

**Opinion of the European Economic and Social Committee on
'Launching the European Defence Fund'**

(COM(2017) 295 final)

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Outcome of vote (for/against/abstentions)	179/2/5

1. Conclusions and recommendations

1.1. The EESC considers that the European Union must take greater responsibility for its defence and must be ready and able to deter any external threat to its citizens and way of life.

1.2. The European Defence Action Plan and the Global Strategy highlight the importance for the EU defence industry to achieve strategic autonomy in order for the EU to become an important and credible player in the defence sector. The European Defence Fund (EDF) has the clear purpose of incentivising cooperation between Member States in research and technology (R&T), development and the strategic procurement of military capabilities. Special attention should be given to bridging R&T and capability development.

1.3. The EESC believes that the defence industry plays an important role in the European economy, with 1,4 million jobs being dependent on it. The lack of coordination costs us between EUR 25 and EUR 100 billion a year, which are unacceptable numbers in a global competitive environment.

1.4. The EESC strongly recommends that the Member States and the European Commission use the EDF to keep key industrial capabilities on European soil and to ensure that European money is spent on European R & D and on buying European weapons systems.

1.5. The EESC supports the competitiveness-driven approach of the EDF, which will both ensure access for all Member States and finance projects that will produce added value and cutting-edge technologies.

1.6. The EESC considers that, besides providing financing for the industry, the European Commission should build up the framework for stronger communication between industry players of all sizes across Member States.

1.7. The EESC appreciates the special attention that the current proposal gives to SMEs, no matter what country they come from. SMEs are often the source of innovation in cutting-edge areas such as information technology and communications (IT&C) and cybersecurity. The EESC would also welcome SME involvement mechanisms, such as a bonus system, that would enhance SMEs' cross-border cooperation.

1.8. The EESC is of the firm belief that it is necessary to build up strong key capabilities that support European interests. These must be defined by the Member States, in accordance with their national defence policies, European objectives and NATO partnership obligations.

1.9. The EESC believes that the primary focus must be on technologies that could be decisive in allowing the EU to gain the leading technological edge. This can be achieved through common defence planning and setting up a key capabilities plan.

1.10. The EESC recommends that the awarding process for calls for proposals take into account mandatory high social and environmental standards.

1.11. The EESC believes that the funding schemes cannot be the same as in other sectors of activity, given the particularities of the defence sector and the suspicions and fear of knowledge sharing between companies or Member States.

1.12. The EESC considers that the governance of the EDF must be established as soon as possible and should include the European Union, the European Defence Agency and the Member States, as well as industry. The Commission should explore new options for limiting the level of bureaucracy involved in the implementation of the EDF. The EESC also recommends that the European Parliament should have access to reporting on a regular basis so that it can evaluate how the fund is working.

1.13. The EESC recommends exploring the possibility of increasing the minimum number of countries participating in an eligible project to three, as the EDF programme evolves.

1.14. The EESC considers that maximising the number of Member States involved in the EDF will reduce redundancy and foster standardisation of logistics and sub-systems. This will also avoid the duplication of current NATO standards and reduce fragmentation of weapons systems. For any awarded projects, therefore, the EDA and the chosen industrial consortium should work together closely in the early stages of development to define common norms and standards.

1.15. The EESC has doubts concerning the 'reasonable expectation that the development will result in procurement', given that military research is full of examples of projects developed and later not procured by states. The EESC calls for clear rules regarding the commitment to purchase the successfully developed capabilities.

1.16. The EESC recommends that it should be possible to make use of training programmes co-financed by the European Union in the early stages of the development of projects funded under the capability window. A skilled workforce is key for the development of cutting-edge technologies in the field of defence.

1.17. Furthermore, the EESC, as the representative body for organised civil society, is ready to provide expertise and consultation in all matters concerning the economic and social aspects of the EDF.

2. Background to the opinion, including the legislative proposal concerned

2.1. Europe faces an extraordinary set of circumstances when it comes to the geopolitical environment. The increasing instability in the international arena has created a volatile security environment that generates numerous threats, both conventional and non-conventional. Europe's citizens demand the use of all the means at our disposal to counter these challenges.

2.2. In order to reaffirm its role in the international arena, Europe must be capable of countering outside threats effectively and independently. In the current geopolitical context, projecting power in the Middle East and in Africa is crucial for the safety and well-being of Europe's citizens.

2.3. In 2014, the EU27 spent circa EUR 2 billion in defence R&T, after a steady decrease of 27 % since 2006, and R&T expenditure under a collaborative framework decreased by more than 30 %. In the same time, the USA spent EUR 9 billion a year in defence R&T, Russia doubled its spending in defence R & D between 2012 and 2014 and recent data indicates that China also increased its investment in defence R & D ⁽¹⁾.

⁽¹⁾ European Parliament Study, 'The Future of EU defence research', 2016. [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/535003/EXPO_STU\(2016\)535003_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/535003/EXPO_STU(2016)535003_EN.pdf)

2.4. The role of the EDF, as part of the European Defence Action Plan ⁽²⁾, is to help Member States coordinate and better use the money they are willing to spend on defence, avoiding duplications, from research and development to the acquisition of defence capabilities. The EESC has already expressed its support for the creation of the European Defence Union and has welcomed the establishment of the European Defence Fund ⁽³⁾.

2.5. The European Defence Fund has two different but complementary windows: the research window and the capability window, both coordinated by a Coordination Board. The research window will be fully funded from the EU budget and will promote collaborative projects for the development of defence capabilities, following the agreement reached by the Member States. The capability window will be mainly funded by contributions from Member States.

2.6. The EESC recognises that, in the current security environment dominated by terrorist attacks on European soil, hybrid warfare and cyber-attacks, it is increasingly difficult to differentiate between internal and external security, which are becoming more and more interdependent.

3. Relationship between the EDF and the European Defence Industry: Particularities

3.1. Defence capabilities and the ability to defend our external borders are strongly linked with a strong industrial base. As such, the EESC recommends that actions taken at European level in support of collective defence must enable the industry to remain on European soil. Business strategies could push defence industries to choose subcontractors outside of the EU and thus to have part of their supply chain abroad. It is the belief of the EESC that the use of European money to support foreign contractors should be as limited as possible and that business choices should not be at the expense of strategic autonomy.

3.2. The top priority of the EDF should be to increase European industrial competitiveness while developing technologies that are critical for the existence and self-support of the EU defence sector.

3.3. The defence sector is being completely revolutionised by artificial intelligence, big data and cloud technologies, cyber-attacks, unmanned vehicles, hybrid and transnational threats, and so on. The new types of technologies and threats require new types of countermeasures. One thing is certain: we can better address these challenges and prevent them by working together. More systematic cooperation is needed, along with joint efforts for developing technologies and coordinated action on purchasing capabilities.

3.4. The EESC would like to point out the strong economic incentive for greater cooperation. More than 1,4 million highly skilled people are employed directly or indirectly in the defence industry and each euro invested generates a return of 1,6. The lack of coordination in this field costs Europe between EUR 25 and 100 billion a year ⁽⁴⁾.

3.5. This lack of cooperation translates into a large number of redundant weapons systems, lack of economies of scale when it comes to the defence industry and decreased deployability of our armed forces. There are 178 different weapon systems in the EU, compared to 30 in the US. There are 17 different types of main battle tank in the EU and only one in the US. This indicates clear inefficiencies in the spending of defence budgets and a lack of interoperability of defence equipment.

3.6. The EESC recalls that efficient defence R&T is based on a skilled workforce. Ambitious and solid training and vocational education in the defence industries is key for successful projects which aim to reach technological edges.

3.7. The EESC would like to point out that there are precedents for joint military cooperation on research and acquisition that have proven successful. The Eurofighter Typhoon, the Meteor missile, the Horizon class destroyer and the FREMM frigate are just a few examples of this kind of project.

⁽²⁾ COM(2016) 950 final
https://eeas.europa.eu/sites/eeas/files/com_2016_950_f1_communication_from_commission_to_inst_en_v5_p1_869631.pdf

⁽³⁾ OJ C 288, 31.8.2017, p. 62.

⁽⁴⁾ *Defending Europe. The case for greater EU cooperation on security and defence* https://ec.europa.eu/commission/sites/beta-political/files/defending-europe-factsheet_en.pdf

3.8. The EESC is unclear on how the Member States that commit to a development project can provide evidence that there is a 'reasonable expectation that the development will result in procurement', given that military research is full of examples of projects developed and later not procured by states⁽⁵⁾. The possibility of co-financing the early phase of development of new capabilities from the EU budget aims at reducing industrial risks, but this can only be achieved if the customers commit to purchasing successfully developed capabilities.

3.9. Collectively, the 28 Member States represent the second largest military spender worldwide. However, while all major powers have increased their spending on defence, EU-27 defence spending decreased by nearly 11 % from 2005 to 2015⁽⁶⁾. Only four of the 28 Member States reach the NATO spending target of 2 % of GDP. Defence research and technology (R&T) expenditures have been significantly reduced in national budgets. Between 2006 and 2013, defence R&T spending in the 27 Member States participating in the EDA decreased by 27 %⁽⁷⁾.

3.10. The EESC believes that the problem of UK-based defence firms must be addressed at an early stage, in view of their interest in European development programmes and the UK's prominent role in defence. The EU is interested in retaining British know-how.

3.11. Although the EC is providing the funding for the Research Window, it will be Member States that decide on and invest in the procurement of capabilities. In this entire scheme, it is actually the industry that carries out the R & D as well as the development of the defence capabilities. The EESC considers that, besides providing financing for the industry, the EC should build up the framework for better communication between all the industry actors involved in the EU's defence sector.

4. Beneficiaries: Big players and SMEs

4.1. The EESC is of the opinion that Member States will remain pivotal in deploying security and that none of the current initiatives at European level will change this.

4.2. The EESC considers that the EDF should be solely a competitiveness-driven programme in which the most relevant and competitive projects are financed regardless of geographic or social considerations. However, steps must be taken to ensure fair access for all Member States and to encourage smaller companies to band together on cross-border cooperation.

4.3. The EESC believes that SMEs play a crucial role in our economy. The encouragement of SMEs and other mid-cap companies involved in the defence industry is welcomed. Moreover, start-ups and small companies are often sources of innovation in cutting-edge areas such as IT&C and cybersecurity. The EESC strongly supports this and considers it extremely important that equal opportunities for all SMEs, no matter what country they come from, should be the main goal.

4.4. It is the EESC's understanding that the European Defence Fund has been designed to support the competitiveness of the European defence industry. While the European Commission should promote an inclusive approach in the operation of the fund, it should not be used as a regional development fund. This could result in resources being spread too thinly and would not be effective in combating the fragmentation of European defence systems.

4.5. As for inclusiveness, the fund should not be designed solely for big players. A significant share of the fund should be dedicated to SMEs, for example by identifying smaller projects. The EESC would also welcome mechanisms, such as a bonus system, that would enhance SMEs' cross-border cooperation.

4.6. The EESC understands the rationale behind 100 % EU-funded R&T in the field of defence activities, in contrast to traditional co-financing of civil activities by the EU. The very limited number of customers (mainly national ministries of defence) makes it difficult for industries to amortise risks associated with the development of a new product in a more

⁽⁵⁾ One example of this would be the Northrop Grumman X-47B developed for the US Navy. Despite initial success and test flights, the programme was deemed by the US Navy as too costly and insufficiently stealthy and eventually scrapped, with a total programme cost of USD 813 million.

⁽⁶⁾ Stockholm International Peace Research Institute Military Spending Database 2005-2015 <https://www.sipri.org/databases/milex>

⁽⁷⁾ COM(2016) 950 final

https://eeas.europa.eu/sites/eeas/files/com_2016_950_f1_communication_from_commission_to_inst_en_v5_p1_869631.pdf

predictable market. Whether or not the future fund will be included under the same umbrella as other research funds in the next MFF, those specificities will need to be addressed.

4.7. It is our firm belief that the European Defence Fund will be a strong incentive for the Member States to 'buy European' when it comes to future defence procurement, thus ensuring economic development and safeguarding the know-how and industrial base necessary for sustaining a global military capability. The EESC encourages the idea that Member States should commit to acquiring the technologies and capabilities generated from successful EDF R&T projects.

5. Common defence planning and a key capabilities plan

5.1. The EESC recommends that the Member States, together with the EC and the EDA, set up common defence planning and a key capabilities plan in order to identify the R&T priorities and the necessary military capabilities, both for the Member States and for European defence.

5.2. With very little past experience in this kind of programme (in essence, only the Pilot Project and the start of the Preparatory Action), the European Union has not created its proposal on the basis of clear indicators and does not yet have a clear plan for key capabilities. This plan will be drafted in 2018.

5.3. The key capabilities plan should ensure that the EU is heading towards strategic autonomy and establish the technologies that need to be developed in order for the European Union to retain its leading position in key capabilities areas and break its dependence on external players. The EESC considers the development of technologies and capabilities that go beyond the individual needs of Member States to be crucial for the success of EDF.

5.4. The EESC is a strong supporter of a capability-driven approach to research. As such, we believe that all research undertaken under the EDF must focus on the key capabilities needed for Europe to act and decide freely.

5.5. Technological superiority is key in the current security environment. The EESC therefore believes that the EDF, and particularly the EDRP, must ensure that Europe remains at the leading edge of military research. Devoting resources to technology demonstrators that will support future joint programmes could help in this regard.

5.6. The EESC is of the opinion that, when establishing the key capabilities plan, the whole lifecycle of the technology domain must be planned and taken into consideration. Furthermore, R & D and capability development must be planned together and coordinated between the EU and Member States and with consideration for our NATO partnership obligations.

6. Investment areas and funding schemes

6.1. The European Commission is proposing ambitious funding for both windows of the European Defence Fund:

- EUR 90 million from 2017 to 2020 for the Preparatory Action,
- EUR 500 million per year for the European Defence Research programme,
- EUR 500 million in 2019 and 2020 for the European Defence Industrial Development programme,
- EUR 1 billion per year starting in 2021, under the next Multiannual Financial Framework.

6.2. The EESC considers that investment must be driven towards technologies that are critical for the EU's defence, where we are dependent or in the position of becoming dependent on external suppliers. The EESC also believes that the primary focus must be on technologies that could be decisive in allowing the EU to gain the leading technological edge in various areas.

6.3. The EESC supports separate financing for the two windows — EU financing for the research window and Member States' budgets for the capabilities window. The EESC has already given its view that 'as long as the Union does not have its own variable income, the procurement of the military capabilities of the armed forces remains the responsibility of the Member States. [...] The EESC underlines that in accordance with Article 41 TEU, the EU budget cannot be used to finance

military operations. Departing from this principle would also conflict with the specific character of the security and defence policy of particular Member States (Article 42(1) TEU)⁽⁸⁾.

6.4. The EESC recommends that the EDF should be used as a financial tool to support the development of capabilities in areas where the European defence industry is currently dependent on outside sources. Developing these capabilities in Europe will allow for more strategic options and at the same time bring to the sector valuable knowledge, technology and jobs.

6.5. The EESC believes that the level of funding proposed for the Research Window of the European Defence Fund will allow for ample incentives for innovative research. This will make the EU the fourth-largest defence-research funder in Europe; however, this fund should not be detrimental to other crucial European development projects.

6.6. The EESC considers that the design of the funding schemes for the EDF is extremely important, in order to ensure the full commitment of the industry and to encourage the establishment of productive consortia involving as many Member States as possible. The funding schemes cannot be the same as in other sectors of activity, given the particularities of the defence sector and the suspicions and fear of knowledge sharing between companies or Member States.

7. Governance

7.1. It is not clear from the European Commission's proposal what form of governance the EDF will have. The EESC believes that it must be clearly established as soon as possible and should include the European Union, the European Defence Agency and the Member States, as well as the industry.

7.2. The EESC considers that discussions between Member States should be intensified in order to reach an agreement regarding the governance model of the EDF, with regard to both windows and also the next Multiannual Financial Framework. Although it is presented as another research and development programme, the EESC highlights that the defence sector is unique and has several particularities that should be governed by different but clear rules. These rules must be agreed upon as soon as possible.

7.3. The EESC also draws attention to the fact that the two windows should be closely coordinated with other national and international programmes where the Member States are involved.

7.4. While the criterion of three companies from two Member States seems adequate for the time being, the EESC believes that, once the programme moves into a more mature phase, three countries should be the minimum requirement, so as to foster greater synergies between Member States.

7.5. Projects funded by the European Defence Fund, whether under the research or the capability window, involve public funds. The EC should insure that the tendering process selects only the more competitive projects, while taking into consideration high social and environmental standards, based on objective criteria.

7.6. The EESC is concerned that excessive bureaucracy will hinder the practical application of the EDF and recommends that further options must be explored in this area, as the EDF is evolving.

7.7. The EESC, as the representative European body for organised civil society, highlights its availability for consultations regarding the implementation of the EDF and all matters concerning the economic, social and research aspects of the new European defence policy.

8. Standardisation

8.1. The EESC believes that joint programmes focusing on mutually recognised needs will not only reduce the number of redundant systems, but also foster greater standardisation of sub-systems and logistics.

⁽⁸⁾ OJ C 288, 31.8.2017, p. 62.

8.2. With regard to benchmarks, it is important to look at the global picture, meaning not only Member States' national research programmes but also developments by our NATO partners in all areas.

8.3. The EESC strongly advises that the Commission, together with the European Defence Agency and the Member States, define the priority areas for joint development. This can only be achieved by agreeing on a common definition of needs and increased standardisation.

8.4. The aim of the fund is to increase the efficiency and rationality of national defence spending, not to substitute it. This will be only achieved if the EDF proves its added value by delivering projects that could not be achieved more effectively and at a lower cost by Member States alone. The fund should work as an incentive for better cooperation. Only then it will manage to avoid multiplication of different weapon systems.

8.5. The EESC expresses its support for the development of common standards⁽⁹⁾, while avoiding duplicating existing ones, in particular NATO standards. With 178 different weapon systems identified in Europe, one research priority would be to establish common European standards and interfaces in order to link the existing ones as much as possible and prepare the future systems. By respecting such standards, Member States could afford to develop Euro-compatible systems.

8.6. The issue of standards is especially important for sub-systems. Newly developed products will certainly set a standard at European level, but existing sub-systems that might be incorporated into those products should also be to some extent based on common standards. The EESC considers that this would enhance interoperability, thus reducing fragmentation of weapon systems.

Brussels, 7 December 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

⁽⁹⁾ OJ C 288, 31.8.2017, p. 62.