EIB’s Contribution

to the Security and Defence Union

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Contents:
1. EIB Group
2. The EU defence industry
3. EIB financing of security & defence investments
4. EIB’s future contribution to the Security & Defence Union
5. Conclusions
The EIB Group
The EIB: the EU bank

- Natural financing partner for the EU institutions since 1958
- Around 90% of lending is within the EU
- Shareholders: 28 EU Member States

Investing in Europe’s growth
The EIB: capital breakdown

- Germany: 16.111%
- France: 16.111%
- Italy: 16.111%
- United Kingdom: 16.111%
- Spain: 9.666%
- Belgium: 4.466%
- Netherlands: 4.466%
- Sweden: 2.963%
- Denmark: 2.261%
- Austria: 2.217%
- Poland: 2.062%
- Finland: 1.274%
- Greece: 1.211%
- Portugal: 0.781%
- Czech Republic: 0.761%
- Hungary: 0.720%
- Ireland: 0.565%
- Romania: 0.522%
- Croatia: 0.366%
- Slovak Republic: 0.259%
- Slovenia: 0.240%
- Bulgaria: 0.176%
- Lithuania: 0.151%
- Luxembourg: 0.113%
- Cyprus: 0.111%
- Latvia: 0.092%
- Estonia: 0.071%
- Malta: 0.042%
The EIB at a glance

- Largest multilateral lender and borrower in the world
  - We raise our funds on the international capital markets
  - We pass on favourable borrowing conditions to clients
- Some 450 projects each year in over 160 countries
- Headquartered in Luxembourg and has 40 local offices
- Around 3,000 staff:
  - Not only finance professionals, but also engineers, sector economists and socio-environmental experts
  - Almost 60 years of experience in financing projects
EIB Group financing in 2016

EUR 83.8bn

EUR 280bn
Total investment supported
Our priorities

Environment: EUR 16.9bn
Infrastructure: EUR 19.7bn
Innovation: EUR 13.5bn
SMEs: EUR 33.6bn
EIB Group financing in 2016: EUR 83.8bn

Signatures

EUR 75.4bn
European Union

EUR 8.38bn
Outside EU

EUR 3.35bn
EFTA & Enlargement Countries

EUR 1.65bn
Eastern Neighbours

EUR 0.77bn
Africa, Caribbean, Pacific, South Africa

EUR 0.98bn
Asia and Latin America

EUR 1.63bn
Southern Neighbours

Total EUR 83.8bn
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Global & EU defence spending 2014

**Military personnel**

<table>
<thead>
<tr>
<th>Country</th>
<th>Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>222,000</td>
</tr>
<tr>
<td>Germany</td>
<td>186,000</td>
</tr>
<tr>
<td>Italy</td>
<td>176,000</td>
</tr>
<tr>
<td>UK</td>
<td>169,000</td>
</tr>
<tr>
<td>Spain</td>
<td>121,000</td>
</tr>
<tr>
<td>EU</td>
<td>1,450,000</td>
</tr>
<tr>
<td>EU Nato</td>
<td>1,394,000</td>
</tr>
<tr>
<td>US</td>
<td>1,305,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>380,000</td>
</tr>
<tr>
<td>Russia</td>
<td>850,000</td>
</tr>
<tr>
<td>Iran</td>
<td>520,000</td>
</tr>
<tr>
<td>Egypt</td>
<td>440,000</td>
</tr>
</tbody>
</table>

Source: SIPRI Yearbook 2015, NATO 2016, miscellaneous
Graph 2: Defence expenditure as a share of GDP versus equipment expenditure as a share of defence expenditure

2016

- Median 1.21%
- NATO guideline 2%
- NATO guideline 20%
- Median 15.23%

Source: EDA Defence Data 2014
### Global & EU defence companies

#### World top 100 defence companies (2015)

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of companies</th>
<th>Defence revenues (EURm)</th>
<th>Total revenues (EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>24</td>
<td>85,111</td>
<td>249,668</td>
</tr>
<tr>
<td>US</td>
<td>39</td>
<td>188,947</td>
<td>654,933</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>37</td>
<td>59,997</td>
<td>190,520</td>
</tr>
<tr>
<td><strong>World top 100</strong></td>
<td><strong>100</strong></td>
<td><strong>334,055</strong></td>
<td><strong>1,095,121</strong></td>
</tr>
</tbody>
</table>

Source: Data from SIPRI Arms Industry Database (2016)

- A **much broader range of companies sell products to the military**
- In addition to large companies there are about **1,100 SMEs & Mid-caps in the EU** of which **190 are autonomous companies**, of which **60 – 70 companies are defence-only companies**
Global & EU defence companies, **defence revenues 2015**

Defence revenues by top 100 defence companies, by region (% total)

- US: 57%
- EU: 25%
- Rest of the world: 18%
- Trans-EU: 15%

EU defence companies among world top 100, by country (% of EU total)

- UK: 38%
- France: 21%
- Germany: 16%
- Italy: 16%
- Sweden: 15%
- Poland: 3%
- Trans-EU: 15%
- Belgium: 1%

Total defence revenues by EU top 24 defence companies: **EUR 85 bn**
Funding of defence research

«… the prevailing worldwide model of product development for large defence systems involves national governments funding almost 100% of R&D costs…»


Approximate EU budgets for defence-related R&D

EU-28 €9 billion
~ 50% by companies
~ 50% by public research institutions
(EU-27: €5 billion)
The defence sector

In broad terms:

• Defence RDI is supported by public grants
• Markets are small & fragmented
• EU companies use balance sheets to commercialise the knowledge they gain
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In a nutshell: RDI – Horizon 2020 – “Innovation & Skills”

• Civilian RDI

As part of its “Innovation & Skills” programme, EIB only finances investments in R&D by EU security and defence companies where civilian technologies are concerned.

• “Dual-use technologies”

As regards R&D for dual-use technologies, the EIB is only able to support those investments that are motivated by their commercialisation in civilian applications.

• Cybersecurity & biodefence

R&D, facilities and equipment (hard- and software) across all sectors
EIB commitments:

• **Excluded Sector List**
  Excluded from EIB financing are:
  ➢ Ammunition and weapons;
  ➢ Military/police equipment; or
  ➢ Military/police infrastructure.

Same approach as for EIB’s peer group of post-war international financial institutions.

• **Environmental and Social Principles and Standards**
  It states, among other things, that “the EIB does not finance projects that give rise to conflicts or intensify existing conflicts”.

• **Transparency Policy**
  EIB’s transparency requirements for disclosure of investment plans would be difficult to accept for security and defence contractors.
EIB Lending to Aerospace, Defence & IT security

Total EIB signatures 2001 to 2016: EUR 6 bn
EIF support of dual technology

- Through private equity financing:
  - EUR 235m in 2015 and 2016, out of EUR 515m invested in companies since 1999
  - 76 companies in 15 EU countries

- Through loan guarantees (data available only since 2013):
  - EUR 20m guaranteed loans
  - 53 companies in 12 EU countries
EIB’s definition of dual-use technologies

- Civilian
  - RDI costs/investments
    - > 50%
  - Project cost
    - > 50%
  - Revenues expected
    - > 50%

... at due diligence stage
EIB financing of the security & defence sector

**Issues** for the EIB in supporting security & defence investments more directly:

- Assessing project impact
- Transparency
- Monitoring and reporting
- Procurement
- Reactions of investors in EIB Bonds

The EIB is an international financial institution
EIB Project Examples

Terma

Radar technology for harbour, coastal, airport and air traffic control

Airborne self-protection systems electronic self-protection systems for aircraft

Investment: EUR 58 million

EIB loan (EFSI): EUR 28 million
**Project:**
- Mécachrome’s “Factories of the Future” project. Two 4.0 factories: the MKAD plant in Varilhes (Ariège) manufacturing large-scale titanium components for the aeronautics industry; and the MK Aeronautica plant in Evora (Portugal), which will house the Group’s first series cryogenics machining line.

**Objectives:**
- Contributing to innovation and fostering economic growth, particularly in job creation on the Portugal site, in an EU cohesion region. The investments will also help to disseminate knowledge in advanced manufacturing technology.
**Project:**
- Development of leading-edge propulsion systems for more efficient, reliable and flexible satellite launchers.
- Modernisation and expansion of the manufacturing capacity of the promoter’s main Italian production site.

**Objectives:**
- Contributing to strengthening the European industry R&D presence by supporting a leading mid-sized company located in Italy and helping to preserve and create new skilled employment.
SONACA R&D PROGRAMME
Belgium

**Project Cost:** EUR 92 m

**Loan Amount:** EUR 40 m

**Project:**
- Supporting manufacturer of structural wing components for large civilian aircraft, with a particular specialisation in high-lift extendable slats, as well as fixed structures and related systems for the leading edges of wings. The project covers investments in RDI and related advanced manufacturing technology fixed capital expenditures.

**Objectives:**
- Helping to strengthen the promoter’s technological and industrial competitiveness as a Tier-1 supplier for the European aircraft manufacturing industry.
- Preserving knowledge spill-over with reputable institutions as well as positive downstream environmental effects in the form of improved aircraft fuel efficiency.
EIB Project Examples
Bavarian Nordic

Vaccines for highly pathogenic infectious diseases and agents of potentially use in bioterrorism.

Investment: EUR 128 million
EIB loan: EUR 50 million
Case study: EUR 20m EIB financing to Heliatek

- Spin-off from Technical University of Dresden, Germany (2006)
- Developer of organic photovoltaics
- 85 employees, one test production line, no commercial sales
- By September 2014, raised EUR 46m from Bosch, BASF, Wellington Partners, Aqton SE.
- In September 2016, Heliatek raised EUR 80m from:
  - Equity – EUR 42m Series D financing from Engie, BNP, CEE Group as well as existing shareholders
  - Quasi-equity debt – EUR 20m EIB
  - Subsidies – EUR 18m from European Regional Development Fund
- Purpose: installation of new manufacturing facility with capacity of 1m² p.a.
- For more information:
Examples of supported companies

**CONNECT VENTURES**

London based European venture capital firm investing in mobile, Internet, and digital media businesses

**Accelerated Dynamics**

Robotics startup developing AI based software for mission management of fleets of robots

Accelerated Dynamics develops software that enables decision making capability for drone fleets. This drone technology and software potentially for military use but also for humanitarian relief, border control and security services.

London – United Kingdom
Outline

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Council Request to the EIB

The European Council conclusions of 15 December 2016 asked the EIB:

“to examine steps with a view to supporting investments in defence research and development activities”

….recalled by the June & October Councils.
EIB’s future contribution

Where is the EIB needed the most?

In which areas could EIB provide maximum value added?

... long-term & patient capital, plus expertise!
EIB’s future contribution

Focus on:

Technology gaps

Underinvestments in infrastructure

Constraints in access to finance
EIB’s future contribution

Focus areas:

1. Dual-use R&D and innovation
2. Cybersecurity
3. Civilian security
4. Other activities
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Conclusions

• EIB will significantly step up its contribution

• Focus on areas where the EIB’s financing & expertise are needed

• EIB ready to fully assist the EDF/EDA but should define complementary roles

… while observing its commitments as an International Financial Institution
Thank you!