European Economic and Social Committee

INT/406
A Strategy for a Stronger
European Defence Industry

Brussels, 26 September 2008

PRELIMINARY DRAFT OPINION
of the
Section for the Single Market, Production and Consumption
on :
The Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions:
"A Strategy for a stronger and more competitive European Defence Industry"
COM(2007) 764 final

____

Rapporteur: **Mr Opran**

____

To the members of the Study Group on **European Defence Industry**
(Section for the Single Market, Production and Consumption)

N.B.: This document will be discussed at the meeting on **26 September 2008 beginning at 10 a.m.**

Document submitted for translation: 19 August 2008

Administrator: J. Pereira dos Santos

99 rue Belliard - B-1040 Brussels - Tel. +32 (0)2 546 90 11 - Fax +32 (0)2 513 48 93 - Internet http://www.eesc.europa.eu

Study Group on
The Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: "A Strategy for a stronger and more competitive European Defence Industry" - COM(2007) 764 final

President: Mr Gkofas (EL-III)

Rapporteur: Mr Opran (RO-I) (Rule 62 – Angelova)

Members: Mr/Ms
Boyle (UK-II)
Cabra De Luna (ES-III)
Carr (EE-II)
Cassidy (UK-I)
Cedrone (IT-II) (Rule 62 – Iozia)
Danev (BG-I) (Rule 62 – Behar)
D'Sa (UK-III)
Gendre (FR-II)
Van Iersel (NL-I)
Kotowski (PL-III)
Metzler (DE-III)
Schallmeyer (DE-II) (Rule 62 – Ott)
Voleš (CZ-I)

Experts:
Mr Ernst van Hoek (for Group I)
Ms Husen-Bradly (for Group II)

On 5 December 2007 the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the:

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions:
"A Strategy for a stronger and more competitive European Defence Industry"
- COM(2007) 764 final -

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on …

The rapporteur was **Mr Opran**.

At its ... plenary session, held on … (meeting of ...), the European Economic and Social Committee adopted the following opinion by ... votes to ... with ... abstentions.

*

*   *

CONCLUSIONS

1. To provide for the necessary capabilities supporting the European Security and Defence Policy (ESDP), the European Union needs a strong and dynamic Defence Technological and Industrial Base (DTIB). Such an industrial and technological base is characterised by a competitive industry, a well functioning European Defence and Equipment Market (EDEM) and an advanced and efficient Research and Development (R&D) sector ~~component~~. This requires inter alia:

1.1. To set up a real EDEM, in accordance with the full set of specific requirements unique for this special domain:

- Strict and coherent rules framing the production and the sales – this sensitive matter is still entirely a Member States (MS) decision, outside the scope of the Commission competence ~~(referring first to the Third Countries export operations)~~;

- Methods taking care of the secret character of some of the activities, which imposes severe constraints regarding the access to the technical information.

- Technological excellence level of the products requested by the Military Users, in order to successfully accomplish their missions.

2. The future Industrial Policy for the European Defence Industry should also be fully in line with the following aspects emphasised by the Lisbon Strategy for growth and jobs:

2.1. Sustaining the Internal Market by improving European and National Regulations;

2.2. Encourage knowledge and innovation by promoting more investment in R&D [1]:

- In line with the Lisbon goal, the Defence Industry should increase research investment with the aim of approaching 3% of Total Defence Expenditure (TDE) [2];

- EU Member States could increase the efficiency of research spending through more co-operative research activities, by more efficient co-operation – working with the Commission and the EDA, and in general increasing their R&D spending towards the Lisbon goals;

- Furthermore, synergies between civil and military research could still be better exploited and actively looked for. It is conceivable that the European Security Research Programme will co-finance technology developments which might lead to Dual-Use

[1] *In line with the Lisbon goal, the Defence Industry should increase research investment with the aim of approaching 3% of Total Defence Expenditure (TDE)*

[2] *Whereas the United States spends 3.3% of TDE on defence R&T, the EU MS together spend only 1.1%.*

(DU) applications, mutually increasing the knowledge and innovation about civil and military technologies.

2.3. More and better jobs: The development of new defence technologies, especially the increasing complexity of defence systems, will require excellent technological skills and a well trained workforce. A European Defence Industry able to respond to all future military needs will require a special human resources policy, including important investments in the continuous professional training of its own personnel.

3. The Public Procurement activities should be done according with a common set of rules, accepted by all Member States in order to have a better utilisation of the allocated funds and to strengthen the Defence Technological and Industrial Base (DTIB) – by inter alia:

3.1. Defining an European common model for the Public Procurements in the field of Defence and Security, accepted by the all Member States;

3.2. Introducing and increasing the role of the Security of Supplies and of the Security of Information as Selection Criteria for Defence and Security Public Contracts Award.

4. The process of Defence Technological and Industrial Base reinforcement can be supported too by setting up:

4.1. An increased awareness of the importance of monitoring non - European investments in the EU Defence Industry, in order to avoid illegal access to the latest technologies developed by the EU Defence Industry companies.

4.2. A harmonisation effort in the EU Defence Business sector in order to tackle the problems arising from the co-existence of both public and private companies in a sector with clear political and strategic implications.

5. An Industrial Policy for the Defence sector will emphasise the need for Member States and industry to better coordinate the National Programmes, work more together and ensure that all capabilities needed for the ESDP implementation are available. This European Union cooperation, actually including Norway [3] too, would ensure the best use of available resources and the identification of new technologies and products needed for future defence missions.

---

[3] *On 26 May 2008, the EU Defence Ministers agreed to allow non-EU member Norway to participate in the Regime on Defence Procurement, under which governments and industry voluntarily commit to more open cross-border competition for defence equipment contracts. The decision was taken at a Ministerial Steering Board meeting of the EDA, to which all EU members except Denmark belong. "We are delighted that Norway will be participating in the Regime, which will help our efforts to open the EDEM and further strengthen our DTIB", said Head of the Agency Javier Solana. Norway has an Administrative Arrangement for cooperation with the EDA. Although not a member of the EU, it participates in its European Security and Defence Policy (ESDP) in many ways, contributing troops to ESDP operations and forming part of the EU Nordic Battle Group.*

6. In order to facilitate the undertaking of R&D joint programs, the Member States and the European Defence Agency should fill up the actual existing gap between various national R&D policies by setting up a new List of European Armaments Projects to be developed with an emphasis on joint R&D ~~-~~programmes considered to be of general common interest for the Community's members. Of course, the EDA should start working on this issue only after applying and being officially mandated by its Steering Board in Ministerial Format (EDA-SBMF)

7. To have a successful "EU Military R&D Programme", the rules of Intellectual Property Rights have to be established, also to the satisfaction of those parties that generate such information, in particular Industry.

8. The EDA R&D budget should be increased as appropriate by the decision of the EDA - SBMF.

PROPOSALS

9. The Committee considers that the Council, the Parliament, the Commission and the EDA-SBMF should promote a new full set of political, financial and economic measures ~~enforcing~~ enhancing the EU Defence capabilities – in order to:

9.1. Eliminate the actual impediments towards the healthy growth of the European Defence Industry – mainly:

- Market fragmentation between different manufacturers of the same category of armaments;
- Unnecessary duplication of the R&D activities;
- Often poor interoperability between different national contingents, members of the European Joint Task Force (or similar);

9.2. In the same time, improving at the level of all Members States:

- The Defence capabilities;
- The Armaments manufacturing capacities;
- The Human Resources continuous professional training and their ~~Life Conditions~~working conditions.

10. In this respect, the Committee considers that the Commission and the EDA mandated by SBMF should define in the next period a new EU Joint R&D Defence Programme (that could be named: *"Defending our Future"*), approved by the highest level EU political organs: the Council, the Commission, the High Representative for CFSP and by the SBMF.

10.1. In order to promote and to accelerate the European R&D cooperation in the area of Defence projects, the main task of the new approach should be to define the List of the R&D activities for the development of a new generation of Military products considered to be of high priority and of interest by the all Member States – "The Euro-Armaments R&D List".

11. The Committee strongly recommends to the EDA – SBMF to set up and to approve the level of the obligatory annual contribution of the Member States – as percentage of the National Defence R&D budget allocation - to the EDA Common Fund for R & D activities.

11.1. As part of the same decision process, the EDA – SBMF should express officially their firm position regarding the definition and development of the Euro-Armaments concept.

12. The Committee suggests to the ~~new~~ current French Presidency to propose to the Council, the EDA - SBMF and the Commission to set up a new strategic document regarding the EU Common Policy on Euro-Armaments:

12.1. Identifying the Challenges and defining the needed Operational Capabilities;

12.2. Establishing the targets for National Investments in R&D, production and training – in order to upgrade the combat level of our Armed Forces;

12.3. Establishing the concrete actions for an efficient cooperation between the Member States;

12.4. Supporting the backing up of the Strategy with Political Drive.

13. In case of the approval of the Euro-Armaments concept by the EDA - SBMF, the Committee considers that a possible Road Map on the Euro-Armaments R&D Programme can be represented by the flow chart presented in the Annex 1.

14. Considering the Organization for Joint Armaments Co-operation (OCCAR) created by France, Germany, Italy and UK as a precursor of a real common armament agency / programme management agency, the Committee recommends to the Council to start consultations with all Member States regarding their position on a possible official fusion / joint cooperation between this organization and the EDA as foreseen in the joint action that created it. This would allow to start new programmes targeting the development of a new generation of major European armament systems to be commonly used by all Armed Forces and the Security Forces of the EU Member States. The Committee is drawing up this proposal in good faith and trust, respecting that finally the implementation of this proposal is purely a national responsibility.

15. The Committee considers that the Parliament, the Council and the Committee should set up during 2009 a special EU Inter-Agency Committee for the control of the Foreign Investments

in the area of European Aerospace and Defence Industry – a EU adapted version of CFIUS [4]. Its task will be to reviews the Community security implications of foreign acquisitions of the EU companies or operations.

16. In the view of the Committee, the future common law package to be set by the Parliament and the Council should be open enough to adapt to future developments and allow for consultation with ~~the~~ main players from outside the EU ~~(NATO, USA, Russian Federation, China, Israel)~~.

15. Regarding the position expressed by some international politicians supporting EU to become a member of NATO in its own right and replacing the current twenty-odd European Members of NATO, the Committee believes that this option is not of interest for the moment.

16. Finally, the Committee allows a high appreciation to the official public position expressed on May 30 by the Council on the actual and future problems of the EU Defence Industry [5], promoting the proposal to fully include this document within the Strategy set up by the Commission, as a hub / focal point of the key guidelines to be followed by the future action plan of the sector – as:

16.1. Improving the competitiveness of the European Defence Industry by ensuring a dynamic and strong EU Defence Technological and Industrial Base;

16.2. Ensuring that Member States' defence capability needs can be addressed cost-effectively by a more competitive European defence industry while maintaining essential security interests, security of supply, innovation and responsiveness.

16.3. Reducing barriers to competition and enhancing cooperation among Member States in accordance with the special characteristics of defence markets, could contribute to the efficient development of the defence capabilities needed and is thus a precondition for the creation of a European Defence Industry that is competitive at global level;

16.4. Underlining the importance of ensuring a level playing field and fair competition for defence industry goods without prejudice to Article 296 of the Treaty;

16.5. Recognising the importance of establishing common standards in order to facilitate more effective defence markets;

---

4 *The Committee on Foreign Investment in the United States (or CFIUS) is an Inter-Agency Committee of the United States Government that reviews the national security implications of foreign acquisitions of U.S. companies or operations. Chaired by the Secretary of the Treasury, CFIUS includes representatives from 12 U.S. agencies, including the Defence, State and Commerce departments, as well as (most recently) the Department of Homeland Security. CFIUS was established by Gerald Ford's Executive Order 11858 in 1975. Ronald Reagan delegated Presidential oversight to CFIUS by his Executive Order 12661 in 1988.*

5 *Press Release, 2871st Council meeting on Competitiveness (Internal Market, Industry and Research), 29-30 May 2008. par. 3.3.* *http://data.ellispub.com/pdf/EN/2008/Council/100733.pdf*

16.6. Recognising that SME's play an important role in the European Defence sector, and are also of great importance offering their innovative potential as subcontractors to the cross-border supply chains.

16.7. Encouraging the Member States, the Commission and the European Defence Agency to continue to work together to ensure that the full potential of the European Defence Equipments Market is realised, so that European industries are in the best position to meet the challenges and opportunities presented by the rapidly evolving defence and security sector.

16.8. Emphasizing the importance of the "European Code of Conduct for Arms Exports to Third Countries" and its full implementation, including all of its criteria.

GENERAL INFORMATION

17. Referring to actual situation, currently the EU Member States have under development numerous different National Military Projects [6][7] (please see also Table 1 [7] and Table 2 [8][9]), often motivated by regional economic needs instead of a solid commitment to either serious military capability or economic efficiency, leading to the European Market fragmentation, unnecessary duplication and often poor interoperability.

- A Continuous Degrading of European Armed Forces and - to make matters worse, the reduced state of capability and readiness leads to the derogation of the Defence Technological and Industrial Base, allowing Foreign Competitors to gain ground on us almost every year, further complicated by defence inflation and low levels of military expenditure, particularly for the small and medium-sized MS - and some of the larger ones, not least Spain, Italy and Germany, each spending merely between 1.1% and 1.8% of their GDP on Defence.
- In the actual circumstances, the Europeans are increasingly less able to contribute anything of real substance to the Transatlantic Partnership, reducing the effectiveness of NATO and producing an environment more conductive to American unilateralism.

18. The EU Defence Industry is still competitive?

The answer is affirmative, but the Sector does face a large number of constraints:

---

6 *De Vestel, P : « Les marches et les industries de defence en Europe : l'heure des politiques ? ». In : Cahiers de Chaillot n°21, ISS, Paris, Novembre 1995.*

7 *89 R&D projects for the main categories of EU Armaments, comparing with US DoD / DARPA only 27 major projects*

8 *The total R&T investment in the three fighter-strike or combat aircraft system that are in competition inside Europe has been 10.5 Bn higher - 54.7% for 66% less produced output and at the same time – which is worse - less technology output, since the Eurofighter, the Rafale and the Gripen are all effective aircraft, but their technologies are aging compared to the latest developments in the US.*

18.1. The European Market remains fragmented, each Member State trying to preserve its status of "Contracting Authority" and "Protector" of its own National Defence Industry.

18.2. In fact, the so-called competition with the US is an asymmetric one, because of the gap between the levels of the budgetary allocations and of the lack of reciprocity regarding the markets access.

19. Military and Political Aspects and their Impact on the Sector

19.1. The ~~roots~~ basis of the actual critical situation was laid down ~~all realised~~ a long time ago, starting during the Gulf War in 1991, r~~a~~ising again in importance after the subsequent Bosnian and Kosovo wars and culminating in the ongoing intervention in Afghanistan, where many European militaries have found it difficult to interoperate with the American troops - or even with other European countries contingents.

19.2. Indeed, facing the ongoing rise of China, India and Russia, alongside a myriad of regional powers like Brazil and Iran, the need of a strong and militarily capable European Union has never been greater, despite of the fact that the power of the individual power of its Member States - even UK and France - is in a steady albeit relative decline. Also the European's influence in Washington has been reduced, due to the growing Asian-Pacific orientation of the US, but also because of the widening gulf of power between the two sides of the Atlantic.

19.3. The drive to enhance European Military Capabilities was in part responsible for the St. Malo Agreement between UK and France in 1998, whose aim was to provide for a greater level of European military cooperation with NATO. The actual conditions may now be right for UK and France – and not only! - to take European Defence Integration onto a new plane, opening large the door for all Member States fulfilling the imposed set of requirements to be accomplished by the members of EU Defence Forces.

19.4. The French Presidency already suggested that one of its main priorities under its Presidency of the European Council (1.7 – 31.12.2008) will be to drive forward the European Security and Defence Policy, first of all by redrafting the still into force 2003 document [9].

____

9 *Compiled in 2003 by Robert Cooper and Javier Solana.*

TYPE OF DEVELOPED SYSTEM	EUROPE	USA
LAND SYSTEMS		
Main battle tank	**4**	**1**
Armored Infantry Fighting Vehicle	**16**	**3**
155 min howitzer	**3**	**1**
AIR SYSTEMS		
Fighter-strike	**7**	**5**
Ground attack - trainer	**6**	**1**
Attack helicopter	**7**	**5**
Anti-ship missile	**9**	**3**
Air-air missile	**8**	**4**
SEA SYSTEMS		
Frigate	**11**	**1**
Anti-submarine torpedo	**9**	**2**
Diesel submarine	**7**	**0**
Nuclear-powered submarine	**2**	**1**
TOTAL	**89**	**27**

TABLE 1: Duplication of R&D activities and programmes in the EU Member States

Aircraft	*Research Cost (Billion Euro)*	*Expected Output (Units)*
Eurofighter	19.48	620
Gripen	1.84	204
Rafale	8.61	294
JSF (US)	19.34	3003

TABLE 2: Combat aircraft research costs

European - US Defence Expenditure – General (FY 2006)		
	Europe [10]	**US [11]**
Total Defence Expenditure	€ 201 Bn	€ 491 Bn
Defence Expenditure as a % of GDP	1.78%	4.7%
Defence Expenditure Per Capita	€ 412	€ 1 640

TABLE 3: Comparison between EU and USA in the area of Defence Expenditures - General

European - US Defence Expenditure – Reform (FY 2006)		
	Europe	**US**
Military Personnel [12]	1 940 112	1 384 968
Civil Personnel	484 827	699 520
Defence Spent per Soldier	€ 103 602	€ 354 898
Investment (Equipment Procurement and R&D) per Soldier	€ 20 002	€ 102 489

TABLE 4: Comparison between EU and USA in the area of Defence Expenditures - Reform

10 *Europe means 26 EDA participating Member States plus Norway.*

11 *Euro /US Dollar exchange rate is based on average for 2006 rate of 1,2556.*

12 *Authorised strengths of all active military personnel; includes non-MoD/DoD personnel in uniform who can operate under military command and can be deployed outside national territory*

Annex 1

The Road Map of the Euro-Armaments R&D Programme
- Concept / Stages Postulation -

1. **EDA:** • Using the EDA CAPTECH database, selecting and nominating the **EDA Independent Experts Group (IEG)** of 27 people (27 EU MS – Denmark + Norway) **–** one independent, non-governmental expert from each country**;**

2. **IEG:** • Setting up the list of the Armaments included into category of "Euro-Armaments" to be commonly developed and to become operational within all EU MS Armed Forces;
• Defining the Technical and Operational Requirements (**TOR**);

EDA: • Sending the proposed List of Euro-Armaments and the **TOR** to the Military Joint Staffs of all Member States for evaluation and comments;

3. **EDA:** • Receiving the comments and the requests of each MS declaring their own interest to participate (or not) on a specific Euro-Armament project, counting the needs and establishing the final hierarchy and the time schedule of the Euro-Armaments to be developed;
IEG: • Modifying initial **TOR** according with the amendments received from the MS;

4. **EDA:** • Selecting the priorities of the Euro-Armaments according with the existing budget;

5. **EDA:** • Establishing the national optional part of the financial contributions for each Euro-Armaments project, according with the Member States expression of interest;

6. **IEG:** • Preparing the Tender Documents;
EDA: • Launching the tender procedure to select the Integrator – company/JV in charge to elaborate the technical documentation and to develop the Project Demonstrator - for each type of Euro-Armament project;
IEG: • Technical and Operational Evaluation of the bidding offers;

7. **IEG:** • Field test and evaluation of the Demonstrator, before taking any final decision to start the industrial production according with the Member States firm orders;

8. **IEG:** • Preparing the Tender Documents;
EDA: • As proprietary on the intellectual rights of the project and of the Demonstrator, the Agency will select the System Manufacturing Integrator by tender procedure.
IEG: • Technical and operational evaluation of the bidding offers.

ABBREVIATIONS

1. **ESDP:** European Security and Defence Policy
2. **EDTIB:** European Defence Technological and Industrial Base
3. **EDEM:** European Defence and Equipment Market
4. **R&D:** Research and Development
5. **MS:** Member State(s)
6. **TDE:** Total Defence Expenditure
7. **DU:** Dual – Use (Goods)
8. **EDA:** European Defence Agency
9. **EDA - SBMF:** EDA Steering Board in Ministerial Format
10. **US DoD:** US Department of Defence
11. **US DARPA:** US Defence Advanced Research Projects Agency
12. **CFIUS:** Committee on Foreign Investments in the United States
13. **IEG:** Independent Experts Group
14. **TOR:** Technical and Operational Requirements