Opinion of the European Committee of the Regions — Proposal for a European Defence Fund

(2018/C 247/08)

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Reference document: Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovative capacity of the EU defence industry

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Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Launching the European Defence Fund

COM(2017) 295 final

I. RECOMMENDATIONS FOR AMENDMENTS

Amendment 1

New citation after last citation

Text proposed by the Commission	CoR amendment
	Having regard to the Permanent Structured Cooperation in Security and Defence (PESCO) agreed by 23 Member States of the European Union on 13 November 2017, as outlined in the Treaty of the EU, Articles 42(6) and 46, as well as Protocol 10 of the said Treaty;

Amendment 2

Recital 2

Text proposed by the Commission	CoR amendment
(2) In order to contribute to the enhancement of the competitiveness and innovation capacity of the Union's defence industry, a European Defence Industrial Development Programme (hereinafter referred to as the Programme) should be established. The Programme should ***aim at enhancing*** the competitiveness of the Union's defence industry, inter alia, cyber defence by supporting the cooperation between undertakings in the development phase of defence products and technologies. The development phase, which follows the research and technology phase, entails significant risks and costs that hamper the further exploitation of the results of research and adversely impact the competitiveness of the Union's defence industry. By supporting the development phase, the Programme would contribute to a better exploitation of the results of defence research and it would help to cover the gap between research and production as well as to promote all forms of innovation. The Programme should complement activities carried out in accordance with Article 182 TFEU and it does not cover the production of defence products and technologies.	(2) In order to contribute to the enhancement of the competitiveness and innovation capacity of the Union's defence industry ***and to efficiency gains for the overall defence spending in the Union, thereby fostering the EU's strategic autonomy***, a European Defence Industrial Development Programme (hereinafter referred to as the Programme) should be established. The Programme should ***ensure that*** the competitiveness of the Union's defence industry, inter alia, cyber defence ***is secured***, supporting the cooperation between undertakings ***in particular SMEs, from several states*** in the development phase of defence products and technologies. The development phase, which follows the research and technology phase, entails significant risks and costs that hamper the further exploitation of the results of research and adversely impact the competitiveness of the Union's defence industry. By supporting the development phase, the Programme would contribute to a better exploitation of the results of defence research and it would help to cover the gap between research and production as well as to promote all forms of innovation. The Programme should complement activities carried out in accordance with Article 182 TFEU and it does not cover the production of defence products and technologies.

Amendment 3

Recital 3

Text proposed by the Commission	CoR amendment
(3) To better exploit economies of scale in the defence industry, the Programme should support the cooperation between undertakings in the development of defence products and technologies.	(3) To better exploit economies of scale in the defence industry, the Programme should support the cooperation between ***respectively Member States and*** undertakings in the development of defence products and technologies***, thereby promoting the standardisation of military*** systems while improving their interoperability.

Amendment 4

Recital 4

Text proposed by the Commission	CoR amendment
(4) The Programme should cover a two year period from 1 January 2019 to 31 December 2020 whereas the amount for the implementation of the Programme should be determined for this period.	(4) The Programme should cover a two year period from 1 January 2019 to 31 December 2020 whereas the amount for the implementation of the Programme should be determined for this period. ***In order to finance the Programme from the general budget of the Union, an amount of EUR 500 million in current prices should be earmarked for that purpose. Considering that the Programme is a new initiative that was not foreseen when the multiannual financial framework for 2014-2020 was established, and to avoid any negative impact on the financing of existing multiannual programmes, that amount should be drawn from unallocated margins under the multiannual financial framework ceilings. The final amount should be authorised by the European Parliament and the Council through the annual budgetary procedure.***

Reason

Self-evident.

Amendment 5

Recital 5

Text proposed by the Commission	CoR amendment
(5) The Programme should be implemented in full compliance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council ([6]). Funding may take in particular the form of grants. Financial instruments or public procurement may be used where appropriate. ([6]) Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).	(5) The Programme should be implemented in full compliance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council ([6]). Funding may take in particular the form of grants. Financial instruments or public procurement may be used where appropriate***, and blending mechanisms could be of interest***. ([6]) Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

Reason

N/A

Amendment 6

Recital 10

Text proposed by the Commission	CoR amendment
(10) As the objective of the Programme is to support the competitiveness of the Union defence industry by de-risking the development phase of cooperative projects, actions related to the development of a defence product or technology, namely definition of common technical specifications, design, prototyping, testing, qualification, certification as well feasibility studies and other supporting measures, should be eligible to benefit from it. This will also apply to the upgrade of existing defence products and technologies.	(10) As the objective of the Programme is ***to boost the strategic independence of the EU by building up its defence capability and*** to support the competitiveness of the Union defence industry by de-risking the development phase of cooperative projects, actions related to the development of a defence product or technology, namely definition of common technical specifications, design, prototyping, testing, qualification, certification as well feasibility studies and other supporting measures, should be eligible to benefit from it. This will also apply to the upgrade of existing defence products and technologies ***developed by the Member States***.

Amendment 7

Recital 13

Text proposed by the Commission	CoR amendment
(13) As the Programme aims at enhancing the competitiveness of the Union's defence industry, only entities established in the Union and effectively controlled by Member States or their nationals should be eligible for support. Additionally, in order to ensure the protection of essential security interests of the Union and its Member States, the infrastructure, facilities, assets and resources used by the beneficiaries and subcontractors in actions funded under the Programme, shall not be located on the territory of non-Member States.	(13) As the Programme aims at enhancing the competitiveness of the Union's defence industry, only entities established in the Union and effectively controlled by Member States or their nationals should be eligible for support. Additionally, in order to ensure the protection of essential security interests of the Union and its Member States, the infrastructure, facilities, assets and resources used by the beneficiaries and subcontractors in actions funded under the Programme, shall not be located on the territory of non-Member States. ***As part of cross-border cooperation, undertakings which are EU based must be protected from interference from undertakings from third countries from non-Member States.***

Amendment 8

Recital 21

Text proposed by the Commission	CoR amendment
(21) The Commission should establish a multiannual work programme in line with the objectives of the Programme. The Commission should be assisted in the establishment of the work programme by a committee of Member States (hereinafter referred to as Programme Committee). In light of the Union policy on Small and Medium Enterprises (SMEs) as key to ensuring economic growth, innovation, job creation, and social integration in the Union and the fact that the supported actions will typically require trans-national collaboration, it is of importance that the work programme will reflect and enable such cross-border participation of SMEs ***and that therefore a proportion*** of the overall budget ***will benefit such action***.	(21) The Commission should establish a multiannual work programme in line with the objectives of the Programme. The Commission should be assisted in the establishment of the work programme by a committee of Member States (hereinafter referred to as Programme Committee). In light of the Union policy on Small and Medium Enterprises (SMEs) as key to ensuring economic growth, innovation, job creation, and social integration in the Union and the fact that the supported actions will typically require trans-national collaboration, it is of importance that the work programme will reflect and enable such cross-border participation of SMEs, ***if the level of financial assistance amounts to at least 20 %*** of the overall ***annual*** budget.

Amendment 9

New recital after recital 25

Text proposed by the Commission	CoR amendment
	(26) The Commission should focus on a territorial and/or place-based approach and in so doing keep SMEs, regional clusters and regions in all the Member States informed about the possibilities of benefiting from the programme and about further funding opportunities for defence plans, particularly with a view to supporting regional strategies for intelligent specialisation.

Amendment 10

Article 2

Text proposed by the Commission	CoR amendment
Article 2	*Article 2*
Objectives	**Objectives**
The Programme shall have the following objectives:	The Programme shall have the following objectives:
a) to foster the competitiveness and innovation capacity of the Union defence industry by supporting actions in their development phase;	a) to foster the competitiveness and innovation capacity of the Union defence industry by supporting actions in their development phase;

Text proposed by the Commission	CoR amendment
b) to support and leverage the cooperation between undertakings, including small and medium-sized enterprises, in the development of technologies or products in line with defence capability priorities commonly agreed by Member States within the Union;	b) to support and leverage the cooperation between undertakings, including small and medium-sized enterprises, in the development of technologies or products in line with defence capability priorities commonly agreed by Member States within the Union;
c) to foster better exploitation of the results of defence research and contribute to closing the gaps between research and development.	c) to foster better exploitation of the results of defence research and contribute to closing the gaps between research and development;
	d) to build up defence and security capacities in EU Member States with external borders.

Reason

The programme has to be inclusive and open to beneficiaries from all Member States, breaking geographical silos. In order to implement liabilities in controlling and defending EU external borders, respective Member States should have the possibility to develop smart specialisation in the context of the defence industry.

Amendment 11

Article 3

Text proposed by the Commission	CoR amendment
Article 3	*Article 3*
Budget	**Budget**
The amount for the implementation of the Programme for the period 2019-2020 is set at EUR 500 million in current prices.	The amount for the implementation of the Programme for the period 2019-2020 is set at EUR 500 million in current prices***, to be drawn exclusively from unallocated margins and not from budget reallocations.***

Reason

It is not conceivable that the budget for this programme, which was not anticipated at the moment of establishing the multi-annual financial framework, would be drawn from means already allocated to current EU programmes.

Amendment 12

Article 4(1)

Text proposed by the Commission	CoR amendment
General financing provisions	**General financing provisions**
The Union's financial assistance may be provided through the types of financing envisaged by Regulation (EU, Euratom) No 966/2012, and in particular: ***a)*** grants; ***b)*** financial instruments; ***c)*** public procurement.	The Union's financial assistance may be provided through the types of financing envisaged by Regulation (EU, Euratom) No 966/2012, in particular grants ***and also, where necessary,*** financial instruments and public procurement. ***Financial help from the Union can be provided in order to give technical assistance in the development of projects by SMEs.***

Amendment 13

Article 7(1)

Text proposed by the Commission	CoR amendment
Eligible Entities	**Eligible Entities**
Beneficiaries shall be undertakings established in the Union, in which Member States and/or nationals of Member States own more than 50 % of the undertaking and effectively control it within the meaning of Article 6(3), whether directly or indirectly through one or more intermediate undertakings. In addition, all infrastructure, facilities, assets and resources used by the participants, including subcontractors and other third parties, in actions funded under the Programme shall not be located on the territory of non-Member States during the entire duration of the action.	Beneficiaries ***which meet the criteria for cross-border cooperation, and their subcontractors*** shall be undertakings established in the Union, in which Member States and/or nationals of Member States own more than 50 % of the undertaking and effectively control it within the meaning of Article 6(3), whether directly or indirectly through one or more intermediate undertakings. In addition, all infrastructure, facilities, assets and resources used by the participants, including subcontractors and other third parties, in actions funded under the Programme shall not be located on the territory of non-Member States during the entire duration of the action.

Amendment 14

Article 10

Text proposed by the Commission	CoR amendment
Award criteria	**Award criteria**
Actions proposed for funding under the Programme shall be evaluated on the basis of the following cumulative criteria:	Actions proposed for funding under the Programme shall be evaluated on the basis of the following cumulative criteria:
(a) excellence	(a) excellence
(b) contribution to the innovation and technological development of defence industries and thus to fostering the industrial autonomy of the Union in the field of defence technologies; and,	(b) contribution to the innovation and technological development of defence industries and thus to fostering the industrial autonomy of the Union in the field of defence technologies; and,

Text proposed by the Commission	CoR amendment
(c) contribution to the security and defence interests of the Union by enhancing defence technologies which contribute to implement defence capability priorities commonly agreed by Member States within the Union; and,	(c) contribution to the security and defence interests of the Union by enhancing defence technologies which contribute to implement defence capability priorities commonly agreed by Member States within the Union; and,
(d) viability notably via a demonstration by the beneficiaries that the remaining costs of the eligible action are covered by other means of financing such as Member States' contributions; and	(d) viability notably via a demonstration by the beneficiaries that the remaining costs of the eligible action are covered by other means of financing such as Member States' contributions; and
(e) for actions described in points (b) to (e) of Article 6(1), the contribution to the competitiveness of the European defence industry through the demonstration by the beneficiaries that Member States have committed to jointly produce and procure the final product or technology in a coordinated way, including joint procurement where applicable.	(e) for actions described in points (b) to (e) of Article 6(1), the contribution to the competitiveness of the European defence industry through the demonstration by the beneficiaries that Member States have committed to jointly produce and procure the final product or technology in a coordinated way, including joint procurement where applicable. ***Measures proposed for funding under the programme, which is designed to support SMEs and capacity-building in defence and security for regions situated on the EU's external borders, should be assessed on the basis of the following criteria:*** ***(a) excellence*** ***(b) potential to build up an integrated system of undertakings in the domain of security and defence*** ***(c) viability via a demonstration by the beneficiaries that the remaining costs are covered by other means of financing such as Member States' contributions.***

Reason

N/A

Amendment 15

Article 13(3)

Text proposed by the Commission	CoR amendment
Work programme	**Work programme**
The work programme shall ensure that ***a credible proportion*** of the overall budget will benefit actions enabling the cross-border participation of SMEs.	The work programme shall ensure that ***at least 20 %*** of the overall budget will benefit actions enabling the cross-border participation of SMEs.

Reason

N/A

II. **POLICY RECOMMENDATIONS**

THE EUROPEAN COMMITTEE OF THE REGIONS,

Introduction

1. notes that global security is under threat from an increasingly broad range of threats (war, armed conflict, terrorism, illegal immigration, corruption and populism). Each EU Member State and each region has specific security problems. The European Committee of the Regions (CoR) supports the proposed 'European Defence Industrial Development Programme' and the aims thereof: enhancing the competitiveness and innovation of the Union's defence industry, including cyber defence, better exploitation of the results of defence research, promoting collaboration between undertakings in the development of defence products and technologies and the use of Member States' long-term cooperative projects. Also to be welcomed is the initiative for setting up a European Defence Fund (EDF), encompassing both the 'European Defence Industrial Development Programme' and the 'Preparatory Action for Defence Research';

2. reckons that the security of each country and of the whole EU is essentially based on two pillars: economic potential and a society hallmarked by unity and cohesion. The security of each individual Member States is now synonymous with the security of the whole EU. The EU must scale up its efforts to improve its security and raise its profile as an influential global player for peace;

Compliance with the subsidiarity and proportionality principles

3. acknowledges art. 173 TFEU as the appropriate legal basis for the Programme as it relates to the competitiveness of industry;

4. stresses that the implementation of the EDIDP programme will be managed by the European Defence Agency which operates as a regulatory agency responsible to the Council only. Moreover, it is not common practice for a regulatory agency to manage such large budget allocations. The CoR therefore calls on the European Commission to ensure the utmost transparency in operating the EDIDP programme and take example from the functioning of executive agencies responsible to the European Parliament;

5. calls on the Commission to use the potential of all EU Member States and not to concentrate support in specific areas. It should also not be forgotten that regional development is likewise important for domestic security in the individual Member States and is one of their development aims;

6. calls for the expansion of the security and defence capacities of regions with external EU borders to be kept in mind;

Focus on EU value added

7. insists that the EU can achieve peace, freedom, equality and stability if it works closely with the Member States' governments in those areas where the matter of European value added is on the agenda. The action plan on the European Defence Fund must also contain a commitment to this aim;

8. supports the European Commission's commitment to use all its powers to strengthen the EU Member States' defence capabilities and to promote cooperation between states, aimed at securing deeper integration and giving clear guidance as to what direction support for planning national defence capabilities and the expansion of competitive, integrated supply chains should take;

9. would point out that the expansion of competitive, integrated supply chains in the EU depends on Member States' political will to commit to this. The European Defence Fund should shape and promote common measures between Member States in the area of defence products and technologies;

10. underlines that efforts should be undertaken to actively work towards strategic autonomy for the EU and boost its defence capabilities. The competitiveness of the European defence industry must be supported and it should be carefully examined whether contractors really come from the EU. The main contractors and sub-contractors must be EU-based and undertakings must be at least half-owned by EU Member States or natural or legal persons, and be effectively controlled by European capital. The management and actual control of these companies must be locatable in the European Union. Furthermore, the European Commission must watch that no non-Member States exercises de facto control over organisations belonging to a consortium;

11. emphasises that the European Defence Fund does not replace Member States' own measures, but complements these with cross-border projects that Member States could not finance alone. The European Defence Fund offers — in partnership with Member States, NATO and other international investments — a complement to Member States' measures and delivers clear European value added for European defence policy;

Integration of SMEs in the supply chains of the European defence industry

12. welcomes the 'life cycle' approach for the European Defence Fund in supporting research and development of products and technologies in the area of defence, for which two areas (windows) are planned in the EDF;

13. strongly urges that additional points be given when examining project applications from consortia to which a large number of SMEs belong;

14. points out that a key condition for developing the two area of the European Defence Fund is an effective mechanism for capability planning, in which priorities for research and capabilities are laid down and close coordination of both areas is undertaken;

15. is of the view that additional funding resources for supporting the defence industry in its own territory must be deployed, and endorses the definition of the beneficiaries used by the Commission in its communication;

16. calls on Member States to be actively involved in managing the two fund areas and in laying down their needs and priorities;

17. welcomes the Commission's plans for the efficient use of civil applications in the military domain; deems investment in these technologies to be an outstanding opportunity for boosting economic growth in the EU and for creating highly skilled jobs, because this area is at the cross-roads of many sectors: electronics, air travel, robotics, high performance computing, space travel, textiles, construction, telecommunications, surveillance technology, energy, navigation, etc.;

18. points out that undertakings working with these innovative technologies are predominantly start-ups and SMEs which, with the help of appropriate support, could make a considerable contribution to technological progress in the defence sector. The Commission's decision to the effect that the EU wishes to provide targeted support for SMEs in this sector is to be welcomed;

19. calls for better coordination between the relevant services in order to keep interested parties informed and to promote new goods and technologies with dual use. The EU must turn this enormous potential to good use for boosting growth and competitiveness;

20. shares the European Commission's view in relation to easier SME participation in cross-border projects, which is to be supported as part of the European Defence Fund. It must be borne in mind that the inclusion of SMEs in the European defence industry supply chains should serve to enhance the security and defence of the EU, competitiveness of the industry and the strategic autonomy thereof. The European Defence Fun should offer incentives for achieving these aims;

21. is of the view that the European Commission needs to mobilise all the instruments it has available so that SMEs throughout the EU have equal access to the EDF. Progress in innovation is not measurable in the short term; the results must first reach full maturity. Of course the introduction of a planned, coordinated innovation policy which covers all levels would provide the most innovative undertakings with the incentive to become strategic investors in SMEs;

22. calls on the Commission to support the following measures, by means of which SME participation in defence projects could be stepped up:

— the award criteria for funding cooperative projects in the current multiannual financial framework (MFF) should also include the condition that at least three undertakings from at least two Member States must be involved. It is important that the proposed projects actually are cross-border in nature and can help reduce fragmentation of the market in defence products in the EU. The award criteria should include additional points for such consortia in which several undertakings and Member States are involved;

— consortia with a larger number of participating SMEs should be given priority over comparable projects with a lower number of SMEs;

— urges that, insofar as is possible, at least one subject area of research and development should have SME relevance, as is already the case in the administration of public tenders for research proposals;

— calls for a stable communications system to be built up to coordinate common information measures taken by the relevant Commission departments, where one major advantage of having such a system would be a one-stop shop for information on all the financing possibilities, including all relevant EU programmes on defence and dual-use goods. It is important that this communication system be used to publicise examples of tried and tested procedures;

— welcomes the European Commission's decision to earmark a part of the European Defence Fund for SMEs and, in fact, for projects which promote cross-border participation of SMEs; welcomes the Union's support of up to 20 % of the overall budget for this;

Funding

23. points out that the EIB group is an important partner for investments in dual use technologies where SMEs play an important role in the areas of military equipment and technology for civil use, cybersecurity, vaccines, biosafety and telecommunications and information infrastructure;

24. emphasises that, given the particular nature of the defence sector, not all bank services are suitable for supporting SMEs; welcomes the EIB's proactive approach of using other instruments such as loans, guarantees and equity;

25. considers that the adoption of a European Defence Fund must not be used as a pretext for reducing or affecting in any way allocations for cohesion policy, which must remain the European Union's main public investment tool with a view to improving European integration through social, economic and territorial cohesion.

Brussels, 23 March 2018.

The President
of the European Committee of the Regions

Karl-Heinz LAMBERTZ