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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE
COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

A New Deal for European Defence

**Implementation Roadmap for Communication COM (2013) 542;
Towards a more competitive and efficient defence and security sector**

1. Introduction

In July 2013, the Commission put forward the Communication “Towards a more competitive and efficient defence and security sector” COM (2013) 542 as a contribution to the European Council of December 2013. It also announced a detailed roadmap with concrete actions and timelines for the areas defined in that Communication. The present report fulfils this commitment.

The European Council, in its Conclusions of December 2013 which also endorsed the 25th November 2013 Council Conclusions, welcomed the Communication and decided to review progress in all relevant areas in June 2015. The Commission takes the European Council Conclusions as the basis to pursue the following objectives:

- an Internal Market for Defence where European companies can operate freely and without discrimination in all Member States;
- an EU-wide security of supply regime where armed forces can be sure to be sufficiently supplied in all circumstances no matter in which Member State their suppliers are established;
- a Preparatory Action on CSDP-related research to explore the potential of a European research programme which, in the future, may cover both security and defence. This is in addition to exploiting all possible synergies between existing civil and defence research; and
- an industrial policy which fosters competitiveness of European defence industries and helps to deliver at affordable prices all the capabilities Europe needs to guarantee its security.

To pursue these objectives, this Report establishes a roadmap for the activities set out in the Communication. It includes a broad variety of actions from different policies, which are nevertheless often interrelated: improving security of supply between Member States, for example, will facilitate cross-border market access for defence companies; better standardisation will foster interoperability and market openness; common certification will reduce costs and enhance industry’s competitiveness, etc. Taken together, all these actions will contribute to making the European defence and security sector more efficient and thereby strengthen the Union’s Common Security and Defence Policy (CSDP)¹.

Both for the development and the implementation of these actions the Commission will cooperate closely with Member States, the European External Action Service (EEAS) and the

¹ The actions foreseen in the roadmap have no impact on the EU budget over and beyond the appropriations already foreseen in the official financial programming of the Commission and are compatible with the relevant European programmes included under the MFF 2014 – 2020. Each action presented in this roadmap is coherent and compatible with the relevant financial instruments established under the Multi-annual Financial Framework.

European Defence Agency (EDA). This includes regular meetings at strategic level to follow the implementation of the roadmap as whole, and consultations at technical level for specific actions. In parallel, the Commission will continue to inform Member States regularly via relevant Council bodies, Defence Policy Directors and the EDA. European Parliament and industry will also be consulted on a regular basis.

The European Council recognised the need for greater European defence co-operation, in full complementarity with NATO. Through the implementation of the Communication, the Commission will contribute to a robust industrial foundation for this co-operation.

2. Roadmap

2.1 Internal Market

Market monitoring

Market monitoring is crucial both to ensure the correct application of the Defence Procurement Directive 2009/81/EC and to evaluate the Directive's impact. It is also important to measure the progress of the Commission's industrial policy in this sector.

Approach and deliverables

The Commission will assess systematically procurement published in the EU's Tenders Electronic Daily (TED) and statistical reports sent by Member States. This includes both quantitative and qualitative analysis. In parallel, the Commission will monitor defence and security procurement not published in TED, inter alia through the specialised press and information provided by market operators.

These activities will help to ensure the correct application of Directive 2009/81/EC. They will also prepare the basis for the report on its implementation that the Commission has to send to the European Parliament and the Council by August 2016.² In this report, the Commission will evaluate to what extent *"the objectives of this Directive have been achieved with regard to the functioning of the internal market and the development of a European defence equipment market and a European Defence Technological and Industrial Base, having regard, inter alia, to the situation of small and medium-sized enterprises..."*

Clarification of certain exclusions

Correct use of the exclusions from the scope of Directive 2009/81/EC is crucial for its effectiveness. In this context, government-to-government sales (Article 13.f) and purchases under international agreements (Article 12.a) and via international organisations (Article 12.c) are particularly relevant since they concern important parts of the market.

² Article 73 of Directive 2009/81/EC.

Approach and deliverables

Government-to-Government sales: In December 2013 the Commission has started a fact-finding exercise on government-to-government sales in Europe. As the next step, the Commission will organise two workshops with Member States in autumn 2014. On this basis the Commission will develop a guidance note on the use of the exclusion. Target date for finalising this note is early 2015.

International arrangements and organisations: Work on this clarification will start in 2015 and follow the same approach. It will be complemented by direct discussions with NSPA (NATO Support Agency) and OCCAR (Organisation for Joint Armament Cooperation). Target date for finalising this guidance note is end 2015.

Offsets

Requirements for economic compensations, no matter how they are labelled, stand in contrast to both EU Treaty principles and effective procurement methods. The Commission is working towards the rapid phasing out of this practice and to promote other, non-discriminatory measures to facilitate cross-border market access for SMEs.

Approach and deliverables

For several years, the Commission has worked with Member States on the revision of national offset rules. This work was done in parallel to the transposition of the Defence Procurement Directive and continues with those Member States which have not yet revised their offset legislation. In parallel the Commission will closely monitor Member States procurement practice and intervene, when necessary, to prevent unjustified discriminatory requirements.

The Commission will also promote alternatives to offsets for facilitating cross-border market access of SME. To achieve this objective, the Commission organised in February 2014 a workshop with stakeholders. This dialogue will continue. In this context, the Commission envisages creating an ad hoc Advisory Group with Member States and industry (system integrators and SMEs) to identify options for promoting cross-border supply chains. The Commission will also specifically monitor the application of the provisions on subcontracting of Directive 2009/81/EC. Initiatives on how to improve market access for SME may be put forward to the European Council in June 2015.

Security of supply

Security of Supply is crucial both for the effectiveness of armed forces and the well-functioning of the Internal Market. It is a broad concept which can cover a wide range of different industrial, technological, legal and political aspects.

Approach and deliverables

Roadmap for a comprehensive EU-wide Security of Supply regime: In line with the Communication and the request of the European Council “to develop with Member States and

in cooperation with the High Representative and the European Defence Agency a roadmap for a comprehensive EU-wide Security of Supply regime”, the Commission will:

- a) Take stock of areas which should be covered by such a regime and existing security of supply instruments;
- b) Extensively consult Member States;
- c) Identify possible actions in the areas of: 1) supply between Member States; 2) supply of Member States from third countries and 3) control of industrial and technological assets in the EU, which are all key elements for a comprehensive security of supply regime.

The roadmap will be finalised for the European Council in June 2015, in parallel to the following actions:

Defence transfers: Directive 2009/43 introduced a licensing system to facilitate the movement of defence products within the Internal Market. In January 2014, the Commission launched a study on how to promote the uptake of the Directive’s main instruments (general licences and certification of defence firms), amongst national authorities and industry. As a first step, the Commission extended the scope of the Certider database³ to enable Member States to better inform stakeholders on certified enterprises and general licences issued. The Commission will propose further measures to strengthen the implementation of the Directive on the basis of the results of a study which are expected in July 2014.

A more comprehensive evaluation of the Directive will be launched early 2015. This will form the basis for the report on the implementation of the Directive which the Commission has to send to the European Parliament and the Council by June 2016.

Control of assets: In defence and security, the control of industrial and technological assets can be crucial for the security of supply of critical capabilities. Some Member States have mechanisms to control investments in this sector. Yet a merely national approach may hinder both the cross-border cooperation of industry and the opening up of Member States’ defence markets to EU-wide competition. A European approach may therefore be needed to deepen the Internal Market. It may also be required to ensure an appropriate level of European autonomy in defence and security.

On this background, the Commission will issue a Green Paper on possible shortfalls of the current system for the control of assets and explore options for EU-wide action, including mechanisms of notification and consultation between Member States. The target date for the adoption of the Green Paper is the end of this year.

³ Register of the Certified Defence-related Enterprises (Certider). More information available here: <http://ec.europa.eu/enterprise/sectors/defence/certider/>

The Commission intends to involve stakeholders from the very beginning and widely consult them already for the preparation of the Green Paper.

2.2 Promoting a more competitive defence industry

Standardisation and Certification

The Commission is supporting the EDA to develop a common approach to standardisation and certification. This must be done in agreement with Member States taking full account of national sovereignty and ensuring no duplication with NATO.

Approach and deliverables

Standardisation: the EDA, in consultation with the Commission, is preparing a new process for developing defence and hybrid standards in Europe, linking existing national, European and international (e.g. NATO) standardisation mechanisms in a structured and non-bureaucratic way. This methodology is based on a proactive approach using national experts, who monitor developments in European defence standardisation and make recommendations to tackle specific issues as they arise. The Commission is contributing to this process through its expertise in civil standardisation.

The Commission will also identify common standards that can support European projects in specific areas. For example, in the Common Information Sharing Environment (CISE) for the EU maritime domain (discussed in section 2.4) common standards will establish a common data model necessary to ensure effective communication between different national maritime surveillance information systems.

Certification: the Commission in conjunction with European Aviation Safety Agency (EASA) will continue to support the EDA and the Member States in the harmonisation of military airworthiness requirements in order to achieve, as far as possible, convergence of military certification system with the applicable civil requirements. The Commission together with EASA will continue to encourage the use of the civil experience and standards of EASA in the process of certification of military products, in cooperation with EDA and Member States.

With a view to reducing costs and avoiding duplication, and to facilitate the joint operation of civil and military aircraft in non-segregated airspace, EASA could be entrusted with the common European civil certification of certain military products where manufactures and Member States so desire, while Member States will continue to be responsible for the certification of the military systems on board.

The Commission, in coordination with EASA, will, on the basis of requests from the industry, define some pilot cases for involvement of EASA into civil certification of dual-use products leading to a more cost-efficient and more simplified approach, such as certain Remotely

Piloted Aircraft Systems (RPAS), that represent an increasingly important part of future aircraft products⁴. Steps towards such an approach will be based on a feasibility analysis to examine the resources implications for EASA as well as legal and safety aspects arising from split responsibilities between civil/EU and military/national authorities.

Raw Materials

Access to raw materials is an increasing challenge for the European economy. This is being addressed by the EU raw materials strategy which includes the recently revised list of critical raw materials⁵.

Approach and deliverables

Many of these materials, like the rare earth elements and germanium, are also essential inputs for defence-related applications (such as laser targeting). The Commission will therefore screen raw materials that are critical for the defence sector. This analysis will be undertaken by the Commission's Joint Research Centre in close cooperation with the EDA and industry. It is expected to be finalised by mid-2015 and may pave the way for possible future policy actions in this area.

SMEs, clusters & regions

The European Council highlighted the importance of supporting regional networks of SMEs and strategic clusters. The Commission will put measures in place to support these objectives.

Approach and deliverables

Work in this area will be done in close co-ordination with the SME-related activities announced under the Internal Market chapter of this report. The Commission will use its Enterprise Europe Network and the European Strategic Cluster Partnerships, funded under its COSME⁶ programme, to support matchmaking events, networking, finding new business partners inside and outside the EU.

The Commission will clarify the conditions under which the European Structural and Investment Funds (ESIF) can be used to support dual-use projects, both in terms of

⁴ This is part of the wider context of the Commission's work in this area to establish a framework for the operation of civil RPAS as set out in its Communication of 8th April (COM (2014) 207). With this aim the Commission will encourage the full use of EU instruments to ensure a comprehensive approach and maximise synergies including allowing for its safe integration into non-segregated airspace.

⁵ COM (2014) 297

⁶ COSME – Competitiveness of Enterprises and Small and Medium-sized Enterprises - with a budget of €2.3 billion for 2014 - 2020.

investment projects (European Regional Development Fund – budget of €140 billion) and skills (European Social Fund – budget of €74 billion).

In addition, the Commission will foster applications from cross-border clusters and networks to the European Territorial Co-operation programme with a total budget of €8.7 billion (2014-2020).

It is up to companies, clusters, and regions to take up these opportunities. However, the Commission will, in close co-operation with the EDA and the Association of Regional Development Agencies (EURADA):

- raise awareness of these opportunities through targeted events. The first meeting took place on 12 May in Brussels with the second due to take place in November 2014.
- publish in July 2014 a guidebook for regional authorities and SMEs clarifying the possibility of using the ESIF in supporting dual-use projects.
- support the creation of a defence related regional network, building on the work done so far with interested regional authorities and clusters with the objective of establishing a mechanism to share best practice in accessing ESIF and integrating defence into smart specialised strategies.

The ultimate aim of these actions is to increase the rate of successful applications for dual use projects by defence-related SMEs and clusters for EU funding, in particular under ESIF and COSME. This in turn should help SMEs to become better integrated into EU wide clusters and related industries leading to a more diversified supply chain.

Skills

The success of Europe's defence sector depends on retaining personnel with key skills and recruiting those with the skills needed for the future. Enhanced EU mobility of workforce can also provide a competitive edge to the sector. Some areas are already experiencing skills shortages due to staff retirements and the difficulties of attracting newly qualified professionals.

Approach and deliverables

Most skills required in defence are similar to those required in other industrial sectors. This provides wide scope for the use of EU instruments originally conceived for civil industries.

In particular, the Commission will promote the use of the "Sector Skills Alliances" and "Knowledge Alliances" programmes by defence related companies and education facilities. This will be done through:

- A communication campaign on EU funding of skill-related initiatives. This will be prepared in co-operation with the EDA and relevant bodies including the AeroSpace

and Defence Industries Association of Europe (ASD) and the European trade union IndustriAll;

- Encouraging the use of the ESIF for workers' training and re-skilling; in particular by addressing skills needs and anticipation of restructuring. This will be highlighted in the guidance in the aforementioned guidebook being prepared for regional authorities and SMEs; and
- Launching, in 2015, a study on current and future competencies and skills supply and demand in the defence sector as a basis for our forthcoming work in this area.

The key objective is to develop a comprehensive understanding of the current and future skill needs of Europe's defence sector so that European, national and regional policies can more effectively targeted.

2.3 Exploiting Dual-use Potential of Research and Reinforcing Innovation

The Communication and the European Council conclusions identified the lack of investment in research and innovation as a threat for the long term competitiveness of the European defence industry and Europe's defence capabilities.

Approach and deliverables

The Commission has identified a number of ways it can support CSDP-related research which are outlined below. In addition, the Commission will develop schemes for pre-commercial procurement which can be used, where appropriate, as a way of bridging the gap between research and the market.

Dual-use research: the Commission will maximise synergies in both directions between the civil research of Horizon 2020 and the defence research co-ordinated by the EDA within the scope allowed by the rules of both. To this aim it will also examine possibilities of expanding the scope and status of the existing European Framework Co-operation agreement with the EDA.

Following the European Council Conclusions, the Commission has started to identify a number of innovation fields and applications to which cross-cutting key enabling technologies (KETs) contribute, including a range of civil sectors that are of high interest to the defence and security industries. This indicates that there is a clear potential for defence to engage in a broader innovation and technology context. In particular, the Commission is consulting the

High Level Group on KETs⁷ (which has recently established a sub-group on the dual-use potential of KETs) which is due to report by the end of 2014.

Preparatory Action (PA): The purpose of a PA is to illustrate the value added of an EU contribution in new research areas – complementing the CSDP-related civilian research ongoing under Horizon 2020. The PA will last for a maximum of three years. The total amount of funding will depend on the available budgetary resources at the time of adoption and will need to respect the ceilings in the EU Financial Regulation 1081/2010 for the PA. If successful, this PA would prepare the ground for a possible CSDP-related research theme which could be funded under the next multi-annual financial framework. While this cannot substitute for national investment in defence R&D, it should promote synergies with national research efforts and encourage industrial co-operation.

The scope of the PA will be defined in consultation with Member States, the European Parliament, EDA, EEAS and industry. A successful PA will need to recognise the specificities of defence-related research including: research areas and models, intellectual property rights, confidentiality of results, co-funding and rules of participation, the role of Member States, while ensuring attractiveness for industry participation. The question of governance will be a central issue.

The Commission believes that these principles and specific issues related to the PA could be considered by an independent advisory body made up of top level decision-makers and experts. Such a ‘Group of Personalities’ would consist of around 20 high level representatives from Member States, the European Parliament, the industry and academia.

2.4 Development of Capabilities

In the Communication the Commission highlighted the need to address the full range of capability needs to meet the many challenges Europe is facing. While this is the prime responsibility for the Member States and the EDA, the Commission can make an important contribution, in line with its competences in the field of non-military security (e.g. counter-terrorism, protection of external borders, maritime surveillance and civil protection).

Approach and deliverables

Joint assessment of capability needs: the Commission will undertake, with the High Representative and EDA, a joint-assessment of dual-use capability needs for EU security and defence policies. The objective is to highlight areas where military and non-military capability needs are similar and identify the potential for synergies which will also take into account

⁷ The Group was established in February 2013 to advise the Commission on ways to foster the use of KETs in Europe.

those capability areas underlined by the European Council, including RPAS, SatCom and Cyber-security.

Common Information Sharing Environment (CISE) for the EU maritime domain: a Communication, planned for adoption in July 2014, within the context of the European Maritime Security Strategy⁸, will provide an implementation Roadmap for CISE. Further, a planned Member States-driven project will develop, apply and test CISE on a larger scale before its implementation in 2020.

Civil-military Co-operation: in order to improve, in practical ways, civil / military co-operation based on existing EU networks the Commission is establishing an informal co-ordination group with the EDA to further intensify synergies and identify areas for further co-operation. Early reflection shows that Chemical, Biological, Radiological, Nuclear - Explosive (CBRN-E) and detection technologies are some promising areas for developing synergies between the Commission policies on internal security and the work of the Agency. On 5th May the Commission adopted its Communication on a new approach to the detection and mitigation of CBRN-E risks (COM(2014)247) which also pointed to the need for enhanced civil-military co-operation in these areas. Discussions with Member States will be taken forward through the Commission's existing CBRN-E Advisory Group.

2.5 Space and Defence

The development of European and national capabilities in space is taking an increasingly central role in meeting our security challenges. While some space capabilities must remain under exclusive national/military control, the Commission believes that there are significant potential benefits, in terms of reduced costs and greater efficiency, from increased synergies between national and European space capabilities.

Approach and deliverables

The Commission will continue its work to protect space infrastructure and support the development of the next generation of Satellite Communication (SATCOM).

Space Surveillance and Tracking (SST): a Commission proposal for a SST Support Framework to protect space infrastructure was adopted on 2 April 2014. This will support national efforts to form an SST consortium and to deliver SST services at the European level. Once this consortium is established, the Commission will encourage, via Horizon 2020, the development and the renewal of SST assets.

Satellite Communication (SATCOM): in this area, in line with the European Council Conclusions, a user-group has been set up consisting of Commission services, the EEAS,

⁸ Communication of 6th March 2014 (JOIN (2014) 9).

EDA and the European Space Agency. This user group is addressing the issue of the fragmentation of demand for security SATCOM and will help support Member States in the preparation of the next generation of Governmental SATCOM.

In addition, the Commission, in close coordination with the user- group, will launch a study to map SATCOM demand both from the civil security users and for the big EU infrastructures. Results are expected in 2015.

Finally, within the limits of its competence, the Commission will explore the possibility to contribute to improving the EU access to High Resolution Satellite Imagery, in support of CFSP and CSDP missions and operations.

2.6 Application of EU Energy Policies and Support Instruments in the Defence Sector

Armed forces have a strong interest in reducing their energy footprint and could thus make an important contribution to the Union's energy targets.

Approach and deliverables

In 2013 the Commission started discussions with Member States and the EDA on the establishment of a Consultation Forum for Energy in the Defence and Security Sector. The mission of this Consultation Forum will be to bridge the expertise in developing policies, and other initiatives on energy with the specific requirements and environment of the armed forces.

The Consultation Forum is expected to become operational by the end of 2014. In the autumn, single national contact points on energy issues should be established in the ministries of defence and/or associated institutions. EU funding for the Consultation Forum is provisionally reserved for 2014-2015 with a possible extension if the initiative proves useful for Member States.

Discussions with national experts revealed a need for information on how EU energy policies and legislation can be implemented in the defence sector to improve the capabilities of the armed forces and contribute to the achievement of the EU and national objectives on (1) energy efficiency, (2) use of renewable energy sources and (3) protection of critical energy infrastructure.

Therefore, the Consultation Forum will develop a number of deliverables, by the end of 2015, including:

- guidance documents on a) the implementation of the relevant EU energy legislation and b) financing investments in energy efficiency and renewables in the defence sector;

- concepts and recommendations for joint actions between Member States to improve the protection of critical energy infrastructures.

2.7 Strengthening the International Dimension

With defence budgets shrinking in Europe in recent years, exports to third markets have become increasingly important for European industry to compensate for reduced demand on home markets.

Approach and deliverables

Competitiveness on third markets: The Commission will discuss with stakeholders how to support the European defence industry on third markets. Issues to be addressed include: the impact of offsets requirements in third countries on the European defence sector; the obstacles that European industry faces when competing for contracts in third countries and the contribution of EU trade and investment agreements; the support that competitors from third countries receive, and the extent to which similar support could be provided to EU companies.

In order to discuss such issues, the Commission will set up in the fourth quarter of 2014 a forum bringing together representatives from government and industry. On the basis of the results of this dialogue, the Commission will assess the need for additional steps. The Commission will also continue to involve stakeholders on a regular basis, notably in the context of negotiations on trade and investment agreements with third countries.

Dual use export control: Following up to a report to the European Parliament and the Council on the implementation of Regulation No 428/2009⁹, the Commission adopted, on 24 April 2014, a Communication on the review of export control policy.¹⁰ This Communication aims at mapping the direction for EU strategic export controls and identifies concrete policy options for their modernisation.

As a further step in the policy review, the Commission will now conduct an impact assessment of the various review options identified in the Communication. This exercise will be supported by an external study and include a targeted public consultation, as well as an "industry forum" for key stakeholders. The Commission intends to complete the impact assessment in the first half of 2015, laying the ground for possible future action.

3. Conclusion

⁷ COM(2013)710 of 16.10.2013.

¹⁰ COM(2014)244 of 24.4.2014.

This report is a follow-up to the Commission's Communication adopted in July 2013 and contributes to the implementation of the European Council Conclusions of December 2013. At the same time, it ensures the continuity of the Commission's activities in the field of defence and security and builds the bridge to the Commission's contribution to the European Council of June 2015.

In particular through its policies on internal market, industry, research and innovation, the Commission can make an important contribution to strengthening the European defence and security sector. This is true especially since the relationship between civil and defence world intensifies with the dividing lines becoming increasingly blurred. This is particularly apparent in CSDP missions which are mostly civil and require close civil / military co-operation to be effective. This is increasing the demand for greater civil / military synergies in areas such as communication, strategic transport, surveillance, RPAS etc. The EU, and in particular the Commission and the High Representative and EDA are well placed to respond to this challenge.

At the same time the investment in defence R&D is continuing to fall dramatically. In 2012, EU-wide defence R&D expenditure decreased by 38% compared to 2011. Partly as a consequence, the gap between defence and civil R&D is increasing. Therefore defence industry dependence on technologies with a civilian origin is increasing as is the tendency to diversify into civil businesses. Meanwhile civil companies are buying up technologies, such as robotics, which are also of interest to defence firms. Therefore, essential technologies such as those relating to big data, synthetic biology, 3D printing etc., will become an important source of innovation for both defence and civil industries.

While it remains difficult to predict what the European defence and security sector will look like in the next 20 to 30 years it is clear that the industrial landscape is changing. Defence activities will continue to have its specificities, but civil elements will become increasingly important for the sector. This trend makes many of the Commission's policies even more relevant for defence and offers opportunities for new synergies and greater efficiency which Europe should not miss.