SOFF

Issue paper #1

Towards a European Defence Industrial Strategy: overall consultation paper

Response by Swedish Security & Defence Industry Association (SOFF)

1. **How can we improve the predictability and visibility of the European demand for the EDTIB?**

To enhance the predictability and visibility of European demand for the European Defence Technological and Industrial Base (EDTIB), several key aspects should be considered:

Understanding customer requirements:

Security Needs Recognition: Each Member State, representing the customer, comprehends its unique security requirements.

Procurement of Capabilities: The customer is responsible for ordering and acquiring necessary materials, equipment, and systems across various timelines.

Investment and Procurement Planning: The customer plans investments and procurements to address specific security threats over time.

Societal Protection Responsibility: Each Member State has the duty to protect its society and people.

EDTIB's role:

The EDTIB acts as an essential provider, enabling Member States to fulfil their security tasks.

Strategic compass and EU-NATO cooperation:

This framework consolidates the priorities and demands of all Member States, fostering cooperation between the European Union and NATO.

Demand transparency and predictability:

Enhanced clarity and predictability from European customers regarding their needs will directly improve the visibility of the collective European demand for the EDTIB.

This predictability is crucial for the EDTIB to plan investments and develop the required industrial capacities.

Importance of defence capability development:

Developing defence capabilities is a complex process, requiring long-term planning. The capabilities needed in the future must be initiated in the present.

Commission's consultation paper and demand coordination:

The paper's approach to consolidating and coordinating demand towards the EDTIB is welcomed, emphasising the need for a balanced approach to avoid vulnerabilities.

Industry's role and challenges:

The industry requires clear needs, firm orders, and strong commitments from the customer for reasonable risk-taking and investment.

National defence planning processes, legal, and administrative obligations play a crucial role in the customer's willingness to place orders.

National legal and administrative complexities:

These processes are intricate and influenced by geopolitical contexts, impacting the industry over long durations.

Defence industry's unique market dynamics:

Unlike civil industries, military industries cannot independently create demand; political commitment is necessary for product competitiveness.

Industry investments and risks:

Significant investments have been made, but financial risks must remain within reasonable business limits.

Adjustments have been made to meet increased demands due to the Ukraine conflict, highlighting the need for clear customer directives for future production capacity.

In summary, improving the predictability and visibility of European demand for the EDTIB hinges on clear, transparent communication of Member States' needs, coordinated strategic planning at the European level, and a balanced approach to demand consolidation. This will enable the EDTIB to effectively plan and develop the necessary capacities to meet future defence requirements.

2. **How can we achieve a better coordination of defence spending at EU level, including by making best use of PESCO and CARD as well as of the EU budget?**

We agree with the Commission's view that the EDTIB is going through a paradigm shift. The war in Ukraine clearly demonstrates that no single European country, nor Europe

collectively, is able to protect itself, our society and people without a strong, competitive and resilient European defence industrial base.

To achieve better coordination of defence spending at the EU level, including optimal utilisation of PESCO (Permanent Structured Cooperation), CARD (Coordinated Annual Review on Defence), and the EU budget, SOFF suggests the following:

Reinforcement of existing instruments:

Strengthen and streamline EU defence policy instruments like the EDF (European Defence Fund), PESCO, and CARD. These tools, previously theoretical, should now focus on practical defence capabilities in light of the war in Ukraine.

Expanding scope and budget:

Broaden the reach of programs like ASAP (As Soon As Possible) and EDIRPA (European Defence Industrial Recovery Plan Accelerator). This requires an adequate budget that matches the new geostrategic and security realities faced by Europe and the EU.

Focus on competitiveness and autonomy:

While maintaining competitiveness and strategic autonomy, the primary aim should be Europe's concrete ability to defend itself and its strategic partners. This involves ensuring the defence industry can develop and deliver effective capabilities.

Long-term sustainable strategy:

Develop a long-term, sustainable European Defence Industrial Strategy (EDIS) that emphasises the importance of the European defence industry (EDTIB) in providing security and defence capabilities to Member States, the EU, and NATO.

Risk sharing and readiness:

Implement a risk-sharing model between the defence industry and its customers, to maintain flexibility and capacity in varying operational demands. The Finnish model for security of supply could serve as a reference.

Prioritising European equipment:

Encourage Member States to prioritise European-made equipment and systems to support the competitiveness of the European defence industry and ensure the return on investments made by European taxpayers.

Market share objectives:

Set objectives for EDIS to achieve a significant market share for the European defence industry in the EU market by the end of the next MFF period (2035). This could involve modifying EDIRPA to promote joint procurement of European-made equipment.

Addressing external dependencies:

Address the growing concern about Europe's defence investments flowing to third-country suppliers, particularly the U.S., which undermines the EDTIB. Counter this trend by focusing more on European capabilities.

3. **How can we further promote the use of joint procurement? Are there any concrete issues that need to be addressed within the defence procurement directive in times of high tensions?**

We believe that EDIRPA is good first contribution to help Member States with certain costs associated with closing the most urgent and gaps when it comes to joint procurement. However, EDIRPA has a very limited scope and cost coverage that would need to be expanded and strengthened by adequate EU budgets.

Expand EDIRPA's scope and budget:

Enhance the European Defence Industrial Recovery Plan Accelerator (EDIRPA) to cover broader costs and have a wider scope, assisting Member States in addressing urgent gaps in joint procurement.

Incentivise harmonised cooperation:

The European Defence Industrial Strategy (EDIS) should encourage cooperation based on harmonised technical and operational requirements. This will help establish a long-term framework that fosters a European mindset for joint procurements.

Enshrine key principles in joint procurement:

Implement key principles in joint capability development and procurement processes, such as technological neutrality, open and transparent selection criteria, to ensure fair competition and a level playing field within Europe. This will enable Member States to procure operationally superior equipment and systems at the best life-cycle cost, enhancing the global competitiveness of the European Defence Technological and Industrial Base (EDTIB).

Promote demand consolidation:

Encourage Member States to consolidate their demands, making them more predictable for the EDTIB. This will allow Member States to recoup public investments in the EDTIB and achieve economies of scale.

Maintain strong transatlantic and UK relations:

Ensure that EDIS does not jeopardise relations with the United States and the United Kingdom. Maintaining strong cooperation with these partners is crucial. By building a more

competitive EDTIB, the EU can become a stronger and more equal industrial, security, and defence partner, benefiting both sides of the Atlantic and the overall security situation.

4. **How to jointly identify European defence infrastructures and strategic enablers to protect the EU's free and unfettered access to and freedom of action in contested domains?**

The EDIS should, through the EDF, focus on promoting cooperative projects at higher TRL levels and in particular incentivise projects that bring together existing capabilities enabling Europe to achieve complementarities in system-of-systems within each defence domain (air, land, naval, space, cyber etc.).

Such a focus will act as a strategic enabler by triggering the most competitive actors in the EDTIB to work together more rapidly to build new interoperable capabilities that can protect Europe. It is important to understand that a strong European defence is not created by a single capability in each domain, but with capabilities that can support, complement and replace one another while being interoperable.

Competing and complementary defence capabilities enhance Europe's strategic autonomy by fostering a robust integrated defence system. This competition boosts performance, creating a diverse system-of-systems that is more resilient against adversaries than a single-capability approach. It's crucial for Europe's defence to have varied supporting capabilities and redundancies to reduce vulnerabilities. The European Defence Technological and Industrial Base (EDTIB) benefits from this competition, leading to a stronger, more integrated defence. The European Defence Industrial Strategy (EDIS) aims to make Europe and its member states more strategically aware, reducing dependencies and vulnerabilities in supply chains for the EDTIB.

5. **How to ensure that strategic enablers required to ensure safe and unfettered access to contested domains are available at the EU level?**

Europe and the EU must become more responsible for its own security and defence. However, this must not jeopardise a strong transatlantic relation nor with the UK.

The EU and its Member States are embracing a forward-thinking approach in managing foreign investments to enhance Europe's strategic autonomy. It's vital that EDIS helps streamline Europe's collaboration with the EDTIB, ensuring the EU is more strategic and effective in safeguarding its interests. This approach will empower Europe to protect its people without resorting to introversion or protectionism. A competitive EDTIB, thriving both in the EU and globally, is key to this vision.

Europe plays a crucial role in ensuring the supply of critical raw materials, like metals and minerals, essential for military equipment. These resources, some not found in Europe,

highlight the importance of maintaining robust, long-term partnerships with aligned international allies.

The concept of "open strategic autonomy" or "**appropriate degree** of strategic autonomy" is central to Europe's future success. By positioning itself as the world's most appealing market for investments aligned with EU priorities, Europe will attract top-tier investments and critical resources and "the best of the best". EDIS could in this regard not only bolster Europe's current standing, but also secure its future leadership in the global arena.

6. **What could be the added value of EU support to these projects? Could they materialise into European flagship projects?**

The added value of EU support to EDTIB cooperative projects, is that the EU strengthens the ability of EU Member States to protect Europe and its people.

Europe should not build flagship projects only for the purpose of building flagship projects. Member States, the EU and the EDTIB must be resource-efficient and hence focus on capabilities that are jointly needed and necessary to effectively protect Europe and its people. With 22, soon 23, EU Member States also being NATO allies, the EU funded instruments and programs should support projects based on the operational needs and capability gaps defined by the CDP, and CARD, and in synchronisation with NATO's operational capability plans.

To enhance Europe's competitiveness, it is vital to ensure a balanced playing field across the European Defence Technological and Industrial Base (EDTIB) within the EU27. This includes acknowledging the potential of smaller entities, which may already possess crucial innovations, technologies, and solutions for advancing next-generation technologies and capabilities. However, SMEs often face difficulties in accessing projects under frameworks like the European Defence Fund (EDF) and Permanent Structured Cooperation (PESCO).

In this context, the European Defence Industrial Development Programme (EDIDP) plays a critical role. It should aim to equitably manage the relationship and competences between the European Commission and the Member States. While the Commission has a unique role and set of instruments to support the EDTIB, ultimately, the Member States, with their specific competences, should make the final decisions regarding their needs and priorities. These decisions should be aligned with NATO's operational capability plans, ensuring a cohesive approach to defence and security across Europe.

7. **How can we improve the industrial availability of defence products manufactured by the EDTIB in the short, medium, and long term?**

See answer to question 1.

Availability is partly the result of clear and confirm orders placed by the customer. Industry is able to adjust and to make own investments up to a certain point to secure increased production and a higher readiness level. Availability can be increased by, for instance,

a. more strategic and coordinated stockpiling of critical defence materials and raw materials.
b. new technologies such as 3D printing industry that can develop faster methods for development and production.
c. joint production consortia's
d. promotion of joint procurement (that can further reduce costs and increase joint availability)
e. investing in ever-warm industrial capabilities and capacities will further improve industrial availability.

A more sustainable EDTIB will increase investments. The introduction of a sustainability criteria in EDF would make the selection of projects more sustainable as award of EDF financing would only go to sustainable players. The applicant must affirm their adherence to all relevant national and international laws, regulations, and conventions (acquis Communautaire). This commitment would serve as a robust indicator of reliability for investors.

8. **How can we design and implement an effective security of supply regime within the Internal Market, in particular when a crisis occurs?**

See answer to questions above. In addition, an insurance policy could be linked to the operational and industrial capacities of the different parts of the EDTIB-ecosystem.

9. **What can we do to prepare the integration of the Ukrainian DTIB into the EDTIB?**

We welcome President Von der Leyen's comments on the importance of integrating the Ukrainian industrial base in the EDTIB.

Member States have provided Ukraine with a wide range of current generation of defence capabilities. They have now access to the technology and knowledge about our capabilities that they would otherwise not have had.

EDIS should therefore highlight the crucial importance of EU dedicated budgetary resources for innovation and R&D into next-generation capabilities under EDF 2.0. Otherwise, there is

a risk that Europe will lose technological and operational superiority as adversaries' probe and retro engineer equipment and systems recovered from the battlefield.

In other words, the conditions for cooperation between Europe/EU and Ukraine have improved from both an industrial and political perspective, but the pressure on Europe, EU and Member States to develop next generation capabilities have as a consequence increased. EU budgets for defence R&D must therefore be considerably higher and more attuned to the highest priority objective in the paradigm shift and beyond.

Moreover, EDIS needs to address the share of data and knowhow from the battlefield and how to ensure that innovators are made aware.

10. How can we improve the social recognition of the key role of the defence industry, for the resilience, security, innovation, and economy of the Union?

The war in Ukraine has been a tragic reminder that Europe cannot take peace and security for granted and that it cannot rely on third countries to provide its armed forces with the critical equipment and systems they need to protect themselves.

We as an Industry Association, believe that there can be no safe European society without defence and that there is no defence without a European defence industry. We would like to point out the EDTIB's special roles and responsibility we have written about in earlier questions.

It is imperative that national governments and the EU help to promote the positive contributions of the defence industry to society by highlighting the industry's role to serve the general interest, in addition to the proven positive economic and innovation impact of the EDTIB for the EU as a whole.

11. How can we enhance the EDTIB's access to finance (including EU structural funds) and adequate skills?

We share the Commission's view that access to public and private financing has been and remains a key challenge for European defence industry, including for large companies.

We agree that there is an unjustified reluctance from investors (including public investors such as the EIB) to invest in the defence industry based on interpretations of Environmental, Social and Governance ("ESG") criteria that do not take into account nor recognise the special role of the defence industry for enabling the Member States, EU and NATO to protect Europe. See reply to question above.

It is imperative that the EU sends a strong political signal to the financial institutions and that the latter act accordingly by recognising the important societal role of the defence

industry. In this regard we welcome the EU's defence ministers *Joint Statement on strengthening the EDTIB's access to finance and its ability to contribute to peace, stability, and sustainability in Europe* on 14 November 2023.

EDIS should clearly state the crucial importance of securing investments for the EDTIB and enable the political statements we have seen to be translated into concrete actions.

The European Defence Technological and Industrial Base (EDTIB) is currently facing a significant skills shortage in both research and development (R&D) and production areas, as identified by the Commission. A contributing factor to this issue is the defence sector's diminishing appeal to the younger generation. However, it's not just about the sector's image; there is a shared responsibility between governments and the European Union to actively cultivate a skilled workforce that meets the needs of the EDTIB. Addressing this skills shortage is crucial, not only as a strategic concern within the EU but also for the long-term innovation and competitiveness of the EDTIB. This is especially important considering the competition for talent with other high-tech industries, both within Europe and globally.

12. Are there regulatory hurdles at EU level hampering the EDTIB's ability to contribute to the EU defence readiness? If so, which ones?

The EU regulatory environment can create disproportionate hurdles for EDTIB, leading to unintended consequences at a critical time when the industry is expected to ramp-up production. We therefore support President Von Der Leyen proposal to reduce reporting burdens for companies in Europe by 25% as set out in her State of the Union speech in October 2023.

It is important that horizontal EU initiatives do not undermine the vertical EU initiatives, that specifically seek to support the EDTIB. Examples:

a. Potential environmental legislative acts such as ECHA's proposed ban on PFAS would mean that the entire European defence industry would no longer be able to manufacture and supply the critical equipment and systems required and ordered by the Member States if no exemptions, or derogations, for the EDTIB are included in the upcoming legislation.
b. Regulations also needs to be implemented nationally with convergence, i.e. the member states needs to address the effect of different implementations of "national security" and how that effects the market. For example, we believe that harmonisation at the EU level of export control rules and standards for defence classified material and information would further facilitate cooperation within the EDTIB and encourage deeper collaboration and export of jointly developed equipment and systems.
c. The EU Foreign Subsidies Regulation adds uncertainty and complexity to public procurement processes and is ill-suited to the specificities of the European defence industry which operates on a global market with a strong political dimension beyond the industry's own control.

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Issue paper #2

Towards a European Defence Industrial Strategy:

Investing better and together in defence capabilities and innovative technologies

Response by Swedish Security & Defence Industry Association (SOFF)

Question's part 1

How to enhance and further support the identification of short-term to long-term defence product needs? How can we build upon the DJPTF's experience to aggregate demand and map production capacity to deliver upon it?

A year ago, the DJPTF identified 6 areas possible for joint procurement whereas munition was one. They then started to map and assess the potential supply capacity of the EDTIB to identify mismatches between demand and supply. Parts of Industry were very reluctant to provide input on their capability due to the sensitivity (Classified and/or Company Confidential) of the total collected data, especially considering the war in Ukraine.

If such information should be gathered by the EU at all, which we are not sure should be the case, a prerequisite is that the protection of data will have to be solved before a full mapping of the EDTIB capability and capacity can be collected on an EU level.

Also, the newly started initiative "NATO Defence Production Action Plan" and its Board under NATO CNAD is set to aggregate the Member States needs and better understand the possibilities within industry. Both these initiatives aim to identify the same information and needs, but with slightly different nations involved. Therefore, this has to be taken into consideration before start mapping.

Before beginning any mapping activities, it's crucial to clearly define the responsibilities and roles of the Member States, given their existing control and oversight over their respective national defense technological and industrial bases (DTIB).

We need to determine, with reference to the Capability Development Plan (CDP), which long-term priorities are feasible for EU-wide defense industrial projects of common interest. What part should current, and future EU defense initiatives play in this process? This includes programs like the European Defence Investment Program (EDIP)/European Defence Capability Consortium (EDCC), Permanent Structured Cooperation (PESCO), and the European Defence Fund (EDF). Details on these initiatives are provided below. Additionally,

how can we ensure and maintain the commitment of Member States interested in these projects?

The Strategic Compass is important in this context as it accommodates all Member States consolidated priorities and is an instrument of importance for the cooperation between EU and NATO.

The clarity, proactiveness, precision, and predictability of each European customer regarding the European Defence Technological and Industrial Base (EDTIB) significantly enhance the visibility and predictability of Europe's collective demand for EDTIB. This, in turn, makes it easier to identify the industrial capacities and capabilities that the EDTIB needs to develop, produce, and deliver within specific timeframes. This aspect is vital because the development of defense capabilities and capacities involves complex conceptual, technological, and economic processes that span long periods. The defense capabilities we require today were developed many years ago. Similarly, the capabilities we will need in the next 5 to 15 years must start their development now.

EU/NATO Joint declaration 2023-01-10 states in article 7 that "*NATO remains the foundation of collective defence for its Allies and essential for Euro Atlantic security. We recognise the value of a stronger and more capable European defence that contributes positively to global and transatlantic security and is complementary to, and interoperable with NATO*".

It should be noted that the CDP does not contain all the capability needs identified by Member states, it needs to be complemented by national needs and the ones provided in the NATO Defence Planning Process.

Member States are responsible for determining the components of various defense tools, whether supranational or not, such as PESCO (Permanent Structured Cooperation), EDF (European Defence Fund), ASAP (Accelerated Solutions Acquisition Process), EDIRPA (European Defence Industrial Research Programme Association), EDIP (European Defence Investment Program), and others. They are best positioned to identify national security interests and collective needs for these initiatives, guided by the Capability Development Plan (CDP) or other long-term planning methods. It's crucial that Member States commit to acquiring the capabilities developed with the support of these EU initiatives; otherwise, the advancements made by the European Defence Technological and Industrial Base (EDTIB) risk being underutilised.

The question arises: Could consistent EU support for European Defence Industrial projects, encompassing all stages from research and development to joint procurement, and potentially maintenance and upgrades, encourage Member States to procure the final products?

Member States need flexibility in their decisions over time due to various factors, which explains their hesitation to commit to future procurements based on EDF investments. However, as an industry association, we believe it is possible to incentivise Member States by transforming cultural aspects within and among Member States, and between them and the European Commission, at national, intra-national, and supranational levels.

The EU, embodying the strengths, weaknesses, similarities, and differences of its Member States, requires closer, more coordinated, and transparent dialogue between governments and their companies. This is essential to foster a different type of ecosystem from what exists today.

Questions part 2

How to simplify the launch and successful completion of cooperative defence programs?

Simplifying the launch and successful execution of European cooperative defence programs presents several challenges due to the diversity among the 27 member countries. These challenges stem from differences in equipment, working methods, organisational structures, business models, and national defense technological and industrial bases (DTIB). Furthermore, countries have varying interpretations of Article 346 TFEU and prefer either bilateral or multilateral cooperation.

The European Defence Fund (EDF) faces difficulties because of these diverse working methodologies among member states. A notable issue is the inconsistent dissemination of information by the Commission to companies during the early stages of EDF projects. This inconsistency leads to unequal access to information among industry stakeholders and sometimes excludes companies from discussions on the Multiannual Financial Framework (MFF) and the annual Work Programme (WP).

Member states also differ in their views on DTIB, co-funding, and information sharing. Companies are burdened by the need to navigate parallel processes at EU, national, and international levels, including EDF, European Defence Agency (EDA) programs, other bilateral or multilateral cooperations, and NATO programs.

To address these issues, the Commission should study successful projects like the Meteor-project, the Nordic uniform procurement, and the NORDEFCO munition procurement. These examples illustrate effective strategies, such as using a lead nation for procurement or leveraging existing contracts in one country to benefit others, as seen in the recent NORDEFCO munition procurement supporting Ukraine and the Combat Vehicle 90 project.

The processes for handling contracts for co-financing EDF projects in member states are currently lengthy and complex, creating financial challenges. Moreover, the lack of contractual obligations during certain phases hampers member states' ability to review industry deliveries, consequently preventing the Commission from accepting industrial reports.

To overcome these obstacles, it's suggested that the Commission develop standard contract templates. This would streamline the process and encourage member states to expedite the provision of Memorandums of Understanding (MoUs) and associated contracts, thereby simplifying the launch and completion of cooperative defence programs in Europe.

How to strengthen interoperability and interchangeability of defence products developed and procured by Member States? How can current and possible future EU defence initiatives and instruments, such as the EDF and PESCO projects, EDIP/EDCC (see below) or other EU tools contribute to standardisation and help to achieve interchangeability of consumables?

The supply side will adopt itself accordingly to the requirements and needs set by the demand side e.g., the Member States and NATO. We see on one hand, no need for developing any EU standards for the EDTIB where other standards exist. Particularly not, since most Member States are members of NATO and there is a need to reduce and create stronger complementarities between EU and NATO rather than embark on initiatives that would generate parallel mandates, structures, and processes.

On the other hand, STANAGS, civilian standards need to be considered when setting the demands from the Commission and Member states in the programs. To use common existing standards like ASD standards, NATO STANAGs etc. are, from an interoperability perspective, important and from an industrial viewpoint, vital in developing new operational capabilities that are internationally interoperable and competitive. The different standards need to be implemented by the Member States in a coherent way.

We would like to point out that here are standardisation processes on a multilateral basis including EDA and NATO, led by EDA. Use such processes and decide how to bring new ideas/technology/processes made through, for instance EDF, PESCO or other tools, to become civilian standards or STANAGS within NATO before considering developing any specific EU standards, which should be the last resort. Today 22 NATO allies are EU-Member states, which makes it even more important.

How to improve synchronisation of national budgetary provisions for cooperative programs? How to ring-fence budget allocated to cooperative programs in the national setting? Would Member States be ready to consider pooling national contributions in a wider EU scheme?

Improving the synchronisation of national budgetary provisions for cooperative programs and safeguarding the budget allocated to such programs within national settings are complex issues. They require a political discussion and decision, as each country operates under its own regulations regarding yearly budgets, long-term investment plans, and usage of funds. Additionally, the concept of pooling resources is influenced by national security interests and strategic partnerships, making it a decision that varies by nation.

The landscape of defense spending among Member States has evolved considerably, particularly with the increased expenditures following Russia's war in Ukraine. A notable concern is the growing proportion of Europe's defense investments, funded by EU tax money, flowing to suppliers outside the EU, predominantly American firms. This trend risks creating a market dependency that could undermine the European Defence Technological and Industrial Base (EDTIB)'s primary mission of ensuring Europe's safety.

For Member States, it is crucial to recognise that investments in the EDTIB are, in essence, investments in their own security capabilities and, by extension, in the protection of their societies. The EDTIB requires a robust R&D framework supported by a budget that aligns with the overarching goal of enabling Member States and the EU to safeguard Europe and its citizens.

The context in which collaborative tools like the European Defence Fund (EDF) were created has dramatically changed due to the war in Ukraine, shifting the European defense industry into a new paradigm. The European Defence Industrial Strategy (EDIS), along with its accompanying instruments and mechanisms, must be adapted to the current geopolitical and security landscape. This adaptation includes ensuring an adequate budget to address the diverse and complex security threats faced by Europe. Aligning with NATO allies' agreement on defense spending—setting a minimum of 2% of GDP as a baseline—is a step in this direction, although the actual financial requirements might be higher.

Member States should also consider the possibility of pooling national contributions into a broader EU scheme. This would require a collective willingness and agreement to commit national funds to a shared European initiative, balancing national interests with the broader objective of European security and stability.

Questions part 3

Is the complexity of defence procurement procedures an obstacle to the timely availability and supply of European made products? If so, to what extent and for which reasons, and how to reduce it? How to further facilitate the acceleration of defence procurement?

There is an urgent requirement to bounce back quickly from years of insufficient spending, coupled with the necessity to speed up research, development, and procurement procedures, along with other essential processes such as obtaining building and environmental permits.

The EU regulatory environment can create disproportionate hurdles for EDTIB, leading to unintended consequences at a critical time when the industry is expected to ramp-up production. Examples of this are:

a. The procurement directives they do not take into account whether you procure in times of peace, crisis or war.
b. The directives, but also national processes, make procurement very complex and time consuming.
c. In some Member States it is very easy to challenge a procurement made.

Member States, with assistance from the EU Commission, need to modify the existing framework to ensure that broad-based EU initiatives do not overshadow specialised EU efforts aimed at bolstering the European Defence Technological and Industrial Base (EDTIB). This concern is exemplified by the potential impact of the European Chemicals Agency's (ECHA) proposed ban on PFAS, as well as the EU Foreign Subsidies Regulation.

The burden of excessive reporting requirements and bureaucratic procedures can divert critical resources and time from our primary objective. In this context, we endorse President Von Der Leyen's proposal to cut reporting obligations for European companies by 25%, as outlined in her State of the Union address in October 2023.

Have EU and/or its Member States the power/the means to transform into a war economy? See also paper 3 regarding the idea of introducing a new mechanism for crisis and war situations.

What are the barriers to Member States' cooperation beyond common/joint procurement, e.g. in maintenance, procurement of spare parts and logistics?

There are several barriers that prohibit a war economy and joint maintenance, spare parts etc. Here are just a few:

1. National laws may be a hinder when it comes to spare parts where, for instance, a nation cannot give away spare parts or use someone else's due to national regulations.
2. Whom has the right to spares etc. when there is a crisis or war if you have a joint procurement or ownership? We all have experience from the Covid crisis.
3. Export control regulations.
4. Classification of data
5. Defence is still a national sovereign competence, whether they act on their own or together with others.

Could a one-stop-shop further incentivise joint procurement, especially for Member States lacking the relevant administrative capacity? Could potential EDCCs contribute to the aggregation of defence demand supporting the EDTIB's competitiveness, and how?

We often mention the European Defence Agency (EDA) and the Organisation Conjointe de Coopération en matière d'Armement (OCCAR) but overlook the NATO Support and Procurement Agency (NSPA), which already procures capabilities for Member States. It's important to utilise the EU/NATO Agreement effectively and constructively. The EU and NATO should complement and strengthen each other, avoiding overlapping efforts and redundant processes.

Additionally, it's vital to acknowledge that Member States are already engaging in joint procurement, utilising each other's frame agreements under a lead nation's procurement, as seen in the Nordic Defence Cooperation (NORDEFCO) framework.

Our recommendation is to focus on enhancing and optimising the existing tools and organisations, rather than establishing new entities. This approach ensures more efficient use of resources and better coordination among Member States in their defense procurement and collaboration efforts.

Should the EDIRPA logic be extended to covering 2025 to 2027, including by providing financial incentives e.g. through EDCCs, for joint procurement and beyond?

EDIRPA as an instrument seems to be a good initiative, but since is still being implemented it is too early to evaluate its impact. EDIRPA will have to be followed by national investments in different ways, but we have yet to see how it will contribute to its objective.

We already see those joint procurements, via the EDA (e.g.,155 mm munition contracts), multilaterally (155 mm contracts) and through national initiatives (production facilities), have been put in place before EDIRPA.

It is important that within EDIS there is a continuation of initiatives to further stimulate and incentivise joint procurements of jointly developed capabilities and in such a context EDIRPA should be used as a precursor to develop such initiatives and incentives.

Should an EU equivalent of the US FMS-scheme be considered, building on government-to-government schemes, to support procurement from the EDTIB by EU Member States and support. o partners, including Ukraine? If so, how should such a mechanism operate? How could it support the availability of defence equipment from the EDTIB?

Is it really feasible to adapt such a scheme in EU? We do not consider this to be a solution in the EU since this is about *selling* products/systems which should still be a prerogative of the Member States. The US also use it as a security policy tool.

1. A government to-government scheme must be scrutinised in detail since it entails lot of different challenges regarding financing, SoS-schemes, competition, planning cycles etc.
2. To copy the American model, the Member States together would need to buy a certain number of a system/product and then have a joint prioritisation system when countries outside of EU express an interest to procure these systems/products too.

Either way, a new set of tools and legal framework would need to be designed and adopted. This raises a fundamental question: who should run such a scheme and procure and prioritise for all Member States – the Commission or the Member States themselves?

This consultation focuses on the EU internal market, but the EDTIB must also have access to the global export market to recoup investments, to be competitive and to build defense and security cooperation's with EU partners.

SOFF

Issue paper #3

Towards a European Defence Industrial Strategy: adapting the Union's defence industrial base to the rapidly changing security environment

Response by Swedish Security & Defence Industry Association (SOFF)

1. Improving the industrial availability of defence products manufactured by the EDTIB

How can we further address the current fragmentation of defence supply, in particular the lack of standardised products at Union level, so that they can meet Member States' requirements in time, scale and quality?

The demand side, including Member States and NATO, shapes the adaptation of the supply side in the defence sector. In this context, the European Defence Technological and Industrial Base (EDTIB) is not primarily concerned with its internal fragmentation. The European defence industry operates in a complex environment, contending in national, European, and international markets with diverse supply chains at all these levels.

A key challenge identified is the limited capacity of these supply chains to quickly meet short-term demands from customers, primarily Member States. However, it's anticipated that the EDTIB will evolve over the medium to long term to better align with a more unified demand side. Any consolidation within the supply sector will stem from this evolution.

Strategically, it's not desirable for all Member States to use identical defence systems. Diversity in equipment, systems, and supply chains contributes to the agility and effectiveness of the industry and armed forces. This diversity in the EDTIB allows the European armed forces to develop, produce, and maintain various operational capabilities, enhancing redundancy, resilience, deterrence, and operational superiority.

From a competitive standpoint, having multiple suppliers vying for contracts fosters innovation, cost-effectiveness, resource efficiency, and international competitiveness, benefiting the entire EDTIB. This competition makes the industry more agile and robust against global competitors.

Interoperability is crucial, both from an industrial and operational perspective. Adopting common standards like ASD standards and NATO STANAGs is essential for developing new, internationally interoperable, and competitive operational capabilities.

Lastly, there is no perceived need to develop distinct EU standards for the EDTIB. Most Member States are NATO members, and the focus should be on strengthening the complementarity between the EU and NATO. Initiatives that could lead to parallel mandates, structures, and processes are deemed unnecessary and counterproductive.

How could we further de-risk productive investment along defence supply chains to facilitate the ramp up? Would there be merit in extending the ASAP logic beyond its current (temporal and/or material) scope of application? What adaptations of the ASAP framework might be needed to support the ramp up of other systems manufacturing capacities?

The status of the ASAP initiative as a precursor to a more expansive, long-term project is still uncertain. Nonetheless, it is crucial for Europe and the European Union to build and maintain industrial capacities and capabilities that can be swiftly mobilised in transitions from peace to crisis or war, and vice versa. This situation calls for a new approach: establishing a risk-sharing model involving the EU, its Member States, and the industrial sector. Under this model, the EU and Member States would pay a premium to ensure a specific level of readiness, safeguarding Europe and its citizens during peace, crisis, and war, as detailed in our response in Paper 1.

SOFF suggests that post-2025, the ASAP initiative should evolve into a broader, more ambitious program with an effective risk-sharing model. This program should be integrated into the European Defence Industrial Strategy (EDIS), with sufficient budgeting to meet its goals. It's imperative that the EU budget allocated for EDIS enhances the Member States' capacity and capabilities to defend Europe. This investment should maximise the positive impact on the European Defence Technological and Industrial Base (EDTIB) and foster cooperation among Member States, the EU, and NATO, without undermining competition and global market standings.

Adapting the ASAP framework requires considering the geopolitical and security context, aligning the industry's readiness level and production capacity accordingly. EDIS should encompass two distinct sections: one addressing the standard industrial capacity and capabilities within the EDTIB, and another focusing on escalated industrial production during crises and wars. This latter section should be linked to an EU-level crisis/war mechanism that unites all Member States, the EU, and NATO in evaluating situations and coordinating necessary responses.

It is submitted that such a special urgency/crisis/war mechanism at EU level could be supported/linked to Article 42.3 and 42.7, as well as Article 222 of TFEU and the general obligation for Member States to support one another in a solidaric manner. We propose a special emergency/crisis/war mechanism at the EU level, potentially underpinned by Articles 42.3 and 42.7 of the Treaty on the Functioning of the European Union (TFEU) and Article 222, emphasising the Member States' obligation to support each other. This mechanism could function through a council where Member States, the EU, and NATO collaborate to address and decide on collective needs and actions during crises and wars. The Commission should engage with Member States to discuss the viability and need for such a mechanism.

How could the EU budget incentivise the availability of defence products and equipment?

Please see the reasoning above. To effectively achieve its goals, the European Deposit Insurance Scheme (EDIS) must be supported by various financial tools. A robust R&D framework is crucial for the European Defence Technological and Industrial Base (EDTIB), necessitating sufficient budget allocation towards collective objectives, especially for EU Member States to safeguard Europe and its populace.

The European Defence Fund (EDF) was established under different geopolitical and security conditions, marked by peace and stability in Europe. However, the conflict in Ukraine has dramatically shifted this landscape, signaling a need for EDIS to align its medium and long-term strategies with the current geopolitical climate to effectively counter diverse security threats.

A substantial defence budget in the Multiannual Financial Framework (MFF) is essential to back EDIS. Additionally, exploring alternative financing options, such as an off-budget "Fire Insurance Policy," could provide complementary support.

Investments by Member States in EDTIB are not just investments in their security interests but also in societal protection. Notably, defence spending in Europe has escalated, particularly since the onset of the Ukraine conflict. A growing concern is the increasing flow of EU defence procurement funds to non-European suppliers, predominantly American, which is capturing more of the European market.

This trend of procuring off-the-shelf equipment from external sources weakens EDTIB by entrenching these systems in the European market, potentially leading to the erosion of comparable or superior European industry capabilities.

To counter this, Europe must prioritise European-made equipment and systems. This approach is crucial for maintaining the competitiveness of the European defence industry and for justifying the investment of European taxpayers in EDTIB.

The European Commission could aim for EDIS to secure over 50% of the European defence industry's market share in the EU by the end of the next MFF period (2035). The European Defence Industrial Research Programme (EDIRPA) could be a platform for experimenting with EU incentives for joint procurement of European products.

However, it's vital that EDIS maintains a balanced approach, avoiding introversion and protectionism. The European defence industry, with its national, European, and international dimensions, should continue to value the transatlantic relationship, crucial for global peace and stability. EDIS should not only preserve but also enhance ties with the US, fostering a more robust and equitable partnership. This, in turn, would benefit the defence industries of both continents.

How could we support industry in adapting to the demand cycles and in particular adapting to downturns? Would the support of ever-warm facilities be an option?

To ensure Europe has a robust defence capacity capable of transitioning from peace to crisis and war, a swift scale-up is essential. The European Commission's current approach, based on the assumption that the defence industry will continue investing in anticipation of future demand without guaranteed contracts, is flawed. This perspective overlooks the operational nature of the defence industry, which relies on specific customer requirements and confirmed orders, rather than speculative investments.

It's crucial to recognise that the defence industry itself does not safeguard Europe; this responsibility lies with the Member States and their armed forces. The industry serves as a provider of essential capabilities, functioning effectively only when Member States invest adequately in these services and products, especially during crises and wartime. This investment should be sustained over multiple Multiannual Financial Framework (MFF) periods, independent of the usual MFF budget cycles.

The role of the Member States is central; they drive the decisions, not the industry. The European defence industry, therefore, has a unique role and mission, acting as a Service of General Interest for Europe. This necessitates long-term contracts with Member States to ensure Europe's protection.

SOFF suggests that the Commission should develop a specific framework to acknowledge the industry's unique mission in relation to Member States and Europe's security interests. This should include a risk-sharing model where Member States and the EU contribute premiums for maintaining a certain readiness level, covering costs even during downturns.

For this mechanism to function effectively, a preliminary process is required to identify necessary capabilities, determine capacity levels, and establish the duration for which these capacities will be needed.

How can we better target the most relevant R&D priorities to be supported by the EDF, given its limited budget? How to better link technology roadmaps stemming from OCT and funding instruments?

It is crucial for customers to have a clear understanding of their priorities and needs in the medium and long-term scenarios. Identifying capability gaps and **engaging in deeper dialogue with the European defence industry** can lead to the formation of competitive consortia that develop essential capabilities for Europe's self-protection.

The initiation of the current European Defence Fund (EDF) stems from the perception that Europe's defence market is overly fragmented and duplicates capabilities. However, this view might be superficial, focusing only on platforms without a deep understanding of the technology and capabilities within them. While Europe may have excess capabilities in some areas, effective use of defence budgets by Member States can be achieved through better coordination and joint procurement.

From a military and security standpoint, it's vital to recognise that aiming for a single, state-of-the-art capability in each domain could undermine the competitiveness and innovation of

the European Defence Technological and Industrial Base (EDTIB). This approach could also weaken Member States' ability to defend themselves and Europe, offering adversaries opportunities to compromise Europe's defensive strength.

A robust defence system requires a variety of competing and complementary capabilities and systems, forming an integrated system-of-systems. This includes redundancy, resilience, and the ability to replace capabilities. Multiple sources and supply chains enhance Europe's resilience in securing necessary components on time.

Contrary to the European Commission's claims, the European defence market is not excessively fragmented. The diversity seen across Europe largely results from the EU comprising 27 sovereign countries, each with its own defence procurement decisions. Unlike the US, the EU is not a federation and thus cannot expect its defence market to operate similarly.

The Commission can address fragmentation by fostering conditions and strong incentives for Member States to jointly develop and procure defence capabilities. A consolidated demand will naturally lead the industry to align with it, gradually creating an industrial base more attuned to these demands. With increased demand and contracts, the industry will expand production capacity. However, this also requires supply chains capable of meeting higher production demands.

2. Reconciling the short and long terms through sustained coordinated efforts in R&D

Questions

Is there a need for EU support beyond the R&D phase to ensure that EDF projects transform into industrial projects? Would a pilot project in the current MFF timeframe be appropriate to test such a scheme?

The current EDF does not cover the productification (industrialisation) phase of a project. In order to get the full potential out of EDF it is necessary to define an instrument to support industry also in that phase to create operational ready products and systems. This step, which is costly and has high risks, could be de-risked through EU support.

Would Member States agree to work on a commonly agreed, streamlined IPRs and export control regime applicable to outcomes of EDF funded actions?

The response to this question primarily falls under the responsibility of Member States, especially concerning export control. From the perspective of the European Defence Technological and Industrial Base (EDTIB), it is beneficial to minimise uncertainties. This means having clear and predictable regulations from the outset. A more unified system of export control, both for intra-EU transfers and exports outside the EU, would enhance this clarity.

Regarding Intellectual Property Rights (IPRs), ownership varies as some are held by Member States and others by companies. Achieving a unified agreement on IPRs seems challenging. It appears more feasible that IPRs should be negotiated individually for each procurement and collaboration effort.

How to further support Europeanisation of supply chains and the better cross-border market access of SMEs and mid-caps?

SOFF advocates for a more strategic approach by Europe towards security risks in vital industries and ecosystems essential to the EU's functionality and societal well-being. They emphasise the need for the EU to encourage collaboration within the industry, suggesting that the 14 critical ecosystems identified by the European Commission should engage in joint projects funded by the EU. This collaborative approach aims to foster a deeper understanding of specific needs within industries, promoting a more cohesive internal market and a robust European corporate culture and identity.

However, SOFF also stresses the importance of allowing industries to operate independently, without EU interference in their methodologies. They caution against Europe adopting an introverted and protectionist stance, as this could hinder competitiveness and innovation in the European Defence Technological and Industrial Base (EDTIB) and impair Europe's ability to meet its security needs.

Furthermore, while advocating for stronger regional and European supply chains, SOFF believes it's crucial not to sever existing chains vital for the EDTIB's functionality through political decisions. They support the Commission's goal to enhance and potentially establish new supply chain infrastructures within the EU for key components like semiconductors. Yet, they underscore the importance of aligning these initiatives with the actual demands and specification requirements of European industries, especially for the EDTIB.

Many times, small and medium-sized enterprises lie at the heart of innovation within the field of defence and security. They possess a sound ability to evaluate the relevance of technology, allied to an equally sound ability to link that relevance to different contexts and applications. It is therefore important for SOFF that the strength and power of smaller enterprises are brought to bear.

By taking advantage of benefits that come with their size, smaller enterprises often have shorter setup/conversion times and greater flexibility affording the preconditions to identify opportunities in new areas of business and technology. At the same time, the security and defence sector constitutes a capital intensive industry that operates within a force field of influential political and regulatory factors which often have many alternative business strategies.

As a result of smaller enterprises' increasingly important role, the Commission has developed tools to facilitate entrepreneurship and cluster building for these enterprises; SOFF acknowledge the necessity and also support the idea that also places obligations on national measures and actions. With regard to the Swedish market, SOFF advocates for a

transparent and competitive market that gives manufacturers and customers a sound, long-term function, that especially is important to how new entrants and small and medium-sized enterprises can benefit of access to procurements and research programmes.

In addition, please note our replies to the previous questions.

3. Ensuring that the EDTIB can master and protect critical technologies

Questions

How to mitigate the impacts of strategic dependencies?

We believe that Europe and the EDTIB needs a certain diversity in terms of supply chains and that the industrial relations within the EU and with likeminded third countries and their industrial base are critical for a competitive and resilient EDTIB. We believe that Europe and the EU must become stronger and more capable, but the transatlantic link and the cooperation with UK is very important and must not be jeopardised. We believe that the "open strategic autonomy" / "appropriate degree of strategic autonomy" must be respected and invested in, since it will benefit both the EU and the US.

As regards critical technologies, the war in Ukraine means that Member States have – with their military support – provided current generation of critical technologies and capabilities to Ukraine. Consequently, the EU and its Member States must now further and significantly increase investments into the development of next generation European critical technologies and capabilities to maintain operation superiority, capacity and ability to defend Europe.

What additional measures could be developed to support defence innovation in the EU and to reduce barriers for new entrants to access the defence sector?

To support defense innovation and reduce barriers for new entrants in the EU defense sector a lot depend on creating an attractive market. Most of the actions are non-specific for new entrants, i.e. increase existing funds to support R&D in defense technology including grants for startups and small-medium enterprises (SMEs) focusing on innovative defense solutions. A lot falls on, for example, to simplify and streamline regulatory processes for defense procurement and innovation. This could involve reducing bureaucracy, creating clear guidelines for new entrants, and ensuring that procurement processes are open and fair to all competitors, including new and smaller firms.

Already today, there are multi-lateral and national innovation challenges and competitions focused on solving specific defense-related problems as well as incubators and accelerators specifically for defense-related startups. Resources like mentorship, funding, and networking opportunities has shown to be fruitful. But a real challenge has turned out to be intellectual property to ensure that new entrants can secure and leverage their inventions and technological advancements as well as gather feedback from end-users (i.e., military

personnel) on new technologies and ensure that this feedback is integrated into the development process. But, again, it is mostly down to create an attractive market to all – new entrants included.

4. Enhancing cooperation with the Ukrainian DTIB

Questions

Should we further support the current efforts to enhance cross-border cooperation between the EDTIB and the Ukrainian defence industry?

We welcome President Von der Leyen's comments on the importance of integrating the Ukrainian industrial base in the EDTIB.

Member States have provided Ukraine with a wide range of current-generation of defence capabilities to support them in their war against Russia. It is essential that data and feedback from the warfighters are made available to the innovators in EU. EDIS should highlight the crucial importance of EU dedicated budgetary resources for innovation and R&D into next-generation capabilities under EDF 2.0. Otherwise, there is a risk that Europe will lose technological and operational superiority as adversaries' probe and retro engineer equipment and systems recovered from the battlefield.

How can we make sure that the European Defence market benefits from the UA DTIB acquired competences during the war effort?

To ensure that the European Defence Technological and Industrial Base (EDTIB) benefits from the competencies acquired by Ukraine during the war effort, it is imperative to integrate feedback from the Ukrainian armed forces. These forces have been extensively using European defence equipment and systems. Consequently, insights from their experiences in deploying these products, equipment, and systems are invaluable.

Moreover, the significant volume of current-generation equipment supplied by Member States to support Ukraine highlights the necessity of continued investment in defence innovation and research & development. This is particularly relevant for the upcoming European Defence Fund (EDF), which should allocate substantial resources towards developing next-generation capabilities. Failure to do so could lead to a loss of technological and operational superiority, especially as adversaries may attempt to analyse and reverse-engineer equipment and systems retrieved from battlefields. It's crucial for the European Defence Industrial Strategy (EDIS) to emphasise this need for investment in innovation and R&D to maintain a competitive edge in defence technologies.

Should ongoing and future Union defence industry programmes be open to Ukrainian entities on the same footing as currently associated countries?

SOFF do not have a position on this and nor should in our view industry have, as it is a question for member states.

2. Securing budgetary means in support of EU defence industrial readiness

Should the ASAP and EDIRPA models be expanded to other critical Defence industry areas? If so, which ones?

Yes. Please note our replies above.

What should be the level of ambition for EDIP?

The level of ambition should be attuned to the necessity for Europe to achieve its objective to be able to defend itself and protect its society and people from a wide range of security threats.

What should be the overall EU investment to match the needs identified to sustain the competitiveness of the EDTIB?

The investment required for EDIS must align with the ambitious goal of safeguarding Europe and its citisens. To ensure EDIS's effectiveness in building and sustaining a robust European Defence Technological and Industrial Base (EDTIB) and maintaining an adequate readiness level, it is essential for both Member States and the EU to commit to long-term budgetary support. Alternatively, consider the potential expenses involved in reconstructing Europe should we not succeed in its protection.

What should be the overall EU investment to match the needs identified to sustain the competitiveness of the EDTIB?

When Member States are reimbursed by the EPF for the costs of capabilities provided to Ukraine, it is crucial that these funds are redirected specifically to their defense budgets, rather than being absorbed into their general budgets for other policy uses. It is essential that the funds recovered from the EPF are utilised to acquire European equipment and systems from the EDTIB, whenever they are available.

ANY OTHER COMMENT NOT CAPTURED ABOVE

No

Is there a need for EU support beyond the R&D phase to ensure that EDF projects transform into industrial projects? Would a pilot project in the current MFF timeframe be appropriate to test such a scheme?

The existing European Defence Fund (EDF) does not extend its support to the industrialisation phase (productification) of projects. To fully harness the EDF's potential, it's necessary to establish a mechanism that aids the industry during this phase, facilitating the creation of operationally ready products and systems. This phase, often costly and high-risk, could be mitigated with EU support.

SOFF

Issue Paper #4

Towards a European Defence Industrial Strategy: Enhancing our security of supply on the Internal Market

Response by Swedish Security & Defence Industry Association (SOFF)

1. Achieving the EDTIB's long-term ability to fulfil Member States SoS requirements.

How can we build upon the experience of the EU in developing emergency frameworks and policy measures, notably in sectors like health or semi-conductors to improve the resilience of defence supply chains?

For the past 30 years, Europe has enjoyed peace and stability, leading to a lower prioritisation of defense and defense policies at both national and EU levels. A decade ago, it was nearly impossible for the European Defence Technological and Industrial Base (EDTIB) to address critical issues at these levels. This oversight has contributed significantly to the current complex challenges Europe and the EDTIB face, challenges that the European Defence Industrial Strategy (EDIS) aims to resolve.

Had there been sufficient investment in the EDTIB over these three decades, the scenario in Europe, its Member States, and Ukraine could have been markedly different. A robust EDTIB is crucial for maintaining peace and stability in Europe, a fact that the EDIS must unequivocally convey.

The COVID-19 crisis highlighted Europe's need for a mechanism to manage common threats and ensure Member States cooperate effectively, avoiding uncoordinated responses. This is particularly evident in sectors like healthcare, where a lack of preparedness and capacity was exposed. Europe's lack of such a crisis mechanism adversely affects its essential security interests and its ability to protect its citizens.

While examining sectors like healthcare and semiconductors can be informative, the unique nature of the defense industry must be carefully considered. The challenges of producing vaccines and masks, for example, differ significantly from those in defense equipment production.

Establishing a European Security of Supply (SoS) regime is not an overnight task. It requires gradual development, political backing from Member States, and funding based on a risk-sharing model involving the Member States, the EU, and the industry. It's also crucial to recognise the strategic interdependencies within the EU and with non-EU partners that significantly contribute to SoS.

As it stands, many Member States operate under a peacetime mindset, with little sense of urgency. This approach must change in response to the challenges posed by the war in Ukraine. Solidarity and coordinated action among all Member States are essential to support

Ukraine and protect Europe. The EDTIB can facilitate this, but it requires decisive leadership and collective action from the Member States.

SoS needs to be developed and reinforced at national, regional, and international levels, considering the entire lifecycle of equipment and systems. In this regard, Finland's "total defense and SoS" system offers valuable insights that could benefit the EU.

Building upon the lessons drawn from the DJPTF's work and other EU initiatives, how can we better anticipate potential bottlenecks and disruptions in defence supply chains in order to address them as swiftly as possible, hence supporting the resilience of defence supply chains?

Anticipating and addressing bottlenecks in defence supply chains requires a collaborative and strategic approach. This involves sharing and aggregating demand and production capacity data at the EU level, carefully considering the sensitivity of such information.

Aggregation of Demand at EU Level: Member States should share and combine their national planning and budgetary programming at the EU level. This approach will create a comprehensive, global picture that reflects the collective needs and resources of the Member States. Such aggregation enables better forecasting and management of demand, leveraging the DJPTF's experience.

Comparison of Demand and Production Trends: Once the demand is aggregated, comparing it against the trends in production capacity is crucial. This comparison should include both current capacity and future projections. By aligning demand trends with production capabilities, Member States can identify and address potential supply chain issues before they escalate.

Mapping Production Capacity with Sensitivity Considerations: Mapping the production capacity is essential, but it must be done cautiously. Member States should collect information on production capacity within their territories, focusing on end-product levels. Given the sensitive nature of this data from both national security and commercial perspectives, the information should be anonymised and shared in a secure, classified environment at the EU level. It's important to recognise that while individual pieces of information might not be sensitive, their aggregation could become highly sensitive and of interest to adversaries and market competitors.

Industry's Role in Demand Transparency: The defence industry, being demand-driven, needs to establish transparent, long-term demands within its supply chains. This transparency will foster a better State of Supply (SoS) and aid in the anticipation of potential disruptions.

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How can we build upon the potential of the Internal Market framework to make sure that defence supply chains can access the inputs they need in times of crisis? Would a prioritisation mechanism of defence supply chains over civilian ones in times of crisis bring a significant advantage to the robustness of defence supply chains?

The proposed prioritisation model under the ASAP pillar is deemed unnecessary and impractical. Our perspective posits the European Defence Technological and Industrial Base (EDTIB) as Europe's equivalent of a fire insurance policy. To this end, we advocate for a lex specialis - a specialised legal framework. This framework would allow Member States to implement specific exemptions from the standard EU Treaty legislative framework. Such measures are crucial to enable deviation from the usual internal market rules, ensuring the EDTIB can access essential components and raw materials. This approach would empower the EDTIB to develop, produce, and supply what the Member States and their armed forces need, akin to the U.S. Defense Production Act (DPAS).

Currently, the EU lacks a dedicated crisis mechanism for coordinating responses to crises and war situations in conjunction with Member States and NATO. The establishment of such a mechanism would enable swift, coordinated actions to tackle specific threats facing Europe and its citizens.

The war in Ukraine has catalysed a paradigm shift, highlighting the inadequacy of the current EU legislative framework in responding to exceptional circumstances. To address crisis and war situations effectively, the EU requires a lex specialis. This would involve Member States agreeing to specific exemptions from the EU Treaty legislative framework, diverging from standard internal market rules to ensure the EDTIB's access to vital components and materials. This access is imperative for the EDTIB to fulfil the needs of Member States and their armed forces.

The EDTIB's pan-European nature and the defense industry's collaborative efforts across Europe on common capability projects are noteworthy. Member States need to reflect this level of cooperation and commitment to fully harness the EDTIB's potential.

Are provisions on Security of Supply of Directive 2009/81/EC bringing sufficient guarantees to Member States? Should they be reinforced?

It is up to the member states to answer this question.

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2. Enabling the prioritisation of Member States defence orders when required

How can we support the further development of Member States' cross-border security of supply at EU level, and notably the prioritisation of urgent defence products orders in crisis times? Would an action at EU level beyond the existing EDA initiatives (e.g., a binding prioritisation mechanism based on the one included in Commission's ASAP proposal, a coordination mechanism of national efforts) add value?

To enhance the sustainability and capability of the European Union's production capacity, it's crucial to not only increase but also optimise EU and national investments. This approach is necessary for achieving a significant shift in strategy and to address the critical needs of joint capabilities. Such investments will foster stronger and more extensive cross-border supply chains within the European Defence Technological and Industrial Base (EDTIB).

Currently, the EU defence procurement market is significantly imbalanced, with third-country suppliers, notably from the United States, capturing a large market share in Europe. According to a September 2023 report by IRIS, 78% of the European procurement market is dominated by non-European industries. It's vital for European defence companies to gain access to their domestic European market. This access is essential for the Member States to see a return on their investments in the EDTIB and for the European industry to maintain its competitive and technological edge, both in Europe and globally. A European defence market dominated by third-country entities could have long-term detrimental effects on Europe's autonomy and its ability to independently ensure Security of Supply (SoS), thereby risking the future of EDTIB and Europe's strategic position.

The European Defence Industrial Strategy (EDIS) must urgently address this imbalance by encouraging Member States to prioritise procurement from the EDTIB, especially when viable European options are available. Such a focus would not only consider the broader impact on Europe's security interests but also promote joint procurement, thereby enhancing cross-border SoS.

Prioritising the EDTIB in the European procurement market will bolster Europe's role as a security provider and strengthen its position in the transatlantic relationship, fostering a more balanced partnership with the United States.

Regarding the integration of Security of Supply considerations into the European Defence Fund (EDF) development projects and procurement programs, it is evident that the EDF inherently boosts EU autonomy by building EU-centric supply chains. Member States procuring products developed under the EDF framework would further this goal.

The EDF offers a framework for the EU and its Member States to outline a SoS regime. Member States can incorporate SoS requirements into the EDF's call texts during harmonisation. In the research phase, SoS could be a focus of specific research projects, exploring various methods to ensure it. During the development phase, feasibility studies

and higher Technology Readiness Level (TRL) projects nearing certification are particularly relevant for SoS considerations.

Incorporating SoS into procurement is essential. The EDTIB's readiness level, such as the ability to produce a product or spare part, comes at a cost influenced by the requirements set by Member States. For instance, fulfilling a demand to deliver a product in 10 months, as opposed to the standard 24-month lead time, might necessitate maintaining partially assembled long lead items or complex subsystems in stock. SoS requirements impact not only the Original Equipment Manufacturers (OEMs) but also the entire supply chain, including contracts within it. The electronics industry, with its rapid introduction of new components, presents challenges in obsolescence for defence products with long lifecycles. Consequently, potentially expensive redesigns and re-qualifications must be considered when offering a SoS solution. Moreover, see our replies to previous questions.

3. **Ensuring that defence products can effectively circulate throughout the Internal Market during times of crisis**

How can we increase the impact of Directive 2009/43/EC on the smooth functioning of the Internal Market? Should we consider a revision of the Directive?

This is a question for MS to answer and any revision of the Directive should include a close consultation with industry.

However, we consider that there are opportunities for more thorough implementation.

It is up to Member States to fully implement the provisions of the Directive, by publishing rules for facilitating the transfers of dual use and military technology, components, and equipment between EU Member States. Therefore

a. Industry could benefit from the advantages of the ICT Directive if the coverage of the General Transfers Licences (GTL) was enlarged and more even, as not all military categories are eligible, and only certain categories are made available for GTLs in certain countries.
b. Conditions of use (company certifications and exemptions for example) differ between Member States.
c. Categories for software and technology are regrettably excluded from proposed GTLs, which limits the benefits for R&D projects.
d. The Company Certification scheme needs a fundamental review. Less sensitive parts and components in the EU Military List should be clearly identified and benefit from easier movement within the EU, especially when they are meant for end-use by EU armed forces.
e. We encourage the European Union to provide guidance that fosters consensus among Member States regarding the intra-EU transfer of dual-use technology and software through electronic means. The electronic transmission of technology is a growing concern that transcends geographical boundaries due to its implications on

information systems, data management, and interoperability, which can lead to significant investments and long-term operational costs. Despite the rapid increase in using electronic methods to transfer technology, there is currently no unified approach among Member States in addressing controlled Intangible Transfers of Technology (ITT). This lack of consensus poses challenges in both the method and the substance of these transfers. For companies operating global supply chains, navigating these complexities, and maintaining compliance with varying national standards is a critical and pressing issue.

f. In the near future, emerging technologies such as artificial intelligence and machine learning, additive manufacturing or augmented reality may pose a particularly complex compliance exercise and will require close cooperation with national authorities if such technologies are added to control lists during the lifetime of a project. At present, such technologies would only come under control when used to develop, produce or use items that are already controlled.

How can we further mitigate, at EU level, risks related to certain Member States' geographical position? Could EDCCs offer an adequate framework for regional initiatives ensuring security of supply of Member States, in particular those affected by their geographical position?

This is a question for member states to answer.

Building on progress made so far and against the backdrop of the Military Mobility Action Plan 2.0, are additional steps needed to enhance the EU-wide cross-border transportation of defence products thus improving the security of supply?

This is a question for member states to answer.

SOFF

Issue paper #5

Mainstreaming defence industrial readiness culture throughout all policy areas at EU and national levels

Response by Swedish Security & Defence Industry Association (SOFF)

1. Promoting a stronger culture of security and resilience in the EU and its Member States

Questions

How could the EU and the Member States further promote a culture of security, resilience, and defence readiness in Europe?

To enhance a culture of security, resilience, and defence readiness in Europe, the EU and its Member States must adopt a unified approach towards the geopolitical and security challenges they face. Recognising that peace and stability are of paramount importance and a common European interest, there's a need for a shift from nationalistic perspectives to a collective, Europe-centric stance. This means acting as a cohesive unit, in line with the principles set out in Article 222 TFEU, to protect and defend Europe and its citisens.

The current geopolitical environment, exemplified by the war in Ukraine, presents complex security challenges that require an urgent and concerted response. However, there's a concerning lack of urgency among many Member States, reflected in their adherence to peacetime budgets and processes, and in some cases, reduced cooperation despite increased defence spending. A more proactive stance is necessary, moving beyond temporary measures like off-budget funds to the European Peace Facility, which, while supportive, do not offer a sustainable solution for European defence.

Central to this unified approach is the recognition that a threat to any Member State is a threat to the entire Union. Thus, a comprehensive strategy for European defence should be developed, one that includes sustained investment in the European Defence Technological and Industrial Base (EDTIB). The EDTIB is not just a supplier of advanced defence capabilities but is integral to the EU's defence and deterrence strategy. It acts as a key enabler for the EU and its Member States to effectively protect and defend Europe's citisens and vital security interests.

In summary, promoting a culture of security, resilience, and defence readiness in Europe hinges on a shared understanding and commitment to a common objective: the protection and defence of Europe. This requires a strategic shift towards unified action, substantial and sustained investment in defence capabilities, and a collective acknowledgment of shared risks and responsibilities. Without this fundamental alignment, Europe will struggle to effectively address complex security challenges.

SOFF

2. Facilitating Access to Finance for the EU defence industry, including SMEs and start-ups

Questions

How could the EU and the Member States help incentivising and de-risking investments in the defence industry?

To enhance investments in the European Defence Technological and Industrial Base (EDTIB), the EU and its Member States need a unified and coherent strategy. The European Commission has been proactive in the past seven years, launching initiatives to bolster the EDTIB's competitiveness and foster collaboration in joint R&D projects. The European Defence Fund (EDF) is a pivotal tool in this effort. However, there's a notable lack of coordination within the Commission, with some initiatives inadvertently weakening the EDTIB, such as legislative proposals on WFD, REACH, PFAS, and FSR.

The Commission should utilise Article 346 of the TFEU, recognising the EDTIB's unique status and ensuring that any EDTIB-directed acts (like the EDF) take precedence over broader legislative measures. Member States should consistently support the EDTIB across all EU institutions, including the European Investment Bank (EIB), to maintain credibility and confidence among investors.

Recent statements by Member States and the Commission should be echoed in the European Defence Industrial Strategy (EDIS), affirming their commitment. The EDIS and the EDF review should mandate that all EDTIB applicants comply with existing national, EU, and international laws, creating a list of these regulations for reference. This compliance should be a prerequisite for funding, reassuring investors of the entities' adherence to the "Acquis Communautaire" and their investment viability.

The EDIS might also propose a risk-sharing model between the EU, Member States, and the industry, particularly for maintaining essential readiness levels. Furthermore, the upcoming EDF revision could include funding for the "productification" phase, further reducing investment risks. This comprehensive approach is vital for strengthening the EDTIB, ensuring safety, and sustaining European society.

How to better integrate and recognise, security and resilience as positive criteria into sustainable finance policies, and investment policies?

We believe that EDIS should contain an upfront and clear declaration that the EDTIB is an insurance that enables EU with its Member States and their armed forces to protect and defend Europe, its people, and its essential security interests. A strong and capable insurance policy is in the general interest of all Member States. The EDTIB thereby also supports the UN Sustainable Development Goal 16 to “promote just, peaceful and inclusive societies.”

Also, EDIS and its instruments should contain a clear explanation that the EDTIB, with all its specificities, is compliant with the Acquis Communautaire regarding national, EU and international laws, regulations and conventions. EDIS and its instruments should further explain that only entities that are compliant with the Acquis Communautaire are eligible for financial support from the EU budget. In other words, only sustainable entities can receive financing.

The recent joint declaration by Member States' Ministers on the importance of financing the EDTIB should be recalled and clearly stated up front in EDIS.

How to provide guidance to the financial sector on how to assess sustainability risks in the defence sector? What would be the respective role of the EU, Member States, the defence industry or other actors?

The primary purpose of the EDTIB is to ensure the protection and defense of Europe, its citizens, and its security interests. This role is critical, as without a robust defense mechanism, the concept of sustainability in the context of a secure and stable European society is unattainable.

In this regard, the European Defence Industrial Strategy (EDIS) should explicitly recognise the indispensability of the EDTIB. This recognition would underline the fact that the EDTIB acts like a 'Fire Insurance Policy' for Member States. Investing in and supporting the EDTIB is not just a matter of fulfilling an obligation; it's about ensuring adequate deterrence and readiness to face potential threats. This investment also ensures that Europe maintains capabilities that are cost-effective, operationally superior, and more advanced than those of potential adversaries, thereby ensuring both protection and defense.

Furthermore, the role of the EDTIB extends beyond mere defense; it provides a Service of General Interest, benefiting all stakeholders. Therefore, there should be an acknowledgment of this service and a consequent sharing of risks between Member States, the EU, and the defense industry. This shared responsibility approach would ensure a more balanced and sustainable engagement in defense matters, aligning with broader societal and security objectives.

How could the defence industry's transparency on ESG-related performance, in particular social and governance, be enhanced to facilitate access to finance? Could a dedicated industry-wide, voluntary Code of conduct be useful?

Our member organisations have been diligently enhancing their Environmental, Social, and Governance (ESG) practices for an extended period, with a particular focus on the social dimension. Given the specific nature of our industry, along with its pivotal role and objectives concerning customer interactions and addressing distinct customer requirements, addressing business ethics and human rights is crucial for the European Defence Technological and Industrial Base (EDTIB). This approach ensures responsible and

sustainable management. Furthermore, a sufficient level of transparency about due diligence procedures and corporate accountability within the EDTIB is likely to be positively regarded by various stakeholders, including financial entities.

How can the defence industry's contribution to environmental sustainability be increased and made more transparent to facilitate access to finance (e.g. possible future consideration of specific activities of the defence industrial sector within EU instruments such as the EU Taxonomy)?

The European Defence Technological and Industrial Base (EDTIB) is currently not included in key regulatory frameworks like the EU Taxonomy, limiting its ability to report on environmental and sustainability efforts to EU and national authorities. This exclusion overlooks the unique role and security considerations of the EDTIB, an aspect crucial for the protection of Member States and Europe. For instance, the Waste Framework Directive's requirement for industries to disclose product composition and design in a European database is not feasible for the EDTIB due to national security concerns.

Despite efforts within the EDTIB to reduce its environmental impact, the lack of suitable reporting mechanisms hinders its recognition as a contributor to the EU's climate and sustainability objectives. Therefore, it's recommended that the Commission create a tailored sustainability reporting standard for the EDTIB, one that appropriately addresses its complex needs and security considerations.

3. Better access to EU funds

Questions

How can we promote a more effective access of EU defence industry to relevant EU funds and instruments (e.g. ESIF, etc.)? Notably, how can it be ensured that the EDTIB needs are more systematically taken into account in the programming of these funds and instruments?

The European Defence Technological and Industrial Base (EDTIB) operates based on the requirements of their customers (i.e. Member States). Its functionality and output are tailored to the specific needs, priorities, volumes, and timelines set by these states. When Member States effectively consolidate and communicate their demands, the EDTIB is capable of adapting and responding efficiently, often through cooperation and the formation of consortia within the industry to meet these joint requirements.

There's also a broader necessity to reassess the EU budget allocated for security and defence. The current European Defence Fund (EDF) budget, formulated during peacetime, does not adequately reflect the evolving needs and challenges faced by the EDTIB. This calls for a revised EDF that aligns with the changing landscape and demands of defence and security.

Additionally, it's crucial for Member States to engage in cross-ministerial discussions and coordination to incorporate a wide range of perspectives and ensure a comprehensive approach to meeting the EDTIB's needs.

What type of financial products would be most appropriate to improve access to finance for the defence sector (equity, debt, debt guarantees; direct or indirect financing etc...)?

SOFF is actively advocating for enhanced access to EU financing, seeking fairer and more effective funding options for the European Defence Technological and Industrial Base (EDTIB). While the European Investment Bank (EIB) currently provides appealing financing for various industries, especially in Research and Development (R&D), the EDTIB faces significant barriers due to restrictive policies that limit access to favourable financing and borrowing conditions. This situation creates a challenging environment for the EDTIB to secure future investments efficiently and cost-effectively.

SOFF proposes that financing methods such as direct or indirect debt and debt guarantees could significantly benefit our industry. Specifically, the EDTIB is keen on attractive debt products that would foster its growth and long-term viability. This objective could be achieved by introducing new EIB guidelines or funding policies that guarantee fair and competitive market access for the industry. The development of specialised defence bond instruments could also be a strategic approach to meet Europe's future financial needs.

On the equity front, the EDTIB continues to confront challenges in achieving equal standing in aspects such as investor/shareholder interest, market liquidity, trading volumes, inclusion in equity indices, and presence in buy-side portfolio managers' funds. The current market dynamics negatively impact the valuation of small and mid-cap defence companies, reducing their appeal in the capital market and limiting their ability to secure additional equity financing, particularly through the issuance of new shares, which is often penalised by the market.

SOFF is calling for a larger segment of the European capital market funds to reconsider or modify their restrictive stances towards the defence industry. Currently, the broader equity market is generally hesitant to invest in the defence sector, largely due to concerns related to Environmental, Social, and Governance (ESG) or sustainability. The guidelines governing these restrictions are frequently vague and lack standardisation. Furthermore, many European portfolio managers have been slow to adapt their fund policies to include defence companies. SOFF advocates for a change in this trend, aiming to improve access and opportunities for defence companies within the equity market.

4. Skills in the defence industry

Questions

What actions could be taken by different stakeholders, including the industry itself, to increase the diversity and the attractiveness of the EDTIB?

Efforts to enhance the appeal of the European Defence Technological and Industrial Base (EDTIB) should align with a broader campaign promoting a culture of security, resilience, and defence readiness in Europe. Increasing public awareness about the defence industry's role in fostering a peaceful and sustainable society can make it easier to attract new talent. Addressing the skills gap in the EDTIB requires equal access to educational institutions, similar to other industries. This includes removing civil clauses in university regulations that hinder engagement in European defence-related projects or the development of EDTIB-focused courses. Since civil clauses are voluntary commitments by universities, initiating a dialogue between universities and the defence industry, supported by public authorities and EU institutions, is crucial.

Supporting reskilling and upskilling programs relevant to the EDTIB is also vital, as military technician courses are often absent in schools and universities. To enhance the diversity and appeal of the EDTIB, collaboration among all stakeholders is essential to create a positive perception of defence and the defence industry as an employer.

Targeted outreach programs aimed at high school students and young professionals can raise early career awareness of the defence sector and guide young people towards defence-related fields. This requires cooperation between the armed forces, industry, training providers, and universities to develop training programs tailored to the defence industry's needs.

What actions could be taken by different stakeholders, including the industry itself, to increase the diversity and the attractiveness of the EDTIB?

Could the educational and training systems of the Member States better contribute to the availability of the requisite skilled workforce?

While numerous large defence companies maintain their own training centres and educational resources, it's crucial to strengthen connections with the education and training systems in Member States. This approach is key to enhancing the availability of skilled workers required in the defence sector. Member States could actively promote vocational (VET) and university-level education in fields pertinent to defence industrial skills. This could be achieved by creating specialised programs in partnership with the defence industry across VET and higher education institutions, ideally complemented by work placements and graduate schemes.

Public stakeholders responsible for developing sector-specific guidelines, such as Ministries of Defence, Education, and Labour, should collaborate closely with private actors. This partnership is vital for identifying priorities and skills gaps, ensuring that educational initiatives align with both the Member State's needs for national/cooperative programs and the technological demands of the industry.

In the ASSETs+ project, we observed that most educational programs in Europe, offered by universities, schools, and institutes, are civilian-oriented and dual-use in nature, covering areas like design, engineering, manufacturing, and services. Some of these programs integrate non-defence skills into defence education, aiming to develop competencies relevant to the defence industry.

There's a pressing need to deepen this collaboration between the industry and the educational sector. Building a relationship based on trust and focusing more on industry needs is essential for this partnership's success.

Additionally, the defence sector could benefit from examining similar initiatives in other transforming industries, such as automotive and semiconductors. Learning from their experiences can provide valuable insights and inspiration for the defence industry's own evolution and growth.

How can the workforce mobility in EDTIB between Member States be improved? Should we also consider measures to promote that Ukrainian workforce be trained in EU defence companies and vice versa?

Improving workforce mobility in the European Defence Technological and Industrial Base (EDTIB) among Member States can be significantly enhanced through various strategies. Key among these is the continuation and strengthening of programs like ERASMUS for Defence (ASSETs+), which have already shown positive impacts in skills development and transferability. The European Commission and Member States can play a pivotal role in aligning national professional qualification, licensing, and certification frameworks, making it easier for workers to move across borders within the EU.

Addressing the unique security demands of the defence sector, Member States might explore establishing a security clearance regime. This would facilitate a smoother exchange of talent among industries, research and technology organisations (RTOs), and public authorities. Additionally, the development of interoperable secure digital communication platforms could empower professionals in fields like cybersecurity, coding, and virtual simulation to perform their roles remotely, further enhancing mobility.

There's also potential in creating platforms that directly connect prospective employees or interns with EDTIB companies, fostering easier access to employment opportunities, internships, and other professional engagements.

In the context of Ukraine, the EU's role could be pivotal in facilitating the cross-border mobility of key technical staff. This can be achieved within cooperation agreements

established between EU and Ukrainian companies. The 'Human Capital 2023: skills for the future' conference, held in Kyiv in November 2023, underscored the importance of such initiatives. A comparative study of Ukrainian and European qualifications frameworks (EQF) lays a solid foundation for future collaboration, particularly in the mutual recognition of skills and qualifications, including those relevant to the defence sector.

What actions could be taken to rationalise production and shorten the on-the-job-training time, e.g. through investments, including in AI, for defence-related education and training?

In the rapidly evolving technological landscape, enhancing digital competencies is crucial for the European Defence Technological and Industrial Base (EDTIB). Reflecting this need, a significant conference titled "European Defence Sector: Navigating the Future through Skills and Innovation" was held under the ASSETs+ project. This event focused on leveraging the achievements of ASSETs+ in shaping the future. Notably, ASSETs+ has developed 30 specialised courses, offering valuable resources that could be more widely shared to support this goal. It's important to emphasise that while reducing the duration of training is beneficial, the primary aim is to maintain access to high-quality training and to attract young talent to these programs.

Emerging Industry 4.0 technologies, such as the Internet of Things, cloud computing, big data and data analytics, AI/machine learning, and cybersecurity, are pivotal in streamlining defence industry processes and enhancing practical training. The industry is already utilising these technologies, including simulation-based and AI-driven training solutions. However, a broader adoption across the EDTIB, supported by targeted EU initiatives, could further these efforts. This expansion could include exploration in areas like simulation and Virtual Reality for training, AI-driven training platforms, data analytics for improving performance, Augmented Reality in maintenance and operations, digital twins for equipment upkeep, online learning platforms, and AI-assisted curriculum design. These initiatives would complement broader strategies aimed at increasing STEM skills availability in the single market.

How to ensure stronger partnerships between defence industry and educational providers? Which role could and should be played by Member States? Could a dedicated defence community within the European Institute of Innovation and Technology (EIT) and Knowledge and Innovation Communities (KICS) be an option?

Forging robust and structured collaborations from the outset between educational institutions and the defence industry is vital for fostering stronger partnerships. This entails the active involvement of the industry in the design and delivery of courses, like what was achieved in the ASSETs+ project, through means like guest lectures and case studies.

It's also critical to provide students with tangible opportunities in the defence sector. By working collaboratively, industrial players and educational institutions can create internships and other practical experiences for students pursuing studies in defence-related technologies.

The establishment of a new European Institute of Innovation and Technology (EIT) community focused on defence could play a significant role in raising awareness, developing training programs, and opening up future employment prospects. This community would be particularly beneficial for fostering collaborative research and innovation projects in emerging and disruptive technologies. Its success would be further enhanced through synergies with existing EIT communities, especially those in digital technology, manufacturing, and raw materials sectors.

The challenge-driven and venture capital-focused approach of the EIT could lead to significant synergies with the European Defence Industrial Strategy (EUDIS) in critical technological areas. However, the success of a dedicated EIT Knowledge and Innovation Community (KIC) would depend on two additional factors: bringing together all relevant stakeholders and developing the Pact for Skills. The ENDR network, "European Network of Defence-related Regions", as well as ASD Europe, encompassing major defence companies and national defence industry associations across Europe, is pivotal in both these areas, providing a framework for this collaboration. In December 2023, ENDR set up a successful event focused on best practice within defence skills.

5. Environment

Questions

To what extent are those obstacles attributable to the EU regulatory environment itself and to what extent they are attributable to the implementation at national level? Please explain why those regulatory problems could not be solved through existing derogations.

The lack of consideration for the unique aspects of the European Defence Technological and Industrial Base (EDTIB) in current regulatory proposals suggests a gap in the legislator's understanding of the EDTIB's distinct needs. This oversight has led to significant discontent and worry within the industry, adversely affecting the relationship between the industry, the legislator, and Member States. It results in considerable expenditure of resources, including legal consultation, administrative efforts, human resources, and time, to evaluate and strategise responses to these challenges.

If the Commission intends for Member States to consistently apply Article 346 across all EU legislation where the relevance, applicability, and impact on the EDTIB are ambiguous, it should strive to introduce comprehensive regulatory proposals that acknowledge and incorporate the specific characteristics of the EDTIB.

Are there any specific aspects of the EU regulatory environment which hamper the EDTIB's ability to contribute to the EU defence readiness? Please describe those regulatory hurdles in detail, with specific examples, and indicate why the consequences are specific to the defence industry (and not general in nature).

The European Defence Technological and Industrial Base (EDTIB) has been affected by various horizontal EU initiatives that conflict with the vertical efforts of DG DEFIS aimed at enhancing the EDTIB's competitiveness. It's crucial to also ensure that national laws and the transposition of EU legislation, such as environmental regulations, do not disproportionately impede the EDTIB's role in contributing to the EU's defence readiness.

Commission President Ursula von der Leyen emphasised at the EDA Annual Conference 2023 the need for the EU to concentrate on strengthening its production capabilities. In line with this, we believe that the European Defence Industrial Strategy (EDIS) should echo this sentiment, advocating for an EU regulatory environment that supports these goals.

One example of this disconnect is the proposed legislation from DG ENV, which failed to consider the EDTIB's unique requirements. It suggested disclosing all data to a European Database, including product-level information, potentially leading to reverse engineering and exposing sensitive intellectual property and national security information, thereby jeopardising the EDTIB's capacity to develop, design, produce, and maintain its products and systems.

Another instance involves the draft proposal from ECHA to the European Commission to ban all PFAS in products under the revised REACH legislation. Since PFAS are present in all EDTIB-produced products, equipment, and systems, a complete ban would severely disrupt the development and production of defence materials and equipment, halting all production and rendering the fulfilment of Member States' capability orders unfeasible. This proposal overlooks the critical role of the EDTIB in Europe's defence and security, treating it as any other industry.

Regarding the EU Foreign Subsidies Regulation (FSR), there appear to be no specific provisions for the EDTIB. The FSR introduces significant uncertainty and disproportionate risk for the EDTIB, which operates on unique business models closely linked to government geopolitical strategies and military and security priorities. This dependency on political support and international agreements, including with third countries, combined with the FSR's broad definition of subsidies, could expose the EDTIB to greater risks than those faced by other industries, as it often finds itself at the intersection of governmental priorities and actions.

How could those possible regulatory hurdles be overcome to facilitate the EDTIB's ability to contribute to the EU defence readiness, while, at the same time, not jeopardising other EU common objectives? What solutions could there be apart from regulatory exemptions?

Overcoming regulatory hurdles and enhancing the EDTIB's contribution to EU defence readiness includes most of the answers to the questions above, i.e.

Unified strategy and collaboration: The EU and Member States need a cohesive strategy and increased collaboration for EDTIB to effectively contribute to defence readiness. This involves adopting unified approaches towards security challenges and investing in the EDTIB as a key part of the EU's defence strategy.

Overcoming regulatory hurdles: Addressing regulatory challenges requires leveraging specific EU treaties (e.g., Article 346 TFEU) to recognize the unique status of the EDTIB. This involves ensuring that legislation considers the specific needs of the defence industry, avoiding one-size-fits-all approaches. There's a need for comprehensive regulatory proposals that acknowledge the specific characteristics of the EDTIB, including exemptions where necessary for national security.

Enhancing investment and de-risking: To incentivize investments, there's a need for clear and coordinated strategies at the EU and Member State levels. This includes utilizing tools like the European Defence Fund effectively and ensuring regulatory compliance to boost investor confidence.

Sustainable finance integration: The EDIS should clearly state that the EDTIB is compliant with the Acquis Communautaire and only sustainable entities can receive EU financing. This promotes the integration of sustainability into finance policies.

ESG transparency and environmental sustainability: Improving transparency in Environmental, Social, and Governance (ESG) aspects and creating tailored sustainability reporting standards for the EDTIB can enhance access to finance.

Optimizing EU funds access: There's a need for better communication and coordination among Member States to incorporate EDTIB needs in EU fund programming.

Financial products for defence sector: Advocating for direct or indirect financing methods, like debt guarantees and specialized defence bonds, can improve access to finance for the defence sector.

Enhancing EDTIB attractiveness and diversity: Efforts should be made to promote the defence industry's role in society and increase its appeal as an employer. This involves educational outreach, targeted training programs, and dialogue between universities and the defence industry.

Workforce mobility and training systems: Improving workforce mobility in EDTIB involves aligning professional qualification frameworks and creating secure digital communication platforms. Training systems in Member States should also be tailored to meet defence sector demands.

Rationalizing production and training investments: Investing in digital technologies like AI for defence-related education can streamline production processes and shorten training times.

Stronger partnerships with educational providers: Creating structured collaborations between educational institutions and the defence industry, possibly involving a dedicated defence community within the European Institute of Innovation and Technology, could be beneficial.

Predictability and visibility of European demand: Enhancing this involves clear communication of Member States' needs, coordinated strategic planning, and a balanced approach to demand consolidation.

Coordinated defence spending at EU level: Utilizing existing tools like PESCO and CARD effectively and reinforcing them considering current geopolitical realities is essential for better spending coordination.

Promoting joint procurement: Encouraging Member States to consolidate demands and implement principles for transparent and fair procurement processes can improve joint procurement efficiency.

Strategic enablers and EU support projects: Focusing on cooperative projects and strategic enablers can protect EU's access to contested domains. EU support in these areas can manifest as flagship projects beneficial for defence.

EU and Ukrainian DTIB cooperation: Encouraging integration and collaboration between the EU and Ukrainian defence industries is key, especially in terms of sharing data and feedback from the battlefield for future R&D.

SOFF

ANY OTHER COMMENT NOT CAPTURED ABOVE

In many sub-areas the interface between civil and military applications is becoming increasingly smaller. It should be noted that there are a number of technologies, either emerging or accessible from other sectors, which have the potential to change security within society. They should therefore be highlighted and analysed at a substantially higher level. A rapidly changing technological landscape means that access to new innovations and capabilities spreads considerably faster and at a substantially lower cost than just a few years ago. Today, the technological driver is much stronger outside the defence market than within it, which is why it is of great importance to monitor areas such as simulation, new energy sources, nanotechnology/electronics, robotics, autonomous systems, new materials, quantum information, and new manufacturing technologies. A sound understanding of technology brings with it the capability to counter and prevent a technological breakthrough that can threaten the security of society. For EU it will be important to increase research within a growing number of potentially disruptive areas and, in particular, to see how new technology can affect the threat, risks and vulnerability to society and its citizens. To meet this demand, we need to monitor technological development globally in order for us to be able to co-operate with the foremost players in the world which, in turn, can contribute to a stronger technological level of the talents.