

EARTO POSITION ON SIMPLIFYING THE IMPLEMENTATION OF THE RESEARCH FRAMEWORK PROGRAMMES

RESPONSE TO THE COMMISSION COMMUNICATION COM(2010)187

EARTO and RTOs

EARTO is the European trade association of the Research and Technology Organisations (RTOs), a non-profit organisation founded in 1999. RTOs are specialised knowledge organisations dedicated to providing R&D, technology and innovation services - to governments and to enterprises large and small - in response to the major economic and social challenges and opportunities of our time. EARTO groups over 350 RTOs, with a combined staff of 150,000, an annual turnover of €15 billion, special equipment and facilities to a value of many € billions, and more than 100,000 customers from the public and private sectors annually.

RTOs are major players in the Framework Programme¹:

- EARTO members were involved in 22% of FP6 projects, which accounted for 44% of all FP6 funding.
- They had a particularly high propensity to coordinate FP6 projects, leading 27% of the FP6 projects in which they participated.
- Some of the largest RTOs were among the top individual participants in FP6².

The FP is the only substantial programme supporting transnational R&D projects in Europe and represents about 25% of total public R&D project expenditure. It is of strategic importance and therefore must operate effectively and efficiently.

¹ *Research and Technology Organisations in the Evolving European Research Area*, EARTO, 2007

² Fraunhofer, for instance, was the 2nd largest individual participant in FP6, with over 500 project participations

General Introductory Remarks

EARTO welcomes many of the Commission's proposals contained in Communication COM(2010)187, which correspond to earlier EARTO recommendations, such as the idea of a uniform application of rules across all Commission services, the acceptance of usual accounting practices of beneficiaries, in particular for average personnel costs, and the removal of the obligation to open separate interest-bearing bank accounts for research projects.

Meaningful simplification must take into account several basic principles.

1. Find Common Agreement Among the EU Institutions

The simplification discussion began well before the present difficulties resulting from ex-post FP6 audits emerged. The two things are therefore, strictly speaking, unrelated. They have, however become related since. It is important to recognise that the fundamental cause of the ex-post FP6 audit problems is that there was not agreement between, in particular, the European Court of Auditors (ECA) and the European Commission on the interpretation to be given to the clauses of the FP Rules of Participation relating to eligible costs. The ECA persistently criticised the Commission's interpretations, and, finally, the Commission gave in and, practically, adopted the Court's interpretations in place of its own, earlier, more flexible interpretations.

Thus, whatever may be decided in the coming months about simplification will be without real consequence, and may even cause more damage than good, unless it finds the shared common understanding of all institutions concerned: Commission, ECA, Council of Ministers and Parliament. **Indeed, that common understanding is the most critical element of simplification.**

2. The Framework Programme is an Incentive Programme

The basic rationale for any public research and innovation programme is that enterprises and, by extension, other research-performing organisations will naturally tend to underinvest in R&D and innovation because the uncertainties of success are high and/or the certainties of being able to appropriate the results of research work or innovation efforts are low. Public programmes therefore offer subsidies, which are intended to incentivise research players to perform research which otherwise they would not undertake (or with less ambition or less quickly ...). The FP is an incentive programme. Research has a real cost, and if the incentives offered are not sufficient then the targeted research players will not respond: research will not be done and the programme will fail its objectives.

3. The Full Economic Cost of Research

The third point is the direct consequence of the second: the starting point in designing an effective research and innovation support programme has to be the full economic cost of the research to be performed. If the participant is not able to cover the full economic cost – using the programme subsidy, own resources, other third-party resources – then the research will not be performed. It is a fact of life that the full economic cost profiles of RTOs, universities, large enterprises, SMEs etc., vary considerably – within as well as between those categories. Simplification cannot ignore this.

Uniform application of rules

EARTO shares other stakeholders' concerns regarding the lack of uniform interpretation and application of rules and procedures across Commission services. Different DGs, different units within the same DGs, and even different project officers within the same DG, sometimes interpret and implement rules and procedures in different ways. This creates confusion and discrimination for beneficiaries and is therefore unacceptable. The Commission must provide for uniform interpretation and application of rules and procedures. This will most likely require the creation of a high-level coordinating body across all of the relevant Commission services, which would issue guidance at the launch and during the execution of an FP that would be binding on all Commission services and officials. It could also act as an appeals tribunal when beneficiaries considered that the rules had been wrongly applied.

Real-time Audits and Single Audit Approach

Uncertainties and errors could be hugely reduced by operating "real-time" auditing, i.e. by ensuring that a contractor's first final cost statement under a Framework Programme is subject to on-site audit. Errors and differences of interpretation could then be detected and settled at the outset. Today, the substantial auditing resources which the Commission has built up for ex-post FP6 auditing could be more effectively employed to perform real-times audits in FP7.

Furthermore, a single audit policy should be introduced whereby the results of an audit create legal certainty for a beneficiary during the remainder of a Framework Programme.

Broader Acceptance of Usual Accounting Practices, including for Average Personnel Costs and Indirect Costs

EARTO strongly supports the Commission proposal to consider costs eligible when they are based on actual costs registered in the accounts according to the usual accounting practice of the beneficiary in compliance with applicable accounting and auditing standards. For the sake of clarity, "applicable

accounting and auditing standards” should be defined as national accounting and auditing standards. This should also cover the use of average personnel costs and indirect costs (overheads).

This would arguably be the single most significant simplification which could be introduced at the present time. It would recognise the important *de facto* differences in accounting practices across Europe and between different types of organisations.

National standards and practices of course differ, but that should be accepted. Member States could be invited to nominate the accounting framework(s)³ which they intend to apply, which the Commission could in case of need subject to a system audit to ensure that acceptable minimum standards are met. Where necessary, the Commission might set minimum requirements with regard to FP funds.

Limiting the variety of rules

EARTO would in principle welcome a streamlining of rules between the various programmes which form part of the Framework Programme. FP7 rules should become the norm for all programmes, including the JTIs, which now have five different sets of rules.

However, some of the proposals in the Commission document – notably the proposals founded on the idea that a single reimbursement rate and a single method for determining indirect costs for all types of programmes and organisations would allow major simplifications compared with today’s “tailor-made” approach – are ill-founded, not to say downright dangerous, because they totally ignore economic realities. Different actors have different business models and hence different funding modalities and financing needs. RTOs, like other organisations, must be able to cover the full cost of a research project using the programme subsidy, their own resources and/or other third-party resources. Economic reality dictates that when costs cannot be covered, then research will not be performed. Hence subsidies, i.e. incentives, need to be adapted such that the target beneficiaries can cover their costs.

Proposals to use flat rates and/or lump sums to cover indirect costs are unrealistic and unacceptable.

The level of indirect costs (overhead) varies widely as between organisations. Even among RTOs, overhead rates vary substantially. Earlier EARTO surveys have shown variation ranging from approximately 60% of direct costs to over 200%. The variation may be similarly large even within the same organisation with multiple establishments. The explanation lies essentially in the varying needs for special equipment and facilities in different technology and business fields. These costs are real and must be covered. Reimbursement of indirect costs should be accommodated within the already discussed proposals for “Broader Acceptance of Usual Accounting Practices”.

³ Of national audit authorities, research councils, etc...

Interest on pre-financing

The recent excessive interpretation whereby participants are being asked to maintain separate bank accounts for each EU-funded project creates huge administrative burdens for large beneficiaries with many, even hundreds, of FP project participations.

As already proposed by EARTO in its reply to the public consultation on the triennial revision of the Financial Regulation, the best approach may well be for the Commission simply to forgo its right to the interest on pre-financing (i.e. consider any gains for the beneficiary to be part of the subsidy).

Results-based instead of cost-based funding

The Commission's proposals for moving towards output-based monitoring are attractive in principle and, indeed, correspond to practice in certain funding programmes within Europe and elsewhere. But we find it difficult to express full support for such ideas without having prior assurance that they would be fully supported by Parliament and the Court of Auditors. The current EU "control culture" gives good reason for doubt. A reform in this sense which then became contested by Parliament and/or the Court could have disastrous consequences of legal uncertainty. We therefore prefer to reserve our position at present.

The use of prizes, on the other hand, could be worth an experiment.

Concluding Remarks

We are now in the run-up to the next generation of European research and innovation programmes, and we are all exhorted to invest in R&D and innovation to support the EU's exit from the financial and economic crisis and to remain competitive in the global economy, to tackle "Grand Challenges"; to engage in the EU2020 "Flagship Initiatives", and more besides. **With these important goals in mind, it will be crucial to find effective solutions to the continuing administrative problems and burdens which considerably reduce the attractiveness of the Framework Programme.**

Agreement on a unique interpretation of rules - within the Commission but also among all Institutions - will be a first major advance. Broad adoption of the principle of "according to the beneficiary's usual accounting principles and practices, in accordance with nationally sanctioned practices" will be another.

By contrast, "one-size-fits-all" and the widespread use of flat rates are bound to fail because they ignore economic realities and hence will marginalise key players whose very involvement is essential if we are serious about building a world-leading, "fit-for-purpose" research and innovation policy in Europe.

Technical improvements can only solve some of the problems linked to the implementation of the research framework programme. What is also needed is an agreement between Commission, Parliament and Council on a more realistic level of tolerable risk in relation to research: that, together with real-time auditing, to reduce the number of ex-post audits, would go a long way to ensuring the efficient and effective implementation of FP7.

The very first, and crucial, step of all, however, is to regain the confidence of key FP players whose faith in the Commission as a competent administrator of EU research and innovation policy has been severely damaged by the Commission's dysfunctional ex-post audit campaign of FP6 projects. Many key FP players find themselves today accused of having over-claimed reimbursements in FP6, while the true origin of these "errors" lies elsewhere⁴. EARTO has invited all concerned EU institutions to draw a line under FP6: if they do not do so, and quickly, they will compromise FP7 and, more especially, the longer-term future of EU research and innovation policy.

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⁴ Cf. EARTO testimony before the Budget Control Committee of the European Parliament on 27th April 2010