

Press Statement for immediate release

Initial EARTO Response to the European Commission's *Horizon 2020* Proposals

The Executive Board of EARTO, meeting on December 7th in Brussels, has made a first analysis of the European Commission's proposals for the *Horizon 2020* Research and Innovation Framework Programme for the period 2014-2020.

The Board welcomes the strong focus in *Horizon 2020* on tackling societal grand challenges and on supporting industrial leadership. It regrets, however, that the budget proposed by the Commission is not still more ambitious. The indicated €80bn will be barely sufficient to maintain the EU's investment in research and innovation at the €10bn per annum which will have been reached in the final year of the current programme, while simultaneously offering the proposed increased support to post-research innovation activities (pilots, demonstrations, etc.). **EARTO therefore welcomes the European Parliament's proposal to increase the budget allocation to €100bn and urges the Member States to endorse this proposal.**

EARTO's initial analysis of the *Horizon 2020* proposals concludes that three aspects require urgent modification or clarification:

- **The proposed 100%/20% funding rate for research**
- **The "single reimbursement rate" per "action"**
- **The dedicated SME instrument**

The Funding Rate for Research

The Commission's proposals for *Horizon 2020* foresee a funding rate for "research actions" of 100% of eligible direct costs plus a further amount of 20% of eligible direct costs as a fixed rate contribution to indirect costs.

This proposal is unacceptable for Research and Technology Organisations (RTOs) because it does not take realistic account of their costs. The great majority of

RTOs have a ratio of direct to indirect costs of around 50:50. Compared with the 75% funding rate for non-profit organisations in FP7, for which most RTOs qualify, the proposed 100%/20% funding model for *Horizon 2020*¹ implies an average reimbursement rate of around 60% and hence a reduction in funding of some 20%². This will inevitably lead many RTOs to reduce their participation in the future programme.

RTOs view the FP7 75% funding rate as fair and acceptable (the balance being met out of own resources or through other contributions). EARTO therefore proposes a funding model for *Horizon 2020* which:

- is in line with FP7
- retains an attractive flat rate option for indirect costs (thus respecting the Commission's objective of "simplification"), and
- corresponds to RTO economic reality.

We propose a 75%/75% reimbursement model, i.e. 75% of eligible direct costs plus a further amount of identical value as a fixed rate contribution to indirect costs. We expect that this model will be acceptable for most RTOs. For some, however, it will be insufficient, because the nature of their activities – notably, high-end research requiring highly sophisticated and therefore expensive plant and equipment – generates higher levels of indirect costs. There must therefore be an **option for non-profit research organisations to claim the re-imbursement of their real indirect costs, at the rate of 75%.**

The "Single Reimbursement Rate" per "Action"

The present *Horizon 2020* proposals foresee a single rate per "action", i.e. all participants in the same project shall be reimbursed at the same unique rate, irrespective of who they are (RTO, university, small or large enterprise) and irrespective of their function in the project.

Our concern relates to the fact of different funding rates for "research actions" (100%/20% - see above) and to "innovation actions" (70%/20%). It is difficult

¹ *Horizon 2020's* 100%/20% proposal appears intended as an alignment to the ERC funding model of the same value, which betrays a regrettable ignorance of the often radically different cost structures of the more fundamental research undertaken under ERC auspices and the relevance-driven, problem-solving research of RTOs, which will be essential in the *Horizon 2020* areas of "Industrial Leadership" and "Societal Challenges". Moreover, it is striking that the IMI Joint Undertaking has announced in a press release just days after publication of the *Horizon 2020* proposals that it is abandoning its previous unique 20% fixed-rate reimbursement of indirect costs in favour of an option for real-cost-based reimbursement.

² This estimate is, of course, subject to caveats, notably with regard to the definition of eligible costs in the future Financial Regulation and, for example, to the future treatment of third-party financial contributions to funded projects.

to understand how such an arrangement can operate smoothly in practice. The main perceived difficulty arises from the fact that in practice most relevance-driven projects combine both research and innovation activities:

- Does a project which by budget is 51% “research” get 100%/20%, while one which is 51% “innovation” gets 70%/20%?
- Is the intention that successful research projects may subsequently apply for an innovation action? If yes, would this not cause a delay of months between contracts?
- Alternatively, does the Commission foresee an automatic follow-through for a successful research project to an innovation project (at the lower funding rate), presumably subject to a review of the quality of the research results?
- Would it not be simpler to have differentiated rates per **work package** within a single project/contract?

The uncertainties here need to be clarified urgently.

The Dedicated SME Instrument

The present *Horizon 2020* proposals imply that the current SME measures “Research for SMEs” (R4S) and “Research for SME Associations” (R4A) will terminate at the end of FP7. A new “dedicated SME instrument” will be introduced. The Commission’s proposals regarding the new instrument are quite vague. It is indicated that it will operate in all areas of “Societal Challenges” and in all areas of “Leadership in enabling and industrial technologies”, and that it will be funded from the budget lines for these actions, possibly absorbing a substantial sum of money. It would seem, too, that it would permit SMEs to have recourse to external service providers, as in the current R4S and R4A measures.

There is, however, a lack of clarity in important respects as to how the new instrument is to be implemented:

- In different places in the *Horizon 2020* documents, the Commission speaks of a “policy-driven” mode (= research procurement?) and a “bottom-up” mode (fully untargeted?). Which is correct? Are both correct? When and how will the different modes apply?
- Will the instrument be managed centrally as a single programme, or will each operating unit in the Commission manage its own variant of the programme? How will consistency of operation then be assured?

Here, too, the uncertainties need to be clarified urgently.

END Contact for further information: Christopher John Hull, Secretary General, hull@earto.eu, (02)-502 86 98

Notes to Editors

RTOs (Research and Technology Organisations)

RTOs have a distinct mission and a key role in the knowledge and innovation economy: they produce, integrate and transfer science and technology to help resolve the grand challenges confronting society and to exploit opportunities for new wealth creation and, hence, improved standards of living. RTOs accomplish their mission through a portfolio of activities and services:

- **monitoring social and economic developments** in order to anticipate and identify future science and technology needs;
- **strategic research** to develop new knowledge and technologies for future application;
- **collaborative and contract research** to develop technologies for specific applications and clients, and
- **knowledge transfer** to ensure the widest possible diffusion and adoption of technologies

EARTO is the European trade association of the research and technology organisations (RTOs), a non-profit organisation founded in 1999. 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. www.earto.eu