Considerations on further initiatives to strengthen the European defence industrial and technological base

Introduction

The Russian invasion of Ukraine marks a turning point for the European Union and its Member States. This is true in particular for defence and security.

At their summit in Versailles in early March, EU Heads of State and Government stressed, among others, the need to invest more and better in defence and invited the European Commission to “... develop proposals for any further initiative necessary to strengthen the European defence industrial and technological base” (EDTIB). This paper presents industry’s initial considerations on such initiatives.

State of play

Any discussion about the content of possible initiatives should start with the objectives that we want to achieve. The core mission of the EDTIB is to support European armed forces in fulfilling their tasks. To accomplish this mission, we believe that the EDTIB must be able to perform four functions:

1. **Deliver** at all times and under any circumstances the required defence equipment and related services (maintenance, repair and overhaul);
2. **Improve** key defence technologies and their applications and develop new, enhanced versions and the next generations of those;
3. **React** to newly emerging technological trends and breakthroughs by competitors and potential adversaries;
4. **Challenge** competitors and potential adversaries by developing innovative concepts, disruptive technologies and totally new applications.

These four functions are very much intertwined and interdependent, and cover short-, mid- and long-term perspectives. The better the EDTIB can perform them in a cost-efficient and competitive way, the more reliable and fit for the future it is.

Today the EDTIB performance on “D.I.R.C.” is limited, due to decades of fragmentation and under-investment in both R&D and acquisition. Technological excellence and the ability to “improve”, “react” and “challenge” exist in certain areas and to different degrees, depending on where and how Member States have invested. Due to reduced production capacities, the ability to “deliver” is also limited and would probably not be sufficient to supply European armed forces with the necessary volumes for and during any large-scale military conflict.

Initiatives to strengthen the EDTIB should therefore aim at enhancing industry’s capacity to fulfil these “D.I.R.C.” functions. As dominant customers, regulators and sponsors, Member States play the decisive role in shaping the EDTIB. The European Union can contribute with its own policies and instruments.
On the one hand, the EU coordinates Member States’ action and promotes cooperation. This is particularly important now that Member States have decided to increase their national defence budgets and address certain capability shortfalls as fast as possible through off-the-shelf purchases. We believe that it is of utmost importance to coordinate these national efforts at the European level to ensure that they do not lead to additional fragmentation and duplication or favour non-European solutions when competitive European alternatives are available. High priority actions must not be slowed down, but they should not undermine long-term projects and commonly agreed strategic objectives.

At the same time, the EU can mobilise its policies and programmes to support key technologies, improve resilience and reduce dependencies. In recent years, the Union has launched numerous initiatives that are potentially extremely useful for strengthening the EDTIB. These include the European Defence Fund, the Action Plan on Synergies, the latest Defence Package and the Strategic Compass. These initiatives are today more important than ever for fostering cooperation between Member States and supporting the EDTIB.

**Recommendations**

Our first recommendation for strengthening the EDTIB is to **fully implement what was recently agreed in the Strategic Compass**. We consider it of utmost importance that Member States stick to their commitment to invest not only more, but also better. This implies a general overhaul of the way we cooperate and should start with an action plan to streamline both at national and European level procedures for the definition of military requirements and procurement.

Our second recommendation is to **(re)interpret some of the existing initiatives in light of the war in Ukraine**. This means to pursue their objectives with a new sense of urgency, accelerate their implementation as much as possible and mobilise additional funding wherever possible. We are fully aware of constraints from established legal frameworks and procedures, but we also believe that the current situation fully justifies **not** doing business as usual and striving for unconventional and fast-track solutions, where needed.

Our third recommendation is to **address both short-term challenges and longer-term needs**. It is true that the EU normally operates with a mid- to long-term perspective, and most decisions that are taken today will anyway bear their fruits only after several years. However, the EU also has a proven ability to (re)act fast and innovatively when needed (see the purchase of COVID vaccines or the recent military support to Ukraine through the EPF). It should therefore not shy away from addressing urgent challenges and use them also as an opportunity to initiate structural changes of its modus operandi.

In order to enhance the D.I.R.C. performance of the EDTIB, both existing and possible new initiatives should be targeted towards the following priorities:

I. **Develop the next generation of operational capabilities and required technologies**: innovating and investing in cost-effective, technologically and operationally superior and interoperable solutions for key defence capabilities will remain the main challenge to strengthening the EDTIB.

II. **Build the industrial capacity to rapidly ramp-up production when needed**: The EDTIB is currently sized for peacetime operations, i.e. low production cadence. However, symmetric conflict means attrition, which raises the question of both stocks and flux (equipment quantity at T0 and equipment produced during the conflict). In a post-Ukraine environment, the EDTIB must be enabled to rapidly meet sudden increases of demand in crisis time.
III. **Reduce critical dependencies along defence value chains:** This ranges from access to critical raw materials to the supply of critical components, subsystems, etc. It also includes the financial and economic stability of the industrial supply chain and the availability of sufficient skills to meet current and future capability and technological requirements.

Against this background, we would categorise further initiatives to strengthen the EDTIB as follows:

- **Strengthen and adjust existing initiatives.** The obvious example of this is the European Defence Fund. We appreciate the elements proposed in the recent Defence Package but do believe that more ambitious action is needed. First, we would recommend using the flexibility of the current MFF to **significantly increase the EDF budget**, at least to the initially proposed €13 bn. Second, we propose to make the EDF as a matter of priority **more strategic** (introduce multi-annual work programmes, identify a limited number of adequately funded flagship projects), **more reactive** (increase budget line for SMEs and disruptive technologies, organise open calls to speed up reaction to innovative ideas, define fast track procedures for urgent projects, ...) and **more efficient** (optimise defence transfers for EDF projects, harmonise the IP framework, define sustainable solutions for handling classified data, etc.)

- **Accelerate the implementation of ongoing or planned initiatives.** Obvious examples are the Action Plan on Synergies and the Roadmap on critical technologies, which contain highly welcome intentions but lack clear timelines and milestones for implementation. The **Observatory of Critical Technologies** in particular should be considered as a top priority. The Observatory should be made operational as soon as possible with a robust system to protect sensitive information. It should receive all the necessary resources to fulfil its mission and prioritise in its work as a matter of urgency the assessment of critical dependencies in strategic defence supply chains, for both dual-use and pure defence technologies.

- **Extend the scope of existing initiatives.** One example here would be the lending policy of the European Investment Bank (EIB). We welcome the recent Strategic European Security Initiative (SESI) that supports dual-use RDI, civilian security infrastructure and cutting-edge technology. However, in light of the Russian invasion of Ukraine, we believe that the moment has come for Member States to **change the EIB lending policy** and lift the exclusion of core defence activities and revise the SESI accordingly.

- **Redirect intended initiatives.** In the recent defence package, the Commission announced its intention to further incentivise joint procurement and to explore, in the interim evaluation of the EDF, a possible amendment of the EDF regulation (Art. 13) to reinforce the bonus system for Member States’ commitment to jointly acquire defence capabilities under development. In the new security environment, we would suggest extending this approach and disconnect it from the EDF, at least for a transition phase. Concretely, the EU could establish a **bonus system for joint procurement** (by a minimum of three Member States) of any defence equipment (including off-the-shelf), provided that the equipment addresses commonly agreed capability shortfalls and has been designed, developed and produced in Europe. This system would be inspired by the Internal Security Fund (ISF) and financed through a dedicated EU Fund. It would help to address short-term capability needs and strengthen the EDTIB. For a start, it could be used for the equipment needs of the new EU Rapid Deployment Capacity.
• **Launch new initiatives.** This category would target challenges that have not been addressed yet. Particularly important in this context is the capacity to ramp up defence production in times of crisis or war. Strengthening this capacity entails a broad range of aspects, from the establishment of strategic stocks (of critical raw materials, components, spare parts, etc.) to emergency plans or allowance of unused reserve capacities. The possibility of a European Defence Priorities and Allocations System to address urgent shortages should also be explored.¹ The EU could establish a Master Plan to address all relevant aspects in a comprehensive way and support certain activities financially (strategic stocks).

**Conclusion**

In his press conference following the Versailles summit, President Macron announced for late May/early June an extraordinary European Council meeting to build, based on the Commission’s analysis and proposals, a truly European strategy on defence investment and industrial capabilities. We consider this as a unique opportunity to achieve a quantum leap in the way Europe supports its defence technological and industrial base.

In this note, we stress that such a strategy should define certain key objectives (D.I.R.C.) which would guide and give coherence to short-, medium- and long-term actions of both the European Union and its Member States. We also listed some initial ideas for further initiatives that could help to make the EDTIB fit for the challenges following Russia’s invasion of Ukraine. We realise that these ideas need to be spelled out in greater detail and stand ready to engage in a dialogue with the European Commission and Member States on how to turn them into reality.

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[signed by] Jan Pie, Secretary General of ASD
Brussels, 14 April 2022

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¹ Such a Defence Priorities and Allocations System exists in the U.S. The American DPAS is used to prioritise national defence-related contracts/orders throughout the U.S. supply chain in order to support military, energy, homeland security, emergency preparedness, and critical infrastructure requirements. See Defense Priorities & Allocations System Program (DPAS) (doc.gov).