



## **Working Group on SPACE, SECURITY & DEFENCE**

Tuesday, 26 September 2017 from 13:00 until 14:30 hrs

Room: European Parliament, Salon Privé

Rue Wiertz 60, B-1047 Brussels

### **Speaking notes**

**Dr. Thomas Weise**

**Head EU and NATO Affairs – Rheinmetall AG**

#### **I. Welcome**

- Dear representatives, ladies and gentlemen,
- Mr. Gahler, I would like to thank you for the opportunity
- I am pleased to present the industries' view on today's subject -  
The EU Defence Fund

#### **II. Basic Considerations**

Let me start with some basic considerations

Defence market is a very specific one, same is true for its industry.

Defence industry has been accustomed to living from its national home markets.

These Home markets normally cover the entire product generation process from R&T through development up to procurement of the products.

Since such home markets have been shrinking dramatically during the last years EU defence industry had to approach global markets in order to survive.

Here we meet strong international competition, unknown political decision rules, offset requirements, pure product interest without willingness to invest into R&D and many other challenges.

Our financial structures have not been prepared for such markets and many defence companies have been running into financial difficulties.

In future EU defence Industry needs a new home customer and we are very much looking forward to finding this new home customer the European Union.

In the Defence Action Plan of November 2016, the European Commission (EC) announced its intention to launch a substantive European Defence Fund (EDF) for research and capability development.

The so-called research window consists of the Preparatory Action (PA) mobilising €90 million from 2017 to 2020 for defence research, and a much bigger follow-on European Defence Research Programme (EDRP) as of 2021.

For the so called capability window, the EC proposes for 2019/20 a Defence Industry Development Programme (EDIDP) worth €500 million, to be followed from 2021 onwards by a much bigger development programme.

In total, the EC proposes to invest under the next Multiannual Financial Framework (MFF) from the EU-budget €500 million p.a. for

defence R&T (EDRP), and of € 1 billion on capability development. (EDIDP2).

European Defence Industry welcomes and supports the European Defence Fund and the Commission's ambition for defence as part of the next MFF.

At the same time, there are a number of factors that the Industry believes need to be taken into account in planning both the research and the capability window of the EDF.

These derive both from the specificities of the defence sector, and from the current parlous state of the Industry consequential on decades of declining defence budgets within Europe.

If the answer on dramatic change of the global security situation will be the European Defence Union, a strong European Defence Industry is a must.

As defined by the EC major goals are to:

- Foster international Cooperation within the EU
- Reduce variety of Defence Systems in the EU
- Strengthen competitiveness of EU defence and security industries
- Develop a strong EU Defence Industry Technology base in order to support Technology independency from non EU parties
- To contribute to a Single EU Market with single EU defence systems

Why is this important for EU Defence Industry?

- By cooperation we can close already existing gaps in Technology competences, and working capacities.

- Expensive technology developments necessary to counter existing and future military threats can be financed again by joint contribution from member states supported by EU investment.
- Unified EU products and systems solutions will result into significant increase of production rates followed by a reduction of procurement and lifecycle costs for our customers.
- Unified EU products and systems will strengthen the competitiveness of EU defence industry in the global market
- EU defence industry can guarantee security of supply by EDTI.

### **III. Research window**

**CSDP-related research: focus and market uptake**

#### *Focus*

The purpose of the Preparatory Action is to prepare for a possible full-scale EU funded defence research programme as part of the next Financial Framework (2021-2027).

A defence related EU Research programme should have as its main mission to support the development and implementation of the CSDP of the European Union.

It should catalyse cooperation with enabling capabilities and sustaining competitiveness.

From industry's perspective, this means that it should aim to enhance self-sufficiency of Europe in key strategic technologies and assist security of supply for key defence capabilities.

It should also strengthen the competitiveness of the EDTIB, and foster European cooperation by contributing to the preparation of joint European development programmes.

Both the PA and the follow-on programme should pursue these strategic goals.

On this basis, more specific objectives can be defined to ensure the EU-added value of research activities.

Such objectives could be, for example, to foster and contribute to:

- Interoperability of technologies and systems and new common standards for defence
- systems developed and produced in the EU
- Support for the full range of possible CSDP military missions
- Capability driven technology demonstrators
- Maintaining and strengthening the capabilities and competitiveness of the EDTIB
- Non dependency and security of supply within Europe for critical technologies.
- Support for emerging technologies that can have major impact on future defence capabilities and systems.

In addition, EU funded research activities can only have an EU-added value when they do not duplicate existing efforts but focus on the EU component of Defence Research activities.

Therefore a benchmark of valuable EU research is the contribution it sets to a majority of member states. The PA and its follow-on programme should therefore be at the same time clearly distinguishable from and complementary to other research programmes, i.e.:

- National research Programmes, financed from national budgets, and addressing national military requirements defined by individual Member States within the context of the national sovereign issues of defence.

These activities are supported by national DTIB's, and must remain outside the influence of the proposed EU programme.

- Inter-governmental cooperative research programmes (including those managed by EDA), conducted by a group of Member States to address together common military needs. By pooling and sharing their efforts, these member states can also profit from capabilities created by their partners. The focus, however, remains at national level.
- EU funded Civil and dual use research, including the civil part of CSDP which is already partially addressed under the Horizon 2020 programme, in particular through the Security component.

As the PA takes place in the years before the follow-on programme its work and results will set the scene for the planning of the follow-on programme.

To ensure a seamless timeline of activities will play a key role.

If the initial planning for the follow-on programme of 2021-2027 will start in the years 2018/2019, tangible results will have to appear in 2018, only one year after the start of the PA in 2017.

This also will drive the selection process of activities planned for the PA.

Most suitable is the quick set up of a demonstrator activity as a fast prove of increased and valuable EU cooperation.

This is achieved by the three years funding profile of the PA as a quick ramp-up of the budget line in 2017ff.

## Market Uptake

Defence Market is defined basically by Defence Capability Gaps.

Such Gaps are identified by military bodies through the capability development process.

By this a capability driven R&T-programme will ensure later market uptake.

Funding levels:

100% funding to industry total costs should be considered the norm.

Due to the monopsonic nature of the defence market, industry should not be expected to co-finance.

In the PA this norm could not be achieved. 100% funding of eligible costs plus 25% funding of indirect costs leads to a 40-60% cofunding of Industry.

For the follow on EDRP this important issue must be taken again into consideration.

#### **IV. Capability window**

In order to start into the capability window of an EU Defence Fund the European Commission tabled a legislative proposal for a regulation establishing the European Defence Industrial Development Programme (EDIDP) in June 2017.

Industry welcomes the proposed regulation for an EDIDP as predecessor for a full size capability window in the next MFF.

We are pleased that the European Commission has recognised that a particular challenge occurs in defence product development at the post-R&T stage, when we often see developments delayed,

sometimes repeatedly, in what is colloquially referred to as the “valley of death”.

There is evident reluctance among Member States to move from relatively low-cost, low risk phase of R&T and commit to the high risk/high cost development phase, particularly for collaborative actions.

Indeed, contrary to expectations, cooperative development seems to have become even more of a hurdle even as national budgets have become tighter.

This hurdle clearly needs to be overcome if the EDTIB is to continue to address key capability needs of Member States and hence enable Europe to achieve a more appropriate level of strategic autonomy.

Focusing on the development phase of cooperative programmes, the EDIDP is a natural complement to the already ongoing Preparatory Action for Defence Research (PA).

The two initiatives are different in size and nature, but both serve the same objective, i.e. to prepare the ground for fully-fledged programmes under the next Multi-Annual Financial Framework (MFF) to support cooperative defence research and development through the European Defence Fund.

There will be little time to draw lessons from the practical implementation of EDIDP and PA for the successor programmes. Consequently, it is important to think of the future when tailoring the current initiatives, and to consider in parallel what the structure and programming of the next MFF must look like to ensure that the fully-fledged Defence Fund becomes a success.

It is imperative that industry is actively involved in this process.



Particularly important will be the decisions on which capability areas to support.

For the EDIDP, which only runs over two years, the Programme Committee is likely to define the priorities of the work programme in an ad hoc manner, drawing on direct input from Member States.

For the EDIDP successor programme under the next MFF, a robust defence planning mechanism should be put in place to develop a systematic and comprehensive definition of common defence priorities to be funded by the Defence Fund (research and capability window).

Certain aspects, such as eligibility criteria, SME participation or the practicalities of combining EU-funding with intergovernmental defence cooperation schemes need further reflection to ensure that the final regulation can fulfil its objectives.

We are aware that not all details of the operation of the future EDIDP need to be spelled out in the provisions for the regulation itself; the following implementing decisions and the work programme are expected to leave room for further specification and fine-tuning.

However, it is crucial that the regulation sets the proper framework, and Industry stands ready to provide further input to officials and decision-makers during the legislative process.

- ***EDIDP is needed***

Industry welcomes the proposed EDIDP as an important contribution to strengthening the European defence industrial and technological base (EDTIB) and enhancing Europe's strategic autonomy, as stipulated in the Global Strategy for the Union's Foreign and Security Policy.

The EDIDP has the potential to boost European cooperative defense programmes and thereby address some of the key challenges industry is facing: lack of new programmes and investments, fierce international competition and increasing difficulty to maintain a highly-skilled workforce.

- ***EDIDP should be consistent and complementary to European research programmes***

EDIDP is a natural complement to the already ongoing Preparatory Action for Defence Research and should be consistent and complementary to the future European Defence Research programme (EDRP).

The focus of EDIDP on the development phase, including close to market capabilities, seems to be the right approach, as it can provide a strong incentive for Member States to proceed towards common acquisition.

- ***EDIDP should be significant and complementary to national funding***

The proposed €500 million EDIDP budget for 2019/20 seems appropriate for testing EU support for cooperative development within the limitations of the current Multi-Annual Financial Framework.

The budget of the follow-on programme (post 2020) should be substantially higher in order to make a real difference and address the full spectrum of required capabilities. Moreover, in order to bring real added value, EU funding should be complementary to and not lead to a reduction in national funding.

Given the specificities of the defense market, it is essential that the funding is at a level that ensures that the totality of industry's costs is covered.

- ***EDIDP rules for participation should be simple and efficient***  
EDIDP should lead to the launching of new European collaborative programmes and not add to the complexity of their management.

The rules for participation foreseen in the proposal seem largely well thought through and calibrated.

Industry supports the proposal to allow actions with at least three undertakings from two Member States, provided this does not disadvantage European companies with several legal entities across the EU.

We also note with satisfaction the provision on intellectual property rights.

- ***EDIDP should benefit small, medium and intermediate enterprises (SMIE)***

Industry welcomes the intent to ensure that SMEs can benefit from the EDIDP.

At the same time, the ultimate objective must remain the competitiveness of the supply chain as a whole, which also means companies larger than SMEs, since they often have essential specialist defence skills, facilities and capabilities that most SMEs simply cannot sustain.

Whatever option is chosen to foster SMEs participation in the EDIDP, it should not jeopardize the efficiency of the projects or lead to non-optimal capability solutions.

All EU companies, irrespective of their size and location, should have a fair chance to participate in the EDIDP, whether directly or through the supply chain.

At the same time, the prime contractors must remain responsible for choosing the best sub-contractors, to ensure the competitiveness of the final product.

- ***EDIDP should support the European defense technological and industrial base***

Industry supports the intention to restrict EU money to genuine EU beneficiaries.

However, we do not believe that majority ownership is a suitable criterion to achieve this objective.

What matters more (in particular in respect of European strategic autonomy) is the effective control of the beneficiary, which is often ensured by government's role as regulator and customer and other means (e.g. golden shares, IPR ownership, source of R&T funding, etc.).

The regulation should take this into account and ensure that the action is executed in the EU and without control or restrictions from third countries.

Participation from third countries should be accepted only under conditions which ensure that this contributes to the strengthening of the EDTIB and Europe's strategic autonomy.

The leadership of any EDIDP-funded action – and therefore the design authority - should always be in Europe.

- ***EDIDP governance must involve Member States***

Member States' role in the definition of defence capability needs is crucial.

A shared political will of EU countries to undertake a common programme, convergence of needs, budgets and time schedules

are essential for the success of collaborative programmes and to deliver on time and budget.

Accordingly, suitable financial & contractual mechanisms and close coordination between Member States and the European Commission are indispensable for EDIDP to become a success.

On exports, we welcome the commitment to leave all decisions exclusively in the hands of Member States.

At the same time, we call upon Member States to develop and implement their export policies in a way that avoids hindering successful cooperation.

## **V. Conclusions**

Cooperative defence programmes are by their nature complex (various stakeholders, multiple funding sources, different legal jurisdictions and procurement processes, etc).

Adding EU funding to this with minimal additional complexity will be the key to the success of the EDIDP.

In a nutshell: The Golden Rules of successful cooperative programmes must be followed: lean processes, single-point leadership, a strong participation and commitment from Member States to the acquisition road, and a single set of specifications.

Industry stands ready to engage in a structured dialogue with the European institutions to ensure successful implementation of the EDIDP.