The European Defense Industry: Towards EU strategic autonomy
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.

"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.

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.

In order to foster the competitiveness and the innovative capacity of this sensitive industry.

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.

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 capacity.

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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Elmar Brok, MEP (EPP Group), Member of the AFET Committee
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

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 tackled by working together. And a majority of Europeans indeed wants more Europe in defence.

The changed geopolitical landscape was a wake-up call for Europe: we Europeans have to take responsibility for our own security and interest, 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 the pace and scale of developments and for the momentum that has been achieved. 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 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 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 European 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 risk to 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.

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.

The future of the European defence industry is the key to EU’s strategic autonomy.

Elżbieta Bieńkowska
Commissioner for Internal Market, Industry and Entrepreneurship and SME’s, European Commission

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 necessary 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, 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 Member 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 development of the EU’s transport infrastructure 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 defence and expand them through European cooperation within the EU.

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The strength of the European defence industry is the key to EU’s strategic autonomy.

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

The Fund’s aim is to complement national expenditure in research and capability development in defence industry and encourage defense 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 and scope. The Fund is going to change that. It’s turned out that cooperation between EU countries can be an efficient way of overcoming 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 and other relevant countries. The Fund will help create the right conditions for the competitiveness of our industry. The Fund is also going to help our businesses to gain a foothold in global markets.

The European Union is supporting and promoting cross-border cooperation in defence research and development. It is also aiming to increase the competitiveness and innovation of the European defence industry. The European Defence Fund is one of the measures adopted by the European Union to achieve these goals. The Fund is expected to boost research in the naval area, including integration of unmanned platforms in surveillance and interdiction missions.

The European Defence Fund has been created to support EU Member States in their efforts to develop and acquire new defence capabilities. It is a key component of the European Defence Action Plan, which aims to enhance the EU’s strategic autonomy. The Fund is designed to promote joint procurement projects in later stages of the development process, thereby reducing the burden on Member States. The Fund is expected to support cross-border cooperation in defence research and development, and to help European defence industries achieve strategic autonomy.
A strengthened European Defence: Swedish perspectives

Peter HULTQVIST
Swedish Minister of Defence

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 protectionist, 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 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 of 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. 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.

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.

Source: European Defence Agency (EDA), 2013, p.10.
Support the competitiveness and innovation capacity of the Defence Industry in Europe

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 reparation 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 technical excellence. 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 Defense Fund: ensuring industrial independence in Europe

The European Defense Fund: 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 able to launch 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 substantial 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 10 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 incentivized to cooperate. Logically and naturally, this will create economies of scale and harmonization 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 our-maneuver 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

European leaders realise that providing European security is best done together as individual Member States cannot handle today’s security threats on their own. Lack of cooperation between Member States in the security and research domain is estimated to cost between €25 - 100 billion a year. Here, the United States have a considerable advantage. For example, the three main US defence contractors, Boeing, Lockheed Martin and Raytheon – cost €30 billion to develop, compared to €19 billion for development of the US-led F-35 Joint Strike Fighter. Given this, it is understandable how worldwide sales, developing the three European aircraft costs more than 4 times as much as the US solution per unit sold.

The EDF was launched, aiming to help boost the European defence industry, its efficiency and technology for cooperation frameworks and research in the form of a European defence innovation program. To date, the European Defence Innovation Programme has proposed a budget of €4.1 billion for research activities and €8.9 billion for development projects for the period 2021-2028. For Member States to pursue greater cooperation in defence and security, the European defence funds should finance joint research and development projects. The implementation of this concept will enable European countries to work together and increase efficiency and eliminate unnecessary duplication in defence spending.

Change won’t come easily. The defence sector is highly competitive and risk-averse. Industry seeks to reduce the risks 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 sides. Industry and the Member States to join forces at the EU level by creating the framework to make cooperation attractive. Member States should pool and integrate their industrial and technological talents and compete globally, it must pool and integrate to gain the advantage in 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 demonstrated substantial interest. 169 entities from 25 Member States and Norway were invited in 24 proposals. Only five proposals could be retained for full funding. This project worth €35 million funds on technology to support the development of future equipment, services and systems. The European Defence Fund was launched, aiming to help boost innovation in the defence sector. The European Commission was asked to lay down responsibility of the Member States. This is considered as priorities by others. This autonomy should be seen as a European ambition, part of the multilateral framework, closely aligned with NATO and the US.

Nevertheless, moving towards more autonomy and more cooperation among European countries will be slower and more complex than the heart of each country’s sovereignty, decision-making process, alliances, institutional system and defence economics. All Member States will be to converge strategic cultures that are still too heterogeneous. Each country has its own institutional system leading to different rules of engagement. However, the European strategic environment has led to any concrete crises nor the rapid deterioration of EU security, and the rare convergence between 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 a few countries, making the rest look onto it third countries. France wishes these projects which are today mainly focused on industrial and research capabilities to be less dependent on their traditional partners, moving towards more strategic autonomy.

The implementation of this concept will enable European countries to work together and increase efficiency and eliminate unnecessary duplication in defence spending. The European Defence Funds will focus on technology to support defence projects in Europe. The funding, including the recently launched Defence Fund was launched, aiming to help boost the European defence industry, its efficiency and technology for cooperation frameworks and research in the form of a European defence innovation program. To date, the European Defence Innovation Programme has proposed a budget of €4.1 billion for research activities and €8.9 billion for development projects for the period 2021-2028. For Member States to pursue greater cooperation in defence and security, the European defence funds should finance joint research and development projects. The implementation of this concept will enable European countries to work together and increase efficiency and eliminate unnecessary duplication in defence spending. The European Defence Funds was launched, aiming to help boost innovation in the defence sector. The European Commission was asked to lay down responsibility of the Member States. This is considered as priorities by others. This autonomy should be seen as a European ambition, part of the multilateral framework, closely aligned with NATO and the US.

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The implementation of this concept will enable European countries to work together and increase efficiency and eliminate unnecessary duplication in defence spending. The European Defence Funds was launched, aiming to help boost innovation in the defence sector. The European Commission was asked to lay down responsibility of the Member States. This is considered as priorities by others. This autonomy should be seen as a European ambition, part of the multilateral framework, closely aligned with NATO and the US.

Nevertheless, moving towards more autonomy and more cooperation among European countries will be slower and more complex than the heart of each country’s sovereignty, decision-making process, alliances, institutional system and defence economics. All Member States will be to converge strategic cultures that are still too heterogeneous. Each country has its own institutional system leading to different rules of engagement. However, the European strategic environment has led to any concrete crises nor the rapid deterioration of EU security, and the rare convergence between 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 a few countries, making the rest look onto it third countries. France wishes these projects which are today mainly focused on industrial and research capabilities to be less dependent on their traditional partners, moving towards more strategic autonomy.
Airbus is a global leader in aeronautics, space and related services with a workforce of around 134,000. Airbus offers the most comprehensive range of passenger airliners from 100 to more than 600 seats. Airbus is also a global leader in providing tanker, combat, transport and mission aircraft, as well as Europe’s number one space enterprise and the world’s second largest space business. In helicopters, Airbus provides the most efficient civil and military rotorcraft solutions worldwide.

Together. We make it fly.
Defence efforts at the EU level in support of our armed forces

In recent years the EU support towards strengthening European defence has been developed at the speed of light. A new milestone has been achieved during the presentation of the Commission’s proposal for next multi-annual financial framework (MFF) from 2021 to 2017. 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 the European Commission on the supply side. Second, we need to broaden the knowledge base within the national ministries of defence when it comes to EU defence efforts.

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 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 deduce 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).

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 benefited from EU financial support leading to a cooperative project, we will have shown our success. This example highlights the importance role of Member States actions.

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 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 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 and European Defence

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 or 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.

French and German Minister of Defence Visit Airbus at ILA Berlin 2018.

Nathalie ERRARD
Senior Vice President
Head of European & NATO Affairs

Michael GAHLER
EPP/CDU and Spokesperson on Security and Defence of the EPP Group
Europe is facing a real challenge on main- taining its borders. The increase of instability and conflicts, not only in our neighbourhood but worldwide is a major threat. Security cannot be guaranteed in a world where global and regional powers rearm, terrorist hit at the heart of cities in Europe and around the world and cyber-attacks rise exponentially.

The South, ISIS and other terrorist organisations are proliferating in the Middle East and North Africa, bringing instability and insecurity through the area. While to the East, Russia is investing 4.5% of its GDP and insecurity through the area. While to the East, Russia is investing 4.5% of its GDP and higher to our own security. Trouble is, Europe has neglected investment in security and defense 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 defense 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 defense 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 and development in security and defense 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 defense 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 projects, for security, the European Security Initiative. 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 defense 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 defense 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.

Terminology, 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 defense 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.

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 efficacy 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 Juncker’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 defense cooperation such as the European Defence Plan (EDP) and the Military Mobility programme.

Within the future Multiannual Financial Framework (2021-2027), the Commission has proposed 13.000 Me (from 1.5 billion euro in 2021 to 2.8 billion euro in 2027) for the EDP. 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 Eurapol 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 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.

Continental-sized powers such as the United States and China are now far better equipped than small or medium-sized states, making the case that economies of scale are more important than ever to improve effi- ciency and effectiveness. It is estimated that the lack of cooperation between Member States and unequal field of defense and defense spending costs between 25.000 and 100.000 million euro per year. In other words, in this globalized world, European 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 its Member States, defense and security is an area where the individual and collective benefits of more Europe can be easily dem- onstrated, 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.

Other problem that Europe is facing is the migration crisis at the Southern and Eastern borders, which raises huge challenges for the EU and the uncomfortable truth is that European Union security and must be addressed collectively.

What budget for the defence industry after 2020

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Military spending in European countries is the second largest in the world, behind the United States (around 200 billion euro). But the uncomfortable truth is that European countries are unable to avoid the deterioration of their security environment because of the fragmented defence policies that create inefficiencies and obstruct their force projection.
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 concept of strategic autonomy, meaning 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 a security actor. This approach is central to several assumptions that 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 is more involved in and active in the security and defence 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 CSUP.” 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 in a 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 in 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 a faster 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 legal 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.

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 Members 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. 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 precisely materialised by the possibility to widen our national equipment programs, this also too often see a correlation between such “rationalisations” and oversizes 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 am personally not too Ronald Reagan already, even though I understand the need to gather a majority, which establishes a framework for the cross-border cooperation and 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 is to me 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 do not need defence industries - including France - to transfer a charge from their national to the EU budget while keeping a more or less direct autonomy. 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 do not need defence industries - including France - to transfer a charge from their national to the EU budget while keeping a more or less direct autonomy. How to manage this debate, is the question probably at least as thorny as for other tricky fields (Eurozone budget ...). What can we 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.

A strong industrial base to meet the EU strategic autonomy

The co-legislators are currently negotiating the European defence industrial development programme (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.

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

The European Defence Industry: Towards EU Strategic Autonomy
For a better synergy of defence programmes in Europe

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 Strategic Framework 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 elements 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 organisation. 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 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 the continuous involvement of the nations.

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 EDTIB framework and in particular in the area of the capability developments.

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 marked 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.

Once that incentivisation 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, it is to the aim of the EDTIB.
The European Defence Fund – a potential game changer for European Defence

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 later 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 development cycle. On substance, it is fair to assume that the new regulation will 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 EDIDP’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.

Burkard SCHMITT
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The Impact of Brexit on European Defence Cooperation and Defence Industry

When the former Prime Minister David Cameron declared his favour for an in-or-out referendum in 2013, little did we know what was ahead of the UK and the EU-27. Three years later a very narrow majority in the United Kingdom voted to leave the EU, setting in motion a chain of negotiations and events with the aim – for the first time in the history of the EU – to thoroughly diverge close partners and their common acquis. We negotiated three main aspects during the first phase: the UK’s financial obligations on leaving the EU, the rights of EU citizens living in the UK and of UK citizens living in the EU and the question of how to deal with the border on the Irish island. While the European Council determined that sufficient progress had been made by the end of last year, we are currently negotiating the completion of the withdrawal agreement and our future relationship with the UK. Hence, security and defence cooperation is one of the aspects that are currently being discussed in phase two of the negotiations.

The withdrawal of the United Kingdom from the European Union prompts important questions in terms of the EU’s security and defence policy. PM Theresa May not only intends to leave the EU’s single market and customs union. She also wants to strike a new customs union. She also wants to strike a new trade agreement, which would allow the UK to continue to enjoy the benefits of the single market. This would require the UK to join the European Union, which is currently being discussed in the context of the EU’s efforts to deal with the current and new economic and defence policy. However, her commitment corroborated at this year’s Munich Security Conference is a 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 mission. However, 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 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 global 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.

In conclusion, it is likely that the impact of Brexit will have only limited negative effects on the EU’s investments in defence. To the contrary, for the EU Brexit could even constitute a welcoming point of departure for a more ambitious defence cooperation between the remaining member states and thus leading to more investments in the military sector. Concerning UK’s defence industry, two main challenges emerge after Brexit: limited access to the EU’s single market and limited access to EU subsidies for military R&D projects. However, as both the EU-27 and the UK have a common fundamental interest of each other’s defence – as it is impossible to separate UK’s security from the continent’s security and vice versa – the upcoming negotiation rounds seem to be promising in terms of laying the ground for an ambitious defence cooperation after Brexit.

Since the UK has lost its negative influence due to Brexit, 23 EU member states activated statute for the permanent structured coop- eration (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.
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

- €13 billion
- €90 million total
- €500 million total
- €4.1 billion total
- €8.9 billion total

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?

1. 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.

2. 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.

3. 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.
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