

Philips' comments on

EC Communication on simplifying FP implementation COM(2010) 187

With complexity and bureaucracy widely perceived as important deterrents to industrial participation in the EU RTD Framework Programmes, Philips very much welcomes the Commission's efforts to further simplify FP7 and agrees with many of the proposals made in the Commission's Communication COM(2010) 187 on simplifying the implementation of the Research Framework Programmes. Nevertheless, Philips would like to draw attention to the remarks and concerns outlined below.

p.3: ensuring attractiveness and accessibility

In view of existing budget limitations, current oversubscription levels would even increase further by making FP7 more attractive by means of simplification measures. Therefore, it is important to "manage expectations" among R&D actors, as unavoidably the vast majority of applicants will continue to feel disappointed by high rejection rates, no matter how simple and attractive FP7 will be made. Therefore, the main reason for simplifying FP7 should not primarily be "to ensure its attractiveness and accessibility", but rather to ensure effective and efficient use for taxpayers' money by avoiding waste of efforts on complicated procedures, administrative burdens and disproportional controls.

p.5: IT tools

Whereas the introduction of e-tools such as URF and NEF definitely is an important step forward, user-friendliness, flexibility and practical implementation of such e-tools needs to be further improved before extending their use to other FP processes and CIP.

p. 5-6: uniform interpretation and application of rules and procedures

The proposed uniform interpretation and application of the rules and procedures should also prevent project officers from requesting information that is merely "nice to have".

p. 6: calls with larger topics or even open calls; longer periods for preparing proposals

The proposals to widen the scope of calls and increase the time between call publication and deadline would only increase oversubscription and waste of efforts on weak proposals. Therefore, such measures are bound to lead to disappointment.

p. 6: two-stage submission and evaluation

It is questionable whether the proposed two-stage submission and evaluation of proposals would really curb the problem of oversubscription and avoid excessive effort for proposal preparation. In our opinion, these advantages will only materialize if the first stage entails a very rigorous selection, so that chances for success in the second stage will be substantially higher (e.g. 35-50%) than the average success rate of 16% for FP7 proposals. With the currently observed success rates of only about 25%, two-stage submissions provide insufficient added value over single-stage submissions to justify the associated longer lead times and additional efforts.

p. 6: prizes

Prizes may be more suited for public procurement than for R&D.

p. 6-7: average personnel costs

The proposed changes will probably solve the problems that in particular German R&D actors are facing.

p. 7-8: flat rates

The proposed single flat rate would probably be lower than the actual indirect costs levels that are common in large industry. If reimbursement for actual costs (direct + indirect) were to drop effectively below the level of 50% that currently applies to large industry, industrial FP participation¹ would only decrease further.

p. 9: lump sums for personnel per beneficiary

¹ Industry participation has declined from 39% in FP4, 34% in FP5, 31 % in FP6 to 25% so far in FP7.

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Report Maria da Graça Carvalho: Simplifying the Implementation of the Research Framework Programs

Philips doesn't recognise time recording for personnel cost accounting as particularly burdensome and therefore sees no need whatsoever for the wider introduction of lump sums beyond the "People" programme.

p. 9: opinions from committees of Member State representatives

The introduction of a written procedure (in addition the existing regular meetings) could limit the time needed to seek opinions from the committees of Member State representatives.

p. 9: lump sums

If due to the introduction of lump sums the reimbursement for actual costs (direct + indirect) were to drop effectively below the level of 50% that currently applies to large industry, industrial FP participation would only decrease further.

Uniform lump sums are likely to be a disadvantage for R&D actors in Europe's more developed economies, with higher cost levels than in less developed regions.

In view of the accountability requirements governing EU research policy implementation, we doubt whether it is realistic to expect that the introduction of lump sums will lead to less controls and audits in practice.

Only for very small projects, the introduction of lump sums could be an interesting option, provided that ex ante and ex post controls remain very limited.

p. 9-10: funding based on outputs/results

An approach based on outputs/results is likely to favour low-risk R&D projects with predictable outcomes. This cannot be the intention of EU research policy.

It should be kept in mind that risks are inherent to research. Even an R&D project that produces only negative scientific and technological results may still provide valuable insights. Furthermore, new market developments may necessitate early termination of industrial R&D projects. Such projects should not be punished by paying no (or only part of the) lump sum.

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This approach would shift the burden to the experts charged with scientific/technical monitoring. It remains to be seen whether this would be an improvement.

Funding R&D on the basis of delivered outputs/results resembles public procurement processes that may not be compatible with the way of working of the majority of FP participants².

p. 10: project-specific lump sums

This approach would de facto replace the current ex post controls with ex ante controls. In other words, the existing problems would merely be shifted to the negotiation phase.

p. 10: calls with pre-defined lump sums

This approach would favour R&D actors in less developed regions because of their lower cost levels.

The additional criterion of the consortium's own investment will lead to a bidding contest between competing consortia and hence to lower subsidy levels. If the reimbursement for actual costs (direct + indirect) were to drop effectively below the level of 50% that currently applies to large industry, industrial FP participation would only decrease further. Actually, the adverse effect would even be that EU funding would go in particular to consortia intending to do their projects anyway, even without EU funding. This way, the incentive effect prescribed in the EU rules for State aid for R&D and Innovation³ would not be present.

p. 11: High-trust “award” approach without EC control

The required maximum transparency on the results achieved makes this approach not appropriate for industrial R&D.

² Nevertheless, by stimulating R&D from the demand side of the innovation system, public procurement of innovative technologies from the private sector to improve public services or address societal challenges can be a valuable complement to the Framework Programme and other research programmes on the supply side of the innovation system. Examples are the EU Lead Markets Initiative and Pre-Commercial Procurement of R&D services.

³ See section 6 of http://ec.europa.eu/invest-in-research/policy/state_aid_en.htm

p. 11: Dutch approach top High Trust

Instead of approaches (1)-(3) on pages 10-11, the Dutch approach to High Trust would have been an interesting alternative. Key elements are basic trust in good intentions of applicants, random checks in combination with targeted auditing based on risk analysis, and adequate sanctions (corrections, recovery with interest, and - if needed - criminal prosecution) in case errors are detected. Furthermore, on the basis of its own accounting system, an R&D actor can choose between three different options for charging eligible costs, including actual costs (direct + indirect).

p. 11: JTIs

In the JTIs ARTEMIS and ENIAC, many Member States are co-funding their national participants in the jointly selected JTI projects. As this national co-funding evidently has to follow national procedures, it is not possible to impose FP funding procedures on participating Member States. However, the IPR provisions in these two JTIs are largely based on FP7 rules.

p. 12: tolerable risks of error

To improve effectiveness of the Framework Programme by increasing speed and reducing transaction costs, trust is a crucial element. Yet, the current institutional system governing the FP seems caught in itself, paralysed by the political necessity of avoiding rather than managing risks. Economically speaking, the transaction costs associated with the FP approach have grown completely out of proportion, with marginal costs of controls, checks & balances exceeding their marginal benefits.

In view of the accountability requirements governing EU research policy implementation, it is unrealistic to expect that simplification will automatically lead to less controls and audits. Nevertheless, allowing a higher tolerable risk of errors in the research domain would certainly help in implementing the more risk-tolerant and trust-based approach that will be needed to achieve a breakthrough in reducing red tape in the Framework Programme and other research-related EU programmes.

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The currently observed zero-risk and zero-trust attitude in FP7 may well stem from widespread fears among Staff officers for the provisions on personal financial liability in the Financial Regulation and Staff Regulations. Although liability insurance for Staff officers could provide some protection, in practice this will not be sufficient. Therefore, the provisions on personal financial liability need to be eased in the forthcoming revision of the Financial Regulation.

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