



PT Non-paper

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The future of European Defence Economy and the role of defence industries

As Jean Monnet once said, “Europe will be forged in crises, and will be the sum of the solutions adopted for those crises.” In recent years, bold decisions led to the establishment of current instruments. EU defence initiatives have started to demonstrate progress towards more European strategic autonomy. And yet, the economic and health crises the Member States now endure might eclipse this momentum. This is a pivotal political moment to ensure that Europe delivers on defence. The commitment of unlocking the potential of European defence cooperation and working on current opportunities for an enhanced European defence industry must not freeze nor decelerate with the current crises. This non-paper makes proposals to enhance the European Defence Technological and Industrial Base with impact both on the European defence capabilities and on the economic development and employment.

Political Commitment and Financial Resources are key to sustain Europe's security and defence

The pandemic highlighted the need for more defence cooperation, as the current security environment requires modern and well-equipped armed forces that can respond rapidly to old and new threats, and which are supported by a strong and competitive European Defence Technological and Industrial Base (EDTIB). In addition, the exemplary performance of European armed forces during the pandemic in assisting civil authorities, delivering medical supplies, transporting patients, providing hospitals and medical experts, shows why Member States need armed forces with a comprehensive range of capabilities to effectively ensure the security of European citizens in the 21st century.

The current crisis cannot overshadow the lessons learned from the recent eurozone crisis. Only just recently have European defence budgets begun to recover from a long period of disinvestment with long-term implications, including loss of technological capabilities and critical industries, increased dependency on third countries, and gaps on research and development. Disinvestment can ultimately lead to an erosion of the EU's scientific, industrial and technological base, precisely the skills needed to ensure Europe's resilience against all sorts of crisis and leadership on a global scale.

As lessons learned from previous crises taught us, reversals, underinvestment, or delays in modernisation efforts and equipment procurement harm the defence industry and the ability of European states to act



decisively against threats. The lack of state investment undermines national export opportunities, research and development, and technological advancements; consequently, it has a negative effect on employment and the quality of the military goods available to Europe's defence.

Competitiveness in the EU's Defence industry is necessary for a credible Common Security and Defence Policy and European strategic autonomy, as well as for credible, capable, and interoperable armed forces. Ensuring political commitment and appropriate financial resources are two fundamental preconditions to sustain the European level of ambition in security and defence established in 2016. They are also key to staying in the course delineated by the European Council in 2013: "to deepen defence cooperation by improving the capacity to conduct missions and operations and by making full use of synergies to improve the development and availability of the required civilian and military capabilities, supported by a more integrated, sustainable, innovative and competitive EDTIB. This will also bring benefits in terms of growth, jobs and innovation to the broader European industrial sector."

The European Defence Technological and Industrial Base (EDTIB) must be more than the sum of national capabilities

The momentum that European Defence has been experiencing in recent years relies on a wide recognition of the EDTIB as a vital element of the EU's strategic toolbox. In 2007, the Ministers of Defence agreed on the Strategy for the European Defence Technological Industrial Base and called for a "truly European DTIB" that would be "something more than a sum of its national parts." The envisioned EDTIB would be capability-driven, competent, competitive both within and outside Europe, closely integrated with the wider, non-defence European technological and industrial base with less European dependence on non-European sources for key defence technologies.

Some European defence efforts, such as EDA's work, or the Commission's European Defence Action Plan (EDAP) have addressed this ambition. Nevertheless, the current security environment, Brexit, as well as new developments on the European defence domain, such as PESCO, EDF, the creation of DG DEFIS, and the development of the Strategic Compass, **call for a thorough realistic assessment of the state of the current EDTIB, followed by a revised Strategy for the EDTIB.** It is time to define the EDTIB; i.e., its scope, capabilities, competencies, key strategic defence assets, the security of supply, as well as regional distribution and characteristics of European SMEs.

Firstly, the status quo suffers from major knowledge gaps, as well as insufficient information and data available to provide an accurate comprehension of the ecosystem and the state of the art that guides and supports the decision-making process and the development of policies and instruments, including those related to European Defence Research programmes. Secondly, these elements would allow the EU to amplify the level of application, to accumulate information and knowledge, scrutinize and analyse alternative policies and



instruments, identify inconsistencies, and overcome limitations. Thirdly, the knowledge generated by the assessment would have an effective added value in operational, technological, economic, and social dimensions, as well.

It is our understanding that EDA and DG DEFIS, in articulation, should assess the EDTIB. Subsequently, the revision of the Strategy for the EDTIB should be initiated in order to support decision-making policies and procedures, improve the participation and representation of various sectors, and reinforce the EC and EDA platforms.

A Coherent approach, from priorities to impact - our proposals to enhance the Defence Economy

The long road to unlocking the potential of defence cooperation encompasses a better-consolidated demand for defence industrial products, greater synchronisation of the defence planning cycles, and the enhancement of CARD. To pursue the path agreed at the EU level, it is necessary to:

- Strengthen research and development;
- Safeguard the Member States' and the EU's industrial capacity;
- Produce cutting-edge military technologies;
- Bridge the gap between civil and defence industries;
- Promote an inclusive dialogue at various levels and among different stakeholders of the European defence ecosystem – including industry, research, and technology;
- Boost public information regarding policies, instruments, and mechanisms available in different organisms to support SMEs, clusters, and regions;
- Level the playing field;
- Strengthen the coherence and efficiency of the European defence planning system – CDP, CARD, PESCO, and EDF – while ensuring coherence with NATO's defence planning process.

To ensure appropriate representation of the EDTIB's intergovernmental dimension, **EDA and DG DEFIS should carry out a more active role in shaping the EDTIB.** To respond to Europe's defence needs, to accomplish substantial progress, and to take advantage of dual-use benefits, the EDTIB will have to work in close cooperation with R&D. It would equally benefit from close cooperation with non-traditional defence R&D actors, in areas that could include robotics, AI, quantum technology, but also biosciences, genetics, and neuroscience, combined with ICT and nanotechnology. For the military, the application could lie in training, operations planning, and simulators. Despite the new instruments, SMEs still suffer from the absence of a European level playing field that ranges from information, to acknowledgement or participation, and to obtaining access to cross-border markets.

We propose setting-up an EU Industrial Advisory Group, similar to NATO's Industrial Advisory Group (NIAG), composed of representatives of the 27 Member States, which could meet regularly to contribute to the consolidation of European Defence and advance the European defence industry. This step forward in



institutionalizing industrial cooperation can boost industrial and scientific collaboration and enhance defence research cooperation, pooling efforts and resources both in future projects within the scope of PESCO and EDF and outside in ad hoc joint projects. This forum could also be a mechanism to enhance and promote an inclusive, balanced, and fair field, with equal opportunities for all Member States and its companies: start-ups, SMEs, Mid-caps, Prime contractors. The European Defence ecosystem should be part of the dialogue and the building process that determines the plans, capabilities, and instruments that the EU needs.

Advancements in research and development in the fields of digitalization, artificial intelligence, unmanned systems, hypersonic technology, biotechnology, and cyber instruments will exert fundamental effects on future security and defence related systems. Civil-Military cooperation can stimulate technological advancements in areas such as chemical and biological warfare, hi-tech, resistant clothing and crisis response mechanisms. We recommend that this Industrial Advisory Group plays a role in addressing crisis responses and hybrid threats in terms of cooperation and operational capabilities that allows a rapid and effective response.

In parallel, **we announce the intention** of IdD – Portugal Defence **of establishing**, during the Portuguese Presidency, **regular ‘Defence Industry Dialogues’ to enhance the cooperation across industry and clusters, reflect on ways forward to build a competitive European Defence Technological and Industrial Base, promote strategic thought, and improve synergies.**

Moreover, we propose that the European Commission and PESCO Secretariat continue to advocate for broad geographical inclusiveness with benefits throughout the Union, greater SME participation, positive effect on cooperation, support to disruptive technologies, and inclusive participated dialogue across all stakeholders. Both PESCO and EDF initiatives are key to making European Defence a more tangible reality. The EDF is a strong advocate for SMEs and mid-caps, but we need to ensure that those investments are handled in a geographically balanced manner. The EDF can be an important enabler of industrial integration if it is capable of ensuring company diversification and promoting regional innovation. The integration of a multidisciplinary mindset and companies from non-traditional defence areas or markets, including start-ups, might be another element for success. There is added value in promoting new alliances among, and with, SMEs, both in the traditional and non-traditional defence markets, for their capacity of innovation and creation.

The role of the European Commission and EDA is decisive, as well as the scrutiny of the European and National Parliaments. This might involve **better information sharing among research centres, scientists, companies, and industries.** Promoting information sharing will not merely improve the identification of stakeholders, instruments, and funds, but equally contribute to promoting disruptive innovations and making them useful to the armed forces. It also creates the conditions for connecting the military value in industry, research and innovation, with the resources and culture of the private sector. Moreover, it allows for the integration of



defence industry perspectives in other strategies, agendas, and action plans that are being updated or developed, such as the Strategic Compass.

We recommend that EDA, the European Network of Defence related Regions, and DG DEFIS develop joint strategic communication, optimize their platforms, by removing redundancies, targeting the defence industry ecosystem, R&D, R&T, non-traditional defence markets, and researchers, including reducing the duplication of platforms.

Research and Development is fundamental for both industrial competitiveness and the security of the EU

The most known negative trends that should be avoided during the current crises are related to defence Research and Development (R&D) expenditures. The current defence initiatives, if well-developed, can provide a fertile ground for the emergence of a rich research agenda in European defence economy.

The inherent risks of a deficit in defence R&D go far beyond the issues of industrial competitiveness and touch the very core of the security of the EU and its Member States. Defence R&D, including R&T, must be understood as important enablers for the current and future capacity of the armed forces to provide an effective answer to old and emerging threats, and to ensure their interoperability. The security consequences ought to be considered, particularly in emerging developments in fields such as cyber, artificial intelligence, or space.

Special attention needs to be paid to ways of improving the crossover from research to development and to reducing the difficulties of overcoming the development phase. The close partnership among EU stakeholders and the quest for effectiveness in public spending, through collaborative programmes and cross-border cooperation, could contribute to the reduction of the technological gap and substantial savings in later life cycle stages, such as maintenance, repair, and overhaul.

Increased efficiency of investment in the EDF can be achieved by combining R&D with capability development. If well conducted, the EDF could shift the paradigm, creating new cross-border partnerships, and modifying the willingness of system integrators to search for new suppliers. The realisation of its potential will depend on funding, effective implementation in practice, acceptance by the relevant actors, as well as monitorization and assessment. The creation of the Advisory Group could extend defence research beyond the current programmes and alliances.

Covid-19 has conveyed a new threat. It is a new factor, demanding resources. This is the time to prepare Europe's Defence post-Covid, once the world will probably be more unstable and insecure. There is no new normal for Europe without a strong and solid EU and that goes along with a strong and solid European Defence Industry.



The EU's role is fundamental since financial incentives alone do not guarantee success. Considering the rhythm and nature of defence, the decisions taken now will likely affect Europe's military capability landscape for decades to come.

OUR PROPOSALS IN A NUTSHELL

In conclusion, to unlock the potential of European defence cooperation, we encourage the **creation of 'Defence-Industry Dialogues'** and propose:- **The development of a thorough realistic assessment of the state of the current EDTIB** by EDA and DG DEFIS;

- **The revision of the Strategy for the EDTIB** - define EDTIB, its scope, capabilities, competencies, key strategic defence assets, the security of supply, regional distribution and characterize the SMEs; EDA and DG DEFIS should carry out a more active role in shaping the EDTIB;- **Set up an Industrial Advisory Group**, similar to NATO's Industrial Advisory Group (NIAG), with the 27 member states; the European Defence Agency would have a chairing role;

- European Commission and PESCO Secretariat continue to **advocate for broader inclusiveness**, namely geographical inclusiveness with benefits throughout the Union, greater SMEs participation, positive effect on cooperation, support to disruptive technologies, inclusive participated dialogue across all stakeholders;

- EDA, European Network of Defence related Regions, DG DEFIS develop a **joint strategic communication for European Defence Economy**, optimize their platforms, removing redundancies;

- EC and EDA should identify ways of **improving the crossover from research to development**, and of reducing the difficulties of overcoming the development phase;

- Strengthening institutional coherence and consistency by **better integrating EU's defence planning system**

– CDP, CARD, PESCO, EDF -, while ensuring coherence with NATO's defence planning process.