



A STRATEGY FOR THE EUROPEAN DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE

Brussels, 14 May 2007

1. In this statement the Steering Board of the European Defence Agency, meeting today in Defence Ministers formation, sets out its view of the future defence technological and industrial base (DTIB) we must seek to achieve in Europe. We then consider the policy implications – what we must do to get from here to there.

A TRULY EUROPEAN DTIB

2. The maintenance of a strong DTIB in Europe is a fundamental underpinning of the European Security and Defence Policy. It is our DTIB which supplies the bulk of the equipment and systems our Armed Forces require; which ensures that they have the best which world-leading technology can provide for them; and which guarantees that we can operate with appropriate independence. And the DTIB is also a valuable economic asset, as a major source of jobs, exports and technological advance - which in turn helps to maintain public support for defence.
3. Today, Europe possesses a widely-capable, and in many sectors world-leading, DTIB. But we recognise that this is largely the result of past investment. For the past decade and more, Europe's investment in its DTIB (EDTIB)¹ has substantially declined, along with overall levels of defence expenditure. At the same time, the costs and complexity of defence systems have continued to grow – and competition in overseas markets has become even more intense, from the US but also from the rising Asian economies. We recognise that a point has now be reached when we need fundamental change in how we manage the “business aspects” of defence in Europe – and that time is not on our side.
4. The essence of this change is to recognise that a fully adequate DTIB is no longer sustainable on a strictly national basis – and that we must therefore press on with developing a truly European DTIB, as something more than a sum of its national parts. We cannot continue routinely to determine our equipment requirements on separate national bases, develop them through separate national R&D efforts, and realise them through separate national procurements. This approach is no longer economically sustainable – and in a world of multinational operations it is operationally unacceptable, too. We need therefore to achieve consolidation on both sides of the market in Europe: aligning and combining our various needs in shared equipment requirements; and meeting them from an increasingly integrated EDTIB.

¹ In this context, construed as the defence industrial and technological base of the 26 EU Member States participating in the EDA.

5. As our National Armaments Directors have already identified², this EDTIB needs to be :
 - Capability-driven (that is, focussed on meeting the real operational requirements of the Armed Forces of the future, whilst sustaining the necessary levels of European and national operational sovereignty);
 - Competent (denoting in particular the rapid exploitation of the best technologies); and
 - Competitive (both within and outside Europe).
6. Such an EDTIB will also need to be more integrated, less duplicative, and more interdependent – increased specialisation, at all levels of the supply chain, must take over from all (or at least too many) trying to do everything. Centres of excellence should generally emerge from a market-driven process, moderated by policy considerations including the requirement to achieve an appropriate regional distribution. This EDTIB must also be more closely integrated with the wider, non-defence European technological and industrial base, with less European dependence on non-European sources for key defence technologies.
7. We do not envision this EDTIB of the future as a “fortress Europe”, excluding imports from, or cooperation with, overseas defence industries. But we recognise that the problem of accessing the US defence market, and of establishing balanced technology exchange across the Atlantic, make it natural and necessary for Europeans to cooperate more closely to ensure the future of their own DTIB.

GETTING FROM HERE TO THERE

8. Like any industry, a strong defence industry needs competition and investment. Unlike other industries the defence business depends critically on governments in their role as regulators, customers and investors.

Key actions for governments

9. There is therefore a key role for governments in bringing about the EDTIB to which we aspire:
 - Clarifying priorities. Industry needs a customer that knows his own mind: and Ministries of Defence need to identify to the industry what they want, as far ahead as possible. This includes:
 - Prioritising capability needs. A start was made on this in the development of the Long Term Vision we published last autumn³. We

² EDA - [Characteristics of a strong future EDTIB](#) (NADs Steering Board, September 2006).

³ EDA - [An Initial Long-Term Vision for European Defence Capability and Capacity Needs](#) (Defence Ministers Steering Board, Levi, Finland, October 2006)

attach particular importance to following this up with the proposed Capability Development Plan, which must be worked up as a matter of priority.

- Identifying key technologies. We need to identify, from a European perspective, the key defence technologies that we must seek to preserve or develop. Military capability need is the prime criterion, but we must also have regard to the needs of autonomy and operational sovereignty, and the need to sustain pre-eminence where this is economically valuable.
 - Identifying key industrial capacities. We must also undertake the wider task of determining which key industrial capacities we must preserve or develop in Europe (and conversely when we can reasonably plan to source of our future needs from the wider world market).
- Consolidating demand. Aligning and combining the future materiel needs of our armed forces has been long advocated, and seldom achieved. Again, we look to the Capability Development Plan to provide a new springboard for this effort – whilst recognising that this will require real effort and a real readiness to adjust our individual defence programmes. Effective national processes are required to ensure that the collaborative option is always considered in our procurement decisions. This should apply not just to new equipment developments but equally - or perhaps more - to off-the-shelf purchases, shared programmes to upgrade existing equipments, and all other aspects of in-service support. Our long-term aim is of an EDA fully competent to advise on potential collaborative matches.
 - Increasing investments. Inadequate investment drives the need for change. Today's pre-eminent industrial competitor, the US industry, benefits not only from defence spending more than double the sum of our budgets, but from a higher proportion of this larger sum spent on research and technology, development and procurement (over 30% of the US defence budget, as opposed to the average of less than 20% in Europe). As we have previously noted, the imbalance is especially acute in spending on research, technology and development – the ratio is currently some 6 to 1. As we agreed a year ago⁴, an immediate priority is for us to “spend more, spend better and spend more together on Defence R&T” .
 - Ensuring Security of Supply. The concept of a truly European DTIB will not be realised in practice unless Member States can be confident that increased mutual dependence for supply of defence goods and services is matched by increased mutual assurance of that supply. The Framework Agreement on Security of Supply in Circumstances of Operational Urgency⁵ was a good first step. But that Framework Agreement must be operationalised and we need to find ways to better assure long-term survival of sources of key technologies in other countries – and a long-term

⁴ Defence Ministers Steering Board, Brussels, May 2006.

⁵ EDA – [Framework Arrangement for Security of Supply between subscribing Member States \(sMS\) in circumstances of Operational Urgency](#) (NADs Steering Board, September 2006)

willingness of partner governments to facilitate supply. Our ultimate aim is the achievement of equal confidence in security of supply from any part of Europe.

- Increasing competition and cooperation. Above all, a strong EDTIB requires governments to work together both to increase competition in European defence procurement and, when that is not possible or appropriate, to improve cooperation.

Competition: developing the EDEM

10. Though comprehensive data are unavailable, we believe that in recent years less than half of defence procurement has been carried out in accordance with the public procurement regulations of the EU internal market; Member States in general have relied on the “national security” exception in Article 296 of the Treaty establishing the European Community to make the bulk of their defence purchases on a national basis. This has had the effect of stunting the development of a proper European Defence Equipment Market – thus denying both the customer and the industry the benefits of competition, and hindering the necessary cross-border integration of the European DTIB. It was this recognition that lay behind our landmark agreement in November 2005⁶ to a Code of Conduct on Defence Procurement which commits the 22 of us who have subscribed to the Code to open our national defence markets, on a voluntary and reciprocal basis, to suppliers based in each others’ countries.
11. The Code arrangement is operationalised through the Electronic Bulletin Board on the EDA’s website; the number, scale and distribution of the contracting opportunities now advertised there suggest that all national administrations are taking their responsibilities under the Code seriously. After 10 months of operation, the first cross-border contract awards are beginning to appear. We judge this initiative, therefore, to have made a good start; but we recognise that we need to maintain, and in some cases to improve, our effort, if we are to achieve the transparency and build the mutual confidence that is required for the long-term success of this initiative. We also recognise that we must specifically address a number of outstanding obstacles to the operation of a fair market. We note and applaud the complementary efforts the Commission is making to tackle the same problem of market fragmentation.
12. When we launched the Electronic Bulletin Board we also agreed, with industry a separate Code of Best Practice in the Supply Chain. We know that our vision of a healthy, competitive and integrated future EDTIB will not be realised if our market-opening efforts are perceived to be simply a bonanza for the large prime contractors. With industry’s active cooperation, we need to drive the benefits of competition down the supply chain – so that excellent second- and third-tier companies, often SMEs (with their typical flexibility and capacity to innovate), are able to prosper in a European scale of market. This makes economic as well as political sense: the future success of the DTIB in Europe will depend upon

⁶ EDA - [Intergovernmental Regime to encourage competition in the European Defence Equipment Market](#) (Defence Ministers Steering Board, Brussels, November 2005)

effective utilisation of human capital and innovation wherever these are to be found in Europe – in SMEs, and in suppliers not always associated with defence (universities, software houses, providers of dual-use technology), and in the new Member States. We note the slowness of Western European prime contractors to see the new Member States as places to invest, rather than just sell.

13. Against this background, we welcome the EDA's Defence R&T Joint Investment Programme initiative, as a complement to other more traditional R&T collaborations. Nineteen of us are contributing to this initiative, which aims to attract new resources, both financial and intellectual, into our currently-inadequate European defence R&T efforts. We also welcome the recent launch of the second phase of the EDA's Electronic Bulletin Board, which complements the earlier government-to-industry contracting opportunities with an industry-to-industry section. It is in this second field that SMEs may expect to find the most promising new opportunities. The strong support that industry has given to this expansion of the Electronic Bulletin Board suggests confidence that real movement is now underway towards the achievement of an effectively functioning European Defence Equipment Market.
14. The next stages of the journey will, however, require concerted efforts to tackle some major issues. Security of Supply has already been mentioned. Others include:
 - Cross-border transfers. Current restrictions on intra-EU transfer of goods, services and skills are a major impediment to the achievement of our objectives. They are often absurd in their effects (a spare part urgently needed for a grounded aircraft in another Member State has to be processed as a "defence export"). This will be a complicated issue to resolve, not least in relation to internal transfers of goods and technology imported from outside the EU, especially from the USA. Over time, reduced dependence on non-EU sources for key technologies will help. Meanwhile, we welcome the efforts of the Commission and different participating Member States to find practicable ways forward, and look to the EDA to lend its support, as and when appropriate.
 - Offsets. Many EU Member States require their defence imports to be "offset" by compensatory purchases or investments. The present structure of the European DTIB, and the still-infant status of our open market efforts, make this practice understandable; and such arrangements can provide opportunities for individual Member States to build their own skills and develop important relationships for their companies. Nonetheless, when offsets appear as a criterion in defence competitions, then these clearly are not being decided on the basis of the value of competing offers alone. This issue requires further study and analysis, and will need careful consideration over time. Nonetheless, we share the ultimate aim to create the market conditions, and the European DTIB structure, in which the practice may no longer be needed – and, meanwhile, to consider how adverse impact on competition and the DTIB might be mitigated.

- Equity amongst competitors. Fair competition requires not only a level playing field, but also the assurance that individual competitors are not improperly advantaged. This suggests that features such as government ownership of, or publicly-provided aids to, defence industries will call for particular transparency if mutual confidence is to be maintained that there is no unfair competitive advantage (such as hidden subsidy) involved.
15. Whilst recognising that this is an issue that runs beyond our competence as Defence Ministers, we also note that differences in extra-EU export policies can indirectly impact upon the fairness of competition within the European Defence Equipment Market – especially bearing in mind that the value of the extra-European market to our industry is almost as large as the European home market.

Cooperation: achieving more, and more effective, collaboration

16. Competition is not a cure-all. It is a tool for providing better value to the customer, sharpening our industries, and encouraging the evolution of the EDTIB we want to see. Often, however, cooperation may offer a better approach to the same ends.
17. The history of European equipment collaborations is mixed. Some have been highly successful. But too often they have been used with too little regard to producing cost-effective equipment, and too much emphasis on national defence industrial ends. Such a course is ultimately self-defeating; our defence industries will survive only if they can provide top quality goods at competitive prices. In this context, the main contribution governments can make is to exercise self-restraint – to allow industry to find the most efficient solution to consolidated requirements, and to move as rapidly as possible away from the approach of “fair shares” (juste retour).
18. Governments are also responsible for initiating cooperative efforts with robust and realistic shared requirements. We need to make more systematic efforts to identify such opportunities in existing national plans – we look to the work of the Capability Development Plan as a key enabler in that regard. And we need to shift the emphasis away from an exclusive focus on cooperative development of new equipment, to consider also the potential advantages of collaborating on in-service support or upgrading of existing assets.
19. When new capabilities are required, it must be consistently borne in mind that the best collaborations start “upstream” – the shared requirements must be achieved at the point where thought is being given to what the new capability will be for, and how it will be used. Attempts to harmonise the technical requirements of independently-conceived platforms are rarely successful. This emphasis on the early conceptual stage underlines the importance of a step-change in defence R&T collaboration in Europe as key to “upstream” convergence of requirements thinking, and the point where the possible applications of new technologies are explored. R&T collaborations whether in the form of pursuing new technologies in their own right, or exploring through technology demonstration their possible application, are also more practically achievable than major equipment collaborations – the sums of money involved

are typically much less than for new platform development, and therefore may more easily and quickly be made available from heavily-committed defence budgets.

Conclusions

20. We recognise that this Strategy, sketching our shared aims and identifying some of the main principles to be followed and main issues to be addressed, is only a start. The course we have set out involves a long journey and we recall words used in another context over 50 years ago: “Europe can be built only through practical achievements which will first of all create real solidarity”⁷. But we commit ourselves to continuous and active review of our collective progress towards the realisation of the successful European DTIB which we have sketched above – and we commit ourselves in particular to working on the increased transparency, growing mutual confidence and closer convergence of EDTIB policies upon which success will depend.

⁷ Preamble to the European Coal and Steel Community Treaty, signed at Paris, 18 April 1951.