

October 2017

BusinessEurope views on the “*LAB-FAB-APP*” report

KEY MESSAGES

- 1 The “*LAB-FAB-APP*” report sets out a clear picture of what the EU’s priority is: *to overcome its innovation deficit*. Knowledge needs to be turned into new products, solutions and business models faster and more intensively. Strengthening the EU’s industrial leadership and cross-border industrial collaborative R&I will play a crucial role in this transformation.
- 2 The next EU multiannual financial framework is an opportunity to scale-up efforts on financing research and innovation activities with a clear and strong EU added-value. Industry across the EU is committed to playing its part, bringing indispensable private capital to finance far-reaching research and innovation projects.
- 3 The success of Horizon 2020’s successor will depend on the close partnership of all actors from public authorities to industry, research, academia and citizens. All have a role to play to speed-up the innovation chain from basic to applied research and close-to-market actions.
- 4 BusinessEurope supports the “*LAB-FAB-APP*” report’s proposals around achieving greater and longer-term impact, making sure that companies of all size are kept funded, achieving further simplification, embedding R&I in education programmes, making EU State Aid rules more innovation-friendly and aligning better EU and national R&I programmes.
- 5 While the creation of a European Innovation Council has potential to boost out-of-the-box innovation, it brings far-reaching questions around its scope, governance and impact on existing programmes. In addition, the “*LAB-FAB-APP*” report’s proposals around possible blending of funding instruments (i.e. grant, loan, etc.), focus on breakthrough innovations or cuts in funding schemes by one third require deeper assessment and consultation with impacted stakeholders.

KEY FACTS AND FIGURES

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| Doubling the EU R&I budget post-2020 (i.e. €160 billion over seven years) is the bare minimum. | Over seven years, 8 billion from H2020 through PPPs and JTI’s will leverage 10 billion from industry. | Business contributes 64% of total EU R&D spending and receives 26% of H2020 budget. |
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Purpose of this paper

In April 2017, BusinessEurope published its [initial views](#) on the preparation of the successor to Horizon 2020 for the post-2020 period. Since then, the debate has started to intensify, with more concrete ideas entering the public debate. In particular, the publication of the report of the independent High-Level Group on maximising the impact of EU research and innovation programmes “*LAB-FAB-APP – Investing in the European future we want*”, chaired by Pascal Lamy, brings a more thorough reflection on possible guiding principles to shape the next generation of EU research and innovation programmes.

This paper brings BusinessEurope’s perspectives on the recommendations put forward in the “*LAB-FAB-APP*” report. It provides first a feedback on the ‘rationale’ that backs recommendations and then reacts to the 11 strategic recommendations and some of the concrete proposals.

Getting back to the essential

Nowadays, the abundance of information in circulation and multiple discussion for sometimes move debates away from the essential. The “*LAB-FAB-APP*” report has the merit of bringing the essential very much to the forefront. It simply, but effectively, sets out a clear picture of Europe’s key challenges and ambition for its future research and innovation policy. The following quotes from the report correctly show what is most at stake in order to truly exploit the potential of our continent, its citizens and companies:

- “...*investing in research and innovation is increasingly crucial for shaping a better European future in a rapidly globalising world, where success depends ever more on the production and conversion of knowledge into innovation...*”
- “... *At the heart of Europe’s slow growth lies its innovation deficit. Europe does not capitalise enough on the knowledge it has and produces ... The EU’s substantial knowledge assets need to be faster and more intensively turned into innovations in the form of new products, processes, services and business models...Industry plays a fundamental role in this transformation.*”
- “... *R&I is foremost a budgetary policy: the volume of resources allocated is an expression of the policy ambition ... Reducing the overall level of R&I investment would be a mistake and a clear reversal of progress...*”
- “...*83% of Horizon 2020-funded projects would not have gone ahead without EU-level support... Its track record in fostering cross-border collaboration is unique in the world...*”



The 11 strategic recommendations

| Recommendations | BusinessEurope comments |
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| <p>1. Prioritise R&I in EU and national budgets</p> | <ul style="list-style-type: none"> • We applaud the call to double the overall budget of the post-2020 EU R&I programme (i.e. €160 billion over seven years). Financing defence research at EU level cannot be done at the expense of the civil EU R&I funding programme. It is important to note that those figures assume that the UK remains fully engaged financially in the post-2020 EU R&I programme. • Coordination and complementarity between EU and national R&I funding programmes are essential to maximise the impact of funded projects. The report rightly calls for matching an increase in EU funding with an increase in national R&I budgets. This will be key to reach the too long-awaited EU target of 3% GDP invested in R&I. Europe needs a virtuous circle, with increased public funding leveraging more private sector investment¹. Horizon 2020 forecasts a promising “leverage effect”², which more than justifies the increase in funding. • Crucially, companies of all size must be kept in scope and funded, to bring Horizon 2020’s successor to the next level. Any exclusion of large companies or even lowering the funding rate would be a tremendous set-back for Europe, affecting negatively the whole R&I ecosystem and value chain (including SMEs), diminishing the possibilities of international collaborations and harming an innovation-friendly environment in general. In addition, it would severely jeopardize the EU’s goal of leveraging private investment. • Solving the low success rate issue is critical to secure the medium- to long-term credibility of the EU R&I funding programmes. A success rate of 20% would be the bare minimum. Where a two-stage selection procedure is applied, a more selective first stage selection should be implemented, leading to a higher success rate in the second stage. |
| <p>2. Build a true EU innovation policy that create future markets</p> | <ul style="list-style-type: none"> • The report rightly stresses that addressing Europe’s innovation deficit requires more than public money. It is about mainstreaming innovation across all EU policy domains by applying an EU innovation principle and by designing demand-side innovation. On top of grant-based financing, the private sector also needs more favourable conditions for investments in more risky projects, with new means of financing, a better banking culture and more risk capital. • The report also correctly emphasizes that boosting the impact of R&I policy is a collective responsibility: involving public authorities, industry, research, academia and citizens. A polarised debate of ‘research’ against ‘innovation’ should be |

¹ Business R&D expenditures in Horizon 2020 have increased by 4.8% between 2014 and 2015 (source: Eurostat and 2015 monitoring report H2020).

² According to the European Commission (The economic rationale for public R&I funding and its impact, 2017), over seven years, 8 billion from H2020 through public and private partnerships will leverage 10 billion from industry.



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| | <p>avoided. Industry needs academia and research providers and vice versa to turn Europe’s excellent research into marketable solutions that generate value for our economy and society.</p> <ul style="list-style-type: none"> • Both breakthrough and incremental innovations are needed. Putting one <i>versus</i> the other is counterproductive and a single-sided policy approach favouring one over the other would be misleading. Firstly, because distinguishing between the two is not always easy. Therefore, applying a policy approach might be misleading. Secondly, because both capture a certain degree of risks and uncertainties on innovations’ marketability, therefore justifying the need for a certain level of public support to leverage any market failure. It is therefore essential that both continue to have access to EU R&I funding programmes. • As a strategic advisory body, the proposed European Innovation Council (EIC) should indeed help in improving framework conditions for entrepreneurs with risky innovations and rapid scale-up potential. In particular, it could play a decisive role in promoting synergies between different R&I funding instruments. However, it should not add an extra layer of governance and a number of questions still need to be addressed e.g. what budget a EIC requires; how decisions will be made for the allocation of EIC funding; what the implications on other innovation-oriented activities would be, etc. • Since research and innovation need an entire innovation-promoting ecosystem as well as active interaction between all involved players, it is necessary to involve industry of any size and maturity in the EIC. Industry enables positive spill-over effects on SMEs, start-ups, scale-ups and spin-offs and thus, helps to achieve the EIC’s strategic goals. Strategic partnerships between relevant players across the whole innovation system foster the entire value chain, which is necessary to increase the European competitiveness |
| <p>3. Educate for the future and invest in people who will make the change</p> | <ul style="list-style-type: none"> • Changing the mindset in Europe around innovation and risk-taking should be a strategic objective. The report rightly calls for education programmes across Europe to systematically embed innovation and entrepreneurship. The inclusion of “training” and apprenticeships are good ways to support more youth entrepreneurship. • We are not convinced about the proposal for a ‘European university label’ to reward research and higher education institutions, which successfully promote the three Os (Open Innovation, Open Science and Open to the World). Some university rankings already exist, but the methodology/criteria behind them can be controversial and may contribute to exclusiveness rather than competition. A “European university label” may also raise questions linked to quality, which could create confusion or overlap with other existing EU activities in the field of higher education (e.g. quality assurance register for university courses). • After ten years in existence, the European Research Council (ERC) has managed to become a strong reference demonstrating successful investment in people who drive European excellent basic research forward. Europe can be proud of this |



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| | <p>achievement. In the spirit of addressing the EU’s innovation deficit, ways of strengthening linkages between academia and industry and between the different pillars and instruments along the TRL scale should be further explored in the preparation for Horizon 2020’s successor.</p> <ul style="list-style-type: none"> • Knowledge and Innovation Communities (KICs) established by the European Institute of Innovation and Technologies (EIT) are strong assets to progress the knowledge triangle (business, education and applied research). The proposal to directly incorporate KICs in the post-2020 EU R&I programme needs to be clarified. |
| <p>4. Design the EU R&I programme for greater impact</p> | <ul style="list-style-type: none"> • We support the current three pillars structure – excellent science, industrial leadership and societal challenges – which reflects well the whole innovation chain from basic, to applied research to close-to-market actions. The report rightly calls for focusing on improving their internal coherence, maximising their mutually reinforcing impact and promoting innovation across all pillars. In concrete terms, ideas such as involving industry observers in the ERC, involving academia/research observers in industry-led bodies, or better defining the role/mandate of the three pillars could be explored. • While the proposal for the EIC to be a driver for designing new proposal evaluation and selection processes is coherent with its ambition to be strategic, the idea to have it “central” to pillar II raises serious questions. Disruptive technologies and innovation can and must play a role in all pillars. Therefore, a more cross cutting role of the EIC could make more sense. In addition, the implications for existing governance structures under pillar II must be clarified, based on an informed discussion with impacted stakeholders. It is also essential that research on future key enabling industrial technologies is strengthened (“KETs extended”). • The proposed focus on impact is welcomed: to value Europe and its R&I efforts, European citizens need to see its socio and economic impact. Existing good practices in public-private-partnerships should be used as benchmark³. Some examples are the common use of key performance indicators (KPIs), timescales and a governance providing evaluation feedback. While some common principles for monitoring and evaluation purposes would be useful, sufficient flexibility is important to capture the legitimate diversity in the different funded initiatives. • The proposals to give more flexibility to applicants to choose from a portfolio of instruments provided and to have innovative blending of grant, loan and equity-based forms of investment require careful consideration. E.g. loans, which presuppose a strong expectation of being able to reimburse, are not suitable for research below TRL8. In these cases, grants are much better suited financial instruments for driving broad-based participation. For close-to-market activities (above TRL 8), blended instruments with additional loan funding can be useful, but attention should be paid to maintaining clear and simple processes as well as avoiding higher bureaucracy both for public and private sectors. |

³ Each Joint Technology Initiative (JTI) has specific measurable objectives and key performance indicators allowing monitoring and evaluation



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| | <ul style="list-style-type: none"> • We support the idea of broadening the skill-base of proposal evaluators to reflect the different requirements for evaluating scientific excellence and societal impacts, and suggest that ways should be found to increase the proportion of industry evaluators⁴. |
| <p>5. Adopt a mission-oriented impact-focused approach to address global challenges</p> | <ul style="list-style-type: none"> • The concept of ‘missions’ looks attractive as it captures the objective of prioritising investments in areas with a clear EU added value and of defining expected impacts for each of them. It also has the potential to strengthen the link between research driven and industry driven EU level activities. It is important to acknowledge that a number of funded projects under Horizon 2020 and its predecessors already embed this concept of ‘missions’, for example in the Flagship initiatives. Should ‘missions’ become the new motto in post-2020 EU R&I funding programmes, innovative companies should be duly involved in their definition and the following guiding principles should apply: <ul style="list-style-type: none"> - Be easy to communicate, with clear goals and target in time - Be open to all actors - Have a breakthrough or transformative potential - Be underpinned by non-prescriptive calls for proposals - Allow additionality of other funding sources - Have a clear EU added-value - Ensure an interdisciplinary approach - Be technology neutral on how to reach the mission’s objective - Be formulated in a strategic and open manner (not too narrow) - Allow the participation of non-EU partners under the condition that they bring their own funding - Have a large-scale leverage and spill-over effect - Ensure that competition is not distorted - Take a systemic approach to innovation (technology, business, skills, institutional governance, regulation and norms) |
| <p>6. Rationalise the EU funding landscape and achieve synergy with structural funds</p> | <ul style="list-style-type: none"> • The objective of rationalising and streamlining funding schemes is good, but quantity should not prevail over quality. The idea to eliminate one third of R&I funding schemes is lacking rationale. For instance, the proposal to incorporate the successor of COSME into the post-2020 EU R&I programme should be further assessed. Also, a thorough and transparent evaluation of the functioning of partnership instruments (cPPPs, JTIs, KICs etc.), in consultation with involved stakeholders, will be key to have well informed-decisions. • JTIs, cPPPs and KICs are of high importance for applied research projects. Because of their size, these initiatives have high potentials to have an impact for society at large and to foster the global visibility of European innovations. • The report rightly calls on the post-2020 R&I programme and future structural funds to be designed from the beginning with complementary, mutually reinforcing and |

⁴ According to H2020 Annual Monitoring Report, 2015, only 18% of evaluators in 2014-2015 came from business, while 38% came from higher education, 24% from research organisations and 20% from ‘other’



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| | <p>interoperable intervention logics. The proposal for the EU R&I programme to set the agenda for R&I investments within the structural funds makes sense. And the budget for such investment to flow from the future structural funds to the post-2020 EU R&I programme also looks sensible.</p> <ul style="list-style-type: none"> • The report also correctly stresses the need to make EU State Aid rules more innovation-friendly. The proposal to extend exemptions to innovation-oriented projects of cross-border nature should be developed further, without being limited to ‘transnational smart specialisation strategies. |
| <p>7. Simplify further</p> | <ul style="list-style-type: none"> • The report provides a series of interesting measures to move the simplification agenda forward, In particular: <ul style="list-style-type: none"> - the Participant Portal website should function as a one-stop-shop for all steps from proposal application to final project reporting. - In calls, applicants should not only be given the choice of the instrument for their proposal but also a choice between cost-based or lump-sum⁵ funding for their project, without payment against fulfilment of activities. - the Commission should accept usual accounting practice of the beneficiaries, by eliminating the current restrictions. Reporting obligations should be kept to a minimum and not duplicate other regulatory obligations. - In order to reduce the audit burden, the obligation to provide a representative ‘error rates’ for the programme should be dropped. Audits should only be carried out when there is a suspicion of fraud. |
| <p>8. Mobilise and involve citizens</p> | <ul style="list-style-type: none"> • Involving citizens in the R&I agenda-setting can indeed contribute to maximise its impact by stimulating a stronger demand for innovative products and services. It could also be an opportunity to address the profound aversion to risk that is common to the European culture. However, attention should be given to avoid situations of decision-making processes being delayed or initiatives being minority-driven. It is therefore important to consider citizens involvement where it brings clear added-value. • Open access should not apply by default to data from private-sector R&I performed in public programmes, nor from public-sector research performed in collaboration with industry and (co) financed by industry. In these cases, tailor-made approaches may be required, in which public and private partner contractually agree on how data access should be managed. |
| <p>9. Better align EU and national R&I investment</p> | <ul style="list-style-type: none"> • A clearer division of labour between the EU and national policy levels, with EU R&I programmes focusing on topics with high EU added-value, beyond specific national priorities and interests should be achieved. |

⁵ Experiences from the on-going pilot phase will be important before drawing final conclusions on lump-sum funding.



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| | <ul style="list-style-type: none"> • Concrete proposals, such as EU Member States developing multi-annual national R&I strategies, subject to EU peer review or a simplified and flexible co-funding mechanisms, should be considered with the objective of better aligning EU and national R&I investment. However, Member States should keep flexibility to adjust national programmes according to their needs, for instance through tax incentives to R&I activities. |
| <p>10. Make international R&I co-operation a trademark of EU research and innovation</p> | <ul style="list-style-type: none"> • The report rightly promotes a post-2020 EU R&I programme with stronger participation of international partners in as far as they help realise its missions and on the condition of reciprocal co-funding or access to funding in the partner country. It is also important that partnering countries show similar levels of commitment as the EU to respect and enforce Intellectual Property Rights. It is equally important to make sure that the missions are set by the EU and not the other way around. This might be a concern when talking about countries that have planned economies or a strong intervention of the state in the economy. • The idea to have one centralised fund in Horizon 2020's successor dedicated to international cooperation sounds interesting, but the budgetary impact on the three pillars should be scrutinized. Also, it remains to be seen how the budget will be allocated and the temptation to use it for political objectives must be avoided. |
| <p>11. Better capture and communicate impacts</p> | <ul style="list-style-type: none"> • The report rightly addresses the deficit of communication about EU R&I programmes' achievements and impacts. It is a collective responsibility - from all beneficiaries and involved national and EU policy-makers - to give credits to EU R&I funding and to communicate better its numerous achievements. • Some ideas put forward in the report go in the right direction e.g. the better definition of impact based on a streamlined set of indicators, making beneficiaries become the principal communicators on impact. Others should be further considered e.g. moving from individual success stories to portfolio analysis. Going further, each funded project should have a communication budget that is fit-for-purpose and individual beneficiaries should adhere to a "charter of communication" that sets shared principles. |

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