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A done deal? Why innovation could struggle to be a priority in the next MFF

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Despite the unresolved Brexit gap in the next Multiannual Financial Framework (MFF), the Commission promotes a higher budget for the next research and innovation programme, the successor of Horizon 2020. So far this proposal has not met much resistance. In this Blogpost Philipp Ständer and Pola Schneemelcher analyse why a higher R&I budget is, however, not a safe bet, with which other new – and old – priorities it will have to rival - and why Member States in a mediating position should stand up for a future-oriented budget.

1 Optimism for more resources could be premature

In early May, the Commission will present its proposals for the new Multiannual Financial Framework (MFF) starting in 2021. The budget gap caused by Brexit – about [12-13 billion euros](#) per year – leaves very little room for spending increases in any policy area. Yet, calls for a larger share in the MFF for innovation and research have so far met little resistance. Member States seem to agree that collaborative research across countries, disciplines and sectors generates a significant added value for Europe’s innovation capacity.

We argue, however, that the current optimism about more resources for the next research and innovation programme – the successor to the current Horizon 2020 programme - could be premature because the programme has less solid backing among Member States than other budget items such as cohesion policy. This is because funds from innovation and research (R&I) are distributed on the basis of excellence over the course of the programme period and not pre-distributed among Member States during the MFF negotiations. Should the conflict between net beneficiaries and net contributors escalate, the latter might prefer to keep their contributions low – for some a key political commitment – rather than raising them to fund innovation and research. At the same time, new Member States that benefit greatly from cohesion policy are under-represented in Horizon 2020 due to its excellence principle.

We develop this argument as follows: First, we outline the upcoming MFF negotiations and where lines of conflicts are likely to unfold. Afterwards we examine why the Commission’s promotion for a higher R&I budget meets little resistance so far. Finally, we test how solid the support among Member States really is, when negotiations get down to business.

2 Conflicting priorities – what are the topics innovation policy has to compete with?

The negotiations over the next MFF take place under the imprint of terrorism, the migration crisis, intensifying global competition for technology leadership and Brexit; as such, [priorities formulated by the Commission](#) will be (1) defence, (2) security and safety, (3) migration, (4) research and innovation, (5) Digital Single Market and (6) climate change. Research and innovation thus has to compete with these other priorities for more funding precisely when, due to the Brexit gap, it is not clear whether the overall envelope will even remain constant. So far, Member States have remained in their traditional corners: Net contributors like the Netherlands or Sweden do not want to increase their contributions, net recipients want at least to maintain the budget’s current level, and all Member States are defending the part of the budget that they benefit from the most while advocating cuts and “modernisation” in other “less important” areas. The announcement by Germany that it is ready to increase its contributions has remained the exception so far.

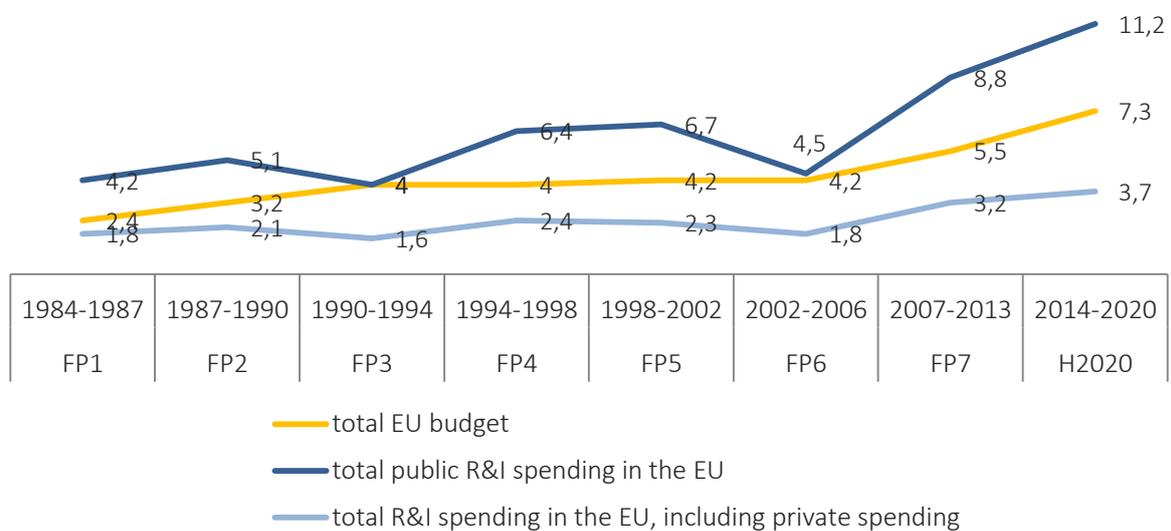
Understandably, with the different agendas of the Member States, negotiations over political priorities are fierce. Albeit seemingly a safe bet, the successor to Horizon2020 will have to rival with controversial and long-standing policy fields like the CAP or cohesion policy as well as with other new and popular priorities such as security and migration.

3 Research and innovation: a strong case for EU added value

The strong backing for giving a special status to EU research and innovation policy in the next MFF by the [Commission leadership](#) and the [EP](#) creates the impression that a higher budget for the EU's next R&I programme is virtually a done deal. And given the obvious scale and network effects of EU-wide research and innovation funding, there is [a particularly compelling case](#) for it. This is also why we have seen a continuous expansion of EU R&I spending as a share of the EU budget as well as compared to total R&I spending in Europe over the last 30 years (see Figure 1).

Figure 1: EU R&I spending increased over time as a share of the EU budget and total R&I spending

Budget of EU R&I spending as % of ...



Source: Weber, M. et al. (2018). [Erkenntnis- und Wissenstransfer im Kontext europäischer F&I Politik](#), Studien zum deutschen Innovationssystem Nr. 12-2018, Austrian Institute for Technology and Zentrum für Europäische Wirtschaftsforschung.

4 For the Commission the Framework Programme is of high strategic value

Today, EU R&I policy – which is administered under the common framework programme Horizon 2020 – accounts for 7.3% of the EU budget, making it the third-largest item after the CAP and cohesion policy, and it is one of the most significant policy tools to enhance growth and competitiveness. Horizon 2020 accounts for 58% of the heading 1a “competitiveness for growth and jobs” in the MFF. It hence dwarfs other high-profile programmes under the same heading such as the Connecting Europe Facility (17%) or Erasmus+ (11%).¹

[Budget Commissioner Oettinger](#) has singled out the next Framework Programme (FP9) – the umbrella for EU R&I policy – as one of two programmes that are due to be spared from cuts or

¹ Kaiser, R. & Prange-Gstöhl, H. (2017). [The Future of the EU Budget](#), European Economic Policy 2017:6, Swedish Institute for European Policy Studies.

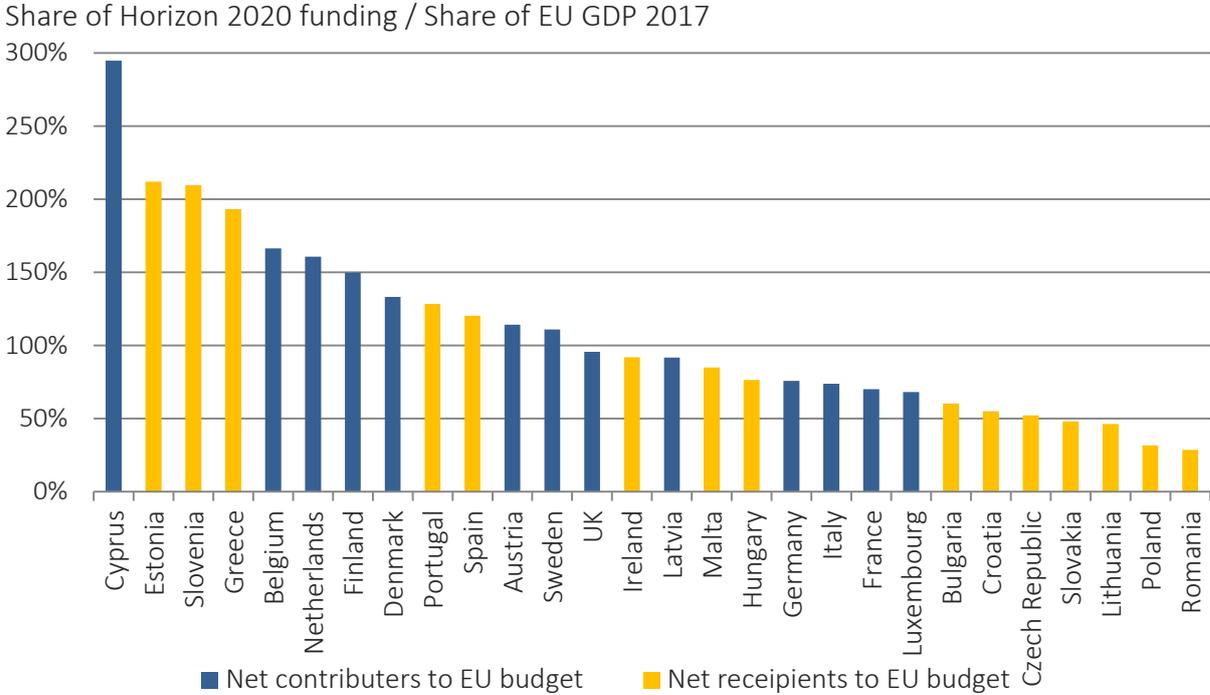
should even receive more funding. In a recent [communication](#), the Commission proposed an overall volume of € 120 to 160 billion, up from currently € 77 billion. FP9 has a number of qualities that make it a likely candidate for budget increases not only in terms of substance but also because it caters to the interests of several relevant political players:

- FP9 epitomizes the aspiration to focus on investments in the future and in EU added value and thereby **satisfies the demands of net contributors**,
- **Has powerful beneficiaries**, for example the European export industry, that make their views known in national debates.
- Is a large programme that currently **benefits nine different Commission DGs**, making it a valuable budget item in which to invest political capital.

5 R&I as a nudge for net contributors?

So far the lobbying for a higher R&I budget has not faced significant opposition, not even from the four countries that have been most vocal about the need for budget cuts, namely Austria, Denmark, the Netherlands and Sweden. All four are large beneficiaries of Horizon 2020 grants. Figure 2 shows Horizon 2020 funds allocated to beneficiaries in individual member states relative to the country’s share of EU gross domestic product. Twelve countries, including the four “budget hawks”, have succeeded in attracting a higher share of Horizon 2020 funds than their GDP weight would suggest. With a few exceptions (Greece, Slovenia and Estonia) the major beneficiaries of EU research funding are net contributors to the EU budget, while the largest net recipients (in terms of % of GNI) benefit the least.

Figure 2: Member state success in attracting Horizon 2020 funding relative to economic weight



Source: Own calculations based on European Commission, Horizon 2020 Participants Portal, retrieved 26.03.2018.

So the fact that the Member States who are most sceptical of increases are also the ones benefitting the most from R&I funding could indeed help to shield it from cuts. However, this simple calculation overlooks several aspects. Most importantly it might underestimate the intensity of the approaching MFF negotiations:

- First, R&I is based on excellence and therefore fund allocations to Member States are not predefined. Thus, the negotiation result on **FP9 will not produce political winners and losers**. So while Polish or Italian voters will know exactly what they lose if cohesion policy is cut, a lower budget for research policy cannot be quantified ex ante at Member State level.
- Second, large net contributors, although supporting a higher budget for research, might **give greater priority to avoiding higher GNI-based contributions**, if they can secure just one objective in the negotiations. The Dutch and Swedish governments, for example, have made stronger political commitments on the overall level of the budget than on their priority areas.
- Third, Member States have been sceptical about new functions for European R&I policy, especially if they seem to duplicate national policy instruments, and were at the same time **reluctant to hand over functions to the European level**.² A FP9 proposal with a higher budget thus has to carefully assess the added value and member state perception when proposing new tools, especially when similar policies exist already on national level.

The publication of the MFF proposal in early May and reactions by Member States will be a first temperature test. During the last negotiations the overall MFF envelope was reduced by 6% from the Commission proposal to the budget that was finally adopted in 2013, the budget for Horizon 2020 was downsized by 12%.

What is needed is a reasonable compromise between the opposing positions of net recipients of CAP and cohesion policy and those promoting a smaller EU budget that does not abandon the ambition to provide resources where European public goods are most evident. By signalling openness on the GNI question, the new German government has promoted itself as an important broker for reaching a possible compromise.

6 Conclusion

So far the vocal case for a higher R&I budget has not met much resistance. This may signal it represents a compelling case for European added value. Yet, in the MFF negotiations, R&I will have to compete with other new - and old - priorities that are more visible such as migration and cohesion policy. In a standoff between net contributors and net recipients, R&I might play a secondary role. Member states in a mediating position should stand up for it and defend a future-oriented budget.

² See Flink, T. (2016). EU-Forschungspolitik – von der Industrieförderung zu einer pan-europäischen Wissenschaftspolitik. In Simon, D. et al. (Ed), *Handbuch Wissenschaftspolitik* (2nd ed.). Wiesbaden: Springer VS.

