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How to improve Public Private Partnerships in Horizon 2020?

What are the incentives for companies taking part in EU funded PPPs?

Companies take part in EU funded Public Private Partnerships (PPPs¹) for a variety of reasons; in general terms they seek to leverage their own research and innovation (R&I) activities through the cooperation with other partners.

Engaging in a successful PPP companies are able to:

- become part of a relevant R&I network including the main players in Europe representing the whole innovation chain and the so called 'knowledge triangle';
- establish contacts with potential business partners, public entities and customers;
- actively shape the respective Strategic Research and Innovation Agenda (SRIA) ensuring alignment with industrial needs and commitment of all the parties;
- secure funding/resources for collaborative projects to share technological and investment risks;
- benefit from the knowledge exchange among participants and exposure to different organizational and management systems which may lead to positive transformation within each organization;
- access potential talent pools for recruitment;
- build up own know-how for future internal R&I activities;
- use facilities and temporary staff provided by partners;
- benefit from trusted regulatory frameworks for Open Innovation;
- prepare for common standards;
- reduce the time to market for innovative products and services.

What is the rationale behind the current financial management of PPPs?

The added value of the factors listed above is not easily quantified in economic terms but has a clear impact on the decisions of companies considering whether to join a specific PPP. Among them, public co-funding is a necessary but by no means sufficient condition for companies' participation.

¹ In the context of FP7 there are 5 Joint Technology Initiatives and 4 Public-Private Partnerships.



It is essential to ensure a balanced contribution of all stakeholders in the PPP. While raising public funds is not the primary goal of companies involved, reimbursement of eligible costs below a certain threshold may not cover extra management and overhead costs incurred by companies and can represent a hurdle for participants.

Companies participating in the PPPs currently financed by Framework Programme 7 (European Green Cars Initiative, Factories of the Future, Energy Efficient Buildings, Internet of the Future) receive a reimbursement of their eligible costs around 50% in the case of large companies and 75% for SMEs. Reimbursement format and rate are the same as that employed in other FP7 projects.

The five existing Joint Technology Initiatives (JTIs) have different management and financial rules. As an indication, in two of them – ARTEMIS and ENIAC – companies receive a maximum reimbursement from the Commission of 16.7% of eligible costs which must be proven with audited cost statements. Including the optional co-funding from participating member states, the reimbursement rates for large companies typically range from 20 to 50%.

- **Current financial rules for PPPs, including JTIs, are meant to cover part of the costs incurred by companies and therefore encourage their participation.**
- **In-kind contribution of companies, especially through the cooperation of their R&I staff with researchers from partner organizations, brings added value to the work of PPPs.** This type of contribution is more effective than a simple cash transfer to research institutes as it ensures a committed participation of business and helps bridging the gap between research activities and the market also with a significant impact on economic recovery.
- **PPPs focused on R&I activities should not aim at raising up-front cash funding from companies.** Companies may be very reluctant to commit up-front cash for projects since the value to them in doing so is highly uncertain. Such a requirement would therefore likely result in a reduction in industrial participation in the Framework Programme below the FP7 levels.
- **Public financing of R&I oriented PPPs is necessary to provide long-term commitment of all stakeholders.** Additional industrial R&I activity is leveraged by public co-funding, over and above the activities funded within the companies' normal activities. This creates positive externalities benefiting industrial and society as a whole. A supportive environment for innovation will have a decisive role in attracting and retaining R&I investments of global multinationals and increasingly also of SMEs with an international reach.

How could PPPs be improved in the future?

BUSINESSEUROPE would like to highlight the different formal structures of PPPs currently existing, namely (1) dedicated legal structures under Article 187 TFEU (JTIs) and (2) Contractual Partnerships set up directly under the Framework Programme.



Both models can be suitable for different sectors. Some industries with rather long innovation cycles (e.g. over 10 years) have made good experiences with Joint Technology Initiatives. Contractual Partnerships may be a better approach for industries with shorter innovation cycles since Contractual Partnerships are easier to set up.

The five existing Joint Technology Initiatives (JTIs) have pioneered a novel approach in industry-driven Public-Private Partnerships (PPPs). However, the bureaucracy, complexity and rigidity of the current Joint Undertakings set up to implement the JTIs are key problems to be addressed.

Despite the difficulties, we recommend continuing those initiatives supported by industry which managed to develop critical technologies and capabilities to ensure European industrial competitiveness.

In order to improve the functioning of PPPs in the future, BUSINESSEUROPE recommend taking into consideration the following points.

- **Organize future PPPs according to the industry sector's innovation cycles.** In some cases, it might be more appropriate to establish simple contractual partnerships between the Commission and industry. Industry association should be responsible for developing the SRIA and the Commission would be responsible for issuing calls and co-funding selected projects.

Also, to further simplify the JTI procedures and increase their accountability the Commission has proposed a so called "PPP body" (Article 201) in the proposed new Financial Regulation applicable to the annual budget of the Union. However those changes have so far not been accepted by the EP.

- **Simplify the funding scheme.** A mixed funding system with contributions from the EU and Member States (which applies to the JTI's of Artemis and ENIAC) greatly increases the complexity in the execution of the SRIA and selection of proposals. In the past, three fundamental problems have been experienced when pooling national resources: synchronizing national project funding between countries, balancing oversubscription levels between countries and balancing national and common interests in joint selection of proposals.

To address these problems, the Commission could set-up a smarter ERA instrument for pooling national funding and EU co-funding in transnational collaborative R&D projects. An alternative is to opt for a bipartite funding scheme of JTIs/PPPs like currently the case for some of the JTI's.

- **Allow participant entities to decide which regime to follow in relation to Intellectual Property Rights ownership and access rights.**
- **Ensure flexibility for PPPs to react quickly and effectively to changes in research and innovation priorities over the time of Horizon 2020.** Managing change over a long Framework period is essential, as market and societal dynamics



will occur. A governance model should be in place to manage this change as the present framework programme, and thus the PPP models, does not yet match this need.

- **Continue developing cross-sector technology convergence based on interdisciplinary skills.** Partnerships between companies and knowledge/excellence hubs (universities, research centres, technology labs) should be promoted.
- **Integrate the PPPs' research agenda with a strengthened part on innovation along the value-chains.** In line with the stronger focus of Horizon 2020 on innovation, PPPs should also cover pilots, the demonstration / proof-of-concept phase and testing of plants at large scale of funded projects.
- **Facilitate the engagement of SMEs, through the provision of more straightforward guidelines and processes to submit proposals.**
- **Promote the implementation of regional or national initiatives that will build up on the results of the PPPs at a level closer to the final customers.** Member States and regional authorities should therefore be encouraged to allocate more money from EU Structural Funds to innovative public procurement (especially pre-commercial procurement) under the next programming period of the Cohesion Policy 2014-2020.