**Investing in European Defence Capabilities: Research cooperation for growth and security**

**By Jorge Domecq – EDA Chief Executive at Saab Group event**

**Brussels – 22 September 2016**

**Check against delivery!**

[Dear President, Dear colleagues, Ladies and Gentlemen]

**Introduction and context**

* I would like to thank the organisers for inviting me to this distinguished and most timely event.
* Less than one week ago, Heads of State and Government met in Bratislava, echoing the high level of ambition that had already been laid down by the High Representative in the EU Global Strategy.
* Never before over the last 10 years have we had such opportunity to relaunch the European defence project and provide it with renewed impetus and commitment. The EU Global Strategy, the various initiatives taken by different Member States, the Commission President’s State of the Union address are adding to this general sense of step change.
* It is a powerful signal about Europe remaining capable of overcoming and tackling a wide range of *challenges*: new threats, geopolitical developments, internal stability and cohesion, to name but a few. The European ability to remain not just reactive but more importantly proactive is put to a test more than ever.
* I hear some of you thinking aloud in the following terms: “We have heard this several times before. Our hopes have been deceived over and over again.” And the recent Swedish Government inquiry about defence and security cooperation claims that “EU cooperation will remain of limited importance” when it comes to defence capabilities.
* You will understand that I cannot share this assessment. I sincerely believe that what we now need is action, not words; seizing a window of opportunity not window dressing or declarations of intent. The EUGS will be backed up by a concrete and ambitious Implementation Plan which will have to tackle many issues at the same time. To name just a few candidates: Permanent Structured Cooperation, Defence Semester, a more output oriented Capability Development Plan, the identification of key strategic activities, the advancement on critical enablers such as standardization, certification and airworthiness.
* I also would like to stress in this context that cooperation à la carte and at regional level should benefit from such approach too. Not everything needs to be done at 27. The further growing Swedish-Finnish defence cooperation is a good example. We stay ready to provide support *à la carte.*
* These different initiatives will have to go hand in hand and complement each other and they will have to respond also to the questions you as industry are facing every day so as to ensure seamless articulation between the Implementation Plan to the EU Global Strategy and the European Defence Action Plan developed by the European Commission.
* And your concerns are admittedly NOT of institutional nature, sometimes *en vogue* in the Brussels microcosm. The EDTIB needs support to effectively answer to the following questions:
* How to remain competitive? New competitors in the so-called BRICS states emerge and in many cases benefit from an environment much more supportive towards defence than the one we have in Europe. Furthermore, the investment gap with the US: by now the ratio in some critical areas such as electronic components is 1:15. This will inevitably increase competition also on the European home market.
* How to deliver cutting-edge defence products in a context of still declining defence R&T budgets? Despite the fact that overall defence expenditure increased in 2015 for the first time after six years of continuous decline, Defence R&T expenditure is down to its lowest level since 2006. Only € 2B have been devoted to R&T in 2014, 1.02% of the total defence spending. Collaborative defence R&T expenditure has also decreased by 9.2% to €185 million accounting for a poor share of some 9% of the total defence R&T.
* How to stay among the most innovative when innovation increasingly originates in the civilian domain? The US but also some European nations have launched so called *Defence Innovation Initiatives* looking into how to capitalize on the innovation and investment spent in the civil domain, e.g. linked to digital, nano- or biotechnologies. One figure may be worth more than words: global revenues related to the “Internet of things” are estimated in the order of 14 trillion US dollars by 2022. We indeed need to keep the perspective as to how much global giants like Google or Toyota spend in innovation, when we hope to get some 3.5 B euros within a European Defence Research programme.
* Without a strong and competitive EDTIB we will not only loose our freedom of action, an appropriate level of strategic autonomy, our ability to design and develop, operate and maintain state-of-the-art defence equipment, but our defence culture altogether. The EU Global Strategy comprises clear refers to the generation of capabilities and the underlying European technological and industrial means supporting an appropriate degree of strategic autonomy.
* The role of the EU institutions is to support Member States translating this level of ambition into concrete action. Many tools are in place, we now have to use them, backed by fresh impetus and political will. My friend Pierre Delsaux who will speak on the Panel would not disagree with me when I am saying that we have made some progress but that we need to go much further. And most importantly: we need to implement what we agree – which, said politely, has often proved difficult in the past.
* This will first and foremost require a new level of ambition on Member States’ side and their strong buy-in.
* To develop such a sustainable long-term approach, we also need to develop a sound industrial policy at European level based on clear prioritization and actions geared towards structuring capability programmes;
* We also need to address the enablers and use all available means at our disposal to incentivize cooperation among MS and improve the quality of spending. EDA can play a key role here, including by closely cooperating with the European Commission to better exploit the relevant EU funding, policy and programmatic instruments that the European Defence Action Plan is going to highlight by the end of the year.

**Prioritize our action at European level**

* The EU Global Strategy itself provides some guidance on future capability needs, naming intelligence, surveillance and reconnaissance, digital capacities, and high-end military capabilities, as eras for future investment.
* An important next step will be to review our “Capability Development Plan” setting the future priorities in response to current or future shortfalls. The second step is to channel European investment towards those Key Strategic Activities (understood as technologies, skills & competences and industrial manufacturing capacities) that would respond to all or most of the following criteria:
* First, they would support Europe’s strategic autonomyand be relevant from a European non-dependence/Security of Supply point of view;
* Second, they need to clearly support critical CSDP operational requirements as they stand today and will evolve in the future;
* Third, they would target activities with technological edge, related to capabilities that are the most technological advanced and demanding,;
* Last but certainly not least: they would be more efficiently addressed at European level and foster structured cooperation among Member States and relevant industries.
* We need to understand that a capability is not just a hardware or an end-product but includes critical supply chains underneath.
* This also means that we have to go well beyond a simple updating of our Capability priority list. A fully revised CDP should more prominently not only ensure more buy-in by Member States but also take into account the technological and industrial dimensions, reconsidering our interaction with you.
* While CDP priorities continue to be set by Member States, selected information will have to be shared with industry; we need structured dialogue with industry also in this domain – as called for by the Global Strategy.
* European defence industry is not able to survive solely on the basis of global export markets. Allow me to point to the risks involved in direct military offset demands, including in terms of sensitive transfer of technologies, the further build-up of potential future competitors in Asia and beyond. There also is the risk that future defence equipment produced by European companies would be increasingly designed to requirements that are not specifically tailored to European needs. To say it clearly: The global export market is important and an indicator of our industry’s competitiveness but should not be a replacement in the longer term for a weak internal European demand. The rising defence budgets should provide an opportunity to develop critical capabilities that support an appropriate level of strategic autonomy and freedom of action.
* I am not advocating any kind of “Buy-European Act”. We do not want a “Fortress Europe”, we want to be a capable partner, a security provider that takes its responsibilities and fair burden-sharing, also in view of being interoperable with our Allies across the Atlantic. Let me be very specific here: Burden-sharing and interoperability is not limited to doctrine and operations. It includes also the technological and industrial dimensions.
* We need to be aware about the long-term consequences in terms of competitiveness of the EDTIB and security of Europe at large when following an approach that would have as its sole ambition to provide niche contributions to the US and tis industry.

**Enabling cooperation on the basis of R&T and innovation**

* Launching and implementing structured programmes equally requires setting up a comprehensive package of cooperation enablers, among them research and innovation that you have highlighted in the invitation to this dinner.
* Fresh funding and the reinforcement of our R&T and innovation efforts will indeed be key to structure European cooperation from the very outset.
* The massive decline in budgetary terms of our defence R&T efforts is a matter of the highest concern. It is the capabilities of the future which are at stake here. It is also the competitiveness of our defence industry which is at risk.
* It will not come as a surprise to you that I see the upcoming Preparatory Action on Defence Research as the potential game changer. The president of SAAB himself has been doing an outstanding work as member of the Group of Personalities, that has developed key recommendations earlier this year. What we need is an ambitious budget: targeting some 90M€ over three years for the Preparatory Action.
* The GoP report goes as far as to consider an annual budget of 500M€ for a full-fledged European Defence Research programme within the next EU Multi-annual Financial Framework, as of 2021. With such investment, the EU would be among the top three spenders in defence R&T in Europe.
* But let’s remain careful on the budget issue. While Member States and the European Commission are fully supportive of an ambitious PA and follow-up EDRP, there are divergent views in European Parliament at times. It is in our all interest to convince Members of Parliament about the importance of this project, even more so since the release of the EU Global Strategy.
* Admittedly, budget volume alone does not ensure output. We need to channel this investment into the right priorities and ensure that R&T will actually prepare the launch of future capability programmes among Member States. EDA is therefore also working “up-stream”. This means facilitating Member States’ convergence on identifying and prioritizing research topics, be it for bigger demonstrators or for single critical defence technologies. A subtle balance is to be found between a capability-driven approach and innovative technology push.
* Work is well progressed, also thanks to a constant dialogue with industry through dedicated workshops. We need to ensure that R&T being conducted prepares future capabilities as outlined in the Capability Development Plan. This would be the ultimate European added value.
* We must ensure that collaborative R&T, be it via the PA, the future Defence Research programme or ad-hoc R&T conducted by Member States in an EDA framework are more systematically and consistently taken up in follow-up collaborative capability programmes.
* It will be all the more important to carefully develop a Strategic Research Agenda for the next Defence Research Programme - on the basis of Member States’ but also industry’s input - that will support innovation in support of agreed capability priorities. The EU Global Strategy clearly calls in this context on the Agency “acting as an interface between Member States and the European Commission”.
* I believe we have also to alleviate some concerns that I sometimes come across when talking to industry. First, that EU funding should neither replace national defence R&T nor concentrate on the nice-to-have. On the contrary, it should focus on those activities with specific European added value, increasing interoperability, standardization and preparing future structuring capability programmes. It will be industry in turn that benefits from those programmes in the future. This however also means to design the IPR regime in a way that Member States can feed R&T results that have been generated at European level into future capability programmes.
* Let’s not forget neither that it is not all about defence research *strictu sensu*. It also is about exploiting innovation from the wider civil economy.
* We also need to increase our Techwatch capabilities and we need to integrate innovation into defence products on the basis of thorough Test &Evaluation. EDA currently pursues the setting-up of a network of national test and evaluation centers.
* There are other cooperation enablers that are not of less importance which I would like to mention:
* First, a stable and appropriate regulatory framework: It is the Commission’s prime responsibility to assess the Directives but we have to ask ourselves in particular to what extent certain Directive provisions, such as the one on sub-contracting have effectively led to more cross-border contracts for example. We all have to acknowledge that cross-border cooperation is one of the main drivers to a competitive and self-sustaining EDTIB and the full spectrum of the industrial landscape has to be taken into account. Companies at sub-prime level and SMEs are as important in that quest for competitiveness and innovation.
* The second is Security of Supply: Building on the Framework Arrangement on Security of Supply established by Member States within EDA, we now need to investigate more concrete intergovernmental actions on SoS, further enhancing trust, confidence-building and mutual support between Member States.

One could think about:

* Developing mechanisms for common maintenance/logistics support between Member States,
* Promoting and enhancing Security of Supply in specific European cooperative programmes;

The Agency is also exploring together with Member States the potential content and form of a stronger political commitment on Security of Supply. Finally, it has to be stressed that the there is a clear link between the Intra-Community Transfers Directive and Security of supply. The full and coherent implementation of the ICT Directive especially in regards to the use of General Transfer Licenses is crucial for enhancing SoS at the European level.

* The third one is incentives to cooperation of fiscal and financial nature:
* On the fiscal side, EDA has achieved by now that whenever the Agency adds value to a project, such project can be (if pMS wish so) VAT exempted. This means de facto that any project would be eligible where EDA would support in terms of identifying priorities, attracting new partners or deal with the contracting.
* Well beyond, the Agency is the originator of innovative ideas that have by now been taken up by more widely as evidenced by the Commission President’s address on the State of the Union. We are further investigating a possible “Cooperative Finance mechanism”, an intergovernmental defence fund that would support the launch of cooperative R&T and equipment projects. The mechanism would help Member States in ring-fencing means for cooperative purposes and synchronizing national budgets and spending cycles in collaborative programmes. Easing budgetary synchronization should result in increased cooperation and more collaborative programmes. We will be presenting a finalized business case to Member States by the end of the year.
* We have also been looking since 2013 into how the European Investment Bank could support defence-related projects in the future as a further incentive. This is of course also of particular importance in the context of the European Fund for Strategic Investment – better known as Juncker Plan – which is administered by the EIB. An opening of the EIB could provide new support to industry also. I am happy to see that those issues are becoming common sense. Not too long time ago, the Agency would have been taped being “unrealistic” by some.
* Needless to say that we need to continue cooperating with the Commission on all of the aforementioned issues in view of giving also concrete results to the European Defence Action Plan, that has to foster the underlying European Defence Technological and Industrial Base.
* But I also would like to call for a renewed ambition in the relation between the Agency and industry. It is understandable that industry goes where the business lies. What we hope for is that more structured cooperation will lead to more programmes at European level, including in EDA. We need to be prepared to engage more together.
* If cooperation is to be the norm, it is not an option but a necessity. It is in the interest of all, including European industry, that we go for a strong, efficient and output- oriented EDA - with strong engagement of industry.

**Conclusion:**

* To make a long story short: we need synergies and concerted action at five levels at least:
* More cooperation among Member States for sure;
* More complementarity between national activities and EU programmes;
* More synergies and cross-fertilization among civil and defence actors;
* More concerted action between the demand and the supply side;
* More cross-border collaboration between defence companies, particularly in view of exploiting the potential and innovation of SMEs and intermediate companies.
* I am looking forward to exchange with you on these avenues tonight and wish you a pleasant dinner. Many thanks for your attention.