

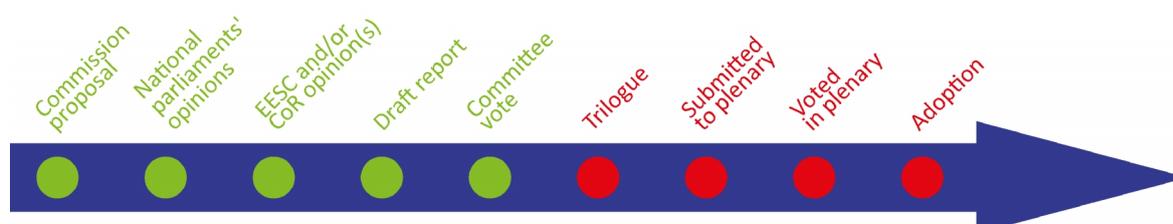
# European defence industrial development programme (EDIDP)

## OVERVIEW

The European Union is facing new security threats amid growing uncertainty about the reliability of some of its allies. As a consequence, it has embarked on a general scaling-up of its defence capabilities. A European defence action plan has been agreed and a European Defence Fund created to provide financial support, ranging from the research phase to the acquisition phase of military equipment and technologies. The present legislative proposal for EDIDP, which would be part of that fund, is destined to provide the European defence industry with financial support during the development phase of new products and technologies in areas selected at European level. Parliament's Committee on Industry, Research and Energy (ITRE) decided to open trilogue negotiations; these have been ongoing since 15 March 2018.

**Proposal for a regulation of the European Parliament and of the Council establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovation capacity of the EU defence industry**

<i>Committee responsible:</i>	Committee on Industry, Research and Industry (ITRE)	COM(2017) 294 7.6.2017
<i>Rapporteur:</i>	Françoise Grossetête (EPP, France)	2017/0125(COD)
<i>Shadow rapporteurs:</i>	Miroslav Poche (S&D, Czech Republic) Zdzisław Krasnodębski (ECR, Poland) Dominique Riquet (ALDE, France) Neoklis Sylikiotis (GUE/NGL, Cyprus) Reinhard Bütikofer (Greens/EFA, Germany) David Borrelli (EFDD, Italy) Christelle Lechevalier (ENF, France)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Finalisation of trilogue negotiations	



## Introduction

With the exception of some of its Member States, Europe is lagging severely behind the United States, Russia and China in a number of defence-related fields. In his [political guidelines](#) of July 2014, Commission President Jean-Claude Juncker identified European defence policy as one of 10 key political priorities for the European Union. The European defence industrial development programme (EDIDP) initiative is part of the response.

Security and defence policies are fields in which [public expectations](#) for more EU action have been identified for a number of years now. The European Parliament, the Council and the European Council have repeatedly requested action in these fields, including through making financial support available. The general objective the Commission would like to attain with the EDIDP initiative is to foster an innovative and competitive European defence industry. There are a number of specific objectives, including better exploitation of defence research results, a contribution to reducing the gaps between research and development, and encouragement for cooperation between undertakings, including small and medium-sized enterprises (SMEs), when developing technologies or products relating to the defence priorities agreed between the EU Member States.

The present EDIDP proposal is of pilot nature only, as it will cover no more than the years 2019 to 2020, and this with limited funding. The aim is to start a process which would then be stepped up in 2021 under the next [multiannual financial framework](#) (MFF), which is expected to allow for substantially higher funding. A follow-up proposal would be made at an appropriate moment, and would build on the present initiative as well as the lessons learned from it.

## Context

The security environment is characterised by increased instability and new emerging security threats. The fall of the Soviet Union was followed by a marked reduction in interest in defence development and procurement in Europe. However, a renewed military build-up in Russia has coincided with a more assertive foreign policy and military involvement in neighbouring countries. This and the emergence of tensions in other parts of the world, increased involvement of EU Member States' troops in military operations such as in Iraq, Afghanistan or certain African countries, a string of peace-keeping missions all over the world, together with rising terrorist threats inside the EU, and increased cybersecurity concerns, have again propelled EU military capacities and the underlying defence industries to the forefront. At the same time, a central pillar of the post-war security architecture is being called into question under the present United States (US) administration, namely the robust engagement of the US to help ensure security in Europe. The increasing assertiveness of an economically strengthening China in the military and diplomatic fields foreshadows a possible challenge to the United States' predominant position. While most of Europe went into a kind of military hibernation following the fall of Communism, Asian nations were busy improving their military capabilities in response to increased local tensions.

There is a discussion under way as to whether EU Member States should focus mainly on strengthening their defence capacities within the framework of the [North Atlantic Treaty Organization](#) (NATO), or whether more emphasis should be put on EU structures. In both cases there is a need for an improved defence industry base in Europe.

In June 2016, the EU's [global strategy for a foreign and security policy](#) stated that investment in security and defence was a matter of urgency, and that defence cooperation should become the norm. It announced that the EU would systematically encourage defence cooperation and endeavour to create a solid European defence industry.

On 8 July 2016, a joint EU–NATO [declaration](#) was signed, which underlined the urgent need to 'develop coherent, complementary and interoperable defence capabilities of EU Member States and NATO Allies, as well as multilateral projects' and to 'facilitate a stronger defence industry and greater defence research and industrial cooperation within Europe and across the Atlantic'.

On 30 November 2016, the Commission adopted a [European defence action plan](#) (EDAP) aimed at enhancing the competitiveness of the European defence industry, so that the technological and industrial base meets Europe's security and defence needs. The action plan envisaged the creation of a [European Defence Fund](#) (EDF), which consists of two distinct but complementary windows: the research window and the capability window. The former would fund joint defence research, e.g. through [Preparatory Action on Defence Research](#) (PADR). The latter would ensure that the results of defence research are further developed, helping with turning research results into innovation, and so increase the competitiveness of the European defence industry. In addition, this window would support joint acquisition of defence products. The EDIDP, which will encourage collaboration between undertakings in the development of products and technologies, is part of the development component of the capability window. The [communication](#) of 7 June 2017 announcing the EDF also launched a [European defence industrial policy](#).

The defence industry has a number of specific characteristics, which the EU approach takes into account. Research and development (R&D) is highly intense in this sector, demand emanates almost exclusively from governments, costs are constantly increasing, and development costs figure high in the total costs of a project. Cross-border cooperation remains limited, as problems with the synchronisation of budgetary procedures can arise, difficulties in defining common technical specifications are the norm, and fundamental differences exist between countries in terms of doctrines and operational requirements. All this results in duplications and in sub-optimal cost-efficiency, as potential economies of scale cannot be exploited.

Not only do most European countries spend less per capita on defence and related research and development than the US, they also split the available money among a larger number of programmes. For 2013, the US had 11 defence platforms and systems in production [against](#) 36 in Europe. With less money spread among a greater number of projects, military capabilities are reduced and the industry gets less productive and innovative. This is well exemplified by the EU having 19 types of armoured infantry fighting vehicles whereas the US has just one. In view of the high costs, individual countries may not be in a position to launch major defence systems solely based on their own development programmes.

On 11 December 2017, [permanent structured cooperation](#) (PESCO) was established, with the aim of making European defence spending more efficient and achieving a strategically autonomous European defence union. A commitment was made to strengthen the [European defence technological and industrial base](#) (EDTIB). PESCO will be supported by the [European Defence Agency](#) (EDA), the [European Defence Fund](#) (EDF) and the [coordinated annual review on defence](#) (CARD). Twenty-five Member States have committed themselves to carry out an initial list of 17 projects. This was agreed on 6 March 2018, when the defence ministers had their first meeting in 'PESCO format'. Three Member States (Denmark, Malta and the UK) have not joined PESCO, whose decision-making remains intergovernmental and generally requires unanimity. In view of the many divergences between the participating countries, PESCO's strength lies in its modular design, allowing Member States to form project-specific clusters. The EDIDP proposal backs up the PESCO objective of increasing the efficiency and effectiveness of European defence.

## Existing situation

There is no specific EU funding measure dedicated to supporting collaborative defence development projects under the current multiannual financial framework, unlike the research and technology (R&T) phase, where an estimated €90 million will be spent in the 2017 to 2019 period.

## Parliament's starting position

The position of the European Parliament prior to the publication of the EDIDP proposal can best be assessed from its twin resolutions passed during the November 2016 plenary session: the [resolution](#) on European defence union of 22 November and the [resolution](#) on implementation of a common

security and defence policy (CSDP) of 23 November. Parliament stated that the present fragmentation and duplication should be overcome by offering incentives and rewards. It considered the establishment of a European defence union to be a matter of urgency and advised the Union to dedicate own funds to foster greater and more systematic European defence cooperation, including through PESCO. It believed that strengthened cooperation would have positive effects on defence research and industrial matters and help acquire the necessary technological and industrial capacities to address threats. Parliament insisted on promoting technological innovation and supporting SMEs. The Commission, working together with the EDA, was encouraged to enable defence cooperation via the mobilisation of EU funds and instruments, and Parliament recalled that the European defence action plan should be a central tool to foster cooperation, including through an EU-funded defence research programme and measures strengthening industrial cooperation across the entire value chain.

The strategic autonomy concept developed by the Vice-President/High Representative was welcomed, and should also be applied to strengthening the EU's capacities and industry. Parliament also welcomed the joint EU/NATO declaration of 8 July 2016, including the aspects pertaining to harmonising and coordinating the development of defence capabilities, with cooperation designed to facilitate a stronger and more efficient defence industry.

Parliament called on the Member States to respect the 2 % gross domestic product (GDP) target for defence spending, and to spend 20 % of their defence budgets on equipment identified as necessary within the framework of the EDA, which would include expenses related to research and development.

## Council and European Council starting position

In its [conclusions](#) of 14 November 2016, the Council affirmed the objective of promoting peace and guaranteeing the security of its Member States and citizens, and advocated a concerted and cooperative response to address the evolving security threats. It endeavoured to enhance the [common security and defence policy](#), encouraged the Commission to put forward a European defence action plan, and sought a more integrated, sustainable, innovative and cooperative [European defence technological and industrial base](#) (EDTIB), which it expected to contribute to jobs, growth and innovation. It called for EU financial instruments to be made available, in particular through a defence research programme that would be funded under the next multiannual financial framework. The Commission was therefore encouraged to come forward with a proposal for a European defence fund, which had already been mentioned in President Juncker's [2016 State of the Union speech](#). The Council also welcomed moves to explore the potential of permanent structured cooperation, including the modular approach concerning projects and initiatives.

The European Council of 15 December 2016 [endorsed](#) the Council conclusions of 14 November, called for reinforced cooperation on the development of capacities, and welcomed the Commission's proposals on the defence action plan. It also invited the Commission to make a proposal in early 2017 to establish a European defence fund, which would include financing the joint development of capabilities agreed by Member States.

## Preparation of the proposal

In the absence of existing EU legislation aimed at enhancing competitiveness in the defence industry and specifically targeting the development phase, there was no ex-post evaluation or fitness check of existing legislation either available or to be carried out for this legislative initiative.

As the European Council of December 2016 had requested a proposal for a European defence fund to be made in the first quarter of 2017, there was not enough time left to carry out a proper impact assessment. Instead the Commission relied on the [staff working document](#) that accompanied the legislative proposal, which came to the conclusion that EDIDP would be beneficial to the Union's efforts to increase security and defence capacities, as well as useful for bolstering the industry's

competitiveness and its innovation capacity, including through positive spill-overs to the production of civil goods.

The Commission discussed the matter with Member States as well as stakeholders during the preparation phase of the proposal in regular meetings, but no public consultation was held.

## The changes the proposal would bring

The European Commission published the [proposal](#) for a regulation on a European defence industrial development programme (EDIDP) on 7 June 2017, as part of the implementation of the European defence action plan. That plan announced the setting up of a [European defence fund](#) to support collaborative research in innovative defence technologies and the development of defence products jointly agreed by the Member States.

Also on 7 June 2017, the Commission published a communication launching the European defence fund. The fund consists of two legally distinct but complementary windows: the research window, in form of [Preparatory Action on Defence Research](#) (PADR, launched on 11 April 2017),<sup>1</sup> and the capability window, supporting joint development and joint acquisition of key defence capabilities. The EDIDP proposal is part of the development component of the capability window.

The EDIDP will support cooperation among Member States on developing defence equipment and technologies. However, the second aspect of the capability window, the actual acquisition of military equipment and technologies by Member States, is not covered by this proposal. The EDIDP therefore helps to fill the gap between the research and production phases.

The programme's three objectives are: to foster the competitiveness and innovation capacity of EU industry working in the field of defence, to support and leverage cooperation between undertakings, including SMEs, and to foster better exploitation of the results of defence research.

By offering EU financial support, the EDIDP enhances competitiveness by de-risking a number of aspects of the development phase. Support will be given for the definition of common technical specifications, design, prototyping, testing, qualification, and certification. In addition, feasibility studies and other supporting measures are eligible, and the upgrade of existing defence products and technologies is also covered.

Strategic priority areas are defined by the Member States through the [capability development plan](#) (CDP). Although funding would mainly take the form of grants, the use of financial instruments<sup>2</sup> or public procurement may be used where appropriate. A central funding requirement is the cooperation of at least three undertakings based in at least two Member States. Also, Member States have to first agree to support such projects and to agree on common technical specifications. In order to limit funding to European firms, only entities established in the EU and controlled by Member States or their nationals would be eligible for support, and the action is geographically limited to EU countries. In order to increase the coherence of action with the Union's security interests, which are defined in the capacity development plan, these interests will also serve as award criteria.

To qualify for funding it is expected that the proposed actions will correspond to the criteria of excellence, contribute to innovation and technological development and foster the EU's industrial autonomy in the field of defence technologies, contribute to the defence interests of the EU, and be viable, i.e. the Member States will undertake to cover the remaining costs.

The selection of the programmes would result from competitive calls issued in accordance with [Regulation \(EU, Euratom\) No 966/2012](#), which lays down the financial rules for the EU's general budget. A committee of Member States would assist the Commission in establishing a multiannual work programme. The European Defence Agency would be given observer status in that committee. The evaluation of the proposals submitted following the competitive calls would be made by the Commission assisted by independent experts. The funding of each selected action would be

awarded by the Commission by means of an implementing act, in accordance with the examination procedure of [Regulation \(EU\) No182/2011](#).

The total costs of an action could be covered by the programme, except if it related to prototyping, where funding would not exceed 20 %. Actions linked to PESCO could benefit from a funding rate 10 % higher. A proportion of the overall programme would benefit SMEs. The budget for the 2019 to 2020 period is set at €500 million, to be drawn from the present multiannual financial framework.

The Commission would not have any intellectual property rights resulting from these actions.

The Commission would monitor the implementation of the programme regularly, draw up a retrospective evaluation report, and report to the European Parliament and the Council. The Commission would take preventive measures against fraud, corruption and other illegal activities, and, together with the Court of Auditors, have the power to audit recipients. The European Anti-Fraud Office (OLAF) could carry out investigations.

It should be noted that the present EDIDP proposal is of a pilot project nature, as it only covers the period running from 1 January 2019 to 31 December 2020. It is meant to bridge the gap until the new multiannual financial framework, which is expected to allow for much higher funding, enters into force. However, it would probably be prudent to expect the general framework for EDIDP to be shaped largely by the present legislative proposal, while the proposal for the final EDIDP framework would serve mainly to align the legislation with the figures in the new MFF.

On the whole the proposal seems to be largely in line with the expectations of the Council, the European Council and the European Parliament, bearing in mind that none of these institutions went into much detail when requesting legislation specific to the development phase. There are however two noteworthy aspects. First, there might be a contradiction between the general appeals to remain integrated within NATO and the plan in this proposal to support EU-controlled companies only. Secondly, the Commission, by taking up a leading role in the selection of the projects, is silently manoeuvring itself into a position from where it can influence the defence sector.

## Advisory committees

The legal basis used for the EDIDP proposal, Article 173 TFEU, provides for the mandatory consultation of the [Economic and Social Committee](#) (EESC). The Committee's draft opinion was prepared by rapporteur Antonello Pezzini (Employers – Group I / Italy) together with co-rapporteur Éric Brune (Workers – Group II / France). The EESC [adopted](#) its opinion in plenary by a very large majority (133 in favour, 2 against, 5 abstentions) on 7 December 2017.

The EESC broadly supports the launch of the EDIDP as a means to increase Europe's strategic autonomy and to develop a solid common European industrial and technological base. It underlines the importance and potential of PESCO and stresses the importance of maintaining coordination with NATO. As for the governance of EDIDP, an advisory committee of industry experts from the Member States should set priorities for its work programme, and a management committee that includes the Member States should be put in place. The EESC advocates a good geographical balance between Member States, significant involvement of SMEs, not least by means of dedicated small projects, and the creation of transparent opportunities for all EU businesses to take part in the EDIDP programme. A project should only be funded if there are at least three separate companies from at least three Member States participating. The Committee considers the present EDIDP proposal as being a first step to build on, and advocates increased funding, including by drawing on the [European Fund for Strategic Investment](#) (EFSI). The EESC hopes for the development of a widespread European culture of defence and security.

## National parliaments

National parliaments can raise objections to proposals. The [deadline](#) for the submission of reasoned opinions on the grounds of subsidiarity was 8 September 2017.<sup>3</sup> The very few criticisms from

national parliaments were concerned with the reduction of funding for other projects, such as Galileo, to shift resources to the EDIDP, and with the need to have a minimum of three Member States participating in a given project, rather than two. All national parliaments either supported the initiative, or did not publish a reasoned opinion, by which they tacitly signalled support. The Commission was therefore under no obligation to reconsider its proposal.

## Stakeholders' views

The [AeroSpace and Defence Industries](#) association underlines the need for the EDIDP. It considers €500 million to be appropriate, but believes that the available funds should be increased in the next MFF. Member States should have a greater say in the programme, and the attention given to SMEs is laudable.

The [national defence industry associations of Estonia, Finland, Denmark, Norway and Sweden](#) welcome the defence package including the EDIDP, and insist on several points: instead of concentrating solely on EU firms, third-party content should not be ruled out; a geographical balance in the EU is needed; the award criterion 'excellence' is meaningless and therefore needs to be defined; the European Defence Agency should become a member of the committee that assists the Commission, not just be an observer; the best way to support SMEs is not to earmark a percentage of project costs for them, but to ensure that the process is transparent, while drawing up a code of conduct for prime contractors to guarantee SME participation.

The [Federation of European Defence Technology Associations](#) comments on the EDF proposal, which it welcomes, but adds a number of critical points: in order for the fund to be effective it deems it necessary to harmonise and synchronise capability development projects; private funding should be involved as spin off into the wider economy is important; EU funding should be concentrated on the early phase of capability development; and a support office should be established to advise Member States and companies on cooperative and private financial matters.

## Legislative process

The legal basis for this legislative proposal is [Article 173 TFEU](#), which concerns industry (including SMEs) and, in particular, the need to boost its competitiveness. With this article the ordinary legislative procedure (co-decision) is applicable. This dossier is one of [76 legislative files](#) agreed by Council, Parliament and the Commission to be of high priority for 2018.

Parliament's Committee on Industry, Research and Energy (ITRE) is the lead committee (rapporteur Françoise Grossetête, EPP, France). The Committee on Foreign Affairs (AFET), rapporteur Ioan Mircea Pașcu (S&D, Romania) and the Committee on Budgets (BUDG), rapporteur Esteban González Pons (EPP, Spain) were associated following Rule 54 of Parliament's Rules of Procedure.<sup>4</sup> The Committee on the Internal Market and Consumer Protection (IMCO), rapporteur Anneleen Van Bossuyt (ECR, Belgium) also delivered an opinion.

In her draft report, published on 31 October 2017, the ITRE rapporteur, Françoise Grossetête, suggested supporting the proposal, with the aim of obtaining military technology that cost less, was more reliable, and reduced dependency on third countries. On 21 February 2018, the ITRE committee [adopted](#) its report<sup>5</sup> and decided to open interinstitutional negotiations ([trilogue](#)) with the Council and the Commission, with a view to reaching a first reading agreement. Parliament's starting position in the trilogue focused on protecting Union – and its industries' – interests by avoiding granting support to firms controlled by foreign enterprises or countries, and by earmarking part of the funding for SMEs and also mid-caps (which are defined as being bigger than SMEs, but employing 3 000 people or fewer), adding that the funding rate could be increased when they formed a significant part of a programme. The €500 million amount should be drawn exclusively from unallocated margins of the MFF and/or through the mobilisation of special instruments. Assistance could also take the form of a financial instrument or a public contract. A number of allocation criteria were modified. Notably, actions could only be financed if they concerned at least

three undertakings established in at least three Member States, and undertakings controlled by third countries might exceptionally be eligible. Certain categories, such as weapons of mass destruction, would not be eligible. Funding would be granted following calls for proposals as opposed to competitive calls. The role of the European Parliament and Council in vetting delegated acts needed to be strengthened. The Commission should put forward a legislative proposal for the continuation of this programme after 2020.

The European Council welcomed the Commission's proposal on 23 June 2017. The preparatory bodies of the Council began examining the proposal on 14 July 2017. A [general approach](#) (the Council's starting position in the trilogues) on EDIDP was reached on 12 December 2017. It advocated making the budget for the implementation of the programme available exclusively through re-deployments, in contrast to the Commission's approach of using the budgetary margin in addition to re-deployments. In addition, it ruled out the use of financial instruments. A number of eligibility criteria were modified, and it would not be necessary to fulfil all criteria cumulatively. Undertakings controlled by third countries might exceptionally be eligible. The 20 % funding limit for prototyping might be trespassed. Council also wanted to give special treatment to SMEs and mid-caps. The role of the Commission would be reduced by giving additional prerogatives to the Member States, the European External Action Service and the European Defence Agency. Finally, a Commission interim report was requested.

Trilogue meetings began on 15 March 2018, with the aim of reaching an agreement by 22 May 2018.

## EP SUPPORTING ANALYSIS

Ballester B., [The cost of non-Europe in common security and defence policy](#), EPRS, European Parliament, 15 November 2013.

Lazarou E., [Europe of defence? – Views on the future of defence cooperation](#), EPRS, European Parliament, July 2016.

Lazarou E., [European defence – A year on from the global strategy](#), EPRS, European Parliament, July 2017.

Lazarou E. and Friede A., [Permanent structured cooperation \(PESCO\): Beyond establishment](#), EPRS, European Parliament, March 2018

[On the way towards a European Defence Union – A White Book as a first step](#), Policy Department for External Policies, European Parliament, April 2016.

[Preparatory action on defence research](#), EPRS, European Parliament, October 2016.

[European defence – A year on from the global strategy](#), EPRS, European Parliament, July 2017.

[Defence industry](#), fact sheet, Policy Department for Economic and Scientific Policies, European Parliament, February 2018.

## OTHER SOURCES

[European defence industrial development programme](#), European Parliament, Legislative Observatory (OEIL).

## ENDNOTES

- <sup>1</sup> The first PADR contract was signed on 8 January 2018 following competitive calls issued by the European Defence Agency.
- <sup>2</sup> The types of financial instrument would be: equity or quasi-equity investments, loans or guarantees, and risk sharing instruments.
- <sup>3</sup> A reasoned opinion is issued by a national parliament or chamber when a legislative proposal is deemed not to comply with the principle of subsidiarity. If a certain number of reasoned opinions are issued, then the Commission is obliged to reconsider its proposal.
- <sup>4</sup> Committees that are associated in accordance with [Rule 54](#) of Parliament's Rules of Procedure enjoy a special status, which gives them almost as many rights (and thus as much power) as the lead committee. For instance, the timetable is agreed jointly, the rapporteurs are expected to agree on their respective draft reports and on their positions regarding amendments, a clear delimitation of competences between committees is sought, and in general the amendments voted in the associated committee are not put to the vote again in the lead committee, but simply incorporated into the lead committee's report.
- <sup>5</sup> The ITRE report, as adopted on 21 February 2018, contains all points taken over from the three opinion-giving committees.

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