

A Strategic Compass for EU defence: What implications for the European defence industry?

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Report

INTRODUCTION

Since 2016, the EU has developed a range of new defence mechanisms that are designed to enhance the operational readiness of European armed forces and the EU's industrial competitiveness. The European Defence Fund (EDF) and Permanent Structured Cooperation (PESCO) are both designed to ensure that the European Defence Technological and Industrial Base (EDTIB) can thrive in an increasingly geo-technological world.

To give these efforts greater focus, the EU is embarking on a Strategic Compass that is designed to give greater political and operational coherence to the EU as a crisis manager and partner through enhanced capabilities and resilience. Yet, this drive to enhance the EU's ambition in security and defence will surely raise defence industrial questions of great importance for the EU and its Member States.

To this end, this event report provides an overview of the possible defence industrial implications of the Strategic Compass by fostering a debate on the role of the EDTIB in the Union's broader defence efforts.

THE DEFENCE AND (GEO)TECHNOLOGICAL CONTEXT

Any discussion today about the EDTIB needs to be placed in the context of the rise of China, US-China rivalry and the economic consequences of the pandemic. China is developing the sophistication and mass of its military and defence technological and industrial base at breakneck speed. There are fears that the United States is losing its military technological edge, but Washington is investing huge amounts of money into emerging defence technologies (EDTs) such as cloud and quantum computing, hypersonic velocity, advanced missile defence, nano- and bio-technology, etc. There is an acute risk that US steps to maintain its national military technology advantage could create technological and political gaps in the transatlantic relationship.

For Europe, the EDTIB is still too fragmented and this has led to well-known critical capability gaps in areas such as missile defence, ISR and air-to-air refuelling. In addition to these gaps, however, the EU risks falling behind on EDTs and key technological domains such as cloud computing, Big Data and



cyberdefence. Without adequate investment in these sectors, and in the absence of a genuine economy of scale in key domains, technological and political gaps could appear between EU member states and NATO allies. While initiatives such as the EDF are a modest step in the right direction, the EU risks seriously falling behind the United States and China in the geo-tech race currently underway. Such a situation would imperil the EU's technological sovereignty and the transatlantic relationship.

The EU faces a number of challenges as it seeks to build up the EDTIB. These relate to large scale investments in the era of Covid-19, where finances could become scarce. The EDTIB presently suffers from under-investment but it faces challenges related to skills acquisition and retention, critical security of supply and an ambition to invest in capital or strategic defence programmes. In the defence sector, the EU has to balance two broad factors: 1) how to balance market openness with industrial policy and critical domains where the Union wants to achieve more technological sovereignty; 2) how to balance a desire for wide and balanced cooperation among European industry and EU member states with the need for large strategic defence projects and scalable innovation.

Finally, some see the EDTIB as yet another economic sector, but both the United States and China see the defence sector as a core instrument of their respective 'economic statecraft'. For Europe, the defence sector should be seen as key for economic recovery but it is, more importantly, a source of intellectual property, scientific know-how, defence capability and ultimately the basis for power. These are points that could be emphasised by the EU's forthcoming Strategic Compass.

RESEARCH AND INNOVATION

Research and innovation will play a critical role in supporting the EDTIB and the Strategic Compass should recognise their importance, particularly in the resilience and capabilities baskets. A critical feature of the EU's research and innovation efforts will be how to bring together in an effective way investments and innovation in the civil, defence and space sectors – i.e. capitalising on spin-off and spin-in. The European Commission's Action Plan on Synergies is a good step forward in this direction, especially if the EU is to unlock the full potential of the close to €120 billion located in Horizon Europe, the EU Space Programme and the EDF. Investments and policies by the European Commission in skills, critical technology enablers and capital projects will be essential for the EU's ability to compete in the 'geo-tech' world.

The EU can go further, however, in its ambition to become a research and innovation power. The European economy suffers from the lack of significant 'Big Tech' firms and the EU is too risk-averse when it comes to strategic investments and 'funding failure' in research and technology. Furthermore, for various reasons including political sensitivities and bureaucratic and legal processes, the EU still seems to artificially separate initiatives in artificial

intelligence (AI), Big Data, cloud and quantum computing from investments in defence. Such an artificial separation may suit political agendas, but the EU risks losing opportunities to invest in game-changing technologies that are of benefit for society as a whole and Europe's armed forces.

One potential role for the Strategic Compass is to emphasise the important defence dimensions of critical technology domains by articulating the present day and future needs of military end-users. Here, a better understanding of how EDTs could be used during future EU deployments in contested geopolitical zones will be crucial. This calls for a strong integration of technological factors in EU strategic and operational scenarios.

With regard to scanning the horizon for EDTs, the EU has a range of ongoing and future initiatives that can help. The Commission is developing technology roadmaps and it will establish an 'Observatory of Critical Technologies', and the European Defence Agency (EDA) has articulated an Overarching Strategic Research Agenda (OSRA) and related Technology Building Blocks (TBBs) and it is developing an Action Plan on Emerging Defence Technologies. The Strategic Compass could bring greater coherence to the multiplication of such technology-scanning initiatives.

DEFENCE CAPABILITY DEVELOPMENT

Another area where the Strategic Compass could bring added-value is in relation to defence capability development. If the EU is to be able to effectively invest in and develop defence capabilities through the EDF and PESCO, then it needs a defence capability planning system that is streamlined. Here, there is some debate about the appropriate word to describe the task ahead. 'Coherence' can imply being aware of available EU defence tools such as PESCO, EDF, the Coordinated Annual Review on Defence (CARD), the Capability Development Plan (CDP) and the High Impact Capability Goals (HICGs). Too often, however, coherence is a polite way of not disrupting institutional mandates and jealousies – 'complementarity' can hold the same meaning.

Using words like 'synchronisation' or 'alignment' might embody a stronger meaning, but they hint at finally developing a system where EU defence tools are logically aligned while dampening bureaucratic politics. For example, the Strategic Compass could help with aligning and synchronising the timelines associated with each EU defence initiative – e.g. the CARD has an annual timeline, PESCO each year and every 5 years, the EDF every 7 and the Compass itself over a 5-10 year period. There is a need to ensure that the timelines of each EU initiative align properly, but there is an added challenge in that EU member state has their own procurement and budgetary timelines that are currently misaligned between member states. This situation drastically hampers opportunities for capability collaboration.

Of course, despite this lack of alignment between EU member states there are still opportunities to develop major strategic programmes – e.g. see France, Germany and Spain's work on the Future Combat Air System. Nevertheless,

within EU frameworks there is also a risk that available financial resources such as the EDF will be spread too thin across several defence projects in order to ensure a geographical and industrial balance. This risk could limit the financial bandwidth required to invest in major strategic defence systems, especially with the compound pressure of having to fill existing capability shortfalls and invest in EDTs.

Although the European Commission takes a lead role on the EDF, the Strategic Compass could nonetheless create the conditions for clearer capability priority perspectives among EU member states. This could, in turn, facilitate more efficient discussions and perspectives in the work programme committee when the Commission, member states, EDA, EEAS and EU Military Committee meet. Clearer capability prioritisation could also help bridge the gap between defence procurement, innovation and the needs of end-users in the EU.

DEPENDENCES IN DEFENCE AND RESILIENCE

Since the Covid-19 pandemic, questions about critical supply and dependences have been forced into the spotlight in the EU. There is increasing attention to critical raw materials, supply chain security and key enabling technologies. Dependences provide certain risks for the European defence industry and this can affect the operational freedom of Europe's armed forces and its political decision-makers. The European Commission has developed a range of instruments and strategies including the industrial strategy, critical infrastructure protection, the foreign investment screening mechanism, investments in critical sectors and critical raw material horizon scanning. However, the defence sector in the EU is marked by a number of critical dependences that need to be reduced.

Here, the Strategic Compass could stress resilience in the defence sector in terms of critical supply but also in enhancing the robustness of defence and technology systems. The increasing technological interconnection and digitalisation of defence systems and platforms is a strategic necessity for warfare today and in the future, but it also generates certain vulnerabilities. Such vulnerabilities could be better embedded into the EU's capability development processes and the Compass could play a role here. The EU is increasingly responding to dependences, but there is a need to plan for more technological sovereignty in areas such as artificial intelligence, big data, cyberdefence and digitalisation and the technology blocks and supply chains that will sustain them.