BUSINESSEUROPE

THE DIRECTOR GENERAL

GO FOR GROWTH
AN AGENDA FOR THE EU IN 2010-2014

Ms Máire Geoghegan-Quinn
Commissioner for Research, Innovation and Science
European Commission
Rue de la Loi 200
BE – 1049 Brussels

16 March 2010

Dear Commissioner,

You have rightly emphasised the need to increase the efficiency of the EU support to research and innovation by rationalising and simplifying the existing financing mechanisms and adapting the current institutional and regulatory framework.

I would like to express BUSINESSEUROPE's full support for achieving this objective with a view to sound management of Community funds and strengthening of European innovation capacity.

In that context, I would like to draw your attention to three main issues of concern for companies regarding the EU 2002 Financial Regulation: its current application to Joint Technology Initiatives, the personal financial liability for staff officers and the average personnel cost issue in the Seventh Framework Programme (FP7).

- **Joint Technology Initiatives**

In the contribution we submitted to the public consultation on the review of the Financial Regulation on 17 December 2009, we highlighted the harmful consequences of the current way of applying this framework to research and innovation activities, in particular to public-private research partnerships (Joint Technology Initiatives). We stressed the need to achieve more simplification and flexibility in the reviewed future Financial Regulation.

In light of this, BUSINESSEUROPE endorses the conclusions of the report *Designing together the 'ideal house' for public-private partnerships in European research* by the JTI Sherpas' Group, which was set up by the European Commission.

In particular, we share the view with the Sherpas' Group that a key consideration should be the need for flexibility to adapt to the specific needs of the different industrial sectors.

We therefore call for public-private partnerships in research (including JTIs) to be recognised as special bodies under the revised Framework Financial Regulation. In addition, we believe it would be helpful to explore the development of a framework regulation under EU law.

- **A risk-tolerant and trust-based approach in research funding**

The review of the Financial Regulation is an opportunity to implement a better adapted and more efficient framework for research and innovation activities, in order to maximise their contribution to a knowledge-based and competitive society.

The overall goal of the review of the Financial Regulation must be simplification. In particular, a breakthrough is needed in reducing the notorious red tape in the Seventh Framework Programme (FP7) and other EU programmes related to research and innovation.
In view of this, the revised Financial Regulation should implement a risk-tolerant and trust-based approach in EU research funding. A new system of control mechanisms needs to be developed that does not impose unnecessary burdens on applicants for EU funds.

The currently observed zero-risk, zero-trust attitude may well stem from the provisions on personal financial liability for Staff officers in the Financial Regulation. Although liability insurance for Staff officers could provide some protection, in practice this will not be sufficient. Therefore, the provisions on personal financial liability need to be eased.

Use should be made of the forthcoming revision of the Financial Regulation and create an operational accounting tool for research and innovation that accounts for a certain degree of risk that is inherent to these activities.

BUSINESSEUROPE is pleased to note that the Competitiveness Council, in its Conclusions of 3 December 2009, acknowledged the need for such an approach.

Some concepts at EU and national levels have paved the way for such an approach. The concept of “tolerable risk”, defined as “the level of undetected error accepted or tolerated, once inherent risk has been mitigated by cost-effective controls” in the Communication that the European Commission published on 16 December 2008, should be elaborated and promoted in the case of research and innovation activities.

Similarly, the “High Trust” approach implemented in the Netherlands in research funding is a relevant example. Key elements are basic trust in good intentions of applicants, random checks in combination with targeted auditing based on risk analysis, and adequate sanctions (corrections, recovery with interest, and - if needed - criminal prosecution) in case errors are detected.

- **The average personnel cost issue in FP7**

A newly emerging issue resulting from the current zero-trust, zero-risk approach is that of average personnel costs in FP7, which is becoming a major concern for businesses across diverse sectors of industry and must be solved urgently.

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 meet unique project accounting requirements that do not fit well with these accounting systems. This creates additional administrative costs without actually reducing risk. This is not “simplification”.

The problems are caused by the extensive certification processes, which (i) require beneficiaries to deviate from generally accepted accounting and calculation procedures and (ii) impose to maintain parallel accounting/calculation and controlling systems for EC-funded projects only. Further details are presented at annex.

European businesses - be they large, small or medium-sized - are concerned by the indications that the European Commission will no longer accept “cost-centre” (or similar cost-averaging) methodologies, even though they are currently and commonly used by industry and Research and Technology Organisations (RTOs), and are accepted by national public audit authorities.

With a view to solving these problems and alleviating the burdens on companies, BUSINESSEUROPE calls for an immediate decision on a temporary acceptance of average hourly rates per cost centre. This first step would be of much help for industry to manage ongoing projects.

As a second step, a revised accounting system should be adopted, based on a different interpretation by the European Commission of the financial rules of FP7 and other grants. This revision should be guided by the very clear parameters established by the resolution of the European Parliament on the budget 2007 dated 23 April 2009, calling for companies not to be obliged to deviate from broadly-accepted business practices.

I remain at your disposal for any further information that you might require and I hope that you will take these considerations from European business into account when deciding on your final proposals.

Yours sincerely,

Philippe de Buck

Annex: The average personnel cost issue in FP7

According to the "rules for the participation of undertakings, research centres and universities in actions under the Seventh Framework Programme" (L 391/1, 30.12.2006), eligible costs must, among other things, be "actual" and "determined in accordance with the usual accounting and management principles and practices of the participant" (Article 31).
In fact, average personnel costs can only be declared "if based on a certified methodology approved by the Commission" (FP7 Grant Agreement, Annex II, Part B, Section 1 , II.14. Eligible costs of the project).

The problem is that the procedures for the certification process do not fit the usual methodologies of average personnel cost calculations of industrial beneficiaries. As a consequence, the criteria for acceptable methodologies according to the orientations of the European Commission published in the Decision of 23 June 2009 (C(2009) 4705 final) are much too restrictive (see FP7 Grant Agreement, Annex VII – FORM E- Terms of reference for the certificate on the methodology).
Consequently, almost all industrial companies are, in contrast to previous EU research Framework Programmes, no longer allowed to charge average personnel costs calculated according to their usual accounting principles.

The financial rules of FP7 should be simplified and revised, while taking the three following points into account:

- The envisaged simplification will have to address issues differently depending upon the size (large or small and medium) of companies, as their respective accounting systems are often organised differently.

- Basis for all should be the allowance for the beneficiary to further make use of its "usual accounting principles" (accepted and officially audited) to avoid the beneficiary having to set up a special parallel accounting system for the EU Framework Programmes only.

- Large companies, mostly global players, have already established accounting systems, making use of so-called centres-of-competence (the "cost-centres") where average personnel costs per cost-centre are daily accounting practice.
A solution for those company beneficiaries could be an additional passage in the eligible costs definition of FP7 Grant Agreement's Annex II. Such a supplement could be the allowance of the use of average personnel cost calculations according to their usual accounting principles without a certificate of the methodology for those beneficiaries fulfilling special criteria.
The criteria should be introduced in the FP7 financial rules with respect to the beneficiary to demonstrate that it uses and will use its accounting system for an extended time (*x* number of years), that it employs *x* number of employees in Europe (thereof *x* researchers) and that it has applied in the past years *x* number of FP projects. If 2 out of 3 of these criteria are met, the allowance would be given as it can be expected that possible cost deviations due to the use of average personnel cost level out over the time and over the projects.