



## **PRESENTATION TO THE EPP HEARING**

### *"SIMPLIFYING THE IMPLEMENTATION OF RESEARCH FRAMEWORK PROGRAMMES"*

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**Chairman, Honourable Members of Parliament, Ladies and Gentlemen,**

I thank you for the invitation to address you on issues relating to the simplification of the European Research Framework Programmes.

Your rapporteur's excellent draft report reminds us – if that were necessary – that there is considerable need for improvement in the administrative and financial management of the Framework Programmes. She has identified the principle problems and noted many of the advantages and disadvantages of the principal proposals for simplification discussed in the Commission's Communication on simplification. I should like to thank her warmly for the energy she has deployed on her task, and especially for listening so carefully to the views of many stakeholders while drafting her report.

Before I discuss this further, however, it is perhaps appropriate that I should very briefly introduce the organisations which I represent here today.

### **EARTO AND RTOs**

**SLIDE 1+2**

EARTO is the European Association of Research and Technology Organisations – RTOs as we call them for short – and the Association represents approximately 350 such organisations from across the EU and associated countries.

RTOs – to give a simplified definition – are mission-oriented research organisations undertaking mostly applied research. The major RTOs are

government-sponsored organisations with a general mission of helping to tackle issues of social relevance (including what are often referred to today as “grand challenges”) and to support economic competitiveness by working with enterprises both large and small.

It may be helpful for you if I name some of the better-known RTOs which EARTO represents, which you can see listed on the slide. You also see there numbers which indicate that RTOs are major players in the Framework Programme.

## **SIMPLIFICATION OF THE FRAMEWORK PROGRAMME**

**SLIDE 3**

Let us now turn to the issue of today.

The Commission Communication on simplification succinctly presents different possibilities. Given the short time available to me today, I propose to focus on those possibilities and to tell you what my members consider the main – good and bad – proposals.

**SLIDE 4**

You see on this slide two of the “simplifications” noted in the Commission Communication:

- uniform interpretation of rules and
- acceptance of usual accounting practices

If we could effectively implement **only** these two objectives, a very large measure of simplification would have been achieved already.

It is often said that the principal obstacle to achieving a uniform interpretation of rules within and between Commission directorates, and related implementing entities (JTIs, REA, etc.), is the Staff Regulation. If that is true, then it must be changed. It is, frankly, nonsense that the individual responsibility of an individual Commission official can supersede the collective responsibility of the Institution.

Achieving a uniform definition of rules across and between Commission entities will need some form of high-level coordination, with the authority to provide and impose binding interpretations - and perhaps also act as a kind of “appeals tribunal” for beneficiaries who feel that rules are being applied unfairly to them.

But the uniform interpretation of rules concerns **not only** the Commission. Equally important is that the rules are interpreted similarly by the different Institutions: the origin of the ex-post FP6 audit fiasco is quite clearly a failure of agreement between the Court of Auditors, on the one hand, and the Commission, on the other, to agree on what the legislator – Parliament and Council – intended when they voted the Rules of Participation.

The second simplification mentioned here is “acceptance of usual accounting practices”. It is, of course, already enshrined in the FP6 and FP7 Rules of Participation. But the Commission largely ignores it in practice. Why? Because in the Rules of Participation there are several general criteria regulating the eligibility of costs, including “usual accounting practices”. The Commission interprets these conditions to be cumulative, i.e. you have to meet them all simultaneously. But in the real world, only very, very few organisations can do that - in practice, the several criteria tend to be mutually exclusive. The Commission then chooses to ignore the “usual accounting practices” criterion.

EARTO proposes that the Commission should unequivocally accept “usual accounting practices”, with the proviso that these practices should have been endorsed by some suitable national public authority, e.g. a public audit authority or, perhaps, a research funding council. Each Member State might nominate one or two, or perhaps three accounting frameworks, that it considered appropriate – two or three frameworks might be appropriate so as to be able to satisfy the needs of different actors: RTOs, universities, large firms, SMEs, and so on. The fact that different countries use different categorisations, or somewhat narrower or broader definitions of eligible costs, should not concern us too much. If there **were** fears that some countries had very low standards, then the Commission should perform system audits in order to ensure that sufficient minimum standards are met.

Acceptance of usual accounting practices would simultaneously mean acceptance of average personnel costs, since practically all countries already require or permit their use.

## SLIDE 5

It would be a further welcome simplification if the Commission would simply forego its right to interest on pre-financing and the related frequent demand that beneficiaries open separate bank accounts for each project they administer. For large organisations managing large numbers of projects this is not at all as trivial as it may sound.

This slide also mentions the proposal to reduce the present variety of rules. There is talk of having the same rules – or fewer variations – for all types of organisations and project activities as well as for making greater use of lump sums and flat rates. EARTO is generally opposed to this, because we know that “one size will not fit all”: SMEs, universities, research organisations, and so on, have very different cost structures and funding models. If you set one rate for all you will penalise some players to the extent that they will be less and less motivated to participate in the Framework Programme – simply because they cannot afford to make sustained losses.

There is then the question of whether different rules should apply for different instruments. Today, for example, some JTIs – such as IMI – apply restrictive IP-handling rules as well as an unrealistic 20% limit on the reimbursement of overheads costs. EARTO believes that the default should be identical rules, but variations should be possible where there is specific, compelling justification.

## SLIDE 6

Now we come to the matter of results-based vs. cost-based funding. It appears seductively simple and attractive. But in our view it is simply not appropriate for high-risk research: if there is one thing more or less certain in research, it is that your initial hypothesis is highly unlikely to be (fully) confirmed by the data! So, if you cannot be sure about the outcome, on what pre-identified result to base the funding?

EARTO proposes great caution in this matter. Results-based funding might suit some less risky projects and may be worth an experiment. For example, where the Commission believes that results-based funding could be appropriate, it might make a specific offer – i.e. name a price and the results to be achieved - for the project or for certain work packages. But the beneficiary should be free to reject the offer in favour of real-cost reimbursement. A careful pilot project to collect real-world experience is preferable to a grand, untested simplification that could produce chaos.

The use of prizes should be no more than a sideshow. They are probably more suited to innovation than to research *per se*. They have public relations value. But they cannot be the basis for the sustainable funding of the research base.

## SLIDE 7

Chairman, may I close with three general remarks.

First, we must not forget that the Framework Programme is an incentive programme. In order to incentivize potential participants you must first recognise the full economic cost of their research operations, and then you must offer financial assistance of a kind and of a value which is sufficient to encourage them do something which you want them to do but which they would be unlikely otherwise to do. That is what incentive programme try to do. It follows that real cost is the preferable basis for cost-reimbursement; “one size fits all” as a general principle will not work.

Second, we need stability of rules across the Commission as well as its related implementing entities, and across all concerned EU institutions. And we need stability of rules over time. There must be uniform interpretation of rules and no retrospective re-interpretation.

And third, there is a final matter which is not shown on my slide, which is overlooked by most people, but which possibly calls for early action. It relates to the question of what can be simplified under the present rules and what can be simplified only under the next generation of rules. FP7 rules will apply until the end of 2013. But this means that projects that come on stream at the end of FP7 will be applying FP7 rules until 2016 or 2017. And they will be subject to ex-post audit for the following five years, i.e. until beyond 2020! During that period- if there are to be major changes between FP7 and FP8 - beneficiaries will need to keep themselves, and their systems, adapted to two differing sets of rules.

One's first reaction to this may be to say that it would be wise to avoid too dramatic a change in rules as between FP7 and FP8. The complication for beneficiaries could be substantial: gradual evolution would seem to be the better approach.

But, at the same time, we all seem to agree that substantial simplification is necessary and cannot wait. So what to do? Perhaps as part of the interim review of FP7 we must accept the need to change the existing FP Rules of Participation. In fact, few changes to the actual text may be necessary; it may be more a question of clarifying the present wordings, with perhaps some adjustments here or there.

Thank you for your attention.

**END**