As well as that, we must try and exploit to the full the existing framework, especially new economic governance tools like the 'European semester' for the co-ordination of national reform programmes so as to help each country develop its most competitive sectors. We must also make better use of things like cohesion policy because since the start of this crisis, €17bn in cohesion funding has been re-directed towards research and innovation, SMEs and labour market policies to help the most vulnerable. We must use the EU's structural funds to consolidate those comparative advantages that exist, especially by investing in infrastructure and by training workers for the most promising sectors.

If better economic governance is to reduce Europe's competitiveness gaps it must be based on the solid foundation of a single market that works. We need to deepen our internal market, and that's the aim of the "Single Market Act" we launched in April 2011. It's made up of 50 proposals and 12 key actions to make life easier for Europe's 22m companies and 500m consumers through the creation of a genuine digital single market, better recognition across Europe of professional qualifications through an EU-wide professional card, the simplification of EU public procurement

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Europe must act now, or face slow growth, anaemic job creation and rising budget deficits

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The two competitiveness-related challenges set out by Michel Barnier can only be met if his four innovation-related suggestions are implemented. And I have to agree with Barnier that for Europe's competitiveness to be restored, innovation-led growth will be key.

Over the last decade, both the European and U.S. economies have felt the impact of a new race for global innovation advantage, and the troubled state of both economies shows that neither has responded effectively to this challenge. Some regions of Europe and the U.S. are driven by high value-added, innovation-based companies, and are able to compete in global markets because they have met the challenge to be more innovative and productive. But overall, both the U.S. and Europe have lost competitiveness. And we see that in their many uncompetitive regions, for instance in the American case Buffalo in New York, Detroit in Michigan and Greensboro in North Carolina, and in Europe the depressed industrial areas of southern EU states like Greece, Italy and Spain.

rules, especially for SMEs, and the full application of the Services Directive, which alone could by 2020 add up to 2.6 points to the EU's GDP. As to the 12 new priority actions, they support four drivers for growth – fully integrated European energy and transport networks, better cross-border mobility of citizens and businesses, the digital economy and improved social cohesion.

As well as the competitiveness gaps between EU countries, a second challenge is that of Europe's competitiveness *vis-à-vis* the rest of the world. Despite tough competition from China or India, we can still be big producers of manufactured goods as well as services provided we have the courage to launch a modern industrial policy based on innovation. After all, the whole project of European integration was born out of an industrial policy when Jean Monnet and Robert Schuman proposed the pooling of coal and steel.

Sixty years on from that simple industrial beginning of the European Union, it's time to think about new common investments targeted at promising sectors like clean products and vehicles, bio-based products, key enabling technologies and smart grids. So

Italy, for example, has not always been a study in economic decline. Back in the 1950s and 1960s, Italy enjoyed an economic miracle, but since 2000, its boom became a bust as many small enterprises that had the advantage of flexibility became a burden because they haven't been able to boost productivity to compete with companies in China and other low-wage nations. And they haven't diversified fast enough into those sectors and technologies that low-wage nations have difficulty moving into.

As Michel Barnier points out, investment in the research facilities of universities must be raised much higher on the European agenda. Italy is one of the few old European nations with a net emigration of college graduates and Spain, Greece, Portugal and even France face similar challenges. Compare them, though, with Nordic nations which have been able to stay globally competitive, have boosted their productivity and moved into higher value-added, innovation-based industries. It is no coincidence that the Nordic countries also expanded their investment in innovation, both at their universities and through specialised national innovation agencies, like Finland's Tekes and VINNOVA in Sweden or that have embraced labour market flexibility. And they have developed and implemented national innovation how best can we promote these technologies? The Commission's recent communication on industrial policy drafted under Antonio Tajani's leadership offers an overall vision of this problem. And from where I stand, four issues need to be tackled simultaneously.

First, we need to create the right conditions for innovation, particularly by improving innovative SMEs' access to finance. Only 2% of SMEs' funding needs are covered in Europe by venture capital, compared to 14% in the U.S. The Commission has proposed the creation of a Europe-wide market for venture capital to allow these funds to raise money and to invest anywhere in the EU, and in addition to that I hope that final agreement on the single European patent, to dramatically reduce the cost of protecting innovations is at last within our grasp.

Second, we need to invest much more resolutely in research. It isn't inevitable that young researchers from European universities leave for greener fields elsewhere. We must give our universities greater resources, along the lines of the European Institute of Technology which brings together innovative companies, research centres and universities to create the conditions for innovation.

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strategies, with even trade unions getting in on the game.

It's not that policymakers in Europe have been unaware of these competitiveness challenges; they have said many of the right things, notably with the European Union's Lisbon Strategy. But that is generally regarded as having failed to meet its own goals, which is why the EU then launched its updated "Europe 2020" strategy with objectives that span jobs, innovation, education, social inclusion and climate/energy. Yet these revised strategies, too, have yet to transform the continent into an innovation leader.

To add to Barnier's list, Europe faces three clear challenges. First, the creation of a Europe-wide innovation policy. Europe's Horizon 2020 initiative, which will seek to invest €80bn between 2014-2020 in research and innovation, is a positive step forward but more is needed.

Second, when most European leaders refer to innovation they mean science- and technology-based jobs rather than innovation as the constant transformation of an economy and its institutions, including schools and universities. But unless all of Europe can accept that innovation and productivity often entails job losses (at least in the short-term), that innovation is required across the board, not just in new "widgets", and that new

Third, we must give European companies the resources to invest in research and the development of prototypes. One way to do this is to target public funding in areas identified as of strategic importance, just as the United States, China and Korea all invest heavily to support their own strategic sectors. The EU's competition Commissioner Joaquín Almunia has now adapted our rules on state aid to make it possible to provide state support to underpin agreed EU guidelines.

And fourth, in the area of trade policy we must show openness without being naive. The EU cannot go on being one of the most open trading areas in the world while our own companies have difficulty entering other countries' markets. That is why trade Commissioner Karel De Gucht and I have proposed a regulation making it possible to impose reciprocity in public procurement on countries that don't practise this.

All these are steps under preparation. They don't stand in the way of the strong measures needed to restore Europe's economic growth in the short- and medium-term, but they are vital if this new growth is to be sustainable. ■

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technology is a force for progress not something to take precautions against, it seems unlikely that the EU as a whole will be able to keep up in the race for global innovation advantage.

Europe also faces a third challenge that it shares with the U.S., and this is the threat of "innovation mercantilism" by nations such as Brazil, China and India. The term innovation mercantilism covers such practices as governments turning a blind eye to abuses of intellectual property protection, discriminating against foreign technology companies and even requiring them to transfer technology to gain market access. These practices have become a mainstay of many national game plans in the new global competition, even though they violate the values of the global trading system. As such they not only damage innovation economies like Europe and the U.S., they also make the whole global economy less prosperous and more fragile.

Europe and America possess real innovation strengths. But unless they recognise the global nature of the innovation competitiveness challenge, and respond to it, we must expect slow growth, anaemic job creation and rising budget deficits to be the dominant features of tomorrow. ■

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