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## OECD project on demand-side innovation policies

### *BIAC comments*

BIAC welcomes the OECD project on demand-side innovation policies, which has been launched in the context of the OECD Innovation Strategy. Demand-side policies to foster innovation are not new, but much attention has so far focused on the supply-side. In view of the importance of consumer preferences, an increasingly important driver for innovation, the OECD project can make an important contribution by shedding further light on challenges and opportunities in designing and implementing demand-side policies. The case studies that have been compiled serve as a good basis to review the experience in different countries and share best practice. As the draft TIP reports are being revised, BIAC would like to underline the importance of the following points for the policy recommendations:

- Governments have a key role to play in supporting demand for innovation, and a lot of attention is focused on public procurement policies. In this context, it is important to underscore that policies fostering demand must avoid distortions, protectionism and technological lock-in and should support, rather than supplant, consumer and business demand for new technologies. This is especially relevant as relates to pre-commercial procurement, which has the greater potential for affecting market evolutions. Demand-side policies should not proscribe a solution to the demand as this tends to distort the incentives to compete in the market and provide consumer welfare.
- Governments also have a key role in supporting R&D projects. However, governments should resist the temptation to push publicly funded solutions, unless for objectively justifiable reasons as it is open competition for competing solutions that provides optimum consumer welfare.
- It is important that, in addressing demand-side solutions, governments avoid compulsory licensing situations. Where public authorities identify a particular solution, measures cannot be applied with the aim of forcing access to that solution.
- As the private sector remains the key source for innovation, demand-side policies require close cooperation and dialogue with industry as well as effective coordination across government.
- As pointed out in the report, demand-side policies should not be seen in isolation, but rather viewed in interaction with supply-side policy measures, given that supply side

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considerations in terms of maturity of solutions, technical availability and commercial viability play a key role in considering how best to satisfy consumer demand. Indeed, given that business will address the demand in the most competitive manner, identifying the demand must be a collaborative exercise.

- There is no one-size-fits-all. Different national and regional characteristics need to be taken into consideration, and policies need to be adapted to the different circumstances in different countries and regions.
- Lead markets are a valuable tool, but they should be implemented in an open competition context. Lead markets should not lead to further regulatory burden on business, with all products and services having to meet strict new standards. This could seriously undermine the competitiveness of business and lead to regional distortions.
- There should be no “picking of winners”, whether on solutions, technologies or standards or indeed particular business models. This is particularly sensitive where market players or solutions have been fostered, funded or procured or owned by the government. It is important to set up and implement an open and fair process through which lead markets are introduced.
- In addition, where governments seek to create a regulatory structure to foster or promote demand-side markets, regulatory initiatives must be careful not to stifle evolutions in technology or indeed the market itself.
- There is a risk where standards are mandated by government, since picking a particular technology might limit options for the development and roll-out of more radical innovations. Where governments do seek to elaborate or select particular standards, this must be undertaken on an objective, technology- and business-model neutral basis, focusing on criteria such as performance, viability and longevity, as well as cost. This is critical in order to ensure that other or future market-driven solutions that may be better able to satisfy demand, are able to compete with mandated standards.
- Approaches must be technology-neutral so that there is flexibility and the incentive to develop alternative, and possibly even more far-reaching innovative solutions, ensuring that innovation and creativity are promoted rather than being held back.
- The role of the education system for strengthening the demand side should be underlined in the OECD draft report. To strengthen the demand side in the long run, the education system plays a pivotal role. In this context, close cooperation between industry and tertiary research and public research organizations is important.
- Risk tolerance and enthusiasm for new technologies can have its foundation in the education system. Therefore countries should also strive to develop enthusiasm for new technologies, entrepreneurship and innovation in the education system. Fostering risk-tolerance also requires a functioning bankruptcy system and social tolerance for business failures as a stepping stone to ultimate business success.