

INNOVATION & THE DIGITAL ECONOMY

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Digital giants endorse Horizon 2020



The European commissioner for research and innovation, Máire Geoghegan-Quinn, has publicly sought the support and advice of Internet rivals Microsoft and Google in her quest to carry through the EU executive's ambitious €80-billion Horizon 2020 research programme.

The move demonstrates the Commission's belief that multinational corporations can be enlisted to persuade member states that the new framework programme, to be discussed in the Parliament and Council early next year, can bring growth.

Geoghegan-Quinn engaged in head-to-head discussions with senior executives from Google and Microsoft on consecutive days at the

Innovation Convention in Brussels.

On Monday (5 December), Eric Schmidt, the executive chairman of Google, spoke on stage with the Commissioner.

Internet companies happy work places

Geoghegan-Quinn praised Google's working environment in the company's Irish offices – which she has visited – claiming that she had never before seen a place where everybody appeared “so happy to be at work”.

She went on to ask the Google executive how best the Commission could deliver public-sector innovation.

Schmidt said that one clear strategy would be to fast-

forward to cloud computing, saying it would enable the Commission to “talk directly to citizens and ask them the right questions”.

Geoghegan-Quinn also quizzed Schmidt on what factors the company considered when investing in overseas markets.

Growing economies in Asia and Latin America are in pole position, he said, before praising Europe's research universities as a big pull for software engineering talent. “We have thousands of engineers here [in Europe]. Your model proves that this can work elsewhere in Europe,” he said.

Microsoft: Research leads to jobs

The endorsement of research led-growth was echoed the following day when the Commissioner hosted a web-based transatlantic discussion with Microsoft's chief research and strategy officer, Craig Mundie.

The pair appeared in the conference in a virtual meeting room as avatars, with Geoghegan-Quinn in Brussels and Mundie in Palo Alto, California.

“I think it's true that there is no way we can solve [societal challenges] without investment in basic science,” Mundie said.

He added that research should be the focus of governments – praising the Horizon 2020 programme – adding that development

building on research could be carried out more in partnership with business.

The engagement with the two companies indicates that the commissioner wants to show member states that the EU executive intends to be active in leveraging research to create jobs through private-sector development.

The move will also raise eyebrows since it brought together two companies which are renowned rivals, and which have had difficult relations with the Commission.

Microsoft was subject to protracted antitrust action by the EU executive, whilst a case against Google – one of the reasons for Schmidt's visit to Brussels – is ongoing.

The brave new world of digital innovation



The digital world is undergoing a revolution in “self-organisation” – thanks to social media – that offers individuals, companies and governments opportunities to transform society in innovative ways, according to a leading Internet expert. It also threatens to unleash civil unrest on a scale never before witnessed, he warns, citing the Arab Spring.

Don Tapscott, the digital strategist who inspired US President Barack Obama to focus on internet group organisation during his 2008 election campaign, told delegates at a Brussels innovation convention that “vertically integrated industrial business is becoming obsolete”.

“The same processes that led ‘old-world’ knowledge models such as the Encyclopaedia Britannica to be overtaken by on-line Wikipedia is moving fast into manufacturing industry,” Tapscott told the conference.

Chinese employees drink tea and surf the web

Speaking to the European Commission’s first Innovation convention, Tapscott said the Chinese motorcycle industry is an example of a new corporate structure that uses the Internet to operate in a decentralised manner.

“This has rapidly taken over 40% of the market, yet the employees meet over the Internet and in tea rooms,” Tapscott said.

Such a revolution is about to hit the pharmaceutical industry, Tapscott said, saying that it will lose almost half of its revenue if it fails to adapt to the need to share research. He said that he

had encouraged Commission President José Manuel Barroso to convene a meeting of leading pharmaceutical companies “to start talking about finding common sharing solutions for their research”.

His warnings were not reserved for companies, however, and he said governments – “which took on their current architecture at the same time as old-style industry” – also needed to operate in “looser, more open digital networks”, enabling states to be more efficient.

Flower power was child’s play

Public-private partnerships will give way to new formations of web based co-operation between governments, Tapscott said, drawing parallels with the collaborative innovation and social media that he said greatly assisted in the revolutions of the Arab Spring.

In a separate interview with EurActiv, Tapscott warned that although China has innovative companies and is embracing the web, it also has very outdated factories with many thousands of employees, and he sounded a warning for Europe as well.

The revolution in Tunisia was aided by the Internet and social media, but was sparked because the country had a youth unemployment level of 42%, he said, pointing out that Spain’s youth unemployment rate is currently at the same level.

“When you have transformation you have dissonance. The possibilities of global youth radicalisation and the opportunities of self-organisation in Europe could lead to unrest which makes the 1960s look like kids stuff,” Tapscott said.

Brussels probes publishers, Apple for price-fixing on eBooks

The Commission yesterday (6 December) launched an investigation into potential price fixing between e-book publishers and Apple Inc. to examine whether rival publishers were blocked or consumers harmed.

The decision by the European Commission to open an investigation on Tuesday (6 December) followed raids on publishers – including Lagardere, Pearson Plc and News Corp – in March this year.

“The Commission will in particular investigate whether these publishing groups and Apple have engaged in illegal agreements or practices that would have the object or the effect of restricting competition in the European Union or in the European Economic Area,” according to a Commission statement.

US regulators are also looking into pricing deals imposed under an agency model in which publishers set the retail price. Antitrust rules forbid price-fixing agreements designed to shut out competitors or that could result in consumers paying more.

“The Commission is also examining the character and

terms of the agency agreements entered into by [...] publishers and retailers for the sale of e-books,” it said.

Five companies under scrutiny

It identified the publishers under scrutiny as French media-to-aerospace group Lagardere’s Hachette Livre unit, News Corp’s Harper Collins, CBS Corp’s Simon & Schuster, Pearson’s Penguin and Verlagsgruppe Georg von Holtzbrinck, which owns Macmillan in Germany.

“Pearson does not believe it has breached any laws, and will continue to fully and openly cooperate with the Commission,” a Pearson spokesman said, adding that the group would work with regulators in the investigation.

Apple and Hachette Livre declined to comment. Harper Collins and Simon & Schuster said they were cooperating with the investigation.

Publishers adopted the agency model last year when Apple launched the iPad, allowing publishers to set the price of the sale of e-books. In turn, they would share revenue with the retailer. In the past,

publishers would sell e-books on a wholesale model for 50% of the retail price.

EU executive bares teeth to digital sector

The investigation shows the EU regulator is cracking down on suspected infringements in the digital sector, said Douwe Groenevelt at law firm De Brauw Blackstone Westbroek in Brussels.

“The probe seems to be focusing on a distribution model particular to e-books. We can expect the Commission to investigate other distribution models in the digital sector,” he said.

In the traditional “wholesale model”, publishers set a recommended retail price, but the seller is free to offer deep discounts.

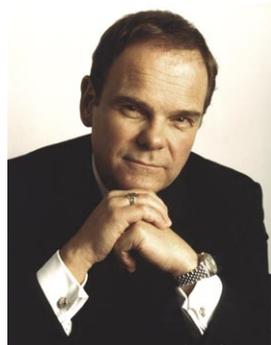
E-books are fast gaining popularity in Europe and in Britain e-books already account for about 10% of book sales by volume and a fifth of revenue.

Britain’s Office of Fair Trading said on Tuesday it would coordinate with the EU regulator on the e-book sector and was closing its own investigation into the matter.



Internet guru: Digital self-organisation will spur growth

Beneath the current gloomy economic perspective in Europe, there is underlying opportunity, says Internet guru Don Tapscott. But in order to unleash this, companies, individuals and governments must embrace the transforming power of digital innovation, he told EurActiv.



Don Tapscott is a Canadian business executive and chairman of the New Paradigm think tank and a professor of management at the University of Toronto. Tapscott is the author or co-author of 14 books on the application of technology in business and society, including 'Wikinomics' and 'MacroWikinomics'. He spoke to EurActiv's Jeremy Fleming

on the fringes of the Innovation Convention in Brussels this week.

Do you see opportunities for growth in the digital economy?

There is such a negative prevailing view at the moment that we are in for 20 years of stagnation and global depression. I have a different view. The future is not to be protected but to be achieved. We need to know what the problem is and identify that properly. The problem is something different from what people think it is, and I have never been more hopeful about the situation. For all these failing institutions, for each one you can see they are spreading new models of institutions, you see many people 'self-building' using the Internet, that is what I find inspiring.

Where is this 'self-building' going on?

There are huge innovations underway and this is happening where people are self-organising across a variety of sectors:

government services, private sector and large corporations. It's a time of great change for traditional big industry, but in each case there are opportunities to seize control of the inert parts of these businesses.

Can you give specific examples?

General Motors, which went bankrupt, was the industrial-age model, and on the other hand you have the micro-macro model of Local Motors. This was the invention of someone who realised the problems with the sclerotic motor industry. His company utilises the web to bring in designs from thousands of freelancers and basic assembly plant to put together high-quality output.

Is this phenomenon only happening in the US?

There is competition for this model from China. For example there are motorcycle units which are being built by hundreds of users who meet and assemble their ideas on an ad-hoc and Internet-based community. This means that some meet in

tea rooms to discuss marketing whilst others deal with assembly and design issues on-line. This model is spreading in China to the general automobile market and Europe should prepare itself for the €1,000 car. These are radical innovations slaying the architecture of the old model of industry.

What impact do you think this change will have?

People used to say that the most important assets of a business get out of the elevator at the end of each working day. That is no longer true because they may never arrive in the office. Look at even huge companies such as Proctor & Gamble, which employs 7,000 scientists working in-house, but a further million work for the company from a distance, communicating on-line. I call this development 'Ideas Agoras' since these are open markets for deploying qualified minds.

You talked about the competition from China, what do we need to learn from and heed about this

market?

On the one hand we need to learn that there is a role for government. This is a serious discussion in the US at the moment. Ron Paul, who is currently polling number two for the Republican Party in the US, wants as little government as possible. What these people are missing is the kind of strategic oversight that the EU is deploying with Horizon 2020, which is a positive kind of thing and an antidote to the antigovernment point of view.

But we also need to be cautious about the Chinese model; they have factories with as many as 900,000 workers, where people live military-style working existences. That may be suitable for the mass assembly of microchips but it is not good for an innovation economy. At some factories there are nets outside the windows to stop people successfully committing suicide. It's like working in a prison. What is required for an innovation economy is a vibrant, open, competitive, but also fully transparent society, in which core IT is a basic right of people to use.

Internet firms warn about EU's data privacy proposals

The European Commission's intentions to force Internet social networks to seek consent from users every time they log on to websites will damage e-business and set Europe's digital innovation strategy back, says the largest consortium of on-line industry in Europe.

The reaction came following a speech last week by the Commissioner for justice and fundamental rights Viviane Reding about online privacy.

Reding indicated firmly that she would ask all websites, including social networking sites like Facebook, to seek explicit consent

from their European users before preserving their IP addresses.

Speaking last week (28 November) to a conference on data protection staged by the US Chamber of Commerce, Reding described in detail the type of reforms that she would seek in an overhaul of the 1995

Data Protection Directive which she will unveil early next year.

Fragmented approach costs EU €2.3 billion each year

The commissioner said that the reforms would seek to unify the data protection regimes across the EU as currently each member state applies varying rules to data protection. A fragmented approach was costing the EU €2.3 billion each year in lost business, she claimed.

"Individuals should be well informed about privacy policies and their consent needs to be specific and given explicitly," Reding told the meeting.

Industry broadly welcomes the attempt to create a unified data protection regime, but is nervous about the proposal to seek such explicit consent from Internet users.

In practice this might entail 'consent boxes' being used every time an IP address of individual users was transferred to a web site offering goods and services, which industry believes could

create on-line jams and deter consumers from using web sites.

Reding set to follow Parliament's lead

The Commission has come under pressure from the European Parliament to propose strict consent criteria from Internet users. In July, the centre-right European People's Party (EPP), the largest in Parliament, issued a report which said: "The information which social networks provide to users about purposes and different ways in which personal data is processed must be easily accessible, visible and understandable for the user."

"Most of our members are very, very concerned about this over-expansion of a balanced regime," Kimon Zorbas, the vice president of IAB Europe, the largest the trade association of the European digital and interactive marketing industry, told EurActiv.

He said that such an "explicit consent" clause would have a freezing effect on the European digital market.



EU showcases digital innovation in healthcare



Digital technology is contributing to innovation in healthcare more than other sectors in Europe, but the EU remains cautious in its approach to international markets in the sector, delegates to the first European Innovation Convention heard yesterday (December 5).

An exhibition of 50 EU-funded research projects was heavily dominated by health issues, and almost all relied on digital innovation.

Products showcased at the exhibition included virtual platforms designed to help control stress and a device for the physically disabled allowing people using "brain caps" to communicate without moving.

The majority of the health innovation ideas pointed to the European Commission's priority to deal with Europe's sharply ageing population.

Healthy and active ageing is digital future

A sensor system with software connections enabled a central computer to judge how an elderly person living alone had fallen, whilst two systems allow hospitals to remotely monitor the conditions of people with Parkinson's and other chronic diseases, and enable people to exercise using on-line systems.

There were also systems for helping the elderly exercise without leaving home, adapting current game technology to the needs of the physically impaired.

Not all the digital innovation exhibitors related to healthcare.

'V-City', for example, is a Belgian-originated software

creating three-dimensional cityscapes which – viewed through special lenses – enables users such as civil emergency planners and military officers to plan evacuations or attacks on buildings.

The exhibition is a showcase of European technology, but the exhibitors were hand-picked by the Commission, and clearly indicate that research in the burgeoning healthy ageing sector will be a big winner for EU research funding.

The Commission's new framework programme for research, unveiled last week, has €80 billion earmarked for the 2014-2020 budget.

Europe is arrogant about foreign healthcare capabilities

Europe's general approach to healthcare partnership in innovation was rebuked during the conference, however.

"The EU is considered insular and inward looking. The US is more prepared to share its research. There are so many opportunities elsewhere where Europe could be involved in local market innovation, particularly in healthcare," Kiran Mazumdar-Shaw, the founder of one of India's biggest biotechnology companies, Biocon, told delegates in a plenary session called Building a Global Innovation Economy.

Ann Mettler, the executive director of the Lisbon Council think tank, who was moderating the debate, described as "inherently arrogant" the views of European entrepreneurs who dismissed the idea that they could learn from India about healthcare innovation.

Private copy: Barnier tries to crack the nut

Talks between right-holders and makers of electronic goods will restart at the beginning of 2012 to try and find a solution to the sensitive issue of levies to compensate artists for the copying of their works.

Existing EU rules on copyright date back to 2001 and envisage a "fair compensation" for right-holders to offset the potential financial losses that authors are likely to suffer from the copying of their works – whether books, films or music.

This vague provision allowed EU countries to introduce various copyright laws or levies to compensate right-holders (see background).

As a result, prices of electronic goods used to make duplication of these works vary widely across borders due to different levies and methods to calculate them.

"The fact that authors and other right-holders must receive fair compensation for the use of their work is not an issue. The issue is that all schemes used for the collection of this compensation should be organised in the most efficient way possible," underlined the EU Commissioner, appointing Portuguese politician and former EU commissioner António Vitorino as a mediator on the issue.

A well-reputed mediator

Vitorino was EU commissioner in charge of Justice and Home Affairs under the Prodi Executive between 1999 and 2004. He had previously been deputy prime minister and defence minister in Portugal.

He is a socialist politician with close links to the private sector. Between his government role in Portugal, which ended in 1997, and his appointment as EU commissioner in 1999, he was the deputy president of Portugal Telecom Internacional and president of the Portuguese branch of Banco Santander.

His high-level profile and his legal experience (he has also been a judge of the Portuguese Constitutional Court) seems appreciated by the contenders in the battle for copying levies, who tend to refrain from making early declarations. Contacted by EurActiv, Vitorino declined to comment.

Taxing the works, not the devices

Vitorino is perceived as an objective and level-headed kind of person. But he might be tempted to lend his ear to the loudest voices in the debate, which are coming from manufacturers of music players and other electronic devices such as printers, which can be used to copy artistic works.

Recognising that right-holders must be compensated for potential copying of their work, manufacturers are proposing to shift the taxation burden from the device to the copyrighted material itself.

An influential report issued in Great Britain by Ian Hargreaves, under the auspices of the British Prime Minister David Cameron, made this point clear: "The UK has a thriving market for personal media devices which rely on private copying. We see no economic argument for adding an extra charge to these devices in order to authorise reasonable private acts which are part of the normal use of devices," says the report, published last May.

"Indeed, without that copying, normal use of those devices would be largely restricted to playing music or films bought online. We are not aware of strong evidence of harm to rights holders done by this kind of private copying in the normal course of using digital equipment to play works," reads the influential report.

Manufacturers of electronic goods immediately jumped on the report. "We recommend to the EU Commission to take into account the newly published Hargreaves study that presents alternative systems to compensate rights holders," said Irena Bednarich, chair of Eurimag, which represents the printing and imaging industry.

Right-holders' opposition

They argue that, on average, for each single euro that consumers spend on electronic goods in Europe, 51.2 eurocents go in levies. They therefore propose a new system which would directly charge copyrighted works, such as books or films. According to device makers, this would

lower levies on electronic goods up to just 19 eurocents per euro collected. But it would not have an enormous effect on copyrighted goods.

"A mere 1.11% - 1.19% increase in the price of the book, equivalent to 13-15 cents of euro per book, would suffice to secure a compensation higher than the one pretended to be collected by levies, with a significant reduction of the adverse impact to the economy," argued Bednarich just after the publication of the Hargreaves report.

Right-holders obviously oppose this argument and underline that the sale of their products have already dropped due to piracy. Increasing the prices of books or music, they argue, would further lower consumers' appetite for legal access to copyrighted works.

In this context, and despite the appointment of a mediator, the EU's internal market commissioner, Michel Barnier, might be tempted to propose new legislation covering only the consensual issues, passing the hot potato to his successor.

This is the outcome that is feared by many – to avoid displeasing anyone, it would leave all unhappy with the current standstill.

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