

# ORGANISE, FOCUS, ENHANCE

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## A sustained endeavour towards the reinforcement of the European defence industry

An online seminar organised by the EU Institute for Security Studies (EUISS) with the support of the Permanent Representation of France to the European Union.

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### INTRODUCTION

Faced with the Russian aggression against Ukraine and growing global strategic competition, the European Union (EU) has recognised the crucial importance of the European defence industry. The lessons from the pandemic and the growing instrumentalisation of technologies and supply chains, have given rise to the recognition that the EU cannot take the defence sector for granted. The Russian aggression against Ukraine has further underlined the need for the EU to invest more and better together and to strengthen the European defence technological and industrial base (EDITB). This logic is at the heart of the recently published Joint Communication on the '**Defence Investment Gaps Analysis and Way Forward**', which, in response to the Versailles Summit of 10-11 March, called for a range of measures to strengthen EDITB and in particular a European Defence Investment Programme for joint procurement and financing.

Such an approach could not be more timely or pertinent. The Russian aggression against Ukraine has led to the depletion of military stocks of ammunition and equipment in Europe, and there is **a real risk that Europe could face dependencies in critical areas**. In addition, there is a danger that the disorganised procurement of new materials may lead to further dependencies and duplications, in addition to the rise of prices. Further still, Europe is facing long-standing gaps in expenditure, investment and innovation. There is, therefore, every reason to utilise the European Commission's proposal for a short-term financing instrument of €500 million for joint procurement. With ambition, this would pave the way for the **creation of a longer-term European framework for defence procurement**.

Organised directly after the special European Council meeting of 30-31 May, the EUISS – with the support of the Permanent Representation of France to the EU – organised a seminar to take stock of the EU's response to the **Versailles Agenda**. The seminar provided an opportunity to discuss the way forward on strengthening EDITB and concretely address the conclusions of the Joint Communication on Defence Investment Gaps Analysis and Way Forward.

This seminar report details the main discussions in response to the following questions: 1) How should the Union organise, in a perennial manner, the demand for European defence capabilities and procurement?; 2) In the short-term, how should the EU ramp up its industrial supply and capacity in response to this more organised demand and with what financial resources?; and 3) How can more structured cooperation in the defence sector be achieved over the medium to longer term? What is needed for a "quantum leap" in this regard?

## STRENGTHENING THE EDTIB IN TIMES OF CRISIS

Due to the Russian aggression against Ukraine and Europe's global geopolitical ambitions, it is **imperative that EU governments invest in defence capabilities and research and innovation**. Russia's aggression against Ukraine shows that European governments need to better organise their defences and equipment. European manufacturers appear to be able to quickly adapt to the increased demand, especially as, in many cases, European governments urgently need to **replace capabilities** that they have provided to the Ukrainian armed forces, especially the ones from the Soviet-era. Given the coming era of high-intensity warfare, the EU needs to ensure that its industries can manage increased demand. Important lessons from the Covid-19 experience can be learned, where industry had to move rapidly on provision of medical equipment and vaccines.

Additionally, several announcements across Europe that governments will increase defence expenditure should be celebrated, but a degree of lucidity is required because there is **a risk that increased spending could lead to greater fragmentation and duplication** if not managed effectively. The EU has a major role to play in jointly developing armaments and ensuring, through incentives, that the European defence sector can thrive. In this sense, **the European defence market, with its range of actors, is a key element of defence**.

At the same time, the EU has shown that it is serious about defence. Not only are governments announcing defence spending increases, but tools such as the European Peace Facility have been used in new and substantive ways with funding available to provide lethal equipment to the Ukrainian armed forces. Nevertheless, if this momentum is to be advanced the EU Member States now need to **seriously invest in their own defences through the joint development and acquisition of military equipment**. Indeed, such capabilities are required to defend Europe, but they will also be needed to help manage the security implications of the Russian aggression against Ukraine.

## RAMPING-UP THE EUROPEAN DEFENCE INDUSTRY

Initiatives from the European Commission to strengthen the EU defence technological and industrial base are more than welcome. However, there is a need to rapidly mobilise the EU Member States for the implementation of EU projects and proposals. The European Commission's response to the Versailles Summit of March 2022 has seen incentive ideas such as VAT exemption for collaborative EU defence projects and a short-term injection of investment for stockpiles replenishment gain traction. However, **more is needed over the longer-term in areas such as multi-annual capability planning and EU joint defence procurement and related instruments**. In this sense, a stronger longer-term commitment to developing European joint capabilities is a way to enhance Europe's overall defence and ensure that the defence sector can respond to political and military imperatives. As the Joint Communication on the "Defence Investment Gaps Analysis and Way Forward" states, if EU Member States had met the EU benchmarks for defence spending and investment from 2006 to 2020 an additional €270 billion would have been made available in defence investments.

Clearly, **the defence market is unique and so tailor-made policies are required to ensure that the defence sector is adequately supported in Europe**. Hence, Europe already has a proven track-record in armaments cooperation through bodies like the Organisation for Joint Armaments Cooperation (OCCAR) and the European Defence Agency (EDA) and frameworks such Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF). Moving forward, however, the EU needs to urgently help replenish the stocks of Europe's armed forces and newly created EU Joint Task Force (established by the Commission and the High Representative), together with the related instruments,

should help in this regard. Member States should be planning to jointly procure their urgent replenishment needs and there is a real need to avoid further fragmentation and duplication in the European defence market.

Beyond short-term needs, however, it is imperative that the EU considers medium to long-term solutions including **the creation of a European Defence Investment Programme (EDIP)**. This new financing instrument would allow EU Member States to collectively purchase equipment VAT free, while also benefitting from collective EU investments. Such an instrument would not only invest in future military capabilities but also allow the EU to contribute to the defence of Europe through ambitious defence projects such as air and missile defence and cyberdefence. In this respect, while the EDF is focusing on defence innovation and prototyping, **Europe needs to go a step further by jointly developing and procuring equipment.**

## CHALLENGES AHEAD

Nevertheless, several challenges were raised as possible spoilers for greater European joint defence procurement and defence market consolidation. First, institutions and bodies like the European Commission and EDA have helped design new instruments and frameworks for EU cooperation, but **political ambition still rests with EU Member States.** In addition to political voluntarism, Member States could consider organising their investments in a multiannual way at the EU level so as to consolidate demand, give greater certainty to defence manufacturers and ensure coherent defence capability planning. Furthermore, with joint defence procurement should come a discussion about how Europe prioritises capabilities and how it can best deliver end-user requirements.

There is a continued need to better **align the needs of end-users with capability prioritisation**, and with more serious and coherent demand a strong signal would be sent to industry. Such a continuous sign of demand is crucial if the European defence industry is to continue to produce high-tech and high-performance solutions for Europe's armed forces. However, in order to overcome fragmentation and strengthen the European Defence Technological and Industrial Base it is important that the EU reflects on its overall defence planning process. This is the way to **ensure coherence between the Union's defence innovation, capability development and joint acquisition efforts.**

While EU efforts may lead to greater consolidation in the European defence market, there is evidence to suggest that consolidated European industries would still find it difficult to compete with third countries' defence industries. A question in this regard is how far EU Member States want to secure the European defence market by enhancing demand for military equipment in Europe. **Without a sufficient level of EU demand for European products, the European defence market may find it increasingly difficult to compete globally.** There is also a need to ensure that Europe's Small and Medium-Sized Enterprises (SMEs) remain competitive in Europe and globally.