

Copenhagen 21 October 2016

Ms Elżbieta Bieńkowska  
Commissioner for Internal Market,  
Industry, Entrepreneurship and SMEs  
European Commission  
Rue de la Loi 200  
B - 1049 Brussels

**Subject: Draft Commission Communication on the European Defence Action Plan**

Dear Commissioner Bieńkowska,

We, the Nordic Defence Industrial Associations, would like to draw your attention to our concerns on the upcoming European Defence Action Plan.

This year has been a volatile and tumultuous one for Europe and the European integration process. It has also been an eventful one for European Defence with a number of important initiatives. At the same time, also the European defence industry is changing and adapting to the possibilities of new technologies and new business models.

We welcome ***The Global Strategy for the European Union's Foreign and Security Policy***. We share the European Commission's assessment, that more unity, collaboration and a common vision amongst the Member States is needed. As noted in the Strategy, EU-funding for defence research as well as the need for a strong European Defence Industrial and Technological Base (EDTIB), are vital to advance EU's global role, current agenda and priorities.

In that regard, it is no surprise that the Action Plan (AP) initiative and process around it, have been well received by the industry. We also welcome the initiatives to strengthen the internal defence equipment market and the commitments to achieve a competitive EDTIB including better intra-Community collaboration. As you are aware of, our industry faces many challenges, which, with the right actions, could be turned into pivotal opportunities. In this respect, we would in particular like to emphasize our concerns and the importance of the following issues.

**1. Defence Policy and Defence Industrial Policy are interdependent and therefore have to be closely coordinated**

We are concerned, that the whole array and range of issues related to the Defence Industrial and Technological Base, are perceived as merely an internal market issue.

From our perspective, the security environment in Northern Europe has fundamentally changed. This generates the demand for a stronger connection between national defence policy and defence industrial policy. At EU level, the connection between the Common Security and Defence Policy (CSDP) and the EDTIB should be clearly coordinated and defined in the Action Plan. In essence, Europe lacks several key enabling military and civilian capabilities in order to play a credible role as a global security actor. In order for the CSDP as well as the EDTIB to generate added value, there should hence be an increased focus on capability development needs.

The specificities of the defence market originate from sovereignty and national security concerns. Member States have chosen to sustain and build national defence industries to safeguard their ability to conduct military operations driven by national security concerns and/or commitments. Autonomy and aspects of security of supply play also a central role. These are the reasons why the European defence equipment market is built on a complex foundation. In spite of the increasing need for cooperation, national defence industries will remain the backbone for European defence in the foreseeable future.

The complex dissimilarities between the defence market and the idea of the internal market, must therefore be carefully identified and taken into account. In other words, in this context, it is not possible to simply mimic all elements of the internal market.

We therefore question the presumed added value that a politically binding ***EU-wide arrangement on Security of Supply*** would bring. We are not, per se, against the establishment of such an arrangement. We do, however, wish to emphasize that Security of Supply is perceived differently in different Member States. Any arrangement could not substitute bilateral arrangements with third-parties or the activities that are undertaken in NATO.

## **2. A level playing field should be established via the Defence Procurement Directive (2009/81/EC)**

To achieve a genuine ***level playing field*** (LPF) in the market, ***The Directive on Defence Procurement*** must be fully implemented and fully transposed in the Member States. A stronger "Monitoring System" where the Commission plays a central role should be put in place. We regard the existing obstacles to the LPF being direct or indirect in different forms of state aid. One example is the policy in certain Member States to buy only from domestic suppliers. To safeguard the establishment of an open and transparent European market for defence equipment, it is essential that the Commission's enforcement of the Directive initially focuses on those Member States which currently procure the highest proportion of their defense equipment from domestic suppliers.

Future growth and investment must be driven by an open and transparent market where all European defence industries are able to compete on equal terms. The legislative measures are already in place. Now we need to see them put into action.

Third countries, in particular the US, are crucial markets for many European defence contractors. It is therefore essential that the mechanisms available to secure continued access to those markets are not altered. This should be fully taken into consideration in the Defence Action Plan.

### **3. European Defence Research Programs need to match existing needs**

In line with the views expressed by ASD, we share the notion that research is crucial to ensure that European defence industries remain competitive and that EU Member States' armed forces can procure state-of-the-art equipment. At the same time, research is where cooperation on development and procurement of capabilities begins, and where EU actions can provide an added value. Research should therefore be a high priority in the European Defence Action Plan.

EU can provide important added value to the defence industry and a wide range of other sectors. From our perspective, a crucial pre-requisite for success of the PA and the European Defence Research Program (EDRP) is the involvement of all levels of the supply chain.

Recently the Commission presented a budget of €90 million for the PA on defence research, with €25 million reserved for 2017. The industry associations along with other involved stakeholders welcome that the negotiated funding levels are at par with the initial ambitions.

The preparation of the EDRP will take time. In particular, since its governance, modalities and funding schemes will be more complex than those of the PA. We believe that this preparation will need considerable strategic and conceptual work to balance the specificities of defence research with the general features of EU-funded research. There needs to be political will to ensure that these specificities are duly taken into account. It is therefore very important that the Defence Action Plan already sets the scene for the negotiations on the next Multiannual Financial Framework.

The EDRP should fund essential enabling technologies that Europe necessitates in order to provide the Member States with adequate core defence capabilities. The needs of the Member States (top-down) and the ideas and technological possibilities that the industry is able to propose (bottom-up) have to be in balance. The technologies need to have market potential and impact on industrial competitiveness.

### **4. European Autonomy**

“European autonomy” is reiterated time and again. We ask - from who and why? The blame for European inaction in handling numerous security and defence issues, including the necessary transformation of EDTIB can hardly be placed on third countries. In addition, due to the deteriorating security environment in our vicinity, the importance of the transatlantic link and a strong bilateral relation with the United States is more important than ever. Many of us enjoy a very fruitful defence industrial partnership with the US. In our view the world is better off when Europe and the United States work together. This is also true in the defence industrial sector. Thus proposals such as Key Strategic Activities and European Sourcing in the supply chain, should not infringe upon bilateral cooperation with the United States.

### **Conclusions**

Current and future European R&T funding must respond to the realities of the programmes and their actual incurred costs. They must also be in line with the established global industry paradigm with focus on new technologies and the challenges and opportunities of the fourth industrial revolution as a baseline, i.e. artificial intelligence, robotics, Big Data, the Internet of Things and the cyber domain. Therefore, it is essential that the Commission remains vigilant and persistent in safeguarding optimal levels of funding in the forthcoming negotiations with the European Parliament. The Preparatory Action will serve as a model for the long-term

programme. It is therefore also critical to set a sustainable and long-term funding regime in place from early on in this process.

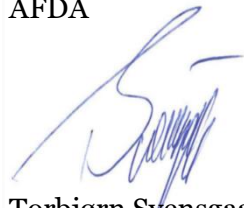
Changes in our security environment has to be taken into account when considering any actions towards the EDTIB and the internal market. The Member States and the European industry need to be able to address the challenges and possible capability gaps together. Defence and security is not only a matter of the larger Member States. The smaller Member States and their industries play an important role. Any actions on the EDTIB need to realize that. The Nordic Defence Industrial Associations offer our expertise to support any actions on the matter.



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