

## Lead Market Initiative (LMI)

### Definition and Context

The Lead Market Initiative (LMI) concept was introduced in January 2006 into EU terminology by the "*Aho report*" on Creating an innovative Europe<sup>1</sup>, followed in 2007 by a Commission Communication<sup>2</sup>. Launched by the European Commission in 2008, the LMI identified promising emerging markets where coordinated action was needed<sup>3</sup> to unlock market potential for innovative goods and services by lifting obstacles hindering innovation. A first batch of six important markets was identified:

1. eHealth,
2. protective textiles,
3. sustainable construction,
4. recycling,
5. bio-based products
6. renewable energies.

These markets were selected because they are innovative, address broad strategic, societal, environmental and economic challenges, have a strong technological and industrial base in Europe and depend more than other markets on the creation of favourable framework conditions through public policy measures. The Commission aimed at fostering the emergence of these markets by notably improving legislation, encouraging public procurement and developing interoperable standards.

Lead markets have been defined as "*regional markets with specific attributes that increase the probability that a locally preferred innovation design becomes internationally successful as well*"<sup>4</sup>. These attributes are mainly around the quality of demand and regulatory conditions, where markets are characterised by the experimental or *lead* users, where demand shows low price elasticity and where the underlying needs for the demand are likely to be replicated elsewhere. In this logic, for the suppliers in the home market, early diffusion would provide lead advantages through learning and scale effects. A prominent example of lead markets is the beginning of mobile telephony, whereby Nordic countries combined a range of lead market factors and subsequently companies in those countries were very strong players in the early mass market of mobile phones. Further examples have been analysed mainly in the area of environmental technologies.

LMIs are sometimes classified under *demand-side* innovation policy measures aiming at increasing the demand for innovations, by involving users, public procurement, improving the articulation of demand, supporting the up-take, and promoting adoption and diffusion of innovations. The mode of support of demand side-policies has specific features, e.g. involving public procurement, regulation, standardisation, Public-Private innovation Partnerships (PPP), or in the form of policy-packages such as LMI. LMIs, which combines several demand-side measures, are mentioned under the heading of "*systemic policies*". But these classification attempts show that it is difficult to strictly separate policy measures either as supply, or as demand side policy measure. A reason for this is that many innovation programmes consist of combinations of several types of intervention<sup>5</sup>. Involvement of

---

<sup>1</sup> [http://ec.europa.eu/invest-in-research/pdf/download\\_en/aho\\_report.pdf](http://ec.europa.eu/invest-in-research/pdf/download_en/aho_report.pdf)

<sup>2</sup> COM/2007/0860 final <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52007DC0860>

<sup>3</sup> Press release [http://europa.eu/rapid/press-release\\_IP-08-12\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-08-12_en.htm?locale=en)

<sup>4</sup> Beise, M. and T. Cleff (2004), "Assessing the lead market potential of countries for innovation projects", Journal of International Management, Vol. 10(4), pp. 453-477.

<sup>5</sup> <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/report/thematic/thematic-paper-3-demand-side-innovation-policies-regional-level>

users (public or private) and articulation of demand are perhaps the most central common features of demand-side innovation policies.

While supply-side measures are useful to promote technological innovation, demand-side measures are useful to guarantee that there is a market for the innovations and goods produced. The potential of the EU budget as a leverage tool has been well documented<sup>6</sup>, and indeed the funding for research and innovation is already tied to obligations to undertake certain actions that meet demand-side policy goals. However, LMI allows these synergies to be taken further, since the funding is not only combined with demand-side constraints, but with other demand-side policies that are being implemented in parallel<sup>7</sup>.

For instance, epSOS (Smart Open Services for European Patients)<sup>8</sup> is one of the EU funded programmes that was created as part of the LMI for ehealth. The focus of the programme is to provide health professionals with patient data in order to improve healthcare for European citizens when they are travelling to another European country. In the case of epSOS, these synergies were well exploited. Not only was there expansion in the use of eHealth technologies, but because several European countries cooperated with one another, progress was made in the field of standardisation<sup>7</sup>.

## Implementation

In parallel, the Commission launched the Lead Markets European Research Area Network (LEAD ERA<sup>9</sup>) project aimed at fostering the coordination of a series of trans-regional programmes dedicated to research and innovation within the six technology-based themes of the EU Lead market initiative. LEAD ERA partners developed a joint S&T strategy to foster RTD cooperation amongst their regional RTD stakeholders. The main objectives of this FP7 project were to fund trans-national projects involving RTD actors from the private or the public sector, and bringing together regions and national agencies.

Under the LMI, each of the six lead markets mentioned above developed an action plan of policy activities for the period 2008-11, which outlined a range of achievable outcomes to be delivered through a combination of demand-side policies, including legislation, public procurement measures and standardisation efforts.

The Final Evaluation of the Lead Market Initiative was published in 2011 by the European Commission<sup>7</sup>. This evaluation found that there has been encouraging progress in at least four of the six targeted 'lead markets' targeted by the Initiative (bio-based products, e-Health, protective textiles, sustainable construction), through a concerted, 'package' approach to a series of regulatory, procurement and standardisation issues in sectors showing strong growth. But the final evaluation also concluded that the LMI cannot be said to correspond to the large scale strategic actions called for by the Aho Report. Judged by the scale of this ambition, the LMI has fallen short<sup>7</sup>. However, a judgement that the Initiative had failed to meet expectations would not be fair, given the way that it was actually constituted in 2007<sup>7</sup>.

Also, if Internet search could be used as a proxy, a very limited information posterior to 2011 can be found on the internet on LMI, compared with that produced during their launch in 2008. It has even been question whether LMI will survive at all<sup>10</sup>. In any case, LMIs have the merit to have clearly been

---

<sup>6</sup> Nunez Ferrer et al (2010): "For a future sustainable, competitive and greener EU budget", Centre for European Policy Studies (CEPS) Task Force Report

<sup>7</sup> [Final Evaluation of the Lead Market Initiative](#), July 2011

<sup>8</sup> <http://www.epsos.eu/>

<sup>9</sup> <http://www.leADERa.net/> ; [http://cordis.europa.eu/fp7/coordination/docs/leADERa\\_en.pdf](http://cordis.europa.eu/fp7/coordination/docs/leADERa_en.pdf)

<sup>10</sup> Zerka, 2011 <http://www.institutdelors.eu/media/tgae20111dzerka-.pdf?pdf=ok>

addressing a major gap in innovation policy, which is now widely recognised: the mainstreaming of demand-side policies.

### Possible Synergies

One of the recommendations of the final evaluation of the LMI highlighted that the lead market approach also makes sense at a national level and in certain circumstances, at a regional level. A greater engagement of Member States that have so far not adopted demand-side stimulation of innovation might be achieved through its inclusion in Structural Fund guidelines and in the elaboration of Cohesion policy. This conception of lead markets relates, for instance to the concept of Smart Specialisation that is an important feature of current Cohesion policy.

Bio-based products are among the six markets targeted by LMI. A Commission Expert Group for Bio-based Products was set up in mid-2013 for an initial period of four years. 15 priority recommendations have been evaluated and assessed by a Working Group based on information contributed by members and observers of the Commission Expert Group.

This WG issued a paper in September 2015 on the '*Assessment of the State of Play of the Implementation of the Lead Market Initiative Priority Recommendations*'<sup>11</sup>. One of its recommendations was to develop incentives (taxation or state aid measures, grants) to support the development of new, sustainable bio-based products' production processes, in other words financial support for those companies that want to invest in new sustainable productions infrastructure. It concluded that available funding has increased for innovation and even for demonstration projects and flagships (first-of-a-kind innovative production plants) in Europe (Horizon 2020). In addition, the European Investment Bank (InnovFin and EC Investment Package) offers additional opportunities. Finally, new instruments were established to enable Member States and regions to co-invest in projects (e.g. via ESIF).

However, the working group identified shortcomings:

- Access to finance is more difficult in Europe than in other large economies (e.g. the funding landscape is too fragmented, administrative procedures are too complicated and decision-making processes are too long). Moreover, SMEs are not always aware of existing funding possibilities.
- Despite the fact that several Member States/regions have taken up bioeconomy in their smart specialisation strategies, regional funding procedures still seem very diverse and complex.

Nevertheless, in November 2014 the Bio-based Industries (BBI) Consortium has published "Guiding principles to combine BBI (H2020) and ESIF to deploy the European Bioeconomy"<sup>12</sup>. This Practical Guide on BBI/H2020 and ESIF synergies is based on the political will to realise synergies and coordinate regional, national and European strategies and related funding to stimulate innovation towards the bio-based economy.

---

<sup>11</sup> <http://ec.europa.eu/DocsRoom/documents/13269>

<sup>12</sup> [http://www.bbi-europe.eu/sites/default/files/documents/Guidelines\\_BBI-ESIF-Final.pdf](http://www.bbi-europe.eu/sites/default/files/documents/Guidelines_BBI-ESIF-Final.pdf)