Opinion of the European Economic and Social Committee on the 'European Defence Industrial Development Programme'

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1. **Conclusions and recommendations**

1.1. The European Economic and Social Committee strongly supports the launch of the European Defence Industrial Development Programme (EDIDP), which is aimed at creating an interoperable and integrated common defence system — all the more urgent given the current geopolitical situation — by boosting Europe's strategic autonomy in the defence ([1]) industry and developing a solid common European industrial and technological base.

1.2. The EESC deems essential a new approach that sees permanent structured cooperation (PESCO) as the primary mechanism of the Lisbon Treaty that can serve as both a political incubator for building a 'Europe of defence' and as a catalyst for Member States' willingness and commitments, in line with Articles 42(6) and 46 TEU and Protocol 10 to the Treaty.

1.3. The Committee believes that only an 'inclusive and ambitious' PESCO ([2]), which can establish a list of criteria and binding commitments, can bring about a process that overcomes the fragmentation of supply and demand and gradually creates a transparent and open European market.

1.4. The EESC believes that the EDIDP Regulation should be framed by a common strategic vision for the defence industry that can move towards the effective integration of European manufacturers and users, involving at least three Member States, when it comes to the financed projects and the procurement of goods and services.

1.5. The EESC strongly maintains the need for structured dialogue at European level, in synergy and coordination with NATO ([3]), and a council of defence ministers that can provide ongoing political leadership and a forum for consultation and the adoption of genuinely European decisions.

1.6. The EESC considers it essential that the EDIDP be underpinned by a system of governance that enables it to set specific, shared objectives, by means of:

— an advisory committee of industry experts, to set the priorities for its work programme, and a management committee that includes the Member States.

([1]) OJ C 288, 31.8.2017, p. 62.
([2]) See Council, 22-23 June 2017.
([3]) See Joint Declaration, 8 July 2016.

1.7. The regulation should ensure:

— a good geographical balance between European countries;

— a significant involvement of small businesses;

— an end to job insecurity for workers in the European defence technological and industrial base to reaffirm the validity of EU funding;

— compliance with social and environmental standards, particularly in terms of eco-design and job security ([4]), in order to safeguard the industry's skills; and

— that all EU businesses, regardless of their location and size, have transparent opportunities to participate in the EDIPD programme.

1.8. The EESC agrees that the EDIDP should focus on the development of products and services and on prototyping.

1.9. The EESC considers that a prerequisite to the establishment of a common framework for European defence is the development of a **widespread European culture of defence and security**, to give a full meaning to European citizenship.

2. **Introduction**

Attempts to establish a common European defence arrangement have constituted a constant — albeit extremely sensitive — issue throughout the history of European integration.

2.1. The first attempt was the launch of the European Defence Community (EDC) in 1954, which ultimately failed on 30 August 1954. The second was the launch of the Common Security and Defence Policy in 2000, followed by the creation of the European Defence Agency (EDA) in 2004. Then came the launch of the EU Global Strategy (EUGS) ([5]), and the signing of the 2016 EU-NATO Joint Declaration ([6]).

2.2. In addition to providing significant benefits for Europe's economy, further development of the defence industry could — if managed in a forward-looking manner — constitute the cornerstone of a broader, more fitting vision, aimed at giving rise to a truly European defence arrangement.

2.3. The slow but necessary process of overcoming a nationalistic view of defence — which is in contrast, inter alia, with the existence of strong politico-military groupings in the world and which has highlighted the fragility and political weakness of Europe in major world events — could opportunely build on the initiative of the Parliament and the Council. Through the action of the Commission, this initiative can promote the industry and the European defence market.

2.3.1. The European defence industry — understood as the entire industry that develops, produces and provides goods and services to the armed forces, police and security services in the EU Member States — has a number of specific features: technological change is radically transforming the nature and complexion of defence and security, and this is having a considerable impact on the industry, from the use of big data, to unmanned vehicles and equipment and artificial intelligence.

2.3.2. With regard to Europe's economy: with a turnover of EUR 100 billion per year and employing 1,4 million highly skilled people ([7]), it is one of the EU's leading industries, with strong spill-over into other sectors, such as electronics, aviation, shipbuilding, space and technical textiles.

2.3.3. From a technological perspective: constantly at the cutting edge of technology, the industry enhances the EU's competitiveness, as it generates spin-offs of excellence which must be supported in order to integrate civilian technologies into complex systems, which can be adapted to the specific features of defence.

([4]) ISO 14000 and ISO 18000, ISO 14006 and ISO 45001, ISO 14006.
([5]) European Union, *Shared Vision, Common Action*, June 2016 – https://europa.eu/globalstrategy/sites/globalstrategy/files/eugs_review_web.pdf.
([6]) Joint Declaration, Warsaw, 8 July 2016, http://www.nato.int/cps/en/natohq/official_texts_133163.htm.
([7]) Aerospace and Defence Industries Association of Europe, 2017.

2.3.4. As regards the internal market: the defence market has traditionally remained outside the process of establishing the European single market, and the continued existence of 27 markets, divided by national programmes, has prevented the harnessing of economies of scale in production ([8]).

2.3.5. With regard to demand: the defence sector is primarily dependent on demand from the individual Member States and on their national budgets. Defence budgets in the EU have decreased by EUR 2 billion per year over the last decade, and the EU-27 Member States are investing, on average, 1,32 % of GDP in defence.

2.3.6. From a strategic perspective: if Europe is required to ensure adequate levels of security for its citizens and businesses, safeguard the territorial integrity of its borders and take on responsibilities in the world, it must secure credible defence capabilities, ensuring an appropriate level of strategic autonomy and technological and industrial development, with a common European base.

2.4. The current state of affairs also jeopardises Europe's ability to tackle the new security challenges, as the cost of equipment increases ([9]) and the pace of obsolescence speeds up.

2.4.1. Investment in the defence of the EU as a whole is now less than half of that in the US.

2.5. While the European defence industry has been able, at least partially, to offset the reduction in internal orders through exports, by globalising production and sales, the continued fragmentation of defence policy has led to increasingly visible inefficiencies and weaknesses in terms of:

— the loss of economies of scale,

— constant increases in unit production costs,

— a lack of competition between companies in producer countries,

— divergent technical and regulatory standards,

— slower innovation rates,

— growing technological gaps vis-à-vis leading companies outside the EU,

— high levels of dependency on foreign suppliers.

2.6. This situation also jeopardises Europe's ability to tackle the new challenges, given the relatively low expenditure commitments, combined with low levels of harmonisation between national policies.

2.6.1. Moreover, some 80 % of defence procurement remains on a purely national basis, with obvious duplication of costs.

2.7. The armed forces in the countries of the EU have developed a high level of operational integration and have a long experience of cooperation, while remaining as 27 fully separate structures, with strictly national support services, although they are increasingly turning to various kinds of initiatives that fall under the umbrella of 'pooling and sharing' ([10]).

2.8. Various documents on the EU Global Strategy have set five specific objectives that are particularly important for European defence:

1. having full-spectrum land, air, space and maritime capabilities;

2. securing the technological and industrial means to acquire and maintain the military capabilities required to act autonomously;

3. investing in remotely piloted aircraft systems (RPAS);

([8]) SWD(2017) 228 final, point 2.2.
([9]) See point 9.
([10]) See, for example, the Eurofighter Typhoon and A400M programmes.

4. investing in satellite communications and autonomous access to space and permanent earth observation;

5. equipping and assisting Member States with defence capabilities to protect against cyber threats.

2.9. The package of initiatives that includes the proposal for a regulation establishing the European Defence Industrial Development Programme and the proposal to create a European Defence Fund to support investment in joint research and the joint development of defence equipment and technologies is aimed at launching a process of reform of the defence and security industry, and specifically:

— strengthening cooperation between Member States and generating new cooperation programmes;

— lowering the barriers between national markets;

— helping to boost the competitiveness of the European defence industry;

— promoting synergies between civil and military research; and

— identifying areas such as energy, space and dual-use technologies that can help strengthen Europe's defence capabilities.

2.9.1. To meet the sector's overall challenges, the potential of the European Defence Agency needs to be harnessed in order to identify common operational areas of action to be submitted for the decision of the Member States.

2.10. The European Council of 15 December 2016 called for 'proposals in the first semester of 2017 for the establishment of a European Defence Fund including a window on the joint development of capabilities commonly agreed by the Member States' ([11]). In March 2017, the conclusions of the joint Foreign Affairs and Defence Council called for the establishment of a military planning and conduct capability (MPCC) and a new structure to improve the EU's ability to react in a faster, more effective and more seamless manner.

2.11. The European Council of 22-23 June 2017 agreed on 'the need to launch an inclusive and ambitious permanent structured cooperation (PESCO)' with a common list of criteria and binding commitments, fully in line with Articles 42(6) and 46 TEU and Protocol 10 to the Treaty, and consistent with national defence planning and commitments agreed within NATO and the UN by the Member States concerned ([12]).

2.12. For its part, the European Parliament has continued to seek enhanced cooperation on defence between the EU Member States, as well as the full implementation of the Lisbon Treaty as regards security and defence. In its resolution of 22 November 2016 on the European Defence Union ([13]) the Parliament encouraged 'the European Council to lead the progressive framing of a common Union defence policy and to provide additional financial resources to ensure its implementation'.

2.12.1. The European Parliament also emphasised the need for European countries to possess credible military capabilities and encouraged Member States to step up their collaborative efforts; it also reiterated its call for the systematic coordination of military requirements in a harmonised planning process and in line with the NATO Defence Planning Process ([14]).

2.13. The Committee, for its part, has expressed its views on defence policy ([15]) on a number of occasions, calling for 'significant qualitative progress in European defence cooperation', given that 'the EU's defence market and industry is overly fragmented' ([16]).

([11]) Foreign Affairs Council Conclusions, 15 November 2016.
([12]) See footnote 2.
([13]) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0435+0+DOC+XML+V0//EN
([14]) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0456+0+DOC+XML+V0//EN
([15]) OJ C 288, 31.8.2017, p. 62; OJ C 67, 6.3.2014, p. 125; OJ C 299, 4.10.2012, p. 17; OJ C 100, 30.4.2009, p. 114; OJ C 100, 30.4.2009, p. 109.
([16]) OJ C 288, 31.8.2017, p. 62.

3. **The European Commission proposal**

3.1. The European Commission is proposing to establish a European Defence Industrial Development Programme with a budget of EUR 500 million for the period from 1 January 2019 to 31 December 2020. Its objectives are:

— to bolster the competitiveness and innovation capacity of the EU's defence industry by supporting projects in their development phase and promoting all forms of innovation;

— to optimise cooperation between companies in the development of products and technologies;

— to support R & D, and particularly to foster the development of the results of research; and

— to boost cooperation between companies so as to reduce overlapping and fragmentation and create economies of scale.

3.2. The EU's financial contribution is to take the form of grants, financial instruments and public procurement and will support the design, definition of common technical specifications, prototyping, testing, qualification and certification of defence products, components and technologies.

3.3. The proposed eligibility criteria are: proposals for cooperation must involve at least three companies that are established in at least two Member States; the funding rate is limited to 20 % of the total cost of the project in the case of prototyping, while in all other cases the total cost may be covered.

4. **General comments**

4.1. The EESC welcomes the initiatives put forward here aimed at tackling the threats of tomorrow and protecting citizens — including by means of cybersecurity — by boosting the strategic autonomy of Europe's defence industry and developing a solid common European industrial and technological base.

4.2. The Committee strongly supports the launch of the European Defence Industrial Development Programme with a proposal for a regulation **as a first step that must be improved and built on** in terms of the funds currently allocated, the aim being to create a common defence system, particularly as regards R & D, which is all the more urgent given the current geopolitical situation.

4.3. The EESC believes that it is time to create a genuine, comprehensive, effective and competitive **single EU-27 European defence market**, with the following features:

— more open and free from segmentation, including in terms of standards, technical specifications and CE certification;

— better access to raw materials;

— specific support for SMEs and mid-cap companies;

— easier access to funding, information and other markets;

— strong role specialisation;

— efficient use of energy and space infrastructure;

— better border protection, with maritime security a necessity;

— foresight activities, with a view to a participatory, shared vision across the whole EU;

— sustainable and socially acceptable development to combat job insecurity; and

— facilitation of intra-EU trade by simplifying temporary imports between businesses for AEOs ([17]).

([17]) AEOs — Authorised Economic Operators are businesses that meet certain standards designed to ensure the safety and security of the international supply chain.

4.3.1. The EESC firmly believes that combating the job insecurity of workers in the European defence technological and industrial base is the only way of ensuring that companies acquire the requisite skills and that the objectives of the EDIDP programme are achieved.

4.4. The Committee considers that the EDIDP programme's **budgetary allocation** is particularly limited and that it should also be able to draw on the EFSI 'in order to make the best possible impact on employment, including dual technologies related to the security and defence industries supporting the launching of a single strong and more clearly defined European Defence Technological and Industrial Base (EDTIB)' ([18]).

4.5. The EESC also considers the proposed eligibility criteria to be insufficient as regards ensuring that the **projects' technological and industrial base has an effectively European dimension**: the requirement should be that at least three separate companies from **at least three** Member States are involved, as well as user groups, made up of small businesses.

4.5.1. There should also be a good balance between European countries, as well as a significant involvement of small businesses.

4.6. The EESC hopes that the EU funding scheme will ensure that the development activities primarily benefit European companies.

4.7. The EESC would like to see the rules on exporting arms being harmonised in the EU, in line with the rules of the Arms Trade Treaty that was signed and ratified by all EU Member States, in order to eliminate a possible cause of distortion between European companies that might complicate access to the export market.

4.8. As regards the types of project, the EESC considers it essential to combat the job insecurity of workers in Europe's defence industry. The purpose of the EU funding is to strengthen the expertise of the defence technological and industrial base. Since the industry's expertise is dependent on its workers, they need to have long-term, secure terms of employment with the companies that employ them.

4.9. The same applies, in the EESC's view, to the **project award criteria**, to which the following key elements should be added:

— the impact envisaged in terms of expanding and improving workers' skills;

— the additional key involvement of SMEs; and

— compliance with social and environmental standards ([19]).

4.9.1. In the EESC's view, there should be a quota (e.g. 10 %) of calls dedicated to small projects, which are open non-stop and aimed at smaller businesses, and which would enable a more even participation in the programme of all players operating in the technological-innovative development of defence products and services.

4.10. The EESC considers it essential that, alongside the Commission's implementing powers, the EDIDP is underpinned by a system of governance that enables it to set specific, shared objectives, by means of:

— an advisory committee of industry experts from the Member States tasked with proposing priority areas,

— a programme management committee, with Member State representatives, ensuring a geopolitical balance across the EU as a whole.

5. **Steps to be taken**

5.1. highlight the key role of European defence in safeguarding the EU's interests as regards security and its international commitments and in upholding democracy and the rule of law;

5.2. highlight the skills and professionalism of the military sector, traditionally seen as a driving force for research and innovation and for the economic and business recovery of European industry;

([18]) EFSI: European Fund for Strategic Investments — see opinion OJ C 75, 10.3.2017, p. 57.
([19]) See footnote 4.

5.3. strengthen the sense of European identity and of belonging to the EU, by means of a set of values shared by citizens of different countries;

5.4. increase Europeans' knowledge and awareness of and support for the EU's military structures and defence activities;

5.5. increase Europeans' knowledge and awareness of and support for the technological development of defence equipment likely to have a direct impact on civil society and the development of their countries;

5.6. develop the communication aspect of the new common approach in order to have increasingly highly trained and skilled staff in the field of European communication. The activities should be underpinned by the guiding principle of 'classify and coordinate', developed under the European coordination approach, in line with NATO.

5.7. Cybersecurity and cyberdefence, fields in which defence is a key player in Europe, linked to the emergence of cyberspace as a new territory alongside the traditional military domain.

Brussels, 7 December 2017.

The President
of the European Economic and Social Committee
Georges DASSIS