



THE EUROPEAN FILES

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The European Defense
Industry: Towards EU
strategic autonomy



DEFENDING EUROPE

The case for greater EU cooperation on security and defence



"We need to work on a stronger Europe when it comes to security and defence matters. Yes, Europe is chiefly a 'soft power'. But even the strongest soft powers cannot make do in the long run without at least some integrated defence capacities. The Treaty of Lisbon provides for the possibility that those Member States who wish to pool their defence capabilities in the form of a permanent structured cooperation. More cooperation in defence procurement is the call of the day, and if only for fiscal reasons."

European Commission, President Jean-Claude Juncker, [Political Guidelines](#), 15 July 2014

Attempts to move towards common defence have been part of the European project since its inception. Yet, decades after the failed Pleven Plan of 1950, a genuine defence Union has still not materialised. A Europe that defends clearly corresponds with European citizens' expectations, with security as one of the top concerns of Europeans in almost all countries. There is also an overwhelming economic case for greater cooperation on defence spending – which is doubly important as pressure on national budgets remains high. Combine this with a worsening security situation in Europe's neighbourhood and it is clear that it is time for Europe to take its defence and security into its own hands.

A SCATTERGUN APPROACH TO DEFENCE

There are 178 different weapon systems in the EU, compared to 30 in the U.S. There are more helicopter producers in Europe than there are governments able to buy them. And despite the EU spending half as much as the United States on defence, we are not even half as efficient. This all points to big duplications in European defence spending.

	EU	UNITED STATES
Defence Expenditure		
Total amount	€ 227 billion	€ 545 billion
% of GDP	1.34	3.3
Investment per Soldier	€ 27.639	€ 108.322
Duplication of Systems in Use		
Number of types of weapon systems*	178	30
Main battle tanks	17	1
Destroyers/frigates	29	4
Fighter planes	20	6

* Number of types of weapon systems for selected weapon systems categories

Source: NATO, International Institute for Strategic Studies, SIPRI, Munich Security Report 2017

EDITORIAL

The geopolitical landscape has changed dramatically over the years. The growing worldwide instability and more particularly the instability at Europe's borders has made European defence the top priority in Juncker Commission's political guidelines.

Launched in 2016, the European Defence Action Plan set out an ambitious agenda to support the Member States' more effective spending on joint defence capabilities.

Indeed, the lack of cooperation between Member States in the area of defence is estimated at between 50,000 and 100,000 million euros per year.

Defence policies in Europe lead to duplication and hefty financial costs, thereby hindering investment and innovation in Europe. We must rationalise through economies of scale to improve investment and make it more efficient by promoting better cooperation.

European cooperation in the defence industry would undeniably bring substantial technological and financial gains.

This is why the Commission has put forward the European Defence Action Plan, with new financial tools for capability development and defence cooperation.

As the precursor to an European Defence Fund, The European Defence Industrial Development Programme (EDIDP) is the first step towards building a genuine European industrial defence capability.

The fund will support collaborative research and development in the field of defence in order to foster the competitiveness and the innovative capacity of this sensitive industry.

EDIDP will enter into force in January 2019 and will be one of the greatest inroads in the field of defence, consolidating the European defence industry and increasing its competitiveness. At the same time, it will lay the foundations for industrial independence in terms of eligibility and award criteria in order to promote European companies, especially SMEs.

Through this programme we shall consolidate and strengthen transatlantic relations and the EU-NATO strategic partnership. EDIDP also addresses the issue of a fairer sharing of the transatlantic burden and reflects the greater responsibility for security and defence in the EU's immediate neighbourhood.

Overall, the programme remains a factor of change for the European defence industry as well as a formidable tool to develop its innovative and technological capabilities to respond to new threats.

Never have European politicians had such a consensus on cooperation in the defence industry. The role of the defence industry is pivotal in achieving the EU's strategic autonomy.

We hope to cover much of this ground through the contributions published in this issue of The European Files.

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The European Union is becoming a significant actor in defence and security



Jyrki KATAINEN

Vice-President and Commissioner for Jobs, Investment and Competitiveness, European Commission

is devoted to support Member States and help them with the projects, for what is in its competence.

The European Commission has also undertaken the historical step of presenting for the first time, a proposal for a programme financed with the EU budget, in support of the competitiveness and innovation of the European defence industry.

Launched in November 2016, the European Defence Action Plan has set an ambitious agenda to support Member's State's more efficient spending in joint defence capabilities, foster a competitive industrial base and ultimately support the long term strategic autonomy of the European Union. The Action Plan is centred around the launch of the European Defence Fund, the Commission's contribution to a stronger European defence. The Fund supports collaborative defence research and development in order to foster the competitiveness and innovation of the defence industry in the EU and to deliver on the capabilities that Europe needs for its security. Ensuring that our industrial base is able to meet future security needs is crucial to achieve European strategic autonomy.

The role of the defence industry is central to achieve strategic autonomy. The persisting fragmentation of European defence markets leads to unnecessary duplication of capabilities, organisations and expenditures. As a result, the European defence industry is currently lacking the necessary economies of scale and risks losing critical expertise and autonomy in key capability areas. Fragmentation and duplications make the investment in defence inefficient, innovation slower and hence Europe less safe. Therefore, we need to invest in collaboration, since it frees up resources, opens up markets and encourages innovation.

The Commission's role is to support industrial cooperation and smooth functioning of the single market as well as research and development on defence.

Defence, like any other industrial sector, is now more technological, more advanced and more research-centred than ever. We know that the resources needed to fulfil one single need are nowadays much bigger than

they used to be twenty years ago. Therefore, cross-border cooperation in defence research and development has become unavoidable for Europe.

Cooperation is already bearing fruit: the first cross-border research projects to be funded by the EU have been recently selected through a competitive procedure. The industrial programme to co-finance the later stages in the development of defence capabilities is under discussion between the European Parliament and Council and will soon become a reality. For the next financial period the European Commission will present an even more ambitious proposal to devote more than 10 billion euros from the EU budget for research and for capability development. In parallel, we are working to provide Member States with a set of financial tools which they could use for joint procurement or joint acquisitions.

European defence is not about spending more, but about spending in a better and more efficient way, together. We have to think further collectively. We need to be more efficient and innovative in our defence industry and ensure the best possible conditions for cross-border cooperation, thereby providing better security for our citizens. The EU's role in European defence will remain a complementary one: Member States will continue to be the decision-makers on defence and military issues. However, better cooperation and coordination among Europeans is not an option, but a necessity, if we want to remain relevant on the global stage. It is central to ensure security of the whole continent.

At a time when terrorism, cyber and hybrid threats, climate change, economic volatility and energy insecurity endanger European people and territory, closer cooperation on defence and security is more important than ever. While Member States remain in the driving seat and are responsible for deploying security and armed forces when needed, there is increasing awareness that new types of threats are best prevented and tackled by working together. And a majority of Europeans indeed wants more Europe in defence.

The changed geopolitical landscape was a wakeup call for Europe: we Europeans have to take responsibility for protecting our interests and the European way of life. European governments have responded to this call, and so has the European Commission.

The past two years have been historical for the European Union and EU defence, both for military leaders and for the defence industry. Never before have we had such a political consensus for increased cooperation in this domain. At the political level, 25 Member States, almost the entire EU, have committed to increase cooperation in defence and joined the Permanent Structured Cooperation, PESCO, to achieve better coordination and join forces in a number of projects cooperate to develop defence capabilities. While this is a Member State-led process, the Commission

The competitiveness of Europe's defence industry is the keystone to EU's strategic autonomy



Elzbieta BIENKOWSKA

Commissioner for Internal Market, Industry and Entrepreneurship and SME's, European Commission

defence and expand them through European cooperation within the EU.

Strengthening defence (and of course strategic autonomy) costs money. The changing geopolitical context has led EU members and the European Commission to propose to dedicate EU funds to defence industrial cooperation. It's turned out that using of EU budget for some defence purposes is both desirable and possible without breaching EU treaties. That's why the European Commission in 2017 launched a European Defence Fund to help EU members to spend taxpayer money more efficiently, reduce duplications in spending, and get better value for money. And on May 2 the European Commission proposed 13 billion euro for European Defence Fund in its full-fledged version in the next long-term budget (2021-2027).

The Fund's aim is to complement national expenditure in research and capability development in defence industry and encourage defence industries (and authorities) to cooperate across borders. The current lack of such cooperation between EU countries costs between 25 and 100 billion euro a year. This is because of inefficiencies, lack of healthy competition and also because of lack of economies of scale for industry and production and unnecessary duplication in defence spending. It shows strongly if the EU is compared to the US which in that area is not only Europe's ally but also a benchmark for industry cooperation.

I consider the Fund will be a real game-changer for competitiveness of Europe's defence industry — including the many SMEs in the European defence supply chain. In defence industry the global trend is toward competition between fewer and larger players. If European industry wants to compete globally, it should pool its industrial resources. The European Defence Fund will support research on new technologies. Moreover, it will give co-funding, together with Members States, to joint development of prototypes and tech-demos. Joint investment by Member States, as encouraged by the Fund, should ensure joint procurement projects in later stage. The Commission has already launched two small test schemes. They cover recently launched Ocean2020 project with 42 partners from 15 member states. Ocean2020 is

The concept of strategic autonomy is interpreted quite differently in various parts of Europe and in the US. So a clarification of what we are discussing about is a must in any debate on the future of Europe's defence.

What kind of autonomy are we talking about? Strategic autonomy is often defined as the ability to act and cooperate with partners or allies whenever possible and at the same time being able to act autonomously, if necessary. The framework of this cooperation can be found, among others, in recent agreements between NATO and the European Union (including those dealing with hybrid threats). Some EU Members States might have different understanding of political and military or operational aspects of the strategic autonomy. The role of the European Commission is not to resolve these debates of EU countries now.

The strength of the EU has always been cooperation - removing barriers and encouraging both competition and cooperation between players from various EU countries. The European Commission's proposal on military mobility is a tool of "opening" by enhancing the EU's transport infrastructures to make them fit for military equipment. On the other hand, EU's autonomy might also be provided by a strong, competitive and innovative European defence industrial base. That would help EU members to preserve and develop their critical technologies in the field of

expected to boost research in the naval area, including integration of unmanned platforms in surveillance and interdiction missions.

But the Fund is also a game changer because the EU Member States and the parliament agreed - in the framework of the pilot initiative (EDIDP) - on who should get access to the funding. It is the first time that we have a concrete discussion and agreement at EU level, on what strategic autonomy means for Europe. So I see in the European Defence Fund potential for support to small and medium-sized enterprises in their collaborative projects, creation of new jobs, new tax revenues, technological spin-offs for non-defence industries. However, ensuring close links between the European Defence Fund and the projects implemented within the Permanent Structured Cooperation in defence (PESCO) will certainly lead to strategical gains. Better developed and cost efficient technologies and equipment will make European defence stronger and EU's industry able to compete on global markets.

A strengthened European Defence: Swedish perspectives



Peter HULTQVIST

Swedish Minister of Defence

defence industrial structure. EDF and PESCO, should provide opportunities for all countries and must not distort competition between different industries. We should not create European champions by political decisions, and give them preferred access to EU funds. Instead, these initiatives should be designed to deliver more output in the areas of investment, technology and capability development as well as operational readiness, while respecting each Member State's solutions regarding their security of supply.

A related aspect in the EDF-discussions is the ownership of the European defence industry. This was much debated during the negotiations of the EDIDP. Ownership of European defence industries from certain countries must naturally be closely monitored. However, when the owners come from one of our close partners that share our democratic values, foreign ownership could also be positive, in terms of access to markets and technologies. For Sweden specifically, a large part of our defence industry has UK and US ownership. These companies, for example BAE Systems Bofors and Hägglunds, are integral parts of the Swedish security of supply, and trusted partners, not only to the Swedish Armed Forces, but to many armed forces around Europe. Sweden welcomes that the need for an open attitude towards our global partners was widely acknowledged in the negotiations for the EDIDP, where Member States reached a General Approach last December and that PESCO will allow for third country participation in projects.

Second, the EU and NATO are both important for meeting today's security challenges in Europe and elsewhere. Sweden, as military non-aligned, has a strong interest in an effective and results-oriented strategic partnership between the EU and NATO. Political unity and a strong transatlantic link is critical for both multilateral frameworks to reach their goals. The focus of the partnership must be on the two organizations to complement each other and we must guard against the potential risks of overlap. We will be able to avoid duplication of tasks, structures and unnecessary bureaucracy, if there is a pragmatic approach and realistic view of each organisation's competencies, capabilities and mandates.

Last year brought significant momentum to the European defence domain. In a short time, the EU launched three major initiatives: PESCO, CARD and EDF. They will all strengthen the EU as a security and defence policy actor. Sweden welcomes these moves, and will continue to be a constructive partner to further these initiatives.

I would like to highlight three broader issues that must be considered when the frameworks are established.

First, Europe cannot be a global actor if we only act on the European scene. Therefore, none of these initiatives should exclude collaboration with third countries. EU will risk becoming inwards-looking and protectionistic, if we exclude collaboration with our close partners outside the EU, such as Norway, a post-Brexit United Kingdom, the United States and Canada. Such cooperation can offer resources, technology and capabilities that adds value to the initiatives. This is especially important for the EDF, where interaction with actors outside the EU will benefit technology development and products, thus making them and the European defence industrial and technological base more competitive on the world market.

These initiatives must build on each Member State's national needs, interests and prerequisites, also when it comes to the

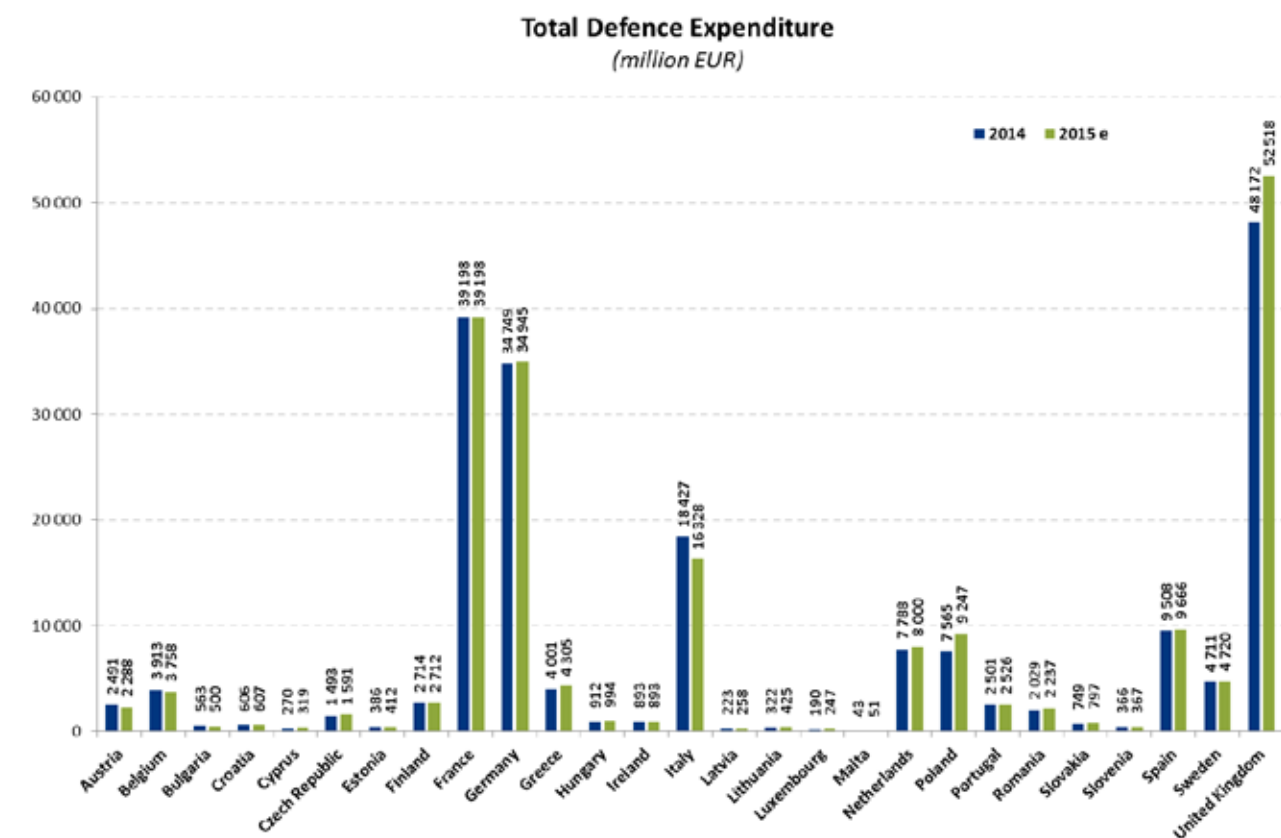
Third, we welcome the progress of further implementing PESCO. However, it is imperative that the EU establishes clear guidance on governance as early as possible to move ahead with the implementation of projects. This guidance should be limited and flexible. It should leave as much room for maneuver as possible for the project groups themselves to adapt rules appropriate for the specific projects.

Sweden will initially take part in the three PESCO-projects; military mobility, European medical command and European Union Training Mission Competence Centre. In the second round of PESCO projects, Sweden's intention is to take lead for a project regarding a European Test and Evaluation Centre, at the Vidsel Test Range in Northern Sweden.

We all agree that challenges to European security must be met through cooperation and joint action. The EU must be united and act together in the spirit of solidarity when threats to our common security occurs. The EU Member States' response to France request to invoke article 42.7 following the terrorist atrocities in Paris in 2015 and the recent decisive answer to the nerve agent attack in Salisbury are examples of this. Similarly, to other nations, Sweden expelled a Russian diplomat, and the European Council decided to recall the EU ambassador to Moscow for consultations. The EU together with the United States strongly condemned the attack and jointly named Russia as the likely perpetrator. As the Swedish Prime Minister Stefan Löfven stated, "The attempted murders in Salisbury are more than just a bilateral matter between the UK and Russia. They represent a further challenge by Russia to the international rules-based order, which is why we must respond."

A unified European – not only EU, but also countries like Norway, and a post-Brexit United Kingdom - response, in conjunction with a strong transatlantic link, will continue to be of key importance to meet the security challenges in Europe and beyond.

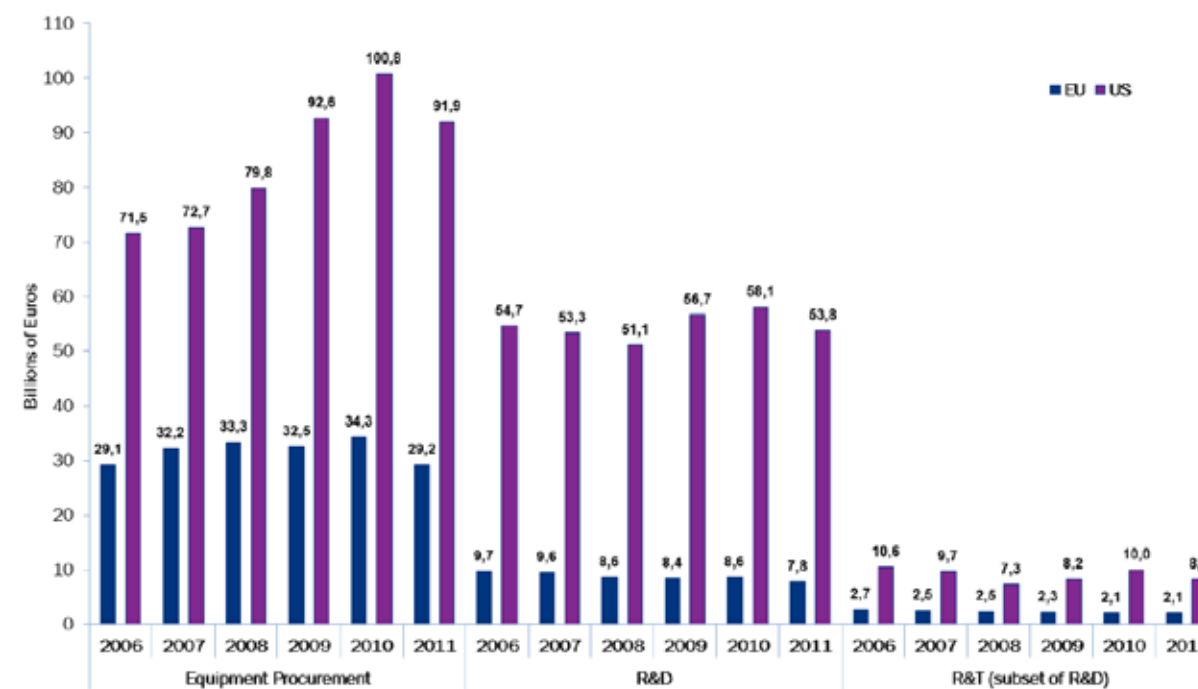
TOTAL DEFENCE EXPENDITURE



www.eda.europa.eu

Source: The European Defence Agency (EDA)

Defence investment breakdown in absolute values [EUR billion]



Source: European Defence Agency, 2013, p.10.

Support the competitiveness and innovation capacity of the Defence Industry in Europe



Françoise GROSSETÊTE

MEP (Vice-President Group EPP) Rapporteur for the Regulation establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovative capacity of the EU defence industry

The need for a strong budget

Each Member State has to be aware of the urgent necessity to take part to budgetary efforts made at European level. The actual repartition of efforts between Member States concerning defence is not sustainable on a long-term perspective. We therefore need an ambition worthy of the capabilities that we wish to develop.

The cofinancing system proposed by the regulation on the industrial program aims at incentivizing Member States to increase cooperation between themselves and between their companies. They could feel more involved on the short and long terms and it will clearly encourage cooperation on joint development and the acquisition of defence equipment and technology.

The EU will indeed offer co-financing with 500 million euros for 2019 and 2020 and has proposed more than 1 billion euros per year after 2020. For the research part, 90 million euros will be spend before 2020 and more than 500 million per year after 2020.

An unprecedented effort, which shall be confirmed by Member States. New policy, new financing. Fresh money after 2020, or money from the unallocated margin before 2020, is needed. We cannot cut emblematic European programs like Galileo, Copernicus, ITER, the CEF, for instance, to fund it. A serious budget needs serious new sources of funding from Member States. This is a question of responsibility.

Research, innovation and competitiveness to keep the leadership

Our defence industry is not, at present, given sufficient incentives to compete globally, despite a genuine wealth of technology. It needs 'more Europe' to provide more reliable, more independent and less costly technology.

The competitiveness of the defence industry will be judged by its capacity to innovate and adapt to technological developments. Excellence and industrial performance are therefore essential criteria for this strategic sector. The industry's European regulatory environment must move further towards interoperability and improved standardisation.

Business consolidation at European level is a positive factor, so the Programme should not penalise undertakings which have been

taking this approach for a long time. What is needed is genuine European cooperation, and the requirement for common specifications is crucial for an action to be supported by the Programme. We should not repeat errors from the past in having so many different requests for different specifications. We do not want a labyrinthine system.

A pragmatic approach for more efficient capacities

The advantage of the European Defence Fund lies in the support of projects that may involve few Member States, but with clearly defined conditions and specifications.

The lack of a "geo-return" rule that would imply that each member state sees the right return of its investment through the participation of one of its companies in a project is also part of a pragmatic approach. In other words, the supply chains of the defence industry will not have to select a company simply because it is located in a Member State of the Union. It is the technological excellence and the competitiveness of this company that will allow it to be selected on a non-discriminatory, transparent and open basis, allowing a real competition.



Towards a strategic autonomy

This Programme should be a mean of strengthening EU independence in the area of defence. That strategic autonomy is essential to ensure that the EU is free to take action worldwide. It can only be enhanced by better cooperation between Member States and undertakings, which must be based on the Member States' common capability priorities.

Developing the industrial and technological base of European defence is key to this autonomy. To that end, it is essential that only European companies benefit from funding. What the programme funds should be made independently. The guarantees concerning access to sensitive information, to intellectual property rights and to management of the action funded should be very closely scrutinised.

An important role for SMEs

SMEs already play a vital role in defence and security in Europe. Big companies work with them on all their projects and they provide huge benefits for the European Union as a whole. But it is important to promote cross-border cooperation, particularly for SMEs which lack the incentive to cooperate. For example, all Member States with undertakings likely to contribute to technological excellence in defence and security will have the opportunity to benefit from this Programme through the creation of new cooperation projects, without excessive constraints being added to what are already very complex industrial programmes.

What we need is indeed an implementable European Defence Fund, which is a real incentive to cooperation and competitiveness of the European Union. All Member States have to bring their best project at European level to make this industrial program a success.



The European Defence Fund proposed by the Commission on the 7 June 2017 contains two parts covering the entire cycle of defence industrial development. The first part is intended to fund collaborative research in innovative defence technologies. The second part is for the cooperative acquisition of defence capabilities. It includes the European Defence Industrial Development Programme, which seeks to meet the challenges facing the European defence industry.

A window of opportunity for Europe

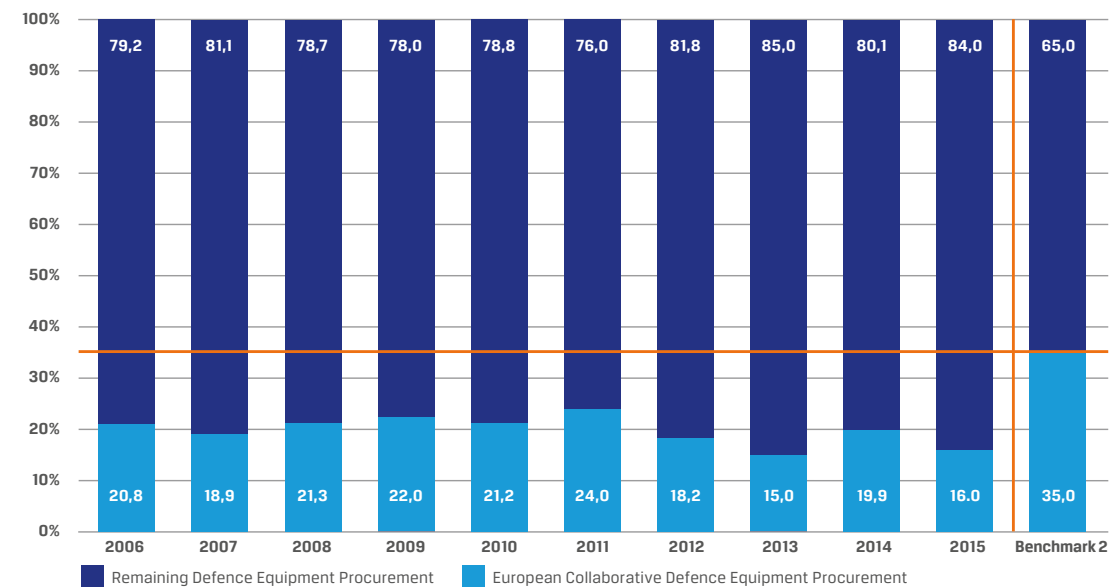
The moment is historic for European defence. Difficulties at international and European level, and the fight against terrorism, have forced the European Union to move forward on defence issues.

Member States have thus realized the value of investing more and acting in a more coordinated way to respond to these challenges. The risk of Europe slowly losing ground is high if nothing happens.

A real interinstitutional political will in the Council, the Commission and the Parliament has helped to meet tight deadlines and maintain the level of ambition for this European Defence Fund.



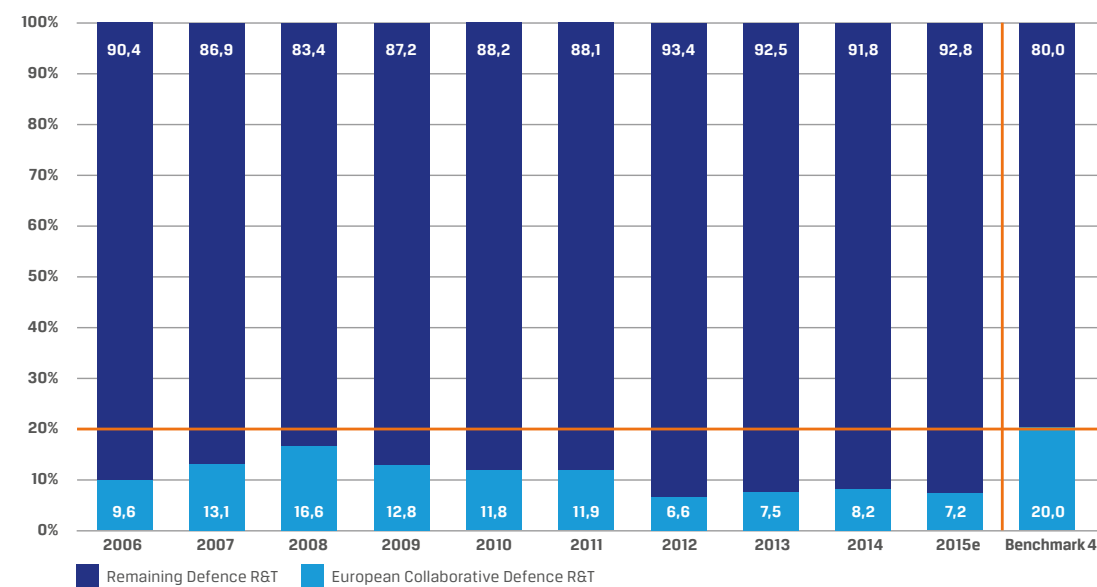
European Collaborative Equipment Procurement: 35% of the Total Defence Equipment Spending



Since 2012, Collaborative Equipment Procurement data is partial, as not all Member States were able to provide the data.



European Collaborative Defence R&T: 20% of the Total Defence R&T Spending



Since 2012, Collaborative R&T data is partial, as not all Member States were able to provide the data. 2015 total defence R&T is estimated based on 2014 data, since not all Member States reported their R&T expenditure for that year.

Source: The European Defence Agency (EDA)

The European Defense Fund: ensuring industrial independence in Europe



Dominique RIQUET

MEP (ALDE Group), Shadow rapporteur « European defence industrial development programme », Member of the ITRE Committee

The European Defense Industrial Development Programme (EDIDP), as a forerunner to a full-fledged European Defense Fund is a first step towards building a truly European industrial defense capability and thereby ensuring our industrial independence. How do we get there? Take for instance our European Space Policy: One of the biggest achievements of the European Union is our common Space Policy. With time, European space cooperation has created innovative programs such as Copernicus, now the World's largest Earth Observation Programme or Galileo, a global satellite-based navigation system worth more than 5 billion euros that is catching up fast on other systems such as GPS. Alone, no single Member State would have been capable of launching 30 satellites by 2020. Europe's space achievements show the tremendous opportunities offered by European cooperation. When we in Europe unite our technological know-how, our budgets and political will, chances are high for becoming an industrial leader, which is the baseline when we discuss our independence.

We are facing a real opportunity to create the foundations for such leadership in a field largely dominated by national prerogatives and sovereignty namely the European Defense Industry for the second time in European history. In 1954 the French National Assembly refused to ratify the European Defense Community treaty with 319 votes against 264,

despite the six founding Member states having all signed the Treaty two years before. With the EDIDP on the one hand and the Permanent Structured Cooperation Mechanism on the other, we are waking the EU's sleeping beauty from her 64 years long sleep.

European cooperation for the defense industry would undeniably represent substantive gains from both a technological and a financial standpoint. In fact, the present situation is far from being optimal in this regard. More often than not, competing national R&D and innovation policies between Member States amount to an enormous waste of money and time for public and private companies. As a whole, the possible economic benefits of such an integrated European Defense Industry are considerable and could reach more than 100 billion in savings, achieved through the efficiency of synergies between Member States.

The very first stepping-stones towards a more integrated cooperation are defined now within the EDIDP. This Programme, with its timid EUR 500 million for the next two years has the ambition of optimizing research, development and prototyping in the field of defense by supporting specific actions driven by at least 2 or 3 Member States. Through a system of eligibility and award criteria, both smaller and bigger Member States, multinationals and SMEs will be incentivised to cooperate. Logically and naturally, this will create economies of scale and harmonisation of policies, thereby strengthening our industrial base. This will of course take time; it will be under the next financial framework that we will see the impact.

Nonetheless, the effectiveness of the EDIDP and the upcoming European Defense Fund in laying the grounds for industrial independence is inherently linked to the question of the beneficiaries of this Fund. The participation of third country undertakings is incoherent with one of the overall purposes of this proposal, namely the guarantee of a strategic autonomy. If under exceptional circumstances third country undertakings can participate in an action and benefit from the Fund under very strict conditions for the protection of our technological and industrial expertise, one could argue that such a clause to have

a counterproductive effect on developing European leaders within for instance high technology and niche sectors of the defense industry. This derogation clause could allow non-European undertakings with solid credentials to out-manoeuvre future European undertaking, mid-caps or SMEs with potential.

Would Americans or the Chinese have left such a door open to its European partners? It remains to be seen what effect such a clause could or could not have on Europe's industrial leadership and independence in the years ahead.

Overall, this programme remains a game-changer for Europe's industry, a golden opportunity to build a European defense industry based on cutting-edge technology to respond to the new world's challenges and threats, and not only in the field of defense. Defense research and development has long been known for its beneficial spillover effect on the civilian sector. And it is worth underlining the competitive advantage of a military-industrial complex in the global economy.

The proposal for a European Defense Fund under the next MFF must become a genuine European integration instrument with an independent budget and governance. We must reflect on the long-term consequences of the foundation we are laying in order to ensure a truly independent European Defense Industry.

Innovation and competitiveness in the European defence sector



Lowri EVANS

Director-General for Internal Market, Industry, Entrepreneurship and SMEs

the foundations for a stronger European defence policy. The Commission was asked to propose ways to enhance European defence cooperation and boost the competitiveness of Europe's defence industry.

Less than one year later, the European Defence Fund was launched, aiming to help boost the EU's excellence and efficiency by funding cooperative defence-oriented research and development projects and facilitating the joint acquisition of military equipment by Member States. By spending together, EU countries can spend smarter, increase efficiency and eliminate unnecessary duplication in defence spending.

Change won't come easily. The defence sector is highly conservative and risk averse. Industry seeks to reduce the financial risk associated with a highly regulated market which is usually limited to one customer – the Ministry of Defence. They won't develop new products or services if they are not sure they will be able to sell them. And the customers are conservative too – they tend to fund only projects that comply with their own national requirements. Both sides see risk in change. We aim to facilitate a win-win situation for both industry and the Member States to join forces at the EU level by creating the framework to make cooperation attractive. Member States remain in the driver's seat, agreeing on common priorities of capabilities to be developed at the EU level.

The European Defence Fund will focus on two types of projects. On the research side, projects will receive EU funding to explore future and emerging disruptive technologies as well as critical defence technologies. This should give the industry a competitive advantage in the development of future defence products, while helping to improve the strategic autonomy and security of supply of the Member States. The other part of the Fund focuses on co-funding, together with the Member States, the joint development of technology demonstrators or prototypes. Joint investment by Member States at a critical (and expensive) stage of product development should ensure follow-on activities such as joint procurement projects.

In the more advanced technologies, promising solutions are often developed by smaller companies. The Fund gives incentives for SMEs to be full partners in defence projects and not only subcontractors. This should

help to bring more innovation into defence product development cycles.

The European Defence Fund can only achieve its objectives if sufficient budget is available. The Commission has proposed a budget of €4.1 billion for research activities and €8.9 billion for development projects for the period 2021-2028. For the avoidance of doubt, this budget cannot be used to fund operations such as military missions.

To get things started, the Commission has launched two relatively small test schemes. The European Defence Industrial Development Programme is currently under final negotiations with the Member States, and is scheduled to start with a budget of €500 million to launch projects during 2019 and 2020. It aims to test the development of military products and services.

The Preparatory Action on Defence Research aims to provide insights in how to organise and regulate the future research activities. The first calls for proposals demonstrate substantial interest: 186 entities from 25 Member States and Norway were involved in 24 proposals.

Only five proposals could be retained for funding, including the recently launched Ocean2020 project with 42 partners from 15 EU Member States. Ocean2020 is a large scale demonstration project, worth €35 million of EU funding, on technology to support maritime surveillance and interdiction missions at sea, such as naval blockades. It will make drones and unmanned submarines operate with manned platforms, and include two real-life demonstrations. This project should produce results which will enable several Member States to further develop the technologies.

These are only the first steps of the EU on its journey to funding defence-oriented research and development activities. They are a first move towards closer defence cooperation in Europe. In the long term the European Defence Fund is expected to support half of the defence projects in Europe.

With its proposals, the Commission is contributing to the creation of a European Union that protects and defends. An ambitious European Defence Fund will foster innovation and support the competitiveness of the European defence industry. It is up to stakeholders to seize the opportunity.

EU must adapt to new threats to its security



Arnaud DANJEAN

MEP (EPP Group), Member of the Committee on Foreign Affairs, Subcommittee on Security and Defence and Special Committee on Terrorism

After years questioning if defence really mattered, Europeans are now experiencing a kind of a strategic awakening. Defence and security issues have become an imperious reality and a top priority for European citizens, major capitals and European institutions. This unprecedented "political momentum" should boost cooperation between Member States and help giving pace to new initiatives. In an uncertain, destabilized environment and with more unpredictable actors, Europeans have now not only an opportunity but a duty to show that they finally intend to take greater responsibility for their own security.

The strategic environment in and around Europe has become more complex and threats have multiplied, from the conflicts in the southern flank (Libya, Syria, Sahel, Horn of Africa...) to the tensions at the Eastern borders (Georgia, Ukraine). This boiling neighbourhood is spreading instability not only around Europe but also within Europe, with terrorism, espionage and cyber interference making Europe more vulnerable and endangering the very political resilience of European societies.

These challenges, common to all European countries and identified a long time ago, need collective answers. However, neither those very concrete crises nor the rapid deterioration of European strategic environment has led to any direct or collective answer at the time when they happened. What really triggered the strategic awakening for European defence and security were Brexit and the election of Donald Trump. It is actually the concurrence of these two political events that have deeply affected European defence

policy more than any serious consideration of strategic or purely security challenges. European context seems, at least now, favourable for Europeans to be actors of their own security, and not rely systematically and exclusively on external alliances.

At a time when the multilateral international system is declining, when Europeans can no longer rely everywhere and forever with absolute certainty on their traditional partners, moving towards more strategic autonomy seems logical and necessary. The implementation of this concept will enable European countries to tackle collectively and efficiently their common threats and assume better their security. Therefore, they should be able to assess a crisis situation, decide and act as autonomously as possible. It includes the possibility to say "no" to our American traditional ally, especially when it comes to Iran, or the Middle East or Asia. It also means being able to act autonomously and to engage in the theatres of operations which are not considered as priorities by others. This autonomy should be seen as a European ambition, part of the multilateralism framework, closely aligned with NATO and the US.

Nevertheless, moving towards more autonomy and more cooperation among European countries remains a complex process as it refers to the very heart of each country's sovereignty, decision-making process, alliances, institutional system and military capabilities. The first challenge for Europeans will be to converge strategic cultures that are still too heterogeneous. Each country has its own institutional system leading to different rules of engagement and European countries do not have a common perception of the threats. To me, there should be no fundamental contradiction in building an ambitious security policy against the immeasurable security challenges of the South, while unambiguously expressing total collective solidarity against threats to the East. But still, trying to articulate, collectively, responses to both challenges without being detrimental to any of our vital interest remains a huge challenge.

Developing the industrial and technological base of European defence is key for more and better EU security, and the rare convergence between EU institutions and the main capitals offers now a unique window of opportunity for it. Since the publication of the "EU Global Strategy" by F. Mogherini¹, the EU has revived some defence

policy tools aiming at encouraging cooperation in the industrial and capacity field. By joining forces, by investing together, countries are cooperating in developing better capabilities to be less dependent on military supplies outside Europe and to have the capacity to intervene militarily in a credible way. Among these initiatives, the famous PESCO finally launched should enable willing Member States to pursue greater cooperation in defence and security; the European defence funds should finance joint research and development; the military mobility should ensure road and rail networks suitable for military transport; and the new budget line for security and defence (27,5 billions € and an increase in security by 40%) in the next MFF maintains the "political momentum". The conversion of a strong political will into ambitious initiatives is a first step.

However, being realistic, I am perfectly lucid about the colossal efforts that remain to be accomplished. These positive initiatives still need to be implemented in concrete and flexible measures, and this is not the case yet. In Brussels, divergence of views prevailed regarding the structure, the governance and even the relevance of these instruments. Some countries want these tools to remain ambitious and operational. Some others fear that the EU defence funds would only benefit French and German companies and want to open it to third countries. France wish these projects which are today mainly focused on industrial and capacity developments, to be more operational.

The euphoria that has accompanied the European awakening should be therefore taken with caution, pragmatism and lucidity.

Adapting to new threats for more and better European security is an ongoing and difficult process. This will not be achieved by ambitious declarations, but by concrete steps, sometimes modest but that always requires pragmatism and political will. We must hope to find a hard core of European countries convinced that it is possible to work together on the areas of capability and operation. We must hope to have very soon a common European doctrine allowing to intervene militarily together, with appropriate budgetary instruments. The European context is, at least today, favourable to creativity and political voluntarism. These cycles are reversible and unfortunately never very long, so we must transform this dynamic.

¹ A Global Strategy for the European Union's Foreign And Security Policy, Federica Mogherini,

High Representative of the Union for Foreign Affairs and Security Policy Vice-President of the European Commission, June 2016

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Defence efforts at the EU level in support of our armed forces



Michael GAHLER

EPP/CDU and Spokesperson on Security and Defence of the EPP Group

defence. A few points of orientations might be taken into consideration:

First we need to give priority to thoroughness and stop any hurry in building up EU defence efforts. It is of utmost importance in order to enlarge the knowledge base within the European Commission. They need to improve their knowledge in order to answer to legitimate demands from Member States on the demand side and defence industry on the supply side. Second, we need to broaden as well the knowledge base within the national ministries of defence when it comes to EU defence efforts.

Third, for increasing legitimacy on EU defence efforts the Commission needs to come up with bold thinking. Although art. 173 on industrial policy and art. 179/182 TFEU on research may be legally sound within the defence fund, someone has to wonder whether they will be sufficient for creating a high degree of legitimacy for the Union to embark on a role in support of defence. When the Commission's proposals on EDIDP got debated within the budget committee some Members were not able to deduct out of art. 173 a competence of the Union for defence. In order to reach a high degree of legitimacy it might be necessary to use art. 2 TFEU as an additional political and legal base. This article reads: « The Union shall have competence [...] to define and implement a common foreign and security policy, including the progressive framing of a common defence policy ». Based also on art. 2 the EU industry policy can be used « to support, coordinate or supplement the actions of Member States » also for the sake of the common defence policy!

Finally, it is important that EU defence efforts might not be limited to defence industrial support. Also the Commission needs to concentrate on a capability driven approach in service of Member States' needs. We will be only able to measure success of our EU investments in defence in 2040 when we expect that Member States will roll out for example the future combat air system (FCAS). If we realize in 2040 that a little tiny part of the FCAS benefitted from EU financial support leading to a cooperative project, we will have shown our success. This example highlights the important role of Member States actions.

It is them who remain in the driver seat on defence and in developing future military capabilities because it's them who define and fill the military requirements.

In conclusion, the primary objective is the support of our armed forces. The support to European defence industries is a secondary objective or put it differently a "collateral profit" because primarily European companies should supply European defence equipment.

In recent years the EU support towards strengthening European defence has been developed at the speed of light. A new mile stone has been achieved during the presentation of the Commission's proposal for next multi-annual financial framework (MFF) from 2021 to 2027. It is great that even the modest parliamentary demands in support of defence have been exceeded.

As it stands now it is up to the Member States to find quickly an agreement with consent of the European Parliament on agreeing to spend 19.5 billion Euros on defence. This figure breaks down to 13 billion Euros for the European Defence Fund including 4.1 billion Euros for cooperative research and 8.9 billion Euros for military development processes. In addition, the Commission plans to spend 6.5 billion Euros on improving military mobility within the European Union. The sequence of actions for the future is clear: first Member States have to approve the MFF; second, based on the Commission's legislative proposals in June, Council and the European Parliament have to start working on the legislative files for the European defence fund and the package on military mobility.

Since now we know the amount of money planned to be spent on defence we have to increase our efforts in finding legitimate, legally sound and practical solutions in support of

Airbus and European Defence



Nathalie ERRARD

*Senior Vice President
Head of European & NATO Affairs*

allow Europe to achieve economies of scale, to maintain European industrial know-how and ultimately ensure European strategic autonomy and freedom of action. Following this approach, Airbus can be a considerable asset for Europe, spearheading the research and development of European technologies and equipment in the defence sector and enabling Europe to compete globally.

The awareness of new threats has increased the will to defend common European interests and initiate robust and effective cross-border cooperation. Airbus strongly supports the various tools proposed by the European Union which could effectively accelerate cooperation in European defence. The Permanent Structured Cooperation on Security and Defence (PESCO), the European Defence Fund (EDF), with two complementary components of support for defence research and capability development, which together with the Capability Development Plan will contribute to create a Europe capable of protecting itself. Within this framework, Member States play a key role in the choice and definition of the content of these tools, determining the competences maintained at national level, those carried out within bilateral or limited cooperation, and those subject to wider cooperation under the aegis of the EU or NATO.

Airbus is a leading player in ensuring air superiority in future key areas such as air-to-air refuelling, multi-purpose maritime patrol aircraft, long-range surveillance unmanned aerial vehicles (UAVs), preparation of the future air combat aircraft, as well as replacement of the theatre of operations surveillance capability (AWACS). These will be key fields of activity by 2035, and will integrate interoperability and communication technologies. They will most probably take the form of a "systems of systems" involving the interaction of various complementary devices (satellites, high-altitude vehicles, UAVs and aircraft) via intelligent and highly secured clouds (with the capacity to process the raw information received).

European initiatives are the right answer if Europe is to remain a credible partner. The European Union must achieve the major political objective of acquiring the necessary resources to meet these technological challenges. Only in this way, will we ensure the security of individuals, of critical infrastructures and of economic development, and ultimately contribute to the well-being of all European citizens.

The European Union's involvement in defence programmes for the development of capabilities which complement national investment, has finally been recognised as a political necessity: the purpose is to ensure the security and defence of European territory and citizens. It is necessary to find European solutions to the specific threats to a borderless Europe and develop the corresponding defence capabilities. This would



French and German Minister Of Army visit Airbus at ILA Berlin 2018. The full-scale mock-up of the European medium-altitude long-endurance (MALE) remotely piloted air system (RPAS) was unveiled for the first time at the ILA Airshow 2018.

People: Dirk Hoke, Florence Parly, Eric Trappier, Ursula von der Leyen, Lucio Valerio Cioffi

What budget for the defence industry after 2020



Gonzalex PONS

MEP (Vice-chair EPP Group), Rapporteur on EDIDP for Budget Committee

Continental-sized powers such as the United States and China are now far better equipped than small or medium-sized states, making it clear that economies of scale are more important than ever to improve efficiency and effectiveness. It is estimated that the lack of cooperation between Member States in the field of defence and security costs between 25.000 and 100.000 million euro per year. **In other words, in this globalized world, Member States are simply too small to act on their own. That is why a strong European defence also requires a strong European defence industry.**

At the time when public support for the European Union is being questioned by some of the Member States, defence and security is an area where the individual and collective benefits of more Europe can be easily demonstrated, especially regarding the challenges that the European Union will face as a strategic actor after Brexit. We cannot leave part of this crucial task to our historical allies anymore. We need strategic autonomy more than ever.

The commitment reached and included in the Rome Declaration of 25th March 2017 is clear: *"To work towards a Union ready to take more responsibilities and to help in creating a more competitive and integrated defence industry."* In this sense, to provide the framework and the incentives for European Union countries to develop and maintain more and better military capabilities is only in our hands.

The foundations for a European Security and Defence Union are gradually being built. But, to be successful, we will have to work hard and make considerable progress in the following issues: more cooperation; common understanding of the threats and appropriate responses; increasing of the volume and efficiency regarding to the defence spending; and finally, we need to encourage industrial competition.

The European defence policy was identified as a key political priority in President Junker's political guidelines of July 2014. As a result, the European Commission has proposed the European Defence Action Plan, with new financial tools for capability development and defence cooperation such as the European

Defence Plan (EDF) and the Military Mobility programme.

Within the future Multiannual Financial Framework (2021-2027), the Commission has proposed 13.000 M€ (from 1,5 billion euro in 2021 to 2,8 billion euro in 2027) for the EDF. This funding will allow the improvement for competitiveness and European's defence industry capacity for innovation, by supporting collaborative actions between the Members in each phase of the industrial cycle.

Adding to the European Defence Fund, the improvement of its transport strategic infrastructures to allow a more developed military mobility through the Connecting Europe Facility (CEF). In this case, the total amount for the next Multiannual Financial Framework is 6,5 billion euro.

All of this sums up to the great commitment the Commission has towards security, since there is a proposal fund for internal security and to improve cybersecurity, reinforcements for Europol and Frontex, among others. For now, this is the Commission's proposal. The Parliament and the Council will have to decide over the final amounts. But there is a clear alignment among the three Institutions to pull forward this strategic dossier.

The maintaining of the defence of our values, liberties and rights is crucial at these moments. And they must be defended by the solidarity and willingness of all Member States. The challenges we have to confront today do not understand about national boundaries and they can only be prevented if we work together. The military spending cannot be a taboo subject anymore. We need to collaborate and we need to invest more, better and faster. What is at stake is not only the future of the Union, but our future as free and democratic societies.

Financing R&D for Europe's Defence and Security



Ambroise FAYOLLE

Vice President of the European Investment Bank

Terrorism, cyberattacks, war in Ukraine. In recent years there are crises all around us that pose a threat to Europe's security. Trouble is, Europe has neglected investment in security and defence for more than two decades. We must do more to respond to challenges that threaten the stability of our societies and the lives of our citizens. We believe Europe can contribute to global security and tackle new threats—without undermining EU cohesion and solidarity.

Let's start by addressing the investment gap in the security sector that has caused big backlogs in technology and development. This shortfall will require hundreds of billions of euros to fix. This is where the European Investment Bank can be an important factor. The Bank plans a big increase in investment for security projects that at once serve the civilian and defence sectors. These new investments will help Europe address its shortcomings, make the EU more autonomous, and complement the strengths of our NATO partners.

The ultimate aim is strategic autonomy, meaning that the EU would have the ability to act on its own and that its defence industry could produce everything the EU needs. Strategic autonomy requires the EU to catch up with global technology leaders in many industries. In other words, it requires technological autonomy—and a big increase in investment.

Low spending hurts research and development

Many years of reduced government spending have taken a big toll on European research



Alexander STUBB

Vice President of the European Investment Bank

and development in security and defence technology.

Research and development investment needs are enormous – an estimated additional 3 billion euros per year across 27 member states that will be left after the UK leaves the Union. Public budgets are still constrained, so investment on this scale requires alternative financing. To finance security and defence R&D, we need the capacity and willingness to take risks beyond those that institutional investors generally accept. And, we need patience as research develops into new products.

A full set of offerings

For two decades, the European Investment Bank has been financing R&D and innovation, from technology development with large industrial groups to focused industrial innovation investments with suppliers. We also invest in public research institutions. The EIB financial toolbox includes risk-sharing loans as well as new products, such as venture debt—highly subordinated loans with profit-sharing elements. With the European Commission, the EIB offers dedicated financing packages for particularly high-risk R&D to address investment needs in leading-edge technology that might not be commercialised for many years. We have a full set of offerings to meet the needs of Europe's security and defence.

There are some limitations. The EIB's policy framework, which has guided the Bank since its foundation in 1958, prohibits investment in fully fledged military projects. The Bank cannot invest in weapons and ammunition. It does not invest in military or police equipment. The Bank *can* finance "dual use" projects for

civilian and military purposes, such as lasers, computers, airplanes, helicopters, radars, rocket engines, vaccine research, airport and port security, digital communications, and telecommunications.

In December last year, the EIB Board of Directors approved a dedicated financing plan for security, the European Security Initiative. This initiative will focus on financing dual-use technologies and equipment beyond previous such projects in aerospace, defence and information technology sectors. Now the Bank will provide even more support to dual-use technologies.

Dedicated effort to help defence

Our Security Initiative is a big step for the EIB. The Bank is making a dedicated effort to support EU defence, while strictly respecting the limits on its activity. Under the initiative, the Bank will provide €6 billion in financing to Europe's security and defence sector over the next three years. The initiative will help us extend financing in four areas:

- dual-use R&D
- cybersecurity
- civilian security
- dual-use investments in EU initiatives, such as the Cooperative Financial Mechanism, coordinated by the European Defence Agency; or the new European Defence Fund, created last year to coordinate countries' investments in defence research

How are we going to target this extra financing? Discussions with EU member states and with companies across Europe confirm our expectations: The biggest financing needs are in areas that do not receive full government support. Primarily that means dual-use R&D for future security and defence technologies and equipment. We have learned that there are very few technologies earmarked only for military applications. Most R&D programmes mainly target civilian products. Examples include the wide range of digital technologies, artificial intelligence, 3D printing, or nanomaterials – all relevant projects for civilian use and security and defence.

The Bank is ready to help Europe's security and defence companies step up their investments in R&D with our proven financial expertise. We will combine this expertise with the capacity to take on extra risk. And we are in it for the long haul. EIB financing will reach the front lines of technological development, so that those who defend our continent will have the tools they need.

Consolidating the strategic autonomy of the Union through the future European Defence Industrial Development Programme (EDIDP)



Professor IOAN MIRCEA PASCU

MEP (Group S&D), Vice-President of the European Parliament, Rapporteur on EDIDP for AFET/SEDE

In June 2016, the EU Global Strategy (EUGS), published just days after the Brexit referendum, marked a more accelerated, ambitious phase in EU-level action in security and defence. The EUGS is built around the key concept of strategic autonomy, meaning mainly the Union's autonomy in decision-making in order to augment the EU's defence and enhance its role on the global stage and as security provider. Decision-making and operational autonomy have been the foundational goals of the Common Security and Defence Policy (CSDP) since its beginnings in St-Malo in December 1998.

European citizens' strong support for the EU to be more involved in protecting their security also led to unprecedented political momentum for strengthening the Union's ability to foster peace and safeguard security in Europe and beyond, by itself as well as together with trusted allies and partners.

As the EUGS argues, "A sustainable, innovative and competitive European defence industry is essential for Europe's strategic autonomy and for a credible CSDP." This is why the Union has implemented a set of substantive measures to support its Member States' defence industry. The European Defence Fund (EDF) is one of these innovative initiatives. The EDF comprises two distinct but symbiotic windows: the research window - the Preparatory Action on Defence Research

(PADR), now already in its second year of implementation - and the capabilities window - with the European Defence Industrial Development Programme (EDIDP) at its core.

EDIDP helps achieve the Union's strategic autonomy by consolidating the European defence industry and increasing its competitiveness. By supporting European defence firms - including SMEs and mid-caps - in the development phase of military capabilities and technologies, EDIDP is designed to bridge the gap between research and procurement of military capabilities. In synergy with its sister-programme, the Preparatory Action on Defence Research, EDIDP will provide a significant incentive to European research and development in the field of defence, it will boost cross-border cooperation and innovation and maintain the EU's military technological cutting-edge. While EDIDP is a two-year pilot project, it aims to be the spark for a more ambitious future EU defence-related programme.

The European Parliament, and AFET/SEDE on behalf of which I am rapporteur for EDIDP, is supporting the EDIDP's financial incentives for European defence companies to jointly pursue the development of innovative military capabilities and technologies which are necessary to defend the EU and its Member States against conventional and hybrid threats and risks.

EDIDP - and EDF more broadly - mark a highly relevant moment for our Union: the decision to invest common EU funds in defence-related research and capabilities development. In synergy with other initiatives such as Permanent Structured Cooperation (PESCO), EDIDP aims to make cooperation the norm in European security and defence by assisting and supporting Member States in spending wisely together, reducing duplication and making greater use of existing resources. Within two years EDIDP aims to increase the share of multinational collaborative defence development projects by European Member States based on commonly-agreed capability priorities and driven by a stringent need to increase the defence output of our investment.

We see the consolidation of EU strategic autonomy, including through programmes

like EDIDP as key for reinforcing transatlantic relations and the EU-NATO strategic partnership. The development of European capabilities will also answer persistent calls from the US for fairer transatlantic burden-sharing and for the EU to assume greater responsibility for security and defence in its turbulent neighbourhood. By consolidating the defence industry and the competitiveness and innovation of companies in Europe, the EDIDP will also contribute to reducing the transatlantic capabilities gap and strengthening the transatlantic defence market. Enhancing strategic autonomy, through EDIDP and other EU initiatives in the field of security and defence will thus strengthen EU-NATO cooperation and European contributions to the transatlantic Alliance. A stronger EU in security in defence is also a more reliable partner for NATO.

Much work remains to be done in the coming years of EDIDP implementation. The current political momentum will have to be maintained in the next MFF. The European Parliament welcomes these developments and will continue to offer constructive support to further progress. The lessons-learned from this year-long complex technical and political process, during which the Parliament and the Council contributed substantially to the text of the proposed regulation, have already addressed fundamental political questions on defence development, on cooperation between all actors, respectively EU institutions and the Member States as well as on transatlantic relations. EDIDP entering into force in January 2019 will be ground-breaking as one of the first pieces of European legislation in the field of defence and will contribute to the consolidation of EU strategic autonomy.

A strong industrial base to meet the EU strategic autonomy



Edouard MARTIN

MEP (S&D Group), Member of the ITRE Committee

The co-legislators are currently negotiating the European defence industrial development program (EDIDP), which should be active over the next two years, and will be followed by a larger scale program attached to the future multiannual financial framework (MFF).

Possibly to avoid controversy on the legal basis (industrial policy vs. external action), the EC's justification relies heavily on the need for a rather classical industrial "rationalisation". Indeed, it's a fact that there are many parallel national equipment programs, which sometimes compete on the same markets. But while the notion of sovereignty can be associated to many (base) industries which provide the core elements of our everyday life, it particularly resonates when it comes to the defence industry.

Yet, the innovations which the entire European Defence initiative yields are precisely materialised by the possibility to widen the circle of countries which are integrated and involved in the whole European defence effort. R&D projects including dual technologies are the vector of this effort made by at least a minimum of two or preferably three European countries in a context where the great majority of them are only a little or not involved in this industry.

With a starting 500 M€ budget which is insufficient but which will be three times bigger after 2020 at 1,5 billion €/y, the European Union begins to play a role not as a player but as a facilitator for European cooperation between Member States to give them a chance to compete

Even though the current program covers only R&D and prototypes, it already spurred concerns from workers' representatives who too often see a correlation between such "rationalisations" and overlaps as a slippery slope towards job destruction (and usually, rightly so!): a particular attention should be paid to avoid destroying domestic know-how while trying to build-up our continental capacities!

Another concern, possibly one of the trickiest issue we dealt with in the parliamentary debate, is the question of extra-EU participation and the status of IPR. As we know, a lot of European defence firms are close to large external players (particularly from the USA), directly through their capital or at least via specific programs. A compromise was found (which I find personally too generous already, even though I understand the need to gather a majority), which establishes a safeguard consisting in the maximum ring-fencing of the non-EU unit participating in a EDIDP project (from a management and information-sharing point of view) and a total ban on IPR transfer.

Then, there is the unresolved dilemma, which for me is really the elephant in the room: as it stands, it's not quite clear how the EDIDP projects would be logically linked with programmatic needs associated with a common strategic autonomy. It would be a failure if this bold European initiative was seen only as a way for certain Member-States who host defence industries -including France- to transfer a charge from their national to the EU budget while keeping a more or less direct individual control over the program. But how to mutualise the strategic choices? This question is probably at least as thorny as for other tricky fields (Eurozone budget...). What we can just see is that neither the European Defence Agency nor the Permanent structured cooperation -two arenas which are mentioned in the proposal- seem to be entirely up to

the task. An additional paradox is that those tools belong to Chapter V of the Treaty, which unlike industrial policy, keeps the only institution directly elected by the European citizens, at bay.

Those issues, already somewhat in the background of the relatively small and short EDIDP (500 million euros over two years), will be all the more important when it comes to the new, 7-year long program, which will probably be doted of around 1,5 billion per year (according to the European Commission!! A good reason to try and solve them as soon as possible if we're not to open the door to renewed and much more dramatic oppositions the next time around.

For a better synergy of defence programmes in Europe



Arturo ALFONSO MEIRIÑO
Director of OCCAR

In the long process towards a potential consolidation of the Common Security and Defense Policy (CSDP) of the European Union (EU), the recent years, especially after the European Council in December 2013, have been particularly decisive. The year 2017 confirmed, once again, that the leaders of the EU, supported by the Heads of State and Government in the meetings of the Council, have the clear objective not only of continuing to develop the CSDP, but also to use it as an element of cohesion of the Union at critical moments.

In the last decade, the economic crisis has negatively impacted in the defence budgets of the European Member States and we have seen a general lack of opportunities in terms of new major defence programmes, including a lack of European collaborative programmes. I believe the tide is now turning. Increasing defence budgets with the commitment to reach a 2% of the GDP in defence in the next decade made in the NATO environment as well as the announcements made by some EU Member States of new defence investment cycles and the European Commission (EC) initiatives derived from the European Defence Action Plan (EDAP) make me think we are at the verge of launching more European armaments programmes, and what is more important, cooperative programmes

In the words of the High Representative of the EU CFSP Federica Mogherini, the risk faced by the EU Member States derived from the scarce defence budgets managed by the EU Member States during the economic crisis has provided Europe with a good opportunity to reshape its defence spending; moreover, the Global Strategy, with its push for an European strategic autonomy in defence as well as the European Defence Fund (EDF) initiative launched by the European Commission, are calling us to cooperate more.

The direct consequence of that approach will be the strengthening of the European Defence Technological and Industrial Base (EDTIB) by making it capability driven, more technologically competent and globally competitive as a milestone in the way to achieve a highly capable European Armed Forces able to support the requirements of the CSDP.

OCCAR, being an Organisation for the management of complex defence cooperative programmes with seventeen years of experience in applying best practices and best tools for the management of armaments procurement in cooperation, is well placed to support this process. We know that cooperation is not always easy: harmonization of requirements, involvement of different decision makers (nations) and different processes and timelines in terms of budgets or capability planning are the hindrance to cooperation. But OCCAR unique features can support overcoming them.

OCCAR is a flexible organisation with European vocation as clearly stated in its Convention signed twenty years ago and ratified later by the Parliaments of the six OCCAR Member States. There is no need to be an OCCAR Member State to become a Participating States in one or more of the OCCAR managed programmes. Living proof are the, at present, 7 nations not being OCCAR Member States but being involved in our programmes. But OCCAR flexibility does not stop here. We can integrate new programmes, new programme Participating States in already existing programmes, or new phases of a programme. Moreover, we are a through life management organisation, so we can manage a programme during all the phases of its life cycle.

Our convention, the cornerstone of OCCAR, sets the principles of our organization. In addition the OCCAR Management Procedures (OMP) coordinated and approved by our Board of Supervisors, our highest decision making body, set a strong management framework; they have made possible the prompt integration of new programmes and new states. All these is reached with the continuous involvement of the nations through their participation in the Programme Boards (decisions at strategic level), and in the Programme Committees (decisions at operational level). We take very much into account the customer perspective, as our mission is to manage cooperative defence equipment programmes to the satisfaction of our customers.

Our Programme Divisions are empowered. Led by an autonomous Programme Manager that has received delegation from the OCCAR Director, each programme Division has a multidisciplinary team with expertise in all the domains required to manage the programme. Also the existence of a Central Office which support the different Programme Divisions in the different areas of programme management is a unique feature of OCCAR. The sharing of the lessons learnt in the different programmes through a Community of Practice allows also for a continuous improvement of our programme management procedures.

I sincerely believe the year 2018 will be a decisive year for European Armaments cooperation notably by the integration of Security and Defence budget into the Multiannual Financial Framework of the EU Commission for the first time in the more than sixty years of history of the Union.

OCCAR vision is to be a centre of excellence, and first choice in Europe, for cooperative defence equipment programmes on a Through Life Management basis. This, together with the level of expertise reached by OCCAR during its seventeen years of existence, makes me believe that OCCAR will play an important role in the context of the European Defence scenario, including but not only the EDF framework and in particular in the area of the capability developments..

The strategic importance of SMEs in the defence and security sector



Miroslav POCHÉ
MEP (S&D Group), Member of the ITRE Committee, Shadow rapporteur on EDIDP

The need to support SMEs has become something of a political catch-phrase of late, and one can argue at length whether this increased emphasis has proven a boon to them. There can be no doubt that our globalised economy has led to the emergence of several overwhelmingly large companies whose size alone is threatening the flexibility of the market and the very idea of free competition. In such a context, smaller entities might need help in various forms to survive and thrive. Such provisions have, in effect, been facilitating the development of open and free markets in “ordinary” lines of business for decades. The defence market, however, is markedly different and, by necessity, follows rules of its own.

There are only a handful of companies in the European defence sector, in which the industry’s famed “big boys” play a dominant role. In fact, the combined turnover of the market’s five largest players (BAE Systems, Thales, Safran, Finmeccanica, and Airbus) is larger than the combined turnover of all 1350 defence-focused SMEs doing business in Europe. There need not be much uncertainty about the names of those in a position to shape the future of the European defence market!

In spite of the overwhelming dominance of the “big boys,” SMEs remain crucial to the sector. In an era of active outsourcing, a

practice which is just as current in the defence industry as in others, SMEs play a vital role, especially in the management of the supply chain. Their laser focus often empowers them to work faster and more efficiently than larger companies. Furthermore, SMEs are endowed with immense creative and innovative potential, especially those that focus on cyber-security. It is, in fact, safe to say that all the advantages SMEs bring to the table in ordinary markets can be matched in the areas of defence and security. It is unfortunate, therefore, that the very nature of the defence sector impedes the flow of communication between large companies and their smaller partners-to-be — as well as between these innovative SMEs themselves.

This lack of communication and the resultant systemic inability to get to know one another are the biggest challenge we face today, as we strive to enhance the effectiveness and competitiveness of our defence industry. In this light, one of the EDIDP’s goals is to motivate larger defence companies — including, but not limited to the “big boys” mentioned above — to engage in more frequent partnerships outside of their parent state, including with SMEs. Unfortunately, most companies lack efficient processes to find the best partners in the proverbial European haystack — and such a lack of spontaneous communication can hardly be solved by legislating. We can, however, motivate companies to enter partnerships with SMEs and incentivise them to scout the market for innovative partners.

Making it financially rewarding to include SMEs in the EDIDP is a keystone of the scheme. This particular issue featured prominently during the negotiations between the institutions and many EU member states have expressed a keen interest in ensuring that the programme’s incentives are sufficient and genuine.

Both the Council and the European Parliament have suggested extending bonuses to consortiums incorporating SMEs. This suggestion, however, has led us down a path of delicate political questioning. How can we ensure that the largest players would play ball and genuinely collaborate with their junior partners, as opposed to merely ticking some

boxes on a form and confining them to the sidelines, with a view to “cashing in” on an easy bonus? The European Parliament believes that setting high engagement thresholds for these rewards to be unlocked would work as guardian against abuse. As of 25 April 2018, no settlement has been reached, but the direction in which the talks are going could not be clearer: we are committed to building a system of incentives that will empower SMEs to form genuine and mutually beneficial alliances with the larger players.

Once that incentivization scheme has been implemented properly — which necessitates that it remain straightforward — the role of SMEs in the defence sector cannot but rise. Meaningful partnerships will be formed and fruitful discussions will be resumed between the sector’s most engaged and innovative actors, irrespective of their size. We strongly believe that increased competition in the defence sector will heighten its potential for efficiency and innovation, ultimately boosting our defence capabilities. In a nutshell, such is the aim of the EDIDP.

The European Defence Fund – a potential game changer for European Defence



Burkard SCHMITT

Defence & Security Director, AeroSpace and Defence Industries Association of Europe (ASD)

Work on the European Defence Fund has progressed at impressive speed: The Preparatory Action (PA) on Defence Research, which started in 2017, is well on track with broad industry participation. After less than 12 months of negotiation in Council and Parliament, the adoption of the proposal for the European Defence Industrial Development Programme (EDIDP) is on the finishing straight. Workable solutions have been found also on thorny issues like eligibility criteria and SME participation.

From an industrial perspective, all this is highly welcome and encouraging. At the same time, two major concerns persist on the EDIDP: How will the envisaged co-funding between EU and Member States of a prototype work in practice? And, even more important, will the proposed funding scheme be sustainable? This latter point is crucial for the attractiveness of the programme, as the currently proposed 100% funding of eligible direct costs, plus 25% for indirect costs, is far from covering industry's real costs. Should the remaining part not be funded by Member States, companies would face considerable financial risks.

The bigger projects and financial volumes become, the more the proposed funding rate will be problematic (since the non-covered part of the costs grows proportionally). For the Preparatory Action, industry accepted the scheme for political reasons and because the budget is limited (€90 million); for the EDIDP budget of €500 million, the gap between eligible and real costs can become a major stumbling block; for the Defence Fund post-2020 with an envisaged budget of €13 billion, this issue will be critical.

At the time of writing, the proposal for the regulation establishing the Defence Fund post-2020 was not issued yet. The European Commission's intention to propose a single regulation for both the research and capability Windows is welcome, as it allows investments to be planned in a coherent way across the full development cycle. On substance, it is fair to assume that the new regulation will draw to a large extent on the provisions of the PA and the EDIDP regulation. The problem here is that the Preparatory Action is still running and the EDIDP has not even started. Consequently, the proposal for the future Fund can build on the

conceptual work that has been done so far, but it cannot draw lessons from the practical implementation of its precursors. This is far from optimal, but unavoidable given the time constraints on the way to the next MFF.

Time is of essence also for the forthcoming legislative process and the related preparatory work that will precede the launch of the Defence Fund in 2021. Politically, there are good reasons to push the legislative proposal as far as possible before the European elections in spring 2019. At the same time, attention should be paid to ensure that the necessary conditions are in place for a successful implementation of the Fund. From an industrial perspective, the following points seem particularly important:

The European Defence Fund will make a difference only if it supports key technologies that really matter for Member States capabilities and the Union's strategic autonomy. To identify these technologies and define the future priorities of the Defence Fund, a robust defence planning process must be rapidly put in place at the EU-level. The current revision of the EDA's Capability Development Plan (CDP), PESCO and the emerging CARD process will hopefully contribute in time to this endeavour;

The Defence Fund needs an appropriate governance that goes beyond traditional comitology. One particularly important aspect in this context is the role of industry: It is clearly for Member States to define their needs, but industry has the knowledge of what is technologically possible. It would be wise to draw on this knowledge when capability needs are translated into technology priorities;

Cooperative Defence programmes are by definition complex. With the EU coming into play, the risk is high that this complexity will increase even more and play against the declared intention to cooperate more and better than in the past. To mitigate this risk, it will be important to assess and learn rapidly from the experience of the EDIDP funded calls and actions;

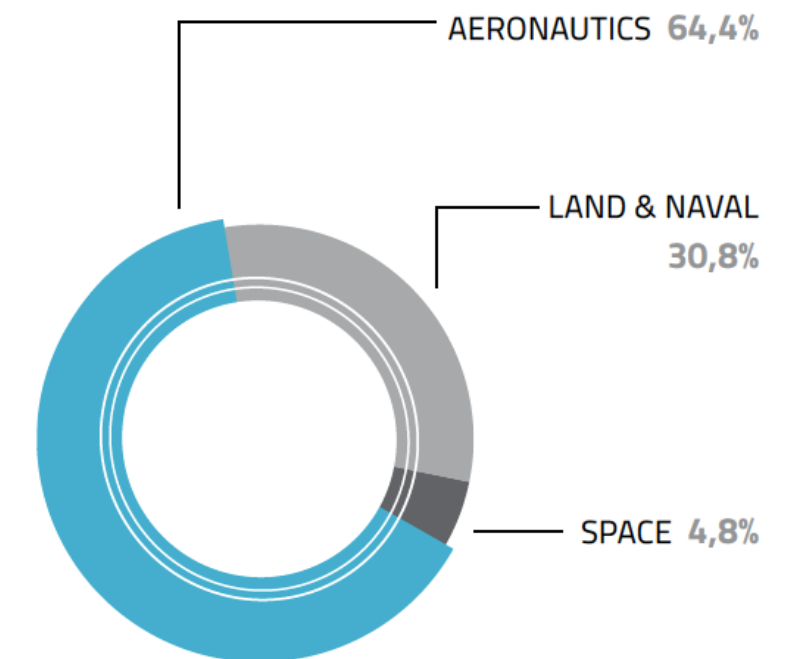
Finally, Brexit: As of March 2019, the UK will be a third country. However, not all third countries are equal, in particular in defence and security matters. In spite of all the difficulties

of the Brexit negotiations, there seems to be consensus across the Channel that both sides should continue to cooperate closely in these areas. Whatever form this cooperation will take, it may also include a possible association of the UK to the European Defence Fund. In this case, finding the appropriate terms and conditions for such an association would be another key challenge for the establishment and the implementation of the Fund.

To conclude: The European Defence Fund is an attempt to connect two very different and complex systems: the EU, on the one hand, and national defence establishments on the other. Both systems have their own specific and deeply-rooted functioning, traditions, rules and regulations. Moreover, this attempt is made in very short time and in politically difficult circumstances. The challenges are therefore numerous. However, it is also a unique opportunity. Missing it now would be a severe setback for European defence with long-lasting negative effects also for PESCO and CARD. It is therefore simply too important to fail.

EMPLOYMENT DEFENCE 2016

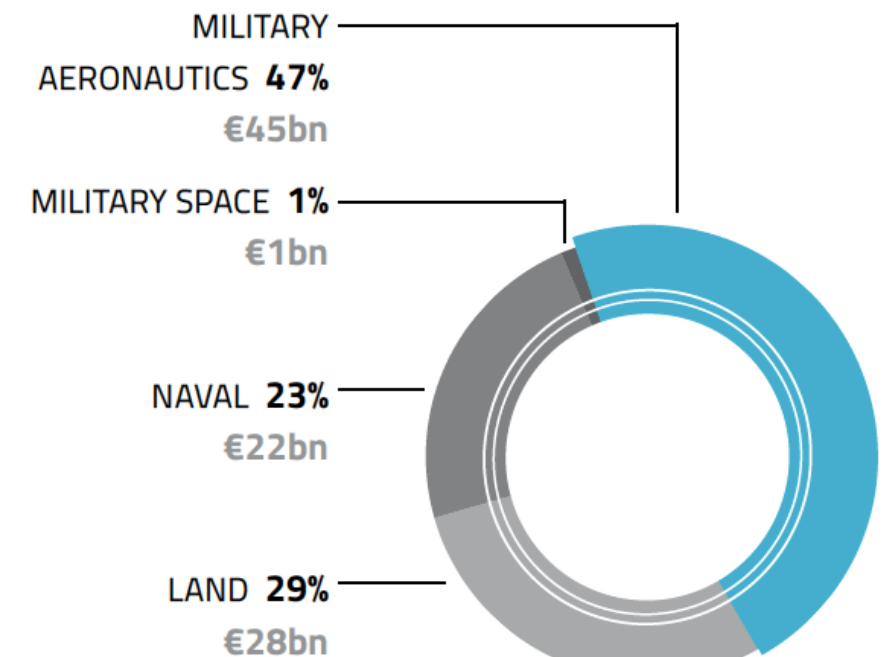
Total: 445,000



Source: ASD 2016 Facts & Figures, www.asd-europe.org/news-publications/facts-figures

TURNOVER DEFENCE 2016

Total: €96.5bn



Source: ASD 2016 Facts & Figures, www.asd-europe.org/news-publications/facts-figures

The Impact of Brexit on European Defence Cooperation and Defence Industry



Elmar BROK

MEP (EPP Group), Member of the AFET Committee

welcoming signal for a strong and continued cooperation: "Europe's security is our security. And that is why I have said – and I say again today – that the United Kingdom is unconditionally committed to maintaining it". Theresa May's words rest on the insight among all factions in the UK that a strategically isolated United Kingdom will be less secure. Apart from that, there is another reason why Europe does not need to be too concerned about the UK's withdrawal from the EU in terms of security and defence. As Federica Mogherini pointed out during the first phase of negotiations, the UK's contribution to the common security and defence policy (CSDP) is important but rather limited: only 3% to civilian missions and 5% to military operations, mainly referring to the headquarter in Northwood. Of course, as a third country the United Kingdom can no longer provide the headquarter for any future

will remain as close as possible. Against the background of current events in Syria, this was proven soon enough: President Trump called President Macron and Prime Minister May pondering a possible military intervention in response to a suspected chemical attack near Damascus. Eventually, Britain and France participated in airstrikes against Syrian research, storage and military targets in April.

In view of the above and with special regard to the European defence industry, it is unlikely that necessary investments in Europe's armed forces will be considerably stifled due to Brexit. As part of the European Defence Action Plan, the EU set up a European Defence Fund to support investments in joint research and the joint development of defence equipment and technologies. Proposed by President Juncker, this fund will be endowed with 1.5 billion



EU mission. However, the UK's contribution rather needs to be assessed from a different perspective: the Franco-British liaison as a driver for Europe's military strike and defence capability. This cooperation has always been important for Europe and fortunately, France and Britain intend to maintain these close ties despite Brexit. Emmanuel Macron's efforts on this year's Anglo-French summit to invite the UK to join a common intervention force is another clear indicator that the aforementioned ties

Euro per year (post 2020) supporting research and development in projects like Ocean 2020, ACAMSII, Gossra and Vestlife. Considering the maritime military research project Ocean 2020 for example, numerous Member States are involved, still including the UK's Ministry of Defence. Projects like the aforementioned require the expertise of high-technology defence industry companies, resulting in a win-win situation for both the EU and the companies involved making the EU one of the

major research defence investor in Europe. These expenditures are not only necessary to support EU's defence capabilities. They also represent practiced common security and defence policy in the EU which is highly endorsed by the European people as last year's Eurobarometer showed: in all Member States a clear majority is in favour of a CSDP amounting to 75% endorsement on EU-28 average. However, it remains unclear to what extent the UK can be integrated in this framework and therefore to maintain the UK's access to subsidies through the European Defence Fund after Brexit.

Yet another perspective needs to be considered in terms of trade, especially from an UK point of view. As PM Theresa May clearly pointed out in her speech at Mansion house in early March, the Brexit envisioned by the government will lead to a more or less limited

access to the EU's single market, accompanied by leaving the customs union. As for any export-oriented sector, this poses a possible threat to complex supply chains and just-in-time production concepts. During the past decade, the UK has been the second largest global defence exporter after the US and limited market access to the EU evokes reasonable concern as more than 90% of the sector's output is exported. However, having a closer look at UK's defence trade partners, it becomes apparent that the EU-27 is merely a minor importer of British defence goods. The list of the top ten importers is mainly composed of states of the Middle East and East Pacific while none European importer is among the top ten defence trade partners. Hence, it will be crucial for the UK's defence industry that British lawmakers strike favourable trade deals with other third countries like Saudi Arabia, India and Qatar.

Since the UK has lost its negative influence due to Brexit, 23 EU member states activated

statute for the permanent structured cooperation (PESCO) from the Lisbon Treaty. Thereby they founded a common headquarter, closer cooperation in planning and executing of missions, as well as coordinated procedures in research, development and procurement. In the framework of Brexit, the PESCO members will negotiate the manner in which the UK will participate in individual missions and projects. However, the UK will not be involved in governance and decision-making of PESCO.



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In conclusion, it is likely that the impact of Brexit will have only limited negative effects



EU BUDGET FOR THE FUTURE

#EUBudget #EURoad2Sibiu #FutureofEurope

2 May 2018

DEFENCE



WHY IS THIS A PRIORITY?

In a world where geopolitical instability in our neighbourhood is increasing, the European Union needs to take greater responsibility for defending and protecting its citizens, their values and way of life. The European Union cannot substitute Member States' efforts in defence, but it can encourage their collaboration in developing the technologies and equipment needed to address common defence and security challenges. The European Union is stepping up its contribution to Europe's collective security and defence, working closely with its partners, beginning with the North Atlantic Treaty Organisation (NATO).



WHAT DOES THIS MEAN IN FINANCIAL TERMS?

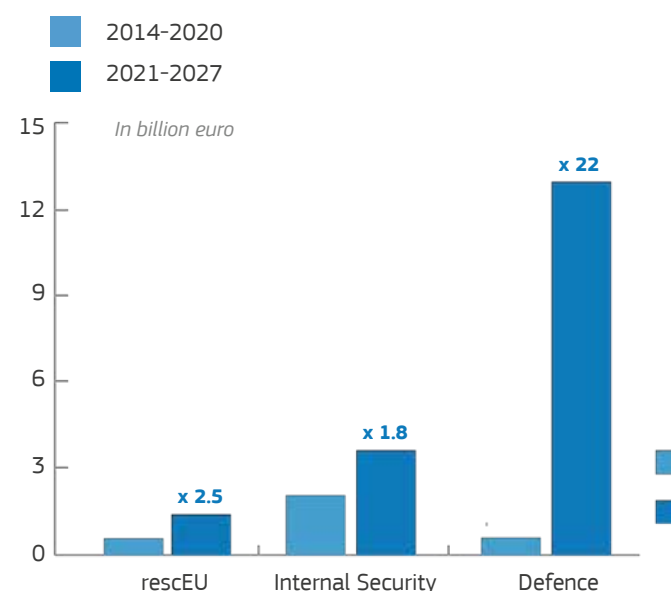
The Commission proposes a budget of **€13 billion** (over the 7 years period) be dedicated to the **European Defence Fund**. This will place the EU among the top 4 of defence research and technology investors in Europe.

Budget dedicated to the European Defence Fund

- €4.1 billion** ■ funding of collaborative defence research to address emerging and future security threats
- €8.9 billion** ■ co-finance collaborative capability development projects complementing national contributions



A step change for security and defence



Source: European Commission

UNTIL 2020

POST 2020



RESEARCH

Fully and directly funded from EU budget

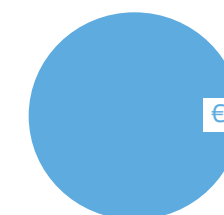
€90 million total



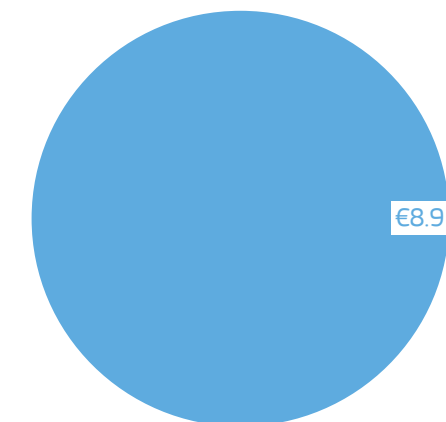
DEVELOPMENT

Co-financing from EU budget up to 20 %

€500 million total



€4.1 billion total



€8.9 billion total

€13 billion over 7 years



WHAT IS NEW IN THE COMMISSION PROPOSALS?

The Commission proposes a **European Defence Fund** to promote cooperation and cost savings among Member States in producing state-of-the-art and interoperable defence technology and equipment. Offering support for the research and development parts of the lifecycle will make sure that the results of research are not lost due to the lack of funding for developing and testing the technology. It will also avoid duplication, allow for economies of scale and result in a more efficient use of taxpayers' money. The fund will encourage the participation of small and medium-sized enterprises in collaborative projects.

In addition, the Commission proposes that the Union enhance its strategic transport infrastructures to make them fit for military mobility. A dedicated budget of **€6.5 billion** will be earmarked in the **Connecting Europe Facility**.



HOW ELSE WILL THE FUTURE EU BUDGET MAKE A DIFFERENCE IN THIS AREA?

- Boosting cooperation effectiveness with the new research and innovation programme **Horizon Europe** will ensure that results under civil research can benefit the development of defence capabilities and vice versa. This will help avoid unnecessary duplication.
- Ensuring close links between the European Defence Fund and the projects implemented within the framework of the **Permanent Structured Cooperation** in defence (PESCO). If eligible, PESCO projects will receive additional co-funding (30 % rather than 20 %), but funding is not exclusive or automatic.
- Supporting other defence-related activities through the **European Peace Facility**, an off-budget instrument proposed outside the Multiannual Financial Framework. The facility will aim to increase the EU's support to peace operations by third parties worldwide; to cover joint costs of Common Security and Defence Policy military missions (now covered under the Athena mechanism); to enable the EU to engage in broader actions aimed at supporting non-EU countries' armed forces with infrastructure, equipment and supplies or military technical assistance.

AUTHENTICATION
OF ALL PARTS & MATTERS

SENSITIVE
DOCUMENT
SIGNATURE



UNIQUE IDs
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