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Innovation for Growth and Competitiveness

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It is an honour to be here to discuss Innovation and Competitiveness with you and I'd like to thank the OECD for organising this great event.

My own perspective on this topic is

- Shaped by 25 years in the technology business, spent almost entirely around marketing and selling innovation, initially for IBM (long-time record-holder of patents applications every year), then with several technology start-ups, and now with Microsoft, a company that spends around 6-7B\$ each year in Research and Development (i.e. between 12 and 14% of its annual sales).
- But it is also grounded in my day to day life as a French citizen living in France, a parent who wants to see a sustainable future for his children, and for their children.

As you know, innovation is at the core of economic growth in this new millennium, and when I say innovation, I'm not only speaking about technology (such as how Windows Mobile enables users to carry a full personal computer inside their phone), but also design and ease of use (such as how Apple has reinvented the distribution of digital music) and new business models. For those seeking evidence that information and knowledge are key in today's world, just look at Google's market capitalization (almost 150B\$).

You may still be asking yourselves: why is Microsoft speaking to this panel? Actually, our own business model is very dependent on the success of our local and regional partners ecosystem, such as value added resellers, system integrators and software developers. There are 250,000 of them in Europe, Middle East and Africa, most of them small or medium businesses, and we make in average 7 or 8 euro cents for each euro of revenue they invoice around our technology.

Creating more favourable conditions in Europe for these innovative companies to succeed is extremely important to us.

In tomorrow's world, the business opportunity is no longer only shaped to a large extent by the availability of assets such as geography, natural goods, plants and buildings, but also by intangible assets such as access to information and knowledge.

Today, competition is based on:

- Intellectual assets, education and skills

And, in practical terms, this means we need to look at a broad range of issues:

- Investing more in education, especially in teachers
- Providing more university funding and
- Encouraging more students to study science and technology

Today, I'd like to focus on two critical 'ingredients' that I think could strengthen Europe's innovation and competitiveness.

1. Public /Private R&D Funding and Partnerships

The first ingredient is more public and private funding of R&D:

- More R&D funding will enable Europe to keep more scientists here, now and in the future
- This is at the heart of the Lisbon Agenda
- But just more R&D is not enough to get the economy to grow faster.

We also see a need to encourage more partnerships between public and private institutions.

As an example, here in Europe:

- Microsoft Research Cambridge is working with many universities and governments to share knowledge and new computing tools
- At the European Microsoft Innovation Centre in Aachen and in partnership with the University of Trento and INRIA in France, we work broadly in shared research

Beyond pure research, Microsoft Innovation Centres represent our primary local strategy to enable innovative partnerships and projects between local and regional governments, businesses and other IT partners.

There are more than 100 centres worldwide and 30 across Europe, Middle East and Africa:

- Our Innovation Center in Riga, Latvia, was used in the development of several highly complex solutions, such as the Latvian government's e-signature and e-procurement solutions.
- In Italy, we announced last week a partnership with the Piedmont region and the University of Pisa to develop pilot projects around embedded technologies and promote small and medium enterprise's competitiveness not only in Italy, but also internationally.

2. Intellectual Property as an Incentive System

The second ingredient is an incentive system necessary to reward innovators.

At the heart of every long-term, successful, value-adding 'continuous innovation' ecosystem or economy, you will find robust intellectual property (IP) rights.

- You find it at Nokia, Airbus, Toyota, GE and Philips
- And we are seeing a fascinating U-turn underway in Asia.
- The governments of India and China, for example, are starting to put IP at the heart of their industrial policy.

To stimulate a knowledge economy, we believe it is necessary to allow innovators to obtain a return on investment, which enables future rounds of research and a sustained business model

- IP-based models also attract further investment by others, further fuelling growth and technology clusters.

IP Protection & Europe:

Moving forward a pro-IP agenda is critical for European competitiveness. The commission's patent consultation last year was a helpful way to continue a dialog on important IP issues, asking for input from industry, trade associations and other stakeholders.

We are supportive to the Commission work and specifically recommend measures to allow small and medium businesses to protect their Intellectual Property Rights across the entire European Economic space, such as:

- Simplifying the language translation requirements on EU patents to make the system more affordable for everyone.
- Creating a centralized patent court that would lead to more predictability on patent litigation.

Piracy and Counterfeiting

The absence of strong IP laws and enforcement also tends to be associated with higher IP counterfeiting and piracy, which create economic costs.

According to a 2005 IDC/BSA study, if software piracy rates were to drop 10 points (there're currently at 35% in Europe)

- The IT Sector could create 210,000 new jobs,
- And this would generate in the area of 3 billion euros in economic growth

In the software industry, counterfeiting and fraud are widely associated with cyberpiracy, which threatens computer and network security, and compromises data integrity

- Pirated software often include other bits of software that can damage computers, breach system security, or spy on computer activity

CONCLUSION

These issues are important to us because our business model itself is so heavily focused on growing local software economies.

- We innovate for the IT industry as much as we do for consumers
- From the start, we adopted a partner model: Our platform innovations offer opportunities for other companies to innovate and build their own applications
- Our challenge is to help grow these local ecosystems even more
- We believe in the value of encouraging R&D through public/private partnerships, at regional and local levels

- We also believe that growth depends on the ability of firms to license their assets in a way that allows them to continue to do business.
- So governments must realize that their choices to protect or undermine IP will dictate whether companies will have more, or less, incentive to innovate.

As a European citizen and as a father, I know that Europe can compete:

- But we have to unlock resources and an entrepreneurial spirit in the public and private sectors, and in our younger generation.

Thank you.