

**Speech of Jan Mengelers, President of EARTO
ITRE Committee, European Parliament,
Public Hearing on Horizon 2020
Brussels, 20th March 2012**

Madame Chair, Mr Rapporteur, Honourable Members of Parliament, Ladies and Gentlemen,

It is an honour to be able to explain our views on Horizon 2020 in addition to the excellent work that has already been done by the European Commission and the European Parliament.

Since it has been a long, intensive day for all participants, let me as the penultimate speaker stick to just one aspect: the RTOs, the Research and Technology Organisations, the largest collective force for innovation in Europe.

While universities are characterised by excellent fundamental research, an RTO focuses on **applying** that fundamental research and on **valorisation**. A common misunderstanding is that innovation is based purely on academic research. The applied research of RTOs is a critical contribution to innovation.

Universities provide excellent research to establish disruptive inventions, the stuff of Nobel prizes. RTOs complement universities by incremental innovation, and by turning scientific breakthroughs into usable

technologies to enable this knowledge to be transferred into a maximum number of applications by a maximum number of users.

Universities claim scientific excellence. RTOs claim scientific relevance. RTOs in Europe are very conscious of the need for mutual cooperation and strong partnerships with universities, SMEs, large corporations, public agencies and others.

EARTO is the European Association for Research and Technology Organisations. It represents 350 RTOs, small and large, with Fraunhofer, CEA, TNO, Sintef, VTT, SP and Tecnalia among its largest. A Technopolis report of 2011 cites an arsenal of 150,000 researchers, 23 billion euros of turnover, 100,000 customers and up to 100 billion euros of economic value generated over time. RTOs account for 25 % of FP7 funding, and we know from FP6 that RTOs provided 35% of project coordinators.

The RTO position

EARTO envisions a European research and innovation system without borders, a European Union with the power of innovation to boost the quality of life of its citizens and stimulate the chain of invention-innovation-exploitation. Where knowledge and industry chains reinforce each other.

Collaboration and cooperation

The value chain networking engaged by RTOs is a catalyst. By involving both multinationals **and** SMEs, knowledge and innovation get into products and services faster. As shown in the Seventh Framework Programme, cooperation among RTOs, universities and industry players can really drive the invention-innovation-exploitation chain. The role of

RTOs in bringing players into the framework Programme, and thereby boosting the output in terms of industry competitiveness and benefits to society, has been significant. A first analysis by two of the largest EARTO members of their FP7 participation shows that industry participation in their projects is almost twice as high as in FP7 projects in general, reaching 40% or more of total project cost. SME participation is also higher than on average.

As President of EARTO, I welcome the focus that Horizon 2020 places on innovation. Equally, the proposed three-pillar structure provides for a balance of spending on more speculative, long-term science (and scientific talent for tomorrow) and on more short- to medium-term innovation that targets societal challenges and industrial leadership.

In terms of the first pillar, scientific excellence, we support the focus on fundamental research. We would prefer to see a re-balancing of the ERC budget in favour of Future and Emerging Technologies (FET) and at least part of the FET budget targeted at supporting the Industrial Leadership and Societal Challenge objectives to increase focus and critical mass. We would also like to see the welcome support for research infrastructures extended to smaller research- and industry-relevant infrastructures.

Industrial Leadership and Societal Challenges

The importance given to Industrial Leadership and Societal Challenges in Horizon 2020 can make a significant contribution to achieving the Union's EU 2020 policy goals and we are very pleased to see the strong focus on Enabling Technologies within Industrial Leadership. Europe's strengths in these fields have been demonstrated in the recent report of the High Level Expert Group on Key Enabling Technologies. We also welcome the

'dedicated SME instrument' in principle, but there is a need for clarification on how it is to be implemented.

Single funding model

In many respects, the proposed Horizon 2020 Rules for Participation mirror current FP7 rules, and we welcome that element of continuity. While the Commission has also sought to simplify the programme in the interests of the beneficiaries, some of its proposals directly contradict the interests of stakeholders. The most important issue here is the single funding model offering 100% of eligible direct costs plus another 20% of the same amount as a fixed-rate contribution towards indirect costs.

For most RTOs the Commission's proposal is uneconomic. Under FP7, most RTOs receive an overall funding rate of roughly 75%. In Horizon 2020 the funding rate will decline to around 60%. It is a question of simple economics. Who will pay the other 40%? The proposed rules (Art. 22) say that third-party contributions, from industry or national governments for example, will not be counted as an eligible cost, so the missing 40% can only come from internal funds. The problem is that most RTOs do not have such resources available. The upshot of this is that participants critical to achieving Horizon 2020's ambitious innovation objectives will be forced to reduce their participation in the programme. A survey of EARTO members indicates that half will probably reduce their participation by at least 20%, the other half by up to 50%.

In addition, the proposed Horizon 2020 rules stop real cost reimbursement. For years, the Commission has been encouraging FP participants to move towards full-cost accounting in the interests of transparency and to better ensure the long-term sustainability of research

funding as well as to create a level playing field between different kinds of research performer. In abolishing real-cost accounting Horizon 2020 takes a negative step, especially in terms of indirect costs.

EARTO's objection to the 20% fixed rate reimbursement for indirect costs is reiterated by the European University Association of more than 30 national university associations and about 850 individual universities. It states, and I quote, "This is a clear step backwards in comparison to the current FP7 programme, and sends a negative signal to universities and public authorities across Europe as to the importance of developing full costing methodologies and of moving towards funding on a full cost basis". BUSINESSEUROPE, which represents 41 central industrial and employers' federations from 35 countries, demands, and again I quote, "that the participant's usual accounting principles are widely accepted. Consequently, the application of the flat rate on direct eligible costs to determine indirect eligible costs should not be mandatory".

Alternative proposal

EARTO's alternative proposal, which is in line with FP7, retains an attractive flat rate option for indirect costs. This both respects the Commission's objective of simplification and corresponds to economic reality. We propose a 75%/75% reimbursement model, i.e. 75% of eligible direct costs plus a further 75% as a fixed rate contribution to indirect costs. We expect this model to be acceptable for most RTOs as well as other beneficiaries. For some, however, it will be insufficient, because the nature of their activities – notably, high-end research requiring highly sophisticated and therefore expensive facilities and equipment – generates higher levels of indirect costs. There must therefore be an option at least for non-profit research organisations to

claim the re-imbursement of their real indirect costs. If the Commission absolutely insists on maintaining the presently proposed 100%/20% model, this would only be acceptable to RTOs with an option for non-profit organisations to claim real indirect costs.

May I use the short time available to me to draw your attention to two other aspects of the proposed Rules for Participation.

Separate Research and Innovation Actions

Horizon 2020 presents itself as an integrated research and innovation programme. But the Commission apparently plans to organise separate calls for research actions, with direct costs funded at 100%, and innovation actions, with direct costs funded at 70%. This will not integrate research and innovation; it will disconnect research and innovation. We could end up with successful research projects having to wait in line to apply for one of the next available innovation action slots: months, if not years, could be lost. The distinction between research and innovation, for funding purposes, should be made at the level of work packages: this would encourage projects with explicit innovation intentions and would ensure a smoother path down the innovation chain.

Open Access

The promotion of open-access publication, of both research results and research data, is an excellent objective. But it should be limited to research results and to data already in the public domain. Let us remember that the objective of the programme is innovation, i.e. practical application. It is project beneficiaries who are most likely to exploit and apply research results, so we must not de-motivate them by making all research results and data freely available.



Summing up I would like to say that Horizon 2020 is an excellent programme with a superb approach. Strong points are the research-innovation connection, simplification of regulations and procedures, retention of excellence, focus on societal challenges, attention for SMEs, more effort in research.

But I also want to emphasise the essential role of RTOs as integrators between government, industry and science. And finally a key focal point – the problem of the proposed single funding model that would make it almost impossible for most RTOs to participate fully in Horizon 2020.

Jan Mengelers

President of EARTO

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