification? Why not have a European seal of approval on all sorts of excellent things that go on? I do not understand why we accept that this is going to happen, because what was suggested is not going to happen.

Q16 Baroness Morgan of Huyton: Can I add a supplementary to that? Where are university colleagues on this? In a sense, there is one set which is the central politics of the Commission and so on, but where are other universities in the EU or other university bodies like your own?

Baroness Warwick of Undercliffe: The politics revolve around the presidency and the fact that this is an idea that has come out of the presidency and, because at a strategic level we have all acknowledged that there is a problem and that that problem needs to be addressed, here is one way, as yet, even after a lot of discussion, rather unformed, but nonetheless one way of doing it. I cannot answer for the way in which governments negotiate at a European level around the budget process and who trades what for what, because I suspect there is an element of trading on this issue but there is no doubt that if the President is determined to press this through, there will be those who will support it for a variety of reasons, and the question then is just how much other governments,

however sceptical, want to invest political capital in opposing it, I suspect. I think there is a lot of that kind of high-level politics behind it. Where the universities across Europe stand, again, has developed. When this was first proposed, it was perceived as a possible way of transferring resource from investment in excellence in research in universities and research institutes towards those countries and institutions in those countries where, because of lack of investment previously, they really needed to build their infrastructure. So it became almost a new Member State issue. I think that has gone somewhat because the question really now is how on earth you engage with industry and with the commercial sector and whether we should be focusing on excellence in this approach as well. I think there is now a general view that we ought to be focusing on those institutions or companies or people who can deliver that excellence. Most of the members of the European Universities Association are very concerned about this proposal but the ones who are most enthusiastic about it are those in new Member States, where they believe that this will give them an opportunity to develop their own infrastructure. So there are differing views but, talking to colleagues—I think you had a discussion with our colleagues in Germany quite recently, Chris. Perhaps you would say something about that.

Mr Hale: Our colleagues in Germany have a very similar line to Universities UK. It is HRK but I cannot pronounce in German what that actually stands for, but I can pass you a link. They have very similar views. They are concerned around the education elements, around clarity in relation to the budget, clarity of purpose, those kinds of issues. Just adding to what Diana said, on the clarity of purpose issue I think there is also an issue about how different parts of Europe are seeing this in a slightly different way. A lot of the Commission rhetoric is about focusing on excellence but some people are seeing it as more capacity building, infrastructure building. Another area where there is a need for real clarity relates to the question of whether this is about building infrastructure in new Member States or about focusing on excellence wherever it is found, such as can be seen with the European Research Council? There is a need for further clarity on that as well.

Baroness Warwick of Undercliffe: That would, I think, emerge in any review of need and of capacity which was undertaken because there may be an element of both needed, because in order to get to the point where one could find the sort of structure that Lord Wade is talking about, you would have to have some degree of capacity building, if you wanted to develop in a particular country, to get the research levels up to a competitive level. So there may be an element of both but, again, that just is not yet clear.

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Q17 Lord Wade of Chorlton: What is the view of the British Government on this? Can we work on them to put forward a more positive approach?

Baroness Warwick of Undercliffe: I think the UK Government shared some of our scepticism and has been very supportive in seeking to move this into a more practical domain. So I do not think there is any difference in the approach of our Government. It is seeking though within the political context, to try to improve this process so that we will eventually end up with something that does deliver greater knowledge transfer on a European scale.

Q18 Lord Moser: Following Lord Wade's question, if we here, this Committee, wants to end up positive—which I do not, because I think this is the wrong approach but I think probably we should and have to—would the right line be we accept that there is a problem but the problem has not been clearly enough enunciated or worked out, we do not think this is the right approach, therefore we recommend A? I am very attracted by the idea of the Lambert type of review, which is a way of understanding what universities and the business sector can do together. That would be the positive backing. Secondly, no doubt we can have lots of ideas how existing universities can be helped, perhaps on the part of the British model, to do better in this particular sphere. Those would be two positive suggestions from us, which you have made anyway. Where I am more worried is the idea of “This is not the right approach; let's do it more modestly.” I am worried about that for reasons which I think have been implied. Once you start talking about two rather than six governing bodies, too big, funding a different way, you are on the way. I am worried about that. I wondered whether you could make one other remark, if we do two positive things but not this pilot approach, which seems to go against our basic thinking.

Baroness Warwick of Undercliffe: I think your approach to acknowledge that there is a problem is the right one. Having said that, I think it is really quite important to make some practical suggestions as to how that might be addressed. I suspect we would not be coming from here at all but equally, since we are here, the question then is how can you adapt an idea that has been very well articulated—it has been in the public domain for a couple of years and there has been a lot of European time and effort put into it. One would really need, I think, to be trying to work with the grain of that proposal, even if it were seeking to establish where the weaknesses lay, because I think we really do need to pick up the big weakness of the lack of engagement of the commercial sector in all its forms, both in terms of demand but also in terms of resources. I find it quite difficult to identify an alternative way of doing this, but it seems to me, if one can take the kernel of the

Knowledge and Innovation Communities and try to build on that, even if it ends up as a very different kind of mechanism or entity, that really would be the best way forward.

Chairman: Thank you for that. I think that brings us to ask about how we would know if the EIT was working well, which is your question Lady Morgan.

Q19 Baroness Morgan of Huyton: Yes, I wanted to ask about quality assurance, but taking a slight step back on that and just building on what you were saying then, it seems to me that perhaps the other thing we could help them do, in attempting to set the context of what we are trying to do here, is that it has to be about excellence and it has to be about trying to encourage mechanisms of sharing knowledge, in the way that Lord Wade was talking about earlier, that are about encouraging the EU to be able to compete in the world economy, not about some sort of levelling up process or levelling down process within the EU, which is in a sense what you thought there was a danger of. I would have thought the more that we can try and set the context in our report around that area, the better. Relating to quality assurance—you have half-given us the answer already, which is that at the moment there is a level of scepticism about what the quality assurance is or would be. Do you have any suggestions at all about what you think could be done to ensure some level of quality assurance of the KICs, particularly at the international level?

Mr Hale: I think there would need to be a review period built into the process, and that may be after four or five years, and if you did have a first, initial phase, that might be the opportunity to review the progress as well. You would also need review criteria that would be based on the excellence of the research, so you would have to have some sort of peer review mechanism to assess the outcomes. There would have to be a number of different outcomes assessed, so capacity to win funding, the capacity to attract researchers, the capacity to develop young researchers, that kind of thing, and also the effectiveness of the innovation mechanisms that have been set up within the KICs, so that interface between business and the universities to get the knowledge out there. There is a whole range of criteria that this thing would need to be assessed on.

Q20 Chairman: Yes, that would fit in, would it not, with a trial period rather than one where you take a couple of individual cases and create the mechanism, and give it some standards to aspire to and then see whether it can actually work. That would fit in with that approach.

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Mr Hale: I think firstly you would have to establish what it was trying to do, if you were then to establish the criteria, and I do not think that is clear at the moment.

Chairman: That is right, so your objectives and when you know you have achieved your objectives are usually the two things that you have to be able to explain to people if you want to get money out of them, are they not?

Lord Wade of Chorlton: The problem in this business is you know very well that something like 80 per cent are going to fail. You have to take a big sample in order to know the thing is going to work.

Baroness Howarth of Breckland: I am interested in Lady Gale's question being put because I do not know about the nature of the degrees.

Q21 *Baroness Gale:* My question is about awarding the EIT branded degree. In your paper you mentioned that quite a bit, where you say there is still a question of how these degrees will be recognized or quality assured, particularly in the context of the Bologna process, and further clarity in this area is still required. My question is, what are your views on the Commission's proposals of the awarding of the degrees with a prominent EIT branding, and how do think these degrees would be regarded in the academic and business worlds?

Baroness Warwick of Undercliffe: Potentially, a degree that has currency across Europe ought to be attractive. Individual institutions, of course, believe that if they have high-quality provision, those degrees are themselves portable. So if you get a degree from a UK university or from a German university, theoretically that should be well recognised, and there is a whole structure being developed, a quality framework, across Europe to try to ensure that there is comparability of degrees. It is a very complex process and it is really quite unclear what the nature of the EIT degree might be. It looks at the moment as if it is intended to be somehow a joint brand, so that each of the institutions in some way adds its imprimatur to the degree but, again, that is really quite unclear and we know from other areas that although it is possible to establish joint degrees, it is another complex process. I think that the concept of embedding innovation and entrepreneurship in the degree course and therefore in the degree outcome is a very good one. The concept and purpose of the degree itself is still, at least to me, unclear.

Mr Hale: I absolutely agree. There are already a lot of universities that are embedding innovation and entrepreneurship within their degree programmes and there are all sorts are examples of that within the UK. The key question is again around supply and demand: is there a demand for degrees from an EIT? I am not sure, and I am not sure if anyone in Europe knows that. I think what is needed is the flexibility

within the KICs for universities, if they want to do joint degrees, to be able to do them but I do not think that should be a condition of being part of the KIC. They need to assess whether there is a demand for these kinds of degrees and if there is, they may go ahead, but I do not think they should be straitjacketed in that sense. There is also a key issue around making sure that the primacy of education stays with nation states at a national level and is not transferred over to a European institution. We would be more relaxed with an EIT degree that was just a degree from a university, which had a badge on it than an EIT degree as such.

Baroness Warwick of Undercliffe: So it would be like a kite mark. We would be very anxious to ensure that the competency to award a degree remained within the UK. That is very much the bottom line for us.

Q22 *Chairman:* I imagine that other Member States feel much the same.

Baroness Warwick of Undercliffe: Yes, I am sure they do.

Chairman: I cannot imagine wanting anyone wanting to give that up.

Q23 *Baroness Howarth of Breckland:* I still cannot see what one of these degrees would look like. I understand the conceptual framework, but it sounds like a UK or a Dutch or a German degree which happens to have some link into some other institution because of some piece of work or link. I find it hard in practical terms to understand what gives the quality assurance.

Baroness Warwick of Undercliffe: Not at all. It really does depend on whether it is intended that this be something that looks like a joint degree, in other words, the curriculum, the design of the course and so on is done on a joint basis to achieve a particular outcome.

Q24 *Baroness Howarth of Breckland:* Does this board of the EIT set the curriculum? I do not think this is virtual, 60 people in a board. That is the institution. Where does that institution fit in relation to setting the degree and the standards, or is there somebody else who does it? It is a very difficult concept.

Baroness Warwick of Undercliffe: We certainly have not in other areas in the European context established that level of intervention at degree level. We have been very anxious, as I said earlier, to ensure that degree awarding powers remain in the remit of the UK.

Mr Hale: I think that is the answer, there needs to be autonomy for those people within the KICs to be able to develop degree programmes as they see fit. That may mean collaborating and embedding innovation in the process; it may mean doing other things to meet

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the strategic priorities they have set. It is about them having the freedom. At the moment, the problem with the document which has been published is that there are lots of “shalls”, for example, “universities shall do this” and “shall do that”. Some of that needs to be softened up a bit.

Q25 Lord Moser: Degrees come out of teaching. Where is the teaching of these EIT degrees?

Baroness Warwick of Undercliffe: I can only assume that it is within the participating institutions but perhaps shared between them, because there is not any intention to have a European University, one body where people will congregate in order to undertake these courses, as I understand it. I think the idea as it has developed so far—and it is still developing—it now seems that it will be encouraging partner institutions to develop joint degrees, and that is a more understandable concept. That is something where you can see part of the teaching will be delivered in one institution, it may be delivered in another, it might require movement between the two or it might require movement of staff between the two or three or four, depending on how many there are. You are then into a very much bigger organisational process. That is quite challenging and that would really have to be very carefully worked through. To make this work, I think there would have to be very considerable incentives for the institutions themselves and in a way, that comes back to the point that Chris made; you would need to know that you were delivering something that students wanted; you would need to be responsive enough to both students and employers to know that it was worth putting in the effort to produce this outcome, and at the moment that is not clear.

Chairman: And, as we know from the study we did of movement of students at school level and at university level, just to take part of their course somewhere else that, the sheer administrative cost of dealing with what are actually relatively small amounts of money, in the Erasmus programme and so forth, is a real disincentive to people. You have to be really devoted to the idea of it—and some people are, thank goodness—before you are willing to take on the labour of getting through the process of having really quite small sums of money but they all have to be accounted for. As you say, there are going to be some administrative and other problems there. Lady Howarth, you were going to ask the question about what could we do to improve things.

Baroness Howarth of Breckland: I think those questions were answered earlier in the debate. I have probably run off what I think the answers were, to do with Lord Moser’s proposition that, do we actually condone this at all, to Baroness Warwick’s suggestion that if it has to be condoned, we make sure it is smaller. Those things have to be combined. If I

have understood the answer correctly, those two elements we already have in the notes and we have covered it.

Q26 Chairman: This project is supposed to address a problem, a problem which we all recognise. Suppose it were to fall by the wayside, what could we substitute? Is there a substitute approach to solving this problem of transfer of technology?

Baroness Warwick of Undercliffe: I wonder if it comes back to Lord Wade’s point about finding the right incentives to encourage private philanthropy or private support, because without that, whatever structure we put in place, it will not work. So I think there really must be some incentive.

Q27 Chairman: Tax incentives or regulatory incentives.

Baroness Warwick of Undercliffe: Something that will encourage the private sector to think this is a process worth going through.

Q28 Chairman: For its own sake, as it were.

Baroness Warwick of Undercliffe: Yes.

Mr Hale: One of the issues floated by the League of European Research Universities as a potential alternative, or as something that could happen alongside the EIT would be to use public procurement budgets, for example. I know that is something the Government are considering and also the Opposition in the development of their thinking around how you can incentivise business to invest and do more R&D. There are all these different elements. There is no single solution.

Baroness Warwick of Undercliffe: And incentives for universities to work together on this.

Lord Wade of Chorlton: It is quite interesting that a lot of the regional venture capital funds that have been supported by the EU are now coming to an end. They have been extremely important in helping the commercialisation of new ideas. Now they are going to stop all those, and they propose to put another €2.7 billion into a new concept. It is really the provision of finance that makes it possible, because you cannot start new businesses without money. It is the fundamental issue, which comes to it every time really: where do you get the money from?

Baroness Howarth of Breckland: The other fundamental issue is whether or not people want to do it. It is very reminiscent of the Consumer Credit Directive discussion this, where there was a concept that none of the businesses wanted it but, because Europe wanted the concept, they were pressing it forward, although business kept saying “It won’t work for these reasons, because there aren’t the drivers.”

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Chairman: I think the time has come to thank you both very much for coming to us today and for having such an interesting discussion. We got good evidence from you and a very interesting contribution to our future discussions. I hope you will like the report when it finally comes out. Thank you very much for coming to us. It was very kind of you.
