



HOUSE OF LORDS

European Union Committee

25th Report of Session 2006–07

**Proposal to establish
the European
Institute of
Technology**

Report with Evidence

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CONTENTS

	<i>Paragraph</i>	<i>Page</i>
FOREWORD—What this report is about		4
Chapter 1: Setting the Scene	1	5
Chapter 2: How we think the Commission should have formulated the EIT proposal	9	7
Chapter 3: Our views on the proposal for the EIT	12	8
Budgetary provision for the EIT	14	8
The EIT's support staff	20	9
Composition of the EIT Governing Board	21	9
The EIT's priorities	23	9
Monitoring the effectiveness of the EIT	28	10
Chapter 4: Recommendations	33	11
Budgetary provision for the EIT	33	11
Composition of the EIT Governing Board	35	11
The EIT's priorities	36	11
Monitoring the effectiveness of the EIT	37	11
Appendix 1: Memorandum by Universities UK		12
Appendix 2: Evidence from the European Commission		15
Appendix 3: Evidence from the UK Government		20
Appendix 4: Recent Reports		22
Oral Evidence		
<i>Mr Malcolm Wicks MP, Minister of State, Mr Chris North, Deputy Director EU and International Innovation Policy, Office of Science and Technology, Department of Trade and Industry and Mr James Hughes, European Policy Officer, Higher Education International team, Department for Education and Skills</i>		
Oral evidence, 7 June 2007		1
Supplementary written evidence		8

NOTE: References in the text of the Report are as follows:
(Q) refers to a question in the oral evidence
(p) refers to a page of written evidence

FOREWORD—What this report is about

This Report deals with the Commission's proposal to establish the European Institute of Technology (EIT) as a way of addressing the perceived weakness of the EU in introducing commercially successful technological innovation in both manufacturing and services.

It sets out our ideas of a concept for the EIT, differing from that of the Commission's, which we believe could have been more effective in facilitating successful, locally led collaboration on technological innovation between business and universities.

The Report explains that, while we regret that this approach was not taken in drawing up the text of the proposed Regulation, we accept the reality that the final Regulation is likely to be along the lines of that on which the German Presidency secured a "general approach" at the Competitiveness Council meeting held on 25 June 2007. The Report goes on, therefore, to set out our comments and recommendations about the latest proposal and to make available the relevant evidence we have received about it.

One of our recommendations is that the EIT's Governing Board should include an appropriate representation of members with business experience so that it can ensure that the EIT's strategy is to focus on technological developments which are commercially viable, as well as innovative.

Proposal to establish the European Institute of Technology

CHAPTER 1: SETTING THE SCENE

1. In the competitive global economy of the 21st century it is widely recognised that the Member States of the European Union can only maintain the strength of their economies through commercially successful technological innovation in both manufacturing and services. The EU has many universities and research centres of world class, but there is a broad consensus that there is a relative weakness, compared with global competitors, in the way in which research results in the EU are converted into successful business innovation.
2. The proposed European Regulation¹ to establish the European Institute of Technology (EIT) is designed to address this weakness. The aim is that the establishment of the EIT would help to bridge the gap between the university, research and business communities and, as a result, would improve the EU's record in technological innovation in business. This, in turn, would support the EU's aims of promoting growth and employment.
3. The Commission's early thinking about the EIT envisaged a major new technological institute which would have formed a focus for research into the application of technology in Europe, and would have had a campus environment in which students studied for EIT degrees. Following consultation, however, this controversial approach was fundamentally changed.
4. It is now envisaged that the EIT will operate 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. 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 is envisaged as having a relatively small coordinating entity at the centre which incorporates an independent Governing Board with 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.
5. After we had published our Interim Report² in April 2007 about the modified EIT proposal, a number of discussions were held about the views of Member States in Working Group meetings convened by the EU Presidency. As a result, further modifications were introduced to the proposal. We therefore invited Mr Malcolm Wicks MP—Minister of State for Science and Innovation at the Department of Trade and Industry (DTI)—to give us

¹ Council of the European Union: *Proposal for a Regulation of the European Parliament and the Council—Establishing the European Institute of Technology (EIT)*, 10413/2/07 Rev 2 Brussels, 22.06.2007 <http://register.consilium.europa.eu/pdf/en/07/st10/st10413-re02.en07.pdf>

² European Union Committee, 13th Report (2006–07): *Proposal to Establish the European Institute of Technology: Interim Report* (HL 69)

evidence about the latest form of the proposal. A transcript of the evidence that Mr Wicks gave us is printed with this Report, which also sets out our most recent conclusions and recommendations relating to the EIT proposal.

6. Also printed with the Report is the written evidence we received subsequent to the publication of our Interim Report from: the organisation Universities UK (Appendix 1); the European Commission (Appendix 2); and the UK Government (Appendix 3).
7. The Members of our Social Policy and Consumer Affairs Sub-Committee (Sub-Committee G) who conducted the Inquiry, showing their declared interests, are listed inside the front cover of the Report.
8. **We make this Report for the information of the House.**

CHAPTER 2: HOW WE THINK THE COMMISSION SHOULD HAVE FORMULATED THE EIT PROPOSAL

9. We agree with the consensus view that there is a weakness in the European Union in the commercial application of technological innovation, which arises from its limited capacity to convert education and research results into business opportunities. However, our view is that the approach taken by the Commission in formulating its EIT proposal to address this problem has been misguided.
10. The first step that should have been taken, in our view, was to have conducted, across the EU, a study of the type carried out in the UK by Richard Lambert, which resulted in the publication in December 2003 of the report *Lambert Review of Business-University Collaboration*.³ In that report, a careful analysis was made not only of the funding needs of universities to carry out innovative research, but also of how to ensure that there was significantly more business input into the priority setting and decision-making processes relating to that research. This business leadership was seen as a necessary condition for making sure that the projects carried out had more chance of taking account of consumer markets and of resulting in the introduction of commercially successful, as well as innovative, products and services.
11. The European Commission told us (Appendix 2 page 15) that “the findings of the ‘Lambert Review’ have been a source of inspiration for the Commission’s reflection on improving knowledge transfer between the public research base and industry across Europe”. However, we believe that, had such a study been carried out across the EU, and had the views of business expressed in it been similar to those expressed in the UK, the Commission might have been persuaded to put forward a different, and more effective, concept for the EIT. This could have been a business-orientated innovation and commercialisation centre at EU level with the objectives of:
 - stimulating local business-university collaboration in technological innovation with a strong emphasis on fostering an understanding by all the parties involved of the market realities and the need to ensure that the projects undertaken are commercially realistic as well as technologically stimulating;
 - helping to join together related local efforts of this kind in cases where they could benefit from such wider cooperation;
 - encouraging and helping to finance the development of business-orientated skills in the application of innovation; and
 - directing the available funding not only to help university research related to technological innovation, but also to assist business start-ups that could successfully put into practice the fruits of such research.

³ HM Treasury: *Lambert Review of Business-University Collaboration*, December 2003 http://www.hm-treasury.gov.uk/media/EA556/lambert_review_final_450.pdf

CHAPTER 3: OUR VIEWS ON THE PROPOSAL FOR THE EIT

12. While we regret that the approach we outline in chapter 2 was not taken in drawing up the text of the proposed EIT Regulation, we accept the reality that the final Regulation will be along the lines set out in the text which was discussed at the Competitiveness Council meeting held on 25 June 2007⁴. In fact, Malcolm Wicks MP told us that a general approach on this text was secured by the Presidency at that meeting (Appendix 3, page 21). We feel, however, that this concept is so far from being an educational and research institution, that the title “European Institute of Technology” is inappropriate. A more apposite title might be the “Centre for the encouragement of business-university collaboration”.
13. We recognise that some improvements had been made to the latest text of the draft EIT Regulation, but we have a number of remaining concerns that we would wish to be taken into consideration before the EIT Regulation is finalised.

Budgetary provision for the EIT

14. Malcolm Wicks MP told us that it is now envisaged that the EIT will have a gradual launch with only two or three Knowledge and Innovation Communities (KICs) in the first period to 2013, rather than the original proposal of up to six KICs. (Appendix 3, page 20). However, the proposal still retains the same budgetary figure of €308.7 million, for the 6 years from 1 January 2008, as that put forward when a larger scale operation was envisaged from the outset.
15. We cannot understand why this should be the case and we would have expected a much smaller sum to have been suggested. In particular, we find persuasive the comment made to us by the Minister when we met him that “something more like €100 million at the outset, in the early phase, would be appropriate”. (Q 9)
16. Even if such a smaller sum is agreed, we see it as most unsatisfactory that no distinct budgetary provision has been made for this, and that the source of funding is envisaged by the Commission to be the unallocated margins of Heading 1A of the Community budget. Such a source is intended for emergencies and unforeseen expenditure, and it seems to us extremely bad financial management practice to raid it in this way. This concern was exacerbated by the information given to us Mr Chris North, DTI’s Deputy Director of EU and international innovation policy, that “there are already massive pressures building up on the reserve. For example the Galileo programme is often mentioned in this context”. (Q 12)
17. While we were preparing this report, we heard that the European Parliament’s budgets committee was also most unhappy about the idea of funding the EIT from the unallocated margins of Heading 1A of the Community budget. The Chair of that committee—Mr Reimer Böge MEP—was quoted as saying that it was “against the rules to reduce the margins”⁵.

⁴ op. cit.

⁵ European Voice 7–13 June 2007 page 2: “MEPs insist on new money for EU technology institute”

18. **We recommend that EU funding for the EIT should be reduced to a level commensurate with the gradual phased approach which is now envisaged for its implementation; and that the year by year profile of the total budget should properly reflect that phased approach.**
19. **We recommend, further, that the practice of funding such a major project as the EIT from a reserve budgetary source (from the margins of Heading 1A of the Community budget in the case of the EIT) should not be regarded as acceptable except in the most pressing emergencies or other unforeseen circumstances.**

The EIT's support staff

20. Mr North told us that the profile for the build up of EIT staff was now envisaged by the Commission, at working level, to be 20 in the first year, possibly moving to 40 in years two and three, and that the build up to 60 staff would occur only by the end of year 6. (Q 12) We accept that this phased build up of staff would correspond with the phased build up of the EIT's activities. Our concern is that this has not yet been reflected in the budgetary figures put forward (see paragraphs 14 and 15 above).

Composition of the EIT Governing Board

21. The Commission proposes that the EIT would have a Governing Board composed of high level members experienced in innovation, business, research and higher education. Our view is that there must be a high proportion of business representatives among the Board's membership, as well as leading academics, in order to ensure that its activities are focussed on technological developments which are commercially viable, as well as innovative.
22. **We recommend that the EIT Governing Board should include an appropriate representation of members with business experience so that it can ensure that the EIT's activities are focussed on technological developments which are commercially viable, as well as innovative.**

The EIT's priorities

23. We understand that there is a suggestion that the initial KICs to be set up might focus on issues related to renewable energy and climate change. While these may be appropriate areas for technological innovation, it is a concern for us that it should be a properly constituted EIT Board, with the appropriate business representation that we advocate above, that should drive priorities, not the European Commission.
24. On this issue, the DTI told us their view that "While the Government would not rule out the possibility of Council and Parliament giving a broad political steer to potential priority areas which the EIT could support, such as a climate change or energy-related theme, it will be the role of the Governing Board to draw up strategy and specify fields of activity in which applications will be invited from partner organisations to form a Knowledge and Innovation Community" (Q 32)
25. The organisation Universities UK expressed their view in somewhat stronger terms than the Government as follows "Whilst these appear to be sensible

areas for the EIT to focus on in the first instance, this does raise the question of how this decision was reached and who made it (this is currently not clear), and whether the EIT Governing Board itself should be deciding the key priority areas rather than the Commission (the deciding of EIT priorities was intended to be a key role for the Governing Board)". (Appendix 1, page 12).

26. The DTI also emphasised the need for the KICs to be able to have a good degree of operational freedom "Once they are designated, it is important that the KICs operate with a substantial degree of autonomy. In particular, we need to avoid micro-management by the Governing Board or Community institutions". (Q 32)
27. **We recommend that references to suggested topics for EIT work, such as renewable energy and climate change, should not be included in the final text of the EIT Regulation, since this could be interpreted to imply that the Governing Board will have an insufficient degree of autonomy in setting the EIT's priorities.**

Monitoring the effectiveness of the EIT

28. Our view is that the only way to assess effectively whether or not the EIT is successfully achieving the objectives for which it is intended will be to look closely at the business impact of its activities at local level.
29. While we welcome the revised proposal to introduce the EIT on a phased basis, we have only limited confidence that a sufficiently rigorous evaluation will be carried out of the effectiveness of its work before it is expanded. Universities UK made the following comment to us on this issue "It is important that the review of the first phase is independently carried out and is conducted after a period of time that would allow any impact to be effectively measured. Safeguards should be built into the review process to ensure that the move to a second phase is not regarded as a foregone conclusion and to ensure that any lessons learned can be truly taken on board and built into the Strategic Innovation Agenda (SIA) before it is submitted and the second phase rolled out". (Appendix 1, page 12).
30. We believe also that a regular process of locally focussed evaluation and assessment of the impact of the EIT's work should become a permanent feature. The Commission envisage that annual reports shall be made by the EIT each year and that an independent external evaluation of the EIT should be carried out at regular intervals after the date of adoption of the EIT Regulation. We welcome this form of monitoring, but believe that a key feature of the annual reports and external evaluations which are made should be an assessment, in commercially relevant terms, of the impact at local level of each of the KIC's activities.
31. **We recommend that there should be a firmly based commitment in the EIT Regulation to a process which ensures that a rigorous evaluation, focussed on the business impact of the work of the KICs at local level, must be carried out and assessed in Council before the initial scale of the EIT can be significantly expanded.**
32. **We recommend that the key element of the EIT's annual reports and external evaluations should be an assessment, in commercially relevant terms, of the success of each KIC's activities at local level.**

CHAPTER 4: RECOMMENDATIONS

Budgetary provision for the EIT

33. We recommend that EU funding for the EIT should be reduced to a level commensurate with the gradual phased approach which is now envisaged for its implementation; and that the year by year profile of the total budget should properly reflect that phased approach.
34. We recommend, further, that the practice of funding such a major project as the EIT from a reserve budgetary source (from the margins of Heading 1A of the Community budget in the case of the EIT) should not be regarded as acceptable except in the most pressing emergencies or other unforeseen circumstances.

Composition of the EIT Governing Board

35. We recommend that the EIT Governing Board should include an appropriate representation of members with business experience so that it can ensure that the EIT's activities are focussed on technological developments which are commercially viable, as well as innovative.

The EIT's priorities

36. We recommend that references to suggested topics for EIT work, such as renewable energy and climate change, should not be included in the final text of the EIT Regulation, since this could be interpreted to imply that the Governing Board will have an insufficient degree of autonomy in setting the EIT's priorities.

Monitoring the effectiveness of the EIT

37. We recommend that there should be a firmly based commitment in the EIT Regulation to a process which ensures that a rigorous evaluation, focussed on the business impact of the work of the KICs at local level, must be carried out and assessed in Council before the initial scale of the EIT can be significantly expanded.
38. We recommend that the key element of the EIT's annual reports and external evaluations should be an assessment, in commercially relevant terms, of the success of each KIC's activities at local level.

APPENDIX 1: MEMORANDUM BY UNIVERSITIES UK

Recent developments

A compromise proposal put forward by the German presidency suggests a two-phase approach to the EIT. A limited number of KICs would be set up in the first instance (within the next 2 years) and on the basis of a review of these activities a longer term concept of the EIT would be developed and further KICs rolled out, probably in 2012–13. It has been proposed that the initial phase would see the creation of 2–3 KICs focusing on climate change and renewable energy.

The compromise also proposes that university degrees shall be those awarded within a KIC but that only an ‘EIT label’ is envisaged.

It is understood that the EIT Governing Board will be formed through a similar process to that previously established with the setting up of the ERC Scientific Council, but this is not stated explicitly. Future funding of the EIT remains the core challenge with the expectation that this is raised mainly from the private sector.

The proposals put forward by the German presidency were discussed at an informal meeting of the Competitive Council on 26/27 April and were broadly agreed.

UUK’s comments on recent developments

We feel that the German compromise represents a significant step forward. We would however like to highlight the following issues/concerns:

Two-phase process

We would support the development of a first, more modest, phase for the EIT. This would allow what is effectively a new and untried initiative to be piloted. Our understanding is that the first phase would be developed in collaboration with the Commission, with a second phase being developed on the basis of a ‘Strategic Innovation Agenda (SIA)’ submitted to the European Council and Parliament in 2012. Clarification over how the first phase will be managed and the legal basis of this is still needed i.e. does Commission have right of initiative in this area and will sufficient independence from political interference be guaranteed in the short term?

It is important that the review of the first phase is independently carried out and is conducted after a period of time that would allow any impact to be effectively measured. Safeguards should be built into the review process to ensure that the move to a second phase is not regarded as a foregone conclusion and to ensure that any lessons learned can be truly taken on board and built into the SIA before it is submitted and the second phase rolled out.

Budget

The indicative financial envelope for the implementation of the EIT Regulation over the 6 year period from 1 January 2008 is set at EUR 308.7 million. The compromise position elaborates on the financing of the EIT, making a distinction between financing for the EIT and the KICs, and states that the ‘EIT shall be financed in particular through contributions from the budget of the EU’. It is therefore assumed that community funding will support start up costs and sustain

the EIT infrastructure (although it is not totally clear at this stage what this might be). A key question raised by the German presidency compromise is, is the original €300m still needed for a scaled down first phase? It also raises the question of whether the original proposal of c.60 personnel to run the EIT is still appropriate. It will be important that the budget and machinery set in place for the first phase is proportionate to the scale.

It is proposed that the Community contribution to the EIT will be funded from the unallocated margins of Heading 1A of the Community budget. The unallocated margins are, however, intended for 'emergencies' and unforeseen expenditure. UUK would share the UK government's concern over 'raiding' the unallocated margins of heading 1A at such an early stage of the budget's life.

EIT priorities

As stated above, the proposals currently under review suggest that the EIT would focus on climate change and renewable energy (these are included in the compromise text in square brackets). Whilst these appear to be sensible areas for the EIT to focus on in the first instance, this does raise the question of how this decision was reached and who made it (this is currently not clear), and whether the EIT Governing Board itself should be deciding the key priority areas rather than the Commission (the deciding of EIT priorities was intended to be a key role for the Governing Board).

Education

The most recent text that UUK has seen proposes the following in the area of education:

Degrees and Diplomas related to education shall be awarded by participating universities according to national rules and accreditation procedures.

The agreement between the EIT and the KICs shall provide that these degrees and diplomas may also be labelled EIT-degrees and diplomas.

The EIT shall encourage participating universities to award joint or multiple degrees and diplomas, reflecting the integrated nature of the KICs. However, these may also be awarded by a single institution

UUK are pleased that the EIT will not have its own degree awarding powers—the current proposal is far more acceptable than that originally proposed. We would, however, suggest that if the EIT is to be effective in meeting the needs of students and industry the provision of education activities should not be over prescribed from the outset. The type and scope of education provision should be decided by the partners (universities and industry) based on their assessment of the needs in the area covered by the KIC. This can then be agreed with the EIT. This will allow KICs respond to demand and tailor provision to the specific needs they have identified. At present the Commission's text is too prescriptive and will not allow the kind of flexibility needed.

We would prefer it is the legal document proposed only that education activities shall be undertaken as part of the KIC based on partners' own assessment of the needs and demand in that area. If it were decided that this would involve developing degree programmes or diplomas (they should be free to decide if this, or other forms of provision, are appropriate) we would support the statement that any degree and diplomas shall be awarded by participating universities according to national rules and accreditation procedures etc.

UK government position

We are pleased that the UK government have taken on board a number of the concerns raised by the university sector and others, and have reflected these in discussions in the Council. We are particularly encouraged that the UK government have pushed for further clarity on the budget and education function of the EIT. The UK government have set up an EIT stakeholders group, including representation from the UK academic and business communities, which has provided us with a valuable opportunity to inform the UK's formal discussions in Brussels.

1 June 2007

APPENDIX 2: EVIDENCE FROM THE EUROPEAN COMMISSION

Letter dated 20 June 2007 from the Vice-President of the European Commission to Lord Grenfell's letter of 8 March

Thank you for your opinion on the European Commission's Proposal to establish a European Institute of Technology (EIT) dated 8 March 2007.

In line with the Commission's decision to encourage national parliament to react to its proposals to improve the process of policy formulation, we welcome this opportunity to respond to your comments. I enclose the Commission's response. I hope you will find these a valuable contribution to your own deliberations.

I look forward to developing our policy dialogue further in the future.

Comments of the European Commission on an opinion from the House of Lords

The European Commission would like to thank the Social Policy and Consumer Affairs Sub-Committee of the House of Lords' EU Select Committee for their comments on the proposal to establish the European Institute of Technology (EIT). The interest shown by the House of Lords in the EIT proposal is very welcome. The Commission attaches great importance to the proposal which it sees as an integral part of a broader strategy to harness Europe's currently fragmented innovation potential.

The comments of the House of Lords' EU Select Committee focus on the following issues:

- (a) The need to clearly identify the nature of the knowledge transfer problem in Europe and the merits of carrying out a Lambert style review across the EU,
- (b) The capacity of the EIT in the form proposed to encourage knowledge transfer within the EU and to provide incentives for the involvement of the business community in the EIT.
- (c) The relationship between the EIT, the 7th Research Framework Programme and the ERC.
- (d) The proposed budget of the EIT and the KICs, especially the use of the Structural Fund and the unallocated margins, the incentives for private companies to invest and the impact of the proposal EIT upon 7FP and national and regional budgets.
- (e) The proposed administrative structure of the EIT.
- (f) The issue of the degree-awarding powers of the EIT.

The Commission wishes to shed some light on these points:

- (a) **The need to clearly identify the nature of the knowledge transfer problem in Europe and the merits of carrying out a Lambert style review across the EU.**

Knowledge is a critical factor for Europe to preserve its international competitive advantage. The European leaders made this explicit at the Hampton Court meeting in October 2005. They undertook to modernise higher education systems and to make them more responsive to global innovation challenges. The underlying vision is to ensure that our education systems regain lost ground and focus on becoming a force for growth and employment.

The challenge of addressing the innovation gap and promoting knowledge transfer in Europe is well documented. In the framework of the Lisbon Strategy for Growth and Jobs, the Commission has taken a comprehensive array of policies and initiatives to make Europe more innovation friendly. In particular, in October 2006 the Commission adopted a broad-based innovation strategy for Europe to translate investments in knowledge into products and services.

The Commission's views on the nature of the innovation and knowledge transfer problem are very much at one with those expressed in Mr. Lambert's report on "Business-University Collaboration". Indeed, the findings of the "Lambert Review" have been a source of inspiration for the Commission's reflection on improving knowledge transfer between the public research base and industry across Europe. Equally, it has influenced the Commission's Communication on how to modernise European universities, its Communication on knowledge transfer and the reflection leading to the establishment of the EIT.

(b) The capacity of the EIT in the form proposed to encourage knowledge transfer within the EU and to provide incentives for the involvement of the business community in the EIT.

The in-depth review the Commission carried out before launching the EIT proposal encompassed consultation on the role of knowledge transfer. From Spring 2005 to Autumn 2006, the Commission carried out a wide-scale consultation process with all EU Member States as well as key stakeholder groupings. A public consultation exercise was conducted where more than 760 organizations and individuals participated. Various rounds of meetings were convened with more than 40 European organizations representing the business, research and innovation communities as well as with representatives from the Member States. More than 50 position papers were prepared, with an active involvement of the UK government and UK universities. The Commission issued two Communications in February and June 2006 which took stock of the feedback from the consultation process. The Commission's proposal has thus extensively drawn from the wide-ranging consultation process. This process led the Commission to adapt and adjust its initial concept for the EIT. The Commission's proposal is therefore not the outcome of Commission's internal reflection, but the result of carefully listening to the interested parties, taking advantage of fresh ideas and addressing the major concerns which were raised during the consultation.

As a result of this extensive consultation with the key stakeholders, the Commission has concluded that the best departure point for the EIT would be a network-building approach, and that this should be developed to lead to an EIT based on truly integrated partnerships. The EIT will provide a new, innovative model of collaboration between business, education and research. It will define long-term strategic priorities and invite the best resources from universities, research centres and businesses to pool their resources, to integrate their work and to meet pressing business and innovation challenges.

The EIT will be a university, a research centre and a centre for developing applied business solutions. It will be based on an enhanced partnership, at the intersection of private and public; of university and business; of education, research and innovation. It is an innovative experiment to encourage innovation through all pertinent forms of knowledge sharing, which could become model for many of tomorrow's ground breaking initiatives.

This innovative initiative is, it is clear from the consultations undertaken, appealing to the business community. The EIT will be an organization where

business, research and universities will have an equal voice in setting a strategy and implementing it. Business leaders will be members of the Governing Board; companies will be integral parts of the KICs. In short, business has a unique opportunity to focus the EIT on emerging areas that have a potential of boosting growth and competitiveness. Moreover, the EIT will offer European companies a new relationship with education. It will make business culture and the entrepreneurial mindset part of the day to day educational activities. This has the potential to have a substantial impact on the provision of the skills needed in the knowledge economy.

(c) **The relationship between the EIT, the 7th Research Framework Programme and the ERC**

Community activities for research, development and demonstration are carried out under Title XVIII of the EC Treaty and funded from the Seventh Framework Research Programme (7FP) (Arts Art 163 & 166/EC). 7FP is thus the main funding mechanism at EU level targeted towards research and technological development in Europe. However, this does not prevent other Community funding sources, such as the Structural funds, from being used to finance eligible national or regional activities that relate to research, in the pursuit of other Community objectives. But such finance cannot be cumulative with 7FP funds. Further, EIT funding could not be targeted towards research activities, either in competition with, or in addition to, 7FP funds.

Support for **basic research** is a matter for the European Research Council (ERC). Clearly the EIT and the ERC have different mission and objectives.

The EIT system (through the KICs) will directly perform education, research and innovation activities. Its mission is to reinforce the innovation capacity of Europe. By integrating the **three elements of the knowledge triangle**, it will involve, on an equal footing, education, and research and business organisations. The EIT will pull together resources in the framework of integrated partnerships—the KICs. It is thus not targeted on projects but on integrated partnerships. Each KIC will develop a strategic work programme over a relatively long period (7 to 15 years).

The ERC is a funding mechanism within 7FP and it addresses only the research element of the knowledge triangle. It focuses on investigator-driven frontier research, not on innovation and is targeted on individual researchers and teams not on creating integrated partnerships. The Commission has had regular contacts with Professor Kafatos, Chairman of the ERC, to explore the potential for synergies and interaction between the EIT and the ERC.

(d) **The proposed budget of the EIT and the KICs, especially the use of the Structural Fund and the unallocated margins, the incentives for private companies to invest and the impact of the proposal EIT upon 7FP and national and regional budgets.**

The Commission's EIT proposal assumes that the activities of the EIT and the (KICs) will be financed from a combination of sources and that the Community contribution should essentially be a mechanism to mobilise external support. The proposal makes available new funding and also invites participants to draw on existing EU funding mechanisms. What matters most is the multiplier effect of the Community contribution—its capacity to draw forth the commitment from other

sources—business, public authorities, and research and education institutions—that would not otherwise be available.

The Commission has proposed that a Community subsidy will be directly earmarked for the EIT. As no specific provisions were made for the financing of the EIT in the Multi-Annual Financial Framework for the period 2007–2013, the Commission has therefore proposed that these monies will come from the unallocated margins of sub-heading 1A, up to an amount of € 308 million.

In addition, Community funds from the Structural Funds and from the Community programmes are expected to flow directly—always—in accordance with their normal rules—to the partner organisations which are members of a KIC, and contribute to the funding of some activities.

The Commission has estimated that the main source of Community funding for the KICs or their partners will be the Structural Funds. This is for two reasons: first, because all possible activities to be undertaken by KICs are potentially eligible under the Structural Funds' rules. Second, because the requirement for national and regional authorities to invest Structural Fund contributions in innovation, research and education activities (60% of expenditure for the Convergence objective and 75% of expenditure for the Regional competitiveness and employment objective should be set aside for such activities) constitute an opportunity to foster the territorial interlinkage between the local business community and the local KIC-participant to improve knowledge sharing and cluster development, which is particularly important for SMEs. Any structural fund support for KICs activities would have to be obtained through the normal national or regional multi-annual operational programmes, negotiated with the Commission. So clearly, there is no obligation for national and regional authorities to include in their programming documents the activities developed by the KICs.

The Commission has no intention to take money away from the Community programmes, namely 7FP, the Competitiveness and Innovation Programme or the Lifelong Learning programme, to finance the EIT. Furthermore, there will be no preferential treatment for the EIT within these programmes. The EIT and the KICs will be able to participate in these programmes, in accordance with their specific rules and procedures, with no privileged access.

Financial support from industry will be the test case for success and credibility of the EIT. Contacts with leading industrialists as well as with European organisations (Eurochambres, BusinessEurope) have clearly shown that the business community is very favourable towards the EIT project. Fast access to new business-relevant knowledge and researchers trained in these domains with an entrepreneurial mindset count among the factors attracting business. However, at this point in time, it is difficult to make a robust estimation on the contribution of the private sector. This is understandable as negotiations on the EIT concept and its further development are still on-going within the Community institutions. Industry will only commit in a tangible way to the EIT when the priority domains and operating modalities are known. Furthermore it will be important that the EIT remains as independent, flexible and non-bureaucratic as possible if their interest is to be converted into real participation. In this respect, the proposed participation of business in the Governing Board of the EIT not only provides for business-relevance at the strategic level, yet also sends a clear message of business-relevance to industrialists.

(e) **The proposed administrative structure of the EIT**

The Commission fully shares the view of the Select Committee that the administrative arrangements for the EIT should be as light as possible. This is why the proposed support structure has been limited to what is deemed strictly necessary for the EIT to effectively fulfil its tasks. The number of staff employed by the EIT is estimated at a maximum of 60, consisting in equal proportions of scientific staff and support staff. Moreover, all the personnel directly employed by the EIT will be under fixed-term contracts.

(f) **The issue of the degree-awarding powers of the EIT**

The Commission has been attentive to ensure that the proposal respects Member States' competences in the field of education. The degrees will be awarded by universities and other higher education institutions which are members of a KIC, in accordance with national rules and accreditation procedures. Where appropriate, degrees and diplomas should be joint or multiple. This will foster trans-national cooperation between higher education institutions across the Union and promote the mobility of students and researchers. It will contribute to the development of a Higher Education Area as well as to the Bologna process.

These degrees and diplomas should also be clearly identified with the EIT. This will ensure that they have the prestige of clearly identified excellence. It will also help develop the attractiveness of the EIT. The EIT brand will be exclusively borne by new PhD and Master degrees and diplomas awarded in the framework of the KICs. These should be innovative in their content. The brand will not be extended to other degrees and diplomas awarded by the partner universities. Ensuring the high quality of EIT-branded degrees and diplomas and promoting them as a prestige layer of academic achievement will be a task of the Governing Board.

APPENDIX 3: EVIDENCE FROM THE UK GOVERNMENT

Letter dated 12 June 2007 from the Minister of State for Science and Innovation at the Department of Trade and Industry

I have previously written to you on 21 March and 11 May to update you on developments on the European Commission proposal to establish a European Institute of Technology. I also attended an oral evidence session with Sub-Committee G on 7 June, when I updated the Committee on the Government's position on this proposal. I feel that now would therefore be an appropriate point in the process to further update you on the current state of affairs with regard this draft proposal.

The Government's overall approach to the Commission proposal has been one of cautious support: support for the Commission's analysis of the innovation gap in Europe and endorsement of the general objectives of the EIT in terms of integrating the 'knowledge triangle' of education, research and innovation. The current EIT proposal has a large measure of support across Europe, at the highest political levels, and the European Parliament appear on the whole to favour the proposal. The Government has sought to work constructively with our partners to achieve an outcome which improves the chances of the EIT becoming a useful addition to the range of instruments available to support European Innovation and competitiveness.

The Government is of the view that the EIT proposal as amended during the course of negotiations in the Council Working Group could enhance the innovation performance of Member States, by linking up existing excellent organisations. It would focus on strategic priority areas where given the nature and scale of the innovation challenge, action at European level could generate the 'critical mass' that could not be achieved by Member States alone.

During the course of negotiations the concept of the EIT has evolved substantially. In particular;

- It has moved away from a single, bricks-and-mortar institutional model to one based on networks of existing organisations;
- There will be no independent degree-awarding powers for the EIT which will remain the preserve of individual institutions and the systems of Member States;
- It will have a more gradual launch, with two to three Knowledge and Innovation Communities (KICs) in the first period to 2013, rather than the original proposal of up to six KICs;
- Agreement on a two-phase approach which will allow lessons to be learnt from progress of the initial KICs, and a requirement for a further legal decision by Council and European Parliament before any expansion in the number of KICs;
- There will be a light-touch governance regime, which allows substantial autonomy for the individual KICs, while maintaining appropriate transparency, quality assurance, accountability and evaluation provision.

The issue of the budget is still outstanding and it is still under discussion in both Council Working Group and the European Parliament. The text states that the indicative financial envelope for this regulation during 2008–2013 is set at €308.7m. The suggestion is that this would be sourced from the margin of heading 1A (Competitiveness for Growth and Employment) of the EC Budget. The

Government has opposed this figure during negotiations. Insufficient justification has been provided for an amount that represents more than 25% of the margins of budget heading 1A, designed to cater for unforeseen needs during the current 2007–2013 Financial Perspective. The Commission is also yet to explain satisfactorily why a smaller number of KICs than the six originally proposed would require the same level of direct funding from the Community budget.

While the Government hopes that a way will be found to reduce the call on the margin, it is clear from the most recent Council Working Group meetings that a large majority of Member States appear ready to agree to the Commission's proposal as it stands. The Presidency has announced its aim of achieving a 'General Approach' on this proposal at the 25 June Competitiveness Council Meeting. I hope that the information above is sufficient to enable your Committee to lift its scrutiny reserve prior to the Competitiveness Council meeting on 25 June.

Letter dated 26 June 2007 from the Minister of State for Science and Innovation at the Department of Trade and Industry

I have previously written to your Committee on 21 March, 11 May and 12 June on the European Commission proposal to establish a European Institute of Technology. I also attended an oral evidence session with Sub-Committee G on 7 June as part of its inquiry into the EIT. Your Committee cleared this proposal from scrutiny on 14 June. I am writing to inform your Committee of latest developments.

At the 25 June Competitiveness Council which I attended, the Presidency concluded that in the light of comments made by delegations it had secured a 'General Approach' on its compromise text (as slightly amended during the course of the meeting), including on the level of direct contribution from the Community budget. This met the remit contained in the 21-22 June European Council Conclusions. I indicated that while the UK welcomed the substantial improvements made to the legal text, we were unable to approve the budget of EUR308.7m, especially given the reduction in the number of Knowledge and Innovation Communities from a maximum of six to 'two to three'. The question of which budgetary headings the above amount would be attributed will form part of subsequent negotiations with the European Parliament.

With regard to other outstanding issues in the text, the Council agreed to include wording referring to "renewable energy and climate change" as possible priority fields in the preamble (Recital 21). There was also agreement on the language regime, with the addition of a requirement that "Official documents and publications will be translated in accordance with Regulation 1/58", to be inserted into Article 139 (new para 7).

The Presidency expressed its hope that a First Reading Agreement could be reached with the European Parliament.

APPENDIX 4: RECENT REPORTS

Recent Reports from the Select Committee

Session 2006–07

Evidence from the Minister for Europe on the Outcome of the December European Council (4th Report, Session 2006–07, HL Paper 31)

Government Responses: Session 2004–05 (6th Report, Session 2006–07, HL Paper 38)

The Commission's 2007 Legislative and Work Programme (7th Report, Session 2006–07, HL Paper 42)

Evidence from the Ambassador of the Federal Republic of Germany on the German Presidency (10th Report, Session 2006–07, HL Paper 56)

Recent Reports prepared by Sub-Committee G (Social Policy and Consumer Affairs)

Modernising European Union labour law: has the UK anything to gain? (22nd Report, Session 2006–07, HL Paper 120)

“Improving the mental health of the population”: can the European Union help? (14th Report, Session 2006–07, HL Paper 73)

Proposal to Establish the European Institute of Technology: Interim Report (13th Report, Session 2006–07, HL Paper 69)

Cross Border Health Services in the European Union (8th Report, Session 2006–07, HL Paper 48)

Minutes of Evidence

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

THURSDAY 7 JUNE 2007

Present	Gale, B	Neuberger, B
	Greengross, B	Thomas of Walliswood, B (Chairman)
	Howarth of Breckland, B	Trefgarne, L
	Moser, L	Wade of Chorlton, L

Examination of Witnesses

Witnesses: MALCOLM WICKS, a Member of the House of Commons, Minister of State, Department of Trade & Industry, MR CHRIS NORTH, Deputy Director EU and International Innovation Policy, Office of Science and Innovation, Department of Trade & Industry, and MR JAMES HUGHES, European Policy Officer, Higher Education International team, Department for Education and Skills, examined.

Q1 Chairman: Good morning. Mr Wicks, it is very good to see you here. Thank you very much for being with us and for bringing your staff.

Malcolm Wicks: We feel full attendance is important.

Q2 Chairman: As you know, this has been a matter of some concern to us. You will have seen the report we published with Baroness Warwick's evidence and so on. We are also aware that you will soon be attending the meeting of the Competitive Council in Brussels on 25-26 June and the proposal will be discussed there and, as I understand it, the objective is to come to a general agreement. If you are going to make a statement, a very brief reminder to us of what the words "general agreement" mean in terms of the progress of something through the process of European agreement would be useful. We only have three-quarters of an hour with you, which is a bit shorter than usual, so we are trying to be brief and concise. The session is open to the public. A verbatim transcript will be taken and you will have a chance to correct it, if necessary. As the session is shorter than usual, we would be grateful if you could give us written answers to those questions which we cannot cover. I think there has been contact between both sides on that matter. I think you want to start by making a short statement. Perhaps you could also introduce Mr North and Mr Hughes for the record.

Malcolm Wicks: Thank you very much indeed. We certainly welcome this inquiry into this interesting initiative. I am joined by two colleagues: on my right, Chris North from my Department, the Office of Science and Innovation, and also James Hughes from the Department for Education and Skills. If I could spend a couple of minutes introducing the subject from our point of view, and of course, the suggestion of responding to you in writing on any questions we may not reach is entirely welcome. What I would like

to do is first outline the Government's broad approach to this negotiation and second, to bring your Committee up to date on progress, as you are indicating, and the likely future timetable for decisions. I would characterise our position, the Government's position to the Commission's proposal as one of cautious support: support for the Commission's analysis of the innovation gap in Europe certainly, an endorsement of the general objective of the EIT in terms of integrating the so-called knowledge triangle, that is, education, research and innovation dimensions. Thanks in no small part to lobbying by the United Kingdom, the concept of the EIT has evolved substantially over time and indeed in the right direction. In particular, we have moved a long way from the initial Commission proposal for a single bricks and mortar institution with the power to award degrees. The Commission now agrees that the correct approach for Europe is to build on the existing excellent institutions within Member States to enable them to better link up with each other and indeed with business and so ensure that we build the critical mass in Europe to generate innovative solutions to our most pressing economic and social challenges. However, since the EIT model is untested, we have also been arguing successfully that it would be sensible to start on the basis of a few pilot projects. This will allow evaluations to be conducted and lessons learned before we move on to any future expansion of the proposed Institute. In line with this, the UK has been arguing for a scaled down initial budget. We have consistently made clear our concerns with the proposal to draw funding for the EIT from the margins of the European Community budget. The Government's approach is also, frankly, influenced by our assessment of political realities. The current EIT proposal does have a very large

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

measure of support across Europe at the highest political levels and the European Parliament appears on the whole to favour the proposal. In our view, our national interests are therefore best served by working constructively with our partners to achieve an outcome which improves the chances of the EIT becoming a useful addition to the range of instruments available to support European innovation and indeed competitiveness. Let me emphasise that no-one is pretending that the Institute will be the single panacea to Europe's relative weakness in the area of innovation. It needs to be seen in the broader context of the Lisbon strategy for growth and jobs, where the primary responsibility clearly remains with Member States but where European level action can potentially add value to these individual national efforts. Turning now briefly to recent developments in the negotiations, the pace has accelerated in recent weeks, both at official and ministerial levels, following a number of meetings in the Council working group. An initial exchange of views on the Commission proposals took place at the informal meeting of the Competitiveness Council in Wurzburg, which I attended in April. The Presidency was encouraged by the large measure of support for the broad objectives of the EIT proposals. However, it did recognise the need for further discussion on the detailed legal text, in particular on governance and budget aspects. In the light of various comments received from Member States, the Presidency subsequently produced a compromise text, which was the subject of an exchange of views at the Competitiveness Council on 22 May, which I also attended. This compromise text was seen as a significant improvement by most Member States, including the UK, though still needing further amendment. Intensive discussions have continued at official level in Brussels in the intervening weeks—I think they are still going on—and the Presidency has arranged a special Competitiveness Council on 25 June, which I will be attending, at which it hopes to secure, in the Brussels jargon, a “General Approach”. That is where the Council indicates its agreement to the Presidency compromise text. This could then potentially pave the way for an agreement with the European Parliament in the autumn.

Q3 Chairman: That is very helpful. Thank you very much indeed. If we can go briefly back to the need for the whole thing, we in particular recognise that there is a need to do across the European Union what several Member States have been doing rather successfully, including our own, as an individual state. I do not think we would quarrel with that at all but we were concerned that the whole thing was too big, too top-down, and I wonder whether you could just expand a little bit on what you have said to see whether or not we have actually managed to achieve

that reductive effort and make it rather less pompous and more practical, to use informal rather than correct language.

Malcolm Wicks: Yes. Obviously, the starting point here is the need for innovation in Europe, including the United Kingdom. My title in the UK Government is Minister for Science and Innovation. I think we all recognise that there is a traditional story to tell about Europe and Britain, but certainly in the UK, that we are very good at pure science. That is certainly true. We have not been so good in the past at the appliance of science, and innovation, and we are now trying to correct that, I think with some success, in the United Kingdom but, of course, this is a story across Europe. In terms of productivity, we are not where we should be if you benchmark against many of our competitors, not least the United States. My judgement would be that innovation is not just something that one tier of government should concern itself with—regional development agencies or the nation state. It is entirely appropriate that all should have a concern about this and, in terms of critical mass, if we are to compete effectively with the United States, with China, with India, I think there is a need for an initiative at a European level. It should not seek to duplicate the nation state in terms of small projects. It should be about critical mass and it should be about developing centres of expertise in the European Union. That is why we are supportive of the overall proposal but it is an ambitious project. As I said in my introductory remarks, we have, I think, successfully taken the idea away from some great building somewhere, some great monument to someone's ambition. We want to test it and see, and it is entirely appropriate when we are talking about a new scientific institute that we pilot it. Let us test the ideas, and test the hypotheses in two or three areas. That has been our approach, with therefore a complementary argument on our part about some modesty when it comes to the finance that should be made available to this.

Q4 Chairman: The suggestion was made to us about starting with a few KICs and building up to the full EIT. Is that an option which is still a possibility or is it just not going to work like that?

Malcolm Wicks: Given the widespread support for this proposal—and when I have attended the Competitiveness Council meetings, both the so-called informal and the more formal one, I have been struck by the fact that, while there are some sceptics and people asking the kinds of questions that we have been asking, there is quite broad support for this—our judgement is that the EIT will happen, but we think it should happen on a modest basis, with two or three of these so-called KICs being developed. They should be carefully monitored to see how successful they are before we try to build a larger institution.

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

Chairman: Thank you. That was very helpful.

Q5 Lord Moser: Minister, good morning. It is difficult to forget the origins which you have referred to, which was a sort of European MIT. That is how it all started. I think it is great that the Government has managed to push that aside. Then there was a sort of phase two, which was a minor MIT, a research institution, but now we have this, which is still called EIT, which I have a problem with but never mind that. This is really a sort of introductory question from my point of view, because there is something I still do not understand. Europe has a number of very good universities, as you know better than anyone, and some of them are very good in science. It must be a good idea to have more links between universities and the business sector—I think that is all admirable—and the stress on applied science. What I have not understood is, is this new animal, this EIT, purely a sort of middle man? It will not, I am happy to note, give degrees. Is it a thing with 60 people in it, board and staff but no students and no academics, so it really is a middle man that gets other institutions, worthy institutions, to advance?

Malcolm Wicks: I would say yes, broadly speaking. As I say, we have argued against the idea of a great building with a huge establishment. We see it more as an Institute, yes, with a headquarters—and there are two or three nations bidding to house the Institute—with a relatively small staff. I think the Commission are talking about 60 staff. We feel that at the outset it probably should be a smaller number than that but with actually a very high-powered governing body of maybe 15 or so people. I think, Lord Moser, you are right to imply that the actual work, the actual research, would not be done in that building.

Q6 Lord Moser: No research and no teaching?

Malcolm Wicks: That is right. It will be done in other institutions, and I think that is the right model, and with no degree awarding powers, although my colleague from the Department for Education may want to come in here. I think there is a suggestion that if the degree awarding body wants to partly badge that as the EIT in the future they may be able to do so.

Mr Hughes: That is the case. You may wish to touch on that later in the session.

Lord Moser: I think that clarifies it. I think it deserves a different name in the end because it is not in any sense an institute, but maybe that is a minor point.

Q7 Lord Trefgarne: You mentioned in your opening remarks that this institution would be funded, I think you said, from the margins of the EU budget. I suppose that means it does not have a proper budget at all; it is going to be found from wherever there is a bit of under-spend, which does not say much for the efficiency of the rest of the process, does it, if there are

sufficient funds for this sort of activity available from other budget. Is that satisfactory?

Malcolm Wicks: What would not be satisfactory would be a situation where the Commission demanded huge sums of money to fund this and felt that by, as it were, raiding the budget, this thing could be funded, which is why, as part of our cautious approach, we have been asking these questions and voicing disquiet about the funding proposals. It is why we would feel that financially, as complementing our strategy of a couple of KICs or two or three, there should be relatively modest funding in the first phase.

Q8 Lord Trefgarne: This is an innovative approach to public funding, is it not, where the budget for some new institution is acquired by raiding other budgets? I will not say any more about it.

Malcolm Wicks: Perhaps my colleague Chris North could come in here. It is certainly raiding a budget but it is raiding a kind of reserve fund, as I understand it. It is not saying “Here are other things where we have allocated funding, for research or whatever, and we are going to take that money away.” It would come from a reserve budget.

Mr North: The Commission have proposed that €308 million should be found from the unallocated margins of what is called heading 1A of the European Union budget. That has caused quite a lot of concern, not just to the UK Government, and indeed, we heard very recently that the European Parliament themselves are expressing concern as well. We in the UK Government have taken the view that, if we are to move to a smaller scale start-up phase, with just two or three KICs, the budget should be reduced correspondingly, but this really is the major outstanding issue. I would say, at the moment, in the run-up to the Council on 25 June, the question is are there alternative sources of funding that the Commission can legitimately find to fund the start-up phase of the European Institute of Technology?

Malcolm Wicks: To give some idea on this, it might be helpful to the Committee, I understand the Presidency compromise paper currently on the table has a figure of some €308 million, in square brackets, as they say.

Q9 Chairman: It is over a period of years, is it not?

Mr North: Six years.

Malcolm Wicks: Yes. In our minds, something more like €100 million at the outset, in the early phase, would be appropriate.

Q10 Chairman: For the initial period of six years?

Malcolm Wicks: Indeed, we have mentioned that figure in the Council.

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

Chairman: Thank you. That was very helpful

Q11 Baroness Howarth of Breckland: You have argued quite clearly that we need politically to be on board if we are going to have any say on all of this, whatever the view is of taking the idea forward, but how successful do you think you are going to be in ensuring that there is a smaller budget and staggered staffing? My first question is how successful do you think you are going to be? Secondly, even if the money is being found from the margins—and I think Mr North was indicating this—what other priorities might be lost in terms of what the UK Government might wish to do by the alternative diversion of this funding?

Malcolm Wicks: On the first question, how successful are we going to be, we will see in a few weeks' time.

Q12 Baroness Howarth of Breckland: It depends on what your colleagues think.

Malcolm Wicks: Yes. I think we have already been very successful, as we indicated earlier, in moving the thing forward—and I do think it is forwards, not backwards, from, as I say, the bricks and mortar edifice to something which seems more appropriate in terms of working closely with existing research institutions and universities, as I said to Lord Moser, but also in terms of our arguing for a more modest start. Much will depend on informal discussions going on in the coming days and, of course, the outcome of the Competitive Council. I do not think I am able to judge that. In terms of the other priorities that could be threatened, I am not sure how specifically I can answer that—I do not know if my colleague Mr North can—but what I would say is that this reserve funding, if I can call it that, is important as a reserve and that is why we think it would be irresponsible to raid or over-raid that budget for this particular idea, because there will be other priorities that may well come along. Do we know any more on that, Chris?

Mr North: If I can just expand briefly on that, we are aware that there are already massive pressures building up on the reserve. For example, the Galileo programme is often mentioned in this context. If I could refer to the question of the staffing levels, what the Commission are saying, their working assumption is that the number of people supporting the governing board will grow gradually, so we will not be starting with 60 people from day one, by any means. It is 20 in the first year, possibly moving to 40 in the year two to three and ultimately to 60 at the end of the period, but it still begs the question: if you have fewer KICs, do you need as many in the staffing as is proposed?

Q13 Baroness Greengross: Going back to the funding, if you think about our universities—and I cannot talk about the rest of Europe—we do not have the scale of work that would make us a world centre as the Americans do, because they do put so much funding into their big institutes, not just MIT. That is something that many people would like to see, and we do have some initiatives now which are going that way but it is extremely difficult. Have you thought that business itself, as in the States, might make a huge contribution towards turning this in some way into something which could not rival MIT but would almost be something more like a Nobel awarding body for Europe, as opposed to the world?

Malcolm Wicks: I think any attempt to simply try to replicate MIT, which I had the opportunity of visiting recently to talk about their knowledge transfer work and in a sense just to look around that area, with all the companies associated with it—would be foolhardy. I do not think it could work. There are peculiar circumstances there in Massachusetts. The important things, however, as you have indicated, are that we need to develop and encourage the links which are developing quite rapidly in this country, as you know, between the university and the business community, with the spin-out companies and all the other things that are now on the agenda. I am seeing some really remarkable developments. They are building small satellites in a spin-out company at the University of Surrey, for example, and in bioscience and so on there is quite rapid change. That university-business link is one key theme. The other key theme for us—and when I say for us, it could be for the nation state or for the EIT perhaps—is the idea of clusters. Despite it being the age of the Internet, physical proximity is almost becoming more important, it seems to me. We talk about the golden triangle of Oxford, Cambridge and London, and there are now a number of developments regionally, and some here in London, to try to build up that cluster of expertise, and I think that is important and how that will translate in terms of the early years of the EIT I think it is difficult to say. I think you are absolutely right, of course, that when we talk about innovation, this is not a need for the academics, the scientists, to become more entrepreneurial in terms of the appliance of their basic work but it is also a major issue for business as well, which is why here in the UK we have established the Technology Strategy Board with a budget of some £200 million a year to encourage industry here in Britain to innovate. So there is a good deal going on.

Chairman: We have really got on to Lord Wade's question about industry and the role of industry and business in this matter.

Q14 Lord Wade of Chorlton: I should explain that I have an interest in this matter because I have been involved in these activities for the last 12 years. I am

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

concerned about some of the issues that you raise. My concern about the proposals for the EIT is that they bring in a lot of bureaucracy without getting to the heart of the problem, which is a local issue; it is about getting right the relationship, as you rightly say, between the business community, who are going to provide the finance, and the commercialisation of the ideas. We are not talking about innovation, because innovation can happen without anybody commercialising it. It is getting that link between somebody seeing a market opportunity and putting resources into it. What I find odd is that there is money now being allocated from the EU to do these activities, yet at the same time the EU is reducing the amount of money available in the UK for venture capital activities. We are now getting extremely short of money in the venture capital field for start-up technology businesses, yet at the same time the EIT will be putting in resources for something which is far removed from the front end, where it is really wanted. Although I agree entirely with you that there is a serious need for activity and that Europe as a whole could do a lot more on commercialising its ideas, it does not seem to me that a centralised organisation along the lines described is actually going to deal with the issue. What we could do with, in my view, is much more of a major venture capital-type organisation that can bring in mentoring skills, give skills to the companies that need it, give financial support, and actually have money available for start-up businesses. I am finding it more and more difficult now to raise money for start-up venture capital in the technology businesses because money is going so much into equity activities rather than start-up. I do not quite see how the EIT is going to solve those problems. What are your views?

Malcolm Wicks: My view is the EIT is not going to solve all our problems. I said earlier that it is not a panacea. There is a good deal in your question. One aspect of it is that I understand what you are saying, Lord Wade, about venture capital. I hear different reports on this, and it is not all doom and gloom, but certainly in areas around bioscience, biotech, I hear concerns that so-called venture capitalists are not all that adventurous when it comes to investing in those territories. Indeed, we are looking at some of those issues now, as a matter of fact, at quite a high level. Here in Britain, of course, we have the R&D tax credits, which I think have been very helpful; a number of companies tell me how helpful they are. I have mentioned the still relatively new Technology Strategy Board, chaired by Graham Spittle of IBM, which from 1 July is going to be an executive agency, so it will be at arm's length from government, with funding jointly with industry to help promote innovation in industry. The EIT is not the solution but, as I think I indicated earlier, it does seem to me that while, obviously, much of the innovation will be

at a regional or local level, with the university hopefully collaborating with industry, there will be certain projects, I think I would argue, which need to be at such a scale in terms of critical mass that the EIT could have a useful role to play. But our cautious approach is about testing it and seeing, and if we can kick-start—pun intended—the KICs at a fairly modest level, two or three of them, and properly monitor them to see their impact, I think that is the right approach for the future.

Q15 Lord Wade of Chorlton: Are we going to be able to ensure that some of these start-ups are going to be in the UK and do not end up somewhere else in Europe?

Malcolm Wicks: I do not want to be too nationalistic about this.

Q16 Lord Wade of Chorlton: I am!

Malcolm Wicks: I was beginning to get that impression, sir. If you look at FP6, this is the European fund for research, and the current phase, FP7, has a very significant budget, and when we look back at the earlier phase, what we actually see—I stand corrected but I think I am right about this—is that British academics get more than their geographical share of the funding and that is because we are very good at science; indeed, we are excellent at science and in a bidding process on that mainstream European research money, we do very well. So there is no reason to think that with the EIT over time British researchers should not do well.

Q17 Lord Wade of Chorlton: I agree with you that UK universities do extremely well but UK business does not. UK business is very much behind, say, German business or French business when making use of European funding. I think if we are going to go ahead on this, there is a role for the Government to take some initiative to make sure that our business and our structures are advised how to get their fair share of this new initiative.

Malcolm Wicks: I think that is absolutely right. We are aware it is not an easy process to apply for some of this money. I have discussed this with the Commissioner and we do need to make it easier, whether it is for the academic or the business person.

Q18 Chairman: Somewhere in these papers it is clear that the Commission itself is concerned about how to attract business funding into all of this. Has that been discussed at all at these various meetings?

Malcolm Wicks: It has certainly been discussed informally. Our view, to be blunt, is that at the moment business is waiting to see. I cannot say to you that there are huge multi-national British or European companies that are eager to get involved. This is a fairly new-ish idea still for many businesses.

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

Many will not have even heard of it, understandably; they have their business to run. I think they are waiting. It is very early days.

Q19 Lord Trefgarne: My question follows on from that, about the involvement of industry. The fact of the matter is in industrial concerns, rather as Lord Wade was saying, they tremble at the thought of making an application to the EU for funding. They know that these funds are generally disbursed through the national government after they have been agreed. My own experience actually relates to European funding for engineering training purposes, which is not quite the same thing, but raises so many hurdles and difficulties that firms, especially small firms, just cannot be bothered. These are problems to be overcome, not laid down in front of, and perhaps there are arrangements or there could be arrangements for some kind of an advisory process for firms, and especially, again, for smaller firms, to take them through the labyrinthine processes of applying for EU funding in these cases and also for administering the funds; I am thinking in terms of after the funds have been disbursed and spent, there is usually an audit process to ensure that they have been spent properly. Nobody objects to that but it must be reasonable and sensible. If there were a bit more central guidance, I think that would be of great assistance. Perhaps the trade associations could help. Perhaps the Engineering Employers Federation could help. I have been mentioning engineering but in related industries as well.

Malcolm Wicks: As I say, I do recognise these problems and the Government is taking action. At the launch of FP7 the Commissioner, Mr Potocnic, came over and he and I launched the thing in the UK. We had many businesses there and so on. There is a recognition of this issue. This is not really about the EIT as such, although you are suggesting this could apply to the EIT, but in terms of general monies and research monies, yes, we do need to enable business to get involved.

Q20 Lord Trefgarne: EIT procedures; I guess they will be European procedures, EU procedures, or very close to them, and it is those procedures which I think are a hurdle rather than a barrier.

Malcolm Wicks: Yes, I think that is right and part of the pilot exercise has to be about how we enable people to get involved.

Q21 Lord Trefgarne: In the training world, the sector skills councils perform a great role in getting EU funding, especially for smaller firms. Can we find a similar network of organisations, not directly concerned with training, perhaps the RDAs?

Mr North: Perhaps I could start by confirming that the businesses have not yet expressed overt enthusiasm, and that is not surprising because, as the Minister said, they have been deterred somewhat in the past from participating in framework programmes. Framework 7 does promise to simplify and streamline procedures considerably. Clearly, it is our wish, hope and expectation that those new simplified procedures will translate also into procedures for the EIT. There are important awareness-raising activities required to deliver this new concept on the ground. Under a framework programme there is a network of so-called national contact points to do the hand-holding, to raise awareness among businesses, to take them through the procedures, and there will be a need for something similar, I would imagine, for the EIT. An important function of the governing board of the EIT will be indeed to market the EIT and to explain exactly how it works in practice on the ground.

Q22 Lord Trefgarne: We do have organisations in this country which help. I mentioned the EEF but more widely, the CBI, for example, might be able to play a role, as an organisation which would have the interests of the little firms at heart and could guide them accordingly. We had the Small Business Bureau giving evidence on an entirely different matter but maybe they could help too.

Malcolm Wicks: Yes. Currently within the DTI we are seeking to streamline our business support. We recognise that, frankly, we have had too many initiatives and this would be one focal point for them.

Lord Trefgarne: A “ministerial initiative” is a sort of dread expression for small business.

Q23 Baroness Howarth of Breckland: On a number of occasions you and your colleagues have mentioned the board and the crucial task it will have. You talked about it slowly being built up and I wondered how it would be constituted. I can see that science and research skills and business skills sometimes come together, but not always. Will you be having, if you like, a job description, a skill set, that you are looking forward to make sure this works? One of my experiences of boards here and in other places is that unless you start there, you end up with people who are interested but who are not actually able to carry out the task.

Malcolm Wicks: Sure. I understand the importance of that. It should be suitably able people with an interest both in research and innovation—people like us really; maybe we should jointly apply. Have we got there yet, Chris? There is talk about a board of 15 people. Obviously, you have to have some regard to

7 June 2007

Malcolm Wicks, Mr Chris North and Mr James Hughes

the geography; not every Member State, if I can do my arithmetic, will be on the board if it is 15. Do we know any more at the moment?

Mr North: At the moment all I can really add is that there is in the proposal provision for a so-called identification committee to be set up which would be responsible for coming forward with proposals, recommendations, to the Commission as to the appointment of the 15 or so members of the governing board. As the Minister has said, it is absolutely crucial that we do secure a very high-calibre governing board which will be key to the reputation and success of this venture. The actual procedure envisaged, I understand, follows the model of the European Research Council from a year or two ago.

Q24 Lord Moser: I have a quick question on the Lambert review on business-university collaboration, which is exactly what you have been describing. It would be a good title for the centre actually. Do you think there is any possibility of holding up a final decision and first doing a proper Lambert type review across Europe?

Malcolm Wicks: My guess would be that different Member States are in different places on this. The principle has to be right, does it not, that the university, traditionally a place for teaching and academic excellence and research, now has a third mission, which is to make a greater economic and social contribution to its community, maybe the nation, than previously? I think we now have some great exemplars of this in the United Kingdom. We indeed have a fund of some £100 million, which we share with the Department for Education, the Higher Education Innovation Fund, which distributes money to all universities to encourage them to take this innovation seriously, the spin-out companies and the rest, and of course, we need to see this across Europe. In parts of Europe this would be a somewhat foreign idea at the moment.

Lord Moser: My point, Minister, really is that there has been terrific progress in this direction in this country, as you say. The Lambert review had quite a lot to do with getting it all going. We did not need a new institution to bring it about. It is just that every university and every business is doing a bit more. I would still have preferred, if it were my choice, for that to be the European process: a review and then everybody does more rather than set up this EIT. Still, I think perhaps it has gone too far.

Q25 Chairman: Minister, you did talk earlier about the need to review the performance of the first KICs which are set up. In a way, that was the first stage of the Lambert review, to see what was happening and whether it worked. Is that the kind of process you had in mind of a really thorough analysis of the work and

level of effectiveness of the original few, if we can keep it down to a few, KICs, and then, on the basis of that, to move forward with greater certainty for the future?

Malcolm Wicks: Yes, absolutely and, as I indicated earlier, given the nature of this Institute, it would be ridiculous if we did not apply some scientific method do it. Indeed, following what Lord Trefgarne was saying, this should not perhaps just be about the quality of the KICs, the quality of the work, but we should have it as a learning experience about the processes that we are setting up, how easy or difficult it is for smaller companies perhaps to get involved and so on. This is something we have been pressing and I will press it further at the meeting of the Council later this month.

Q26 Lord Wade of Chorlton: The perfect example of what I would like to see happen out of this I saw in California, where there was a centralised commercialisation unit attached to all the universities, manned by highly professional people who could deliver on behalf of a number of universities. That sort of concept, say, on a regional basis—and I have tried for a long time to discuss this with other universities in the North West and see if they would merge them, but they will not give up. Maybe as a new initiative it would be possible for us to put in an application from the UK by bringing the universities within a region together with the business in that area and put forward a proposal for such a concept, which would drive forward an awful lot more effective commercialisation than we have now at basically university level, because it is the skills of the people in the team that make it happen, not where it happens, if you know what I mean.

Malcolm Wicks: I am impressed when I talk to the universities at how people are moving towards that. As you know, in the North West, certainly in Yorkshire, the universities are talking to one another and they are talking to business. I think it is a process that is moving in the right direction.

Q27 Lord Wade of Chorlton: This could just give it that extra kick that would actually make it happen.

Malcolm Wicks: Yes. Kicks all round.

Q28 Chairman: That is right. Mr Wicks, thank you very much for coming. If you do feel something has been left out or you wish you had said something which you did not have time to say, please write to us because we want to get the full measure of the wisdom that we have in front of us.

Malcolm Wicks: I think it might be helpful to the Committee if we give you a series of written answers, some, indeed, prepared earlier. We might be able to do that quite quickly.

Chairman: Thank you very much indeed for coming before us.

Supplementary memorandum by the Department of Trade and Industry

QUESTION

Q29. *What can you tell us about the views of other Member States about the latest proposals?*

Member States are generally supportive of the revised Presidency compromise text.

At the May Competitiveness Council, the Presidency expressed its view that a broad consensus on the conceptual framework of the EIT had been reached. Several Member States, including Sweden and Netherlands, share the Government's reservations about the level of the proposed budget, in particular the call on the "unallocated margin of budget Heading 1A".

Q30. *To what extent do you agree that, even if the EIT does go ahead, it would be a mistake to set up the suggested new Knowledge and Innovation Communities (KICs) from scratch because collaboration with existing bodies—like European Research Council and European Technology Platforms—would be more effective for stimulating technology initiatives?*

It is important to remember the rationale for the EIT, namely to support excellence-driven strategic partnerships. Participants in KICs will be chosen on the basis of current and potential innovation capacity and their excellence in education, research and innovation. These should already be exemplars in their field and may already have existing relationships with the other parts of the "knowledge triangle". The EIT aims to improve these links with existing organisations and establish much deeper relationships than they have at present.

It is also important to differentiate EIT from other funding vehicles.

The European Research Council is a new grant funding mechanism, established as part of FP7, to support bottom-up blue skies basic research by top class individual researchers or teams of researchers. The main aim of the newly-established body is to stimulate scientific excellence by supporting and encouraging the very best scientists and engineers. Such projects are considerably further from the market than the ventures which the EIT might support (for instance knowledge transfer).

The ERC is governed autonomously by a Scientific Council of leading scientists. Being "investigator-driven", or "bottom-up", in nature, the ERC approach allows researchers to identify new opportunities and directions for research, rather than being led by priorities set by politicians. This approach ensures that funds are channelled into new and promising areas of research with a greater degree of flexibility.

European Technology Platforms have been established in a large number of sectors and technologies in recent years. These are not funding mechanisms as such but industry-led networking fora, which bring together industry and other stakeholders to identify common priorities for research. They are generally regarded as valuable initiatives, which have developed long term Strategic Research Agendas (SRAs) for individual technologies and sectors. They have also provided a major input into the thematic priorities defined in FP7 and are helping shape individual work programmes. It is possible that informal partnerships already formed in the context of the European Technology Platforms could indeed help evolve into consortia bidding to be designated a Knowledge and Innovation Community under the EIT.

Q31. *How appropriate is it for the draft EIT Regulation to mention explicitly renewable energy and climate change as topics for the EIT to cover in its first phase—shouldn't it have been left to the EIT Governing Board and/or KICs to decide priorities?*

While the Government would not rule out the possibility of Council and Parliament giving a broad political steer to potential priority areas which the EIT could support, such as a climate change or energy-related theme, it will be the role of the Governing Board to draw up strategy and specify fields of activity in which applications will be invited from partner organisations to form a Knowledge and Innovation Community. Once they are designated, it is important that the KICs operate with a substantial degree of autonomy. In particular, we need to avoid micro-management by the Governing Board or Community institutions.

Q32. *What measures do you think could be put in place to ensure that the quality of work of the KICs is sufficiently in line with international standards?*

The Government is keen to ensure that the EIT and KICs have robust governance procedures, and that appropriate mechanisms are put in place to ensure accountability for the EIT and the outcomes of each KIC.

Mechanisms already exist to ensure the quality of the educational activities carried out by the individual higher education institutions involved in the KICs. All those countries participating in the Bologna process agreed in 2005 a set of European standards and guidelines for quality assurance. These essentially define the responsibilities of institutions and provide for the evaluation of programmes or institutions, including internal assessment, external review, the participation of students and the publication of results. In the UK our quality assurance framework, which is compatible with the European standards and guidelines, ensures that our HE sector performs to the very highest quality and remains competitive in the global education market.

It is reassuring that external and independent experts will be involved in the selection process of KICs, and that a partnership will be selected and designated by the EIT to become a KIC, on the basis of a competitive, open and transparent procedure.

In regard to the monitoring and evaluation of the EIT in general, the Government is reassured by the provisions in the Presidency compromise text. The text proposes that the activities of EIT and KICs will be subject to continuous and systematic monitoring and periodic independent evaluation, the outcomes of which will be made public. The Commission is also required to draw up a proposal for a Strategic Innovation agenda, based on a draft provided by the EIT, by 2011. This Strategic Innovation agenda will define long-term strategic areas for the EIT and an estimate of financial needs, and will require a decision by the European Parliament and Council before adoption.

Q33. *What are your views about the Commission's proposals for the award of degrees with a prominent EIT "brand"? How do you think such degrees would be regarded in the academic and business worlds?*

Throughout Working Group negotiations the Government has opposed the idea of independent degree-awarding powers for either the EIT, or the KICs as a collective legal entity. We welcome the progress that has been made in Council Working Group to clarify the provisions relating to degree-awarding powers of the EIT. There has been clarification that degrees and diplomas will be awarded by participating universities, and that the EIT will not award degrees.

Whilst authority over curricula, teaching, assessment and the awarding of degrees and diplomas will remain with the individual institutions involved in the KICs, we can support the idea that institutions may also wish voluntarily to provide an EIT label on these degrees. Such a labelling could be a way of promoting both the work of the EIT and the institutions involved in the KICS. The Government believes that the academic and business communities should have little difficulty in recognising these degrees as they will essentially have been awarded by institutions in the usual manner and would be subject to the existing quality assurance frameworks and mechanisms in each Member State.

Q34. *What is your view of the Netherlands' request to Commissioner Figel that Treaty Article 149—relating to Education, vocational training and youth—should be quoted in the EIT Regulation as an additional legal base to Article 157—relating to Industry?*

France, Germany and Netherlands did raise the issue of the legal base of EIT during initial discussions. More recently, France, supported by Poland revisited the legal basis of the regulation during discussion at a May Council Working Group meeting. The response of the Presidency was that there had been extensive discussion of this issue in Working Group and that Member States had agreed that Article 157 was the correct legal base.

The Government's view is that Article 157 is the appropriate legal base. The legal base should reflect the key purpose of the EIT, namely to promote innovation through developing a more powerful European research base.

The Community can act under Treaty article 157 to co-ordinate efforts in the field of innovation, where they will be more effective than separate actions at national, regional or local level. Given the nature and scale of the innovation challenge, pooling and coordinating efforts across the EU may generate benefits that cannot be achieved by Member States alone.

Article 149 is focused very much on educational institutions and systems, and specifically on their role as places of teaching and training, rather than as places of research. The closest that Article 149 gets to the subject matter of the proposed EIT Regulation is when it mentions "promoting cooperation between educational

establishments”. In the Government’s view this is rather vague, and adding Article 149 to the legal base of the proposed Regulation would contribute little in legal terms.