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**Prepared for the hearing on "Implementing the Research Framework
Programme - How to reduce red-tape and increase effectiveness?"**

Committee on Industry, Research and Energy, European Parliament

Dear Mr Reul,
Dear Members of the European Parliament,
Ladies and Gentlemen,

Let me start by thanking the Members of the ITRE Committee for having invited BUSINESSEUROPE to speak at this hearing.

Many companies can benefit from taking part in the Research Framework Programme.

One of the programme's key strengths for the business community comes from the possibility to leverage a company's own R&D by means of external resources. As a result:

- Partners can share the costs and risks of their R&D
- Public funding can help to lower the net cost of R&D, enabling companies to do more R&D than they could afford otherwise
- Participation encourages the creation and application of new scientific and technological knowledge and provides the possibility to share and gain access to advanced research facilities and infrastructures
- Participation encourages the intersectoral mobility of researchers between universities and companies.

An important benefit is that the Framework Programme provides a trusted regulatory framework for partnering. This is particularly important today, because of the global trend towards increasing collaboration known as "Open Innovation". Any researcher can safely call any colleague in Europe to set up collaboration, without having to worry about the conditions and modalities of collaboration. The resulting collaboration fabric is a unique asset for Europe.



The Seventh Framework Programme has also developed some new instruments that are of particular relevance to industry, such as the Risk Sharing Finance Facility and the Joint Technology Initiatives, which emerged from the European Technology Platforms initiated under the Sixth Framework Programme.

Nevertheless, despite all these potential benefits, business participation has been declining for fifteen years. The downward trend has continued steadily from FP4 to FP5 and to FP6, slipping from 39% in FP4 to 31% in FP6¹. The participation of the private sector in FP7 involves a quarter of applicants (25.3%)².

Trying to understand the reasons for this situation leads us to highlight the deterrent impact of heavy bureaucracy on the participation of business.

Let me illustrate the problem by describing three specific areas of concern for companies: complex and time-consuming rules governing participation, the issue of average personnel costs and excessive red tape, as exemplified by the Joint Technology Initiatives (JTIs).

Each of these areas runs contrary to trends within the business community, where efficiency and speed are of increasing importance in the face of global competition. Each illustrates the same underlying issues, which are excessive complexity, poor integration with standard business processes and low risk tolerance.

We recognise that the Commission has made serious efforts to achieve simplification in FP7. However, we feel that the required breakthroughs have not yet been achieved.

I. Main issues of concern for companies

• Complex and time-consuming rules

Despite some improvement between FP6 and FP7, such as the Participant Guarantee fund to manage the risk associated with non-recovery of sums due to the Community, and the Unique Registration Facility to ensure that basic participant information has to be provided only once, access to the Framework Programme in FP7 remains complicated and time-consuming.

¹ Source: Report of the Expert Group. Evaluation of the Sixth Framework programmes for research and technological development 2002-2006, February 2009.

² Source: Commission Staff Working Document accompanying document to the Communication on the progress made under the 7th European Framework Programme for Research February 2009.



The main problems that businesses identify are as follows:

- Complex rules to participate
- An excessive number of instruments
- An imbalance between the number of academic and industrial evaluators
- Lack of harmonisation in the implementation of the Commission's rules and principles, causing confusion and large variations in reporting periods, contract negotiation procedures, etc.
- The discretionary interpretation of the mandate of project officers to negotiate.

- **The issue of average personnel costs**

A second, and newly emerging, issue is that of average personnel costs. This is becoming a major concern for businesses across diverse sectors of industry.

Since companies increasingly operate globally, they must implement consistent accounting systems that meet stringent international accounting and investment requirements.

However, under the new FP7 rules, participating companies are being required to support unique project accounting requirements that do not fit well with these accounting systems. This creates additional administrative costs without actually reducing risk.

We are concerned by the indications that the Commission will no longer accept "cost-centre" or similar cost-averaging methodologies, even though these are in current and common use in industry and RTOs and are accepted by national public audit authorities.

The new accounting provisions in FP7 projects create a dramatic, cost-driving increase of bureaucratic burdens.

The problems are caused by the extensive certification processes, which

- require beneficiaries to deviate from generally accepted accounting and calculation procedures and instead
- require them to maintain parallel accounting/calculation and controlling systems for EC funded projects only.

This is not "simplification" but an additional, costly bureaucratic complication.

The annual costs of handling the new administrative burdens in FP7 may amount to more than half a million euro for one single participating company. This is a clear deterrent to participation.



Meanwhile, we regret that the EC decision of 23 June 2009 on the issue of average costs does not adequately reflect Nos. 117 and 118 of the resolution of the European Parliament of 23 April 2009.

In contrast to our understanding of the FP7 rules, this Decision forces companies to set up a parallel, very special accounting/controlling system just for the purpose of EU research projects. The situation is therefore worse than in FP6.

- **Excessive red tape in Joint Technology Initiatives (JTIs)**

Experiences in establishing the first Joint Technology Initiatives (JTIs) as major new initiatives under FP7 also reveal the same problems of complexity and bureaucracy that are inherent to the FP. There are obviously some lessons to be learned.

Although the establishment of the five current JTIs in itself really is a major achievement and all stakeholders are determined to make them successful, the approach needs substantial improvement before setting up any more JTIs.

Mr Dautriat will present the case of the Clean Sky JTI. Let me focus on the case of the ARTEMIS Joint Technology Initiative on embedded computing systems, in which I am personally involved. Basically, my comments also apply to ENIAC, the other JTI in the ICT domain, which addresses nanoelectronics technologies.

The membership of each of these public-private partnerships involves the Commission, an industry-driven association of R&D actors, and 20+ Member and Associated States.

Each of the current JTIs has been implemented as a Joint Undertaking on the basis of Article 171 of the Treaty. This article had never before been used for setting up public-private partnerships in the research area. This partly explains why preparing for the ICT JTIs took well over three years and was a very difficult process, in spite of close collaboration between stakeholders.

Furthermore, these Joint Undertakings have been framed under the statute of a Community body. This implies that the EU Financial Regulation and the Staff Regulations basically apply.

This has led to very complicated procedures and serious delays in the process of making a Joint Undertaking fully operational.

In addition, R&D actors participating in projects of the Joint Undertakings can be subject to multiple audits, even up to six in the case of the two ICT JTIs.



II. Recommendations

• Suggestions for simplification

Clearly, simplifications are necessary, not only for the JTIs, but also for FP7 as a whole.

Concretely, BUSINESSEUROPE recommends urgent action to:

- Simplify the documentation and amount of information required to participate to the projects
- Reduce the number and size of official documents
- Shorten the time for payments after submitting the project reports: especially for SMEs, waiting for more than three months for final payments is excessive
- Ensure a clear division of the annual budget for each thematic priority and, whenever possible, for each call
- Make project consortia more manageable and make the FP more accessible for SMEs by re-introducing the separate category of associated partners from FP5.

• Furthermore, to solve most of the existing problems on average personnel costs, we urgently suggest a decision on a temporary acceptance of average hourly rates per cost centre. This would be of much help for industry to manage the running projects in an economical manner.

In the medium term, the Commission's interpretation of the financial rules of FP7 should be revised according to the very clear parameters established by No. 117 and 118 of the resolution of the EP on the budget 2007 dated 23 April 2009, calling on the Commission not to force companies to deviate from broadly accepted business practices. Members of the Committee on Budgetary Control have repeated these concerns of the EP in their opinion of 1 October 2009³

• We would like to see the principles of “Responsible Partnering” promoted as a voluntary code of conduct in FP7. An update of the Responsible Partnering Handbook was released at the end of October, providing practical guidance on how to make collaborative projects work well.

³Opinion of the Committee on Budgetary Control on the draft general budget of the EU for 2010 (C7-0127/2009-2009/2002(BUD), see especially suggestion No. 17.



- **Most of all, BUSINESSEUROPE calls for a renewed approach, based on risk-tolerance and trust, to be implemented**

To increase effectiveness of the Framework Programme, by increasing speed and reducing transaction costs, trust is a crucial element. Yet, the current institutional system 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. There is a serious risk that these costs will increase further when management activities of the Commission in FP7 are outsourced to other entities (JTIs, ERC, Executive Agencies, etc.), if these entities basically remain subject to the same regulations as the Commission services itself.

Key constraints hampering breakthroughs in simplification are in the Financial Regulation. For example, the currently observed zero-risk, zero-trust attitude may well stem from the provisions on personal financial liability for Staff officers.

Use should therefore be made of the forthcoming revision of the Financial Regulation and create a partial exemption for research and innovation, to account for a certain degree of risk that is inherent to these activities. Furthermore, the Financial Regulation appears less suited for dealing with public-private partnerships.

Therefore, the Financial Regulation should also be adapted to allow setting up JTIs and similar structures without having the status of Community body, even if the Community is contributing to the budget.

The newly adopted Treaty introduces the Union's approach to research in terms of achieving a European research area in which researchers, scientific knowledge and technology circulate freely, thereby encouraging European competitiveness and capacity to act.

We call upon all European institutions to adopt the risk-tolerant and trust-based approaches and true public-private research partnerships that can achieve this goal. Well aware that this is easier said than done, BUSINESSEUROPE particularly counts on this Committee to help make it happen.