



Long Term Investment and Reindustrialisation Intergroup

#Invest4Future

MINUTES OF THE LUNCH-DEBATE

**“THE EUROPEAN DEFENCE INDUSTRIAL DEVELOPMENT PROGRAMME : STRENGTHENING
EUROPE’S DEFENCE INDUSTRIAL AND TECHNOLOGICAL BASE”
FEBRUARY 19, 2018**

Speakers:

- Dominique Riquet, MEP, Chair of Long-term Investment Intergroup
- Lowri Evans, Director General for Internal Market, Industry, Entrepreneurship and SMEs
- Burkard Schmitt, Director for Security and Defence, AeroSpace and Defence Industries Association of Europe (ASD)
- Gergana Karadjova, PSC Ambassador/ Representative of the Republic of Bulgaria to the Political and Security Committee
- Lola Merveille, Bpifrance Permanent Representative to the European Institutions
- Frederic Mauro, lawyer and associate researcher with the Group for research and information on peace and security (GRIP)

I. Welcome address and keynote speeches

Dominique Riquet, Chairman of the Intergroup and shadow rapporteur within the Committee of Industry, Research and Energy (ITRE) on the regulation on the European Defence Industrial Development Programme (EDIDP) for the ALDE Group, welcomed the participants and emphasized how important the timing was as the European Parliament should momentarily set its position and start Trilogue negotiations with the Council. Mr Riquet emphasized the potential of EDIDP to optimise actions relating to research, development and prototyping in the field of defence and to prefigure a potential European military-industrial complex which could be competitive on the world market. While currently underpowered due to fragmentation, the European Union would be the world's second biggest power if all national defence budgets were taken together! He emphasized that the economic benefits could reach €100 billion of savings in the EU due to enhanced collaboration and the efficiency of such synergies between Member States. Addressing the issue of Brexit and while regretting the loss one of the greatest contributors, investors and partners in research, innovation and defence, he stressed that this could serve as new impetus for higher European integration in the field of defence. Finally, beyond the long-term objective of providing the Union with a more robust and autonomous defence policy, he pointed out the positive spin-offs for the civilian sector which could be significant, as proven by the effectiveness of the military-industrial complexes, like those in the USA, China or Russia for instance. This mechanism is at the origin of the numerous technological applications to the civil sector, ensuring a real competitive advantage on technology, digital, space and telecoms. This proposal is a first step in developing a truly European defence industrial leadership, able to innovate and keep the technological edge.

II. Lowri Evans, Director General for Internal Market, Industry, Entrepreneurship and SME

Lowri Evans, Director General for Internal Market, Industry, Entrepreneurship and SMEs, thanked the European Parliament for the timely preparation of its position on the European Defence Industrial Development Programme. An initiative she deemed all the more important considering the challenges

that the EU defence industry faces. Indeed, over the last decade EU Member States have decreased defence spending by nearly 12% and defence research has fallen by more than 25%.

Compared to the US, EU Member States spend three times less on defence procurement and seven times less on defence R&D. Moreover, she claimed these resources are used inefficiently as fragmentation and duplication characterise the European defence landscape. She counted 178 different weapon systems in the EU, compared to 30 in the US. 36 systems are in production in Europe against 11 in the US. As modern – future - military capabilities are increasingly complex and expensive, necessary research and development programmes become increasingly beyond reach of individual Member States – even the big ones. This makes cooperation at the EU level essential to maintain a competitive European defence industry, without which Europe risks increasing dependence on foreign technology and gaps in its defence capabilities, Mrs Evans warned. The European Defence Fund is a strong answer to this situation as for the first time, the EU budget will be used to support cooperative defence research and the joint development of defence capabilities in the EU.

The Preparatory Action on Defence Research, with its €90m over three years, is already up and running and a more ambitious European Defence Research Programme post 2020, with €500 million per year was proposed by the Commission.

On capability development, the European Defence Industrial Development Programme should co-finance the joint development of concrete defence capabilities with €500 million for 2019 and 2020, and incentivize cooperation between Member States. The prototype activity is the main action of the programme which also supports testing, design, certification, standardisation and feasibility studies. The grants will cover up to 20% of the costs for prototyping, with member States covering the remaining 80%, and could go up to 100% for other development actions. Member States should commit to jointly co-finance the capability development and pledge to procure the final product.

As for the beneficiaries of the programme, while it explicitly targets EU companies, the degree of openness to third-country participation will have to be discussed during the trilogue. The particular role of SMEs will be promoted though the setting up of consortia and a share of the budget will be dedicated to the cross-border participation of SMEs.

Mrs Evans concluded her intervention by pressing all stakeholders to take this opportunity and ensure that good collaborative projects are set up and proposed for funding, for delivery in 2019.

III. Roundtable

Burkard Schmitt, Director for Security and Defence, AeroSpace and Defence Industries Association of Europe (ASD)

Burkard Schmitt, Director for Security and Defence for the AeroSpace and Defence Industries Association of Europe (ASD) introduced his speech by expressing the support of the industry to the proposal for the EDIDP as part of the European Defence Fund (EDF). Better cooperation is needed to tackle important capability shortfalls. Ultimately, he warned that either Europeans will develop them together or they would have to procure them off-the-shelf from third countries. Doing it nationally can only be an option in exceptional cases. Also, if the industry has proven its capacity to develop state-of-the-art defence equipment, the know-how of today is the fruit of investments of the past. Without new programmes, it will not be possible to stay at the leading edge of technology, nor to retain the necessary skills. He stressed that to ensure the success of EDIDP and the European Defence Fund, a few principles should be fulfilled: EDIDP must be ambitious and of a size that really matters.

- The industry supports the proposal for €500 million for 2019-2020, €1 billion per year under the next Multiannual Financial Framework.
- Complementarity with other related programmes at the EU and Member States level must be ensured and the programme should carefully target capabilities that can make a difference operationally and technologically.
- EU money should go to EU industries: the know-how resulting from actions funded by the EU must stay in the EU and EU funding should benefit all parts of the supply chain, and companies from all Member States should have a fair chance to get access. It is crucial for the efficiency of the programme to leave to the prime contractor the industrial leadership and the overall responsibility for the supply chain. The choice of sub-suppliers should be based on competence and competitiveness, not on nationality.
- Defence is not a commercial market, and this must be reflected in the rules on funding, IPs and exports. Governments are the only customers of defence products, and they decide ought to decide on exports destinations. EU-funded research and development programmes must take this into account and ensure that all R&D activities are publicly funded (EU and MS).

Mr Schmitt concluded his speech by reiterating the industry's support for the EDIDP initiative and stressed that its main purpose is to prepare the future of the EDF capability window under the next MFF, as there will be very little time to draw lessons from the practical experience with the current programme. In this regard, he emphasized that investments under the research- and the capability window of the EDF must be planned together. Also, a robust defence planning process at the EU level is necessary to identify the best activities for the Fund. This planning is only just emerging with the ongoing revision of the Common Defence Policy (CDP), the Coordinated Annual Review on Defence (CARD) process and the Permanent Structured Cooperation on Security and Defence (PESCO). The success of the European Defence Fund (EDF) will depend on the success of these Member States initiatives.

[Gergana Karadjova PSC Ambassador/ Representative of the Republic of Bulgaria to the Political and Security Committee](#)

Gergana Karadjova, Representative of the Republic of Bulgaria to the Political and Security Committee introduced her speech highlighting the need within the European Defence industry for investments in the development and procurement of future capabilities. Stressing the need for better coordination between Member States in this field, she recognized the lack of incentive so far. The launching of the European Defence Fund (EDF) should serve as a game-changer that will turn this negative trend upside down. She claimed the establishment of the European Defence Industrial Development Programme (EDIDP) should play key role in achieving the EU's strategic autonomy and the competitiveness of Europe's defence industry— including the many SMEs and Mid-Caps forming the European defence supply chain through enhanced cross-border cooperation and collaborative development projects.

The Bulgarian Presidency of the Council of the European Union fully understands the importance of the EDIDP as its success will be a pre-condition for the future EDF. She deemed important to reach to an interinstitutional agreement between the Parliament, the Council and the Commission on the regulation within this term. Indeed, she considered essential to implement the Programme from January 2019 in order to secure the prospects for the European defence industry in the period after 2020. Ms Karadjova then addressed the proposed schedule of the negotiations: there should be three rounds of Trilogues

starting with the first one in the mid of March 2018 and finalization of the formal negotiations in the beginning of May 2018.

The Council General Approach features certain changes with regards to the original Commission proposal:

- On the incentivization for participation of cross-border SMEs and Mid-caps through sophisticated bonus schemes;
- On incorporation of new eligible actions and award criteria,
- On the possibilities for third country-controlled entities to directly or indirectly participate in the Programme in justified cases and when it is in the EU's interest.

Still, provisions related to the implementation and the work programme, as well as the highly politically relevant and visible "PESCO bonus", mostly remain as proposed by the Commission. Regarding the ongoing discussions on the EDIDP within the Parliament, she claimed that no issues that could not be solved. The main points to be raised at the negotiations are expected to be:

- On the funding sources for structuring the budget of the programme,
- On the eligibility for direct or indirect participation of undertakings controlled by third countries,
- On the approach for implementation of the programme, whether through implementing or delegated act.

She concluded her speech, expressing confidence in finding a timely agreement on the EDIDP and delivering a programme that really makes a difference for the defence cooperation and defence sector industries of all sizes across the EU. In the end, the future of the European defence industry and 500,000 high-skilled jobs are at stake.

Lola Merveille, Bpifrance Permanent Representative to the European Institutions

Lola Merveille, Bpifrance Permanent Representative to the European Institutions, presented her institution. Bpifrance is the French public business bank supporting enterprises' access to funding from start-up to stock markets. They provide all types of financing solutions to address each phase of the SME development (from loans and guarantees to equity) and provide advisory services for growth and export. They manage resources from Regional authorities, the EU, and French ministries among which the Ministry of Defence. In 2016, they had deployed over € 24 bn for French companies.

Lola Merveille then addressed the defense sector in France which is strategic both in terms of economic value and industrial technology leadership. With a budget of more than € 40 bn (i.e.1,43% of the GDP against 1,34% as an average in Europe) France ranks 7th worldwide and 2nd at the EU level (behind the UK). Defence also provides 22% of the private R&D effort in France. Moreover, the defence sector positively contributes to the trade balance as exports represent one third of the business value of enterprises of the sector.

Lola Merveille stressed that while as in many countries, the defence industry in France is led by large groups, the sector also relies on a value chain comprising about 4000 companies. This includes SMEs/Mid-caps acting as subcontractors, start-up & companies developing innovative civilian technologies with industrial application in the defence market. But these companies experience difficulties to access finance which hampers their ability to invest and innovate. To tackle this issue, the Directorate General for Armament (DGA) - the Defence procurement agency of the French Government

- plays a key role in the animation of the ecosystem through inclusion of the SME dimension in the armament purchasing process (with the objective to reach a volume of 2% of the public order made with innovative SMEs / Midcaps by 2020) and through assistance to access new markets and export.

Lola Merveille then moved to a joint initiative by Bpifrance and the DGA: the “Definvest Fund”, a € 50M French investment fund in the Defence sector which targets 20 to 30 strategic innovative SME/mid-caps on a wide range of fields: electronics, robotics, biotech, cybersecurity... It provides patient capital for strategic enterprises to support their long-term growth. The fund takes minority stakes alongside industrials or other funds.

Investment size goes from € 0,5 to 5M, from Venture Capital to growth capital and small buyout.

Mrs Merveille concluded her intervention by welcoming the EDIDP regulation as well as the structured cooperation agreement. They have the potential to structure a continuum of projects and financing solutions at the EU level: from research and development up to joint acquisition (namely through the OCCAR structure, the organisation for Joint Armament Co-operation). This could create a EU networks of experts and researchers for defence. Finally, it can offer new possibilities to support the sector with EU financial instruments and the European Investment Bank (EIB) which is unprecedented considering the specificity of the sector. Lola Merveille stressed the opportunity to couple resources both from the EIB and National Promotional Banks and Institutions (NPBIs) through co-investment platforms.

IV. Q&A

Some participants argued that beneficiaries of EDIDP should not necessarily be EU-based but have business in the EU and pay taxes. Also for inclusion of SMEs to be effective, beyond provision of subsidies, there must be a tailored coaching.

V. **Conclusive remarks by Frederic Mauro, lawyer and associate researcher with the Group for research and information on peace and security (GRIP)**

Frederic Mauro, lawyer and associate researcher with the Group for research and information on peace and security (GRIP) concluded the lunch-debate around three main ideas: EDIDP is the best thing that happened to the European defence for a long time; there is little doubt EDIDP complies with European Treaties; there are yet many hurdles to overcome for EDIDP to actually lead to a more efficient European Defence Industrial basis. He claimed that unlike previous initiatives such as the Permanent Structured Cooperation (PESCO), the Coordinated Annual Review on Defence (CARD), the Military Planning and Conduct Capability (MPCC), and the Capacity building in support of security and development (CBSD), EDIDP is led by the European institutions – namely the Commission and the Parliament – whose capacity for action is not hindered by the unanimity rule. Also, unlike the Defence Procurement Directive which was punitive, the EDIDP is incentivizing and should foster competition between European companies to win the Commission’s calls for proposals.

Frederic Mauro then addressed the remaining two challenges to exploit the potential of EDIDP. First, EDIDP’s fine articulation with a defined strategic EU defence planning needs to be ensured. The projects developed must meet the priorities defined by Member States and lead to real armament programmes, as required in article 10 of the Regulation:” Member States commit to jointly produce and procure the final product or technology in a coordinated way, including joint procurement where applicable”. Mr. Mauro emphasized how important this provision was and that it was lacking in the Security Research Programme. The second challenge lies in the articulation between inclusiveness (i.e. implication of as

many Member States as possible) and efficiency (the concentration on the most cutting-edge industries, which are located only in a few countries). Mr. Mauro warned that we need to avoid duplication of industrial capacities that already exist, at the risk of increasing the level of fragmentation of the European Defence Technological and Industrial Base. In this matter, EDIDP is a worthwhile programme as it allows to pool the skills of researchers from every Member State, while avoiding multiplication of industrial capabilities that already exist. Mr. Mauro concluded his intervention by reminding the audience that EDIDP is not only an industrial programme but is also relevant for the EU strategic autonomy, independence, and freedom.