

Support to Industry

EDA Proposals ahead of European Council in December 2013

Europe has a world class defence industrial base supporting the majority of its current capability requirements. It is a major enabler for the Common Security and Defence Policy. Defence generates 750,000 direct and indirect jobs across Europe, most of them highly qualified, and a turnover of €170 billion.

In addition, at the EU level, defence investment has a multiplier effect on GDP of 1.6, spread across a range of activities and sectors, such as equipment, scientific research, and construction. It has a multiplier effect of 7.6 in skilled employment (higher than in sectors such as health, transport, and education); and an R&D multiplier effect that is between 12-20 times higher than in sectors such as health, transport, and education. The global financial crisis also impacted adversely on the defence sector. For example between 2005 and 2010, European defence spending has declined by almost 10% in real terms.

Shrinking military budgets, a lack of new large equipment programmes and reducing R&D expenditure all have a detrimental effect on the European Defence Technological and Industrial Base (EDTIB).

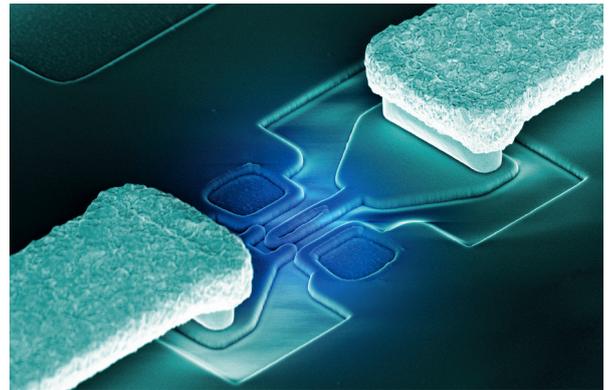
At the Steering Board meeting on 19 November, Defence Ministers agreed proposals to support the European defence industry. Heads of State and Government will discuss these proposals during the European Council in December 2013.

Supporting Research and Innovation

R&D expenditure dropped by 20 percent during the period 2006-2011. This is a worrying trend. Cuts in defence R&D are undermining the EU's ability to develop critical capabilities and address security challenges in the long term. In the short term, this may have significant negative effects on the competitiveness of the EU's industry.

Against this backdrop, Defence Ministers agreed to the following actions, during the Steering Board on 19 November:

a) **Prioritisation:** In a context of budgetary constraints, investment should focus primarily on the preservation or development of key technologies. EDA has produced a list of European critical defence technologies in order to guide national and cooperative investments;



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- b) Greater **investment** for defence R&D, potentially stimulated by (i) fiscal and financial incentives for collaborative investment, such as VAT exemption for EDA projects, or alternative funding schemes (eg private funding); (ii) multi-annual investment planning for sustaining or developing the technologies, (iii) exploring greater synergies with EU policies, including a Preparatory Action for CSDP in close coordination between the European Commission, EDA and EEAS;
- c) Planning **coordination** between national R&T plans and investments in advance in order to improve the coordination of defence research activities in Europe;
- d) **Synergies with EU instruments:** Technologies are often dual-use in nature. Here, there is a case for a more integrated approach regarding access to EU instruments, especially Horizon 2020 and European Structural Funds;
- e) **Monitoring:** The development and preservation of critical technologies should be monitored at a European level in order to assess progress in non-dependency and, possibly, to develop sectorial security of supply arrangements.

Supporting Small and Medium Enterprises (SMEs)

EDA's work on industrial capabilities, armaments and research programmes/projects highlights that SMEs have become increasingly important as a source of innovation, acting as key enablers for competitiveness. Further to the adoption of the SME Action Plan (March 2013),

EDA intends to implement actions to strengthen defence-related SMEs and enhance small business opportunities in the defence sector across the whole of the European supply chain. These actions are aimed at providing concrete and tangible support to defence-related SMEs.

SMEs often lack the manpower to screen Europe-wide business opportunities; to alleviate this, the European Defence Agency launched a portal on 28 June 2013 - the EDA Procurement Gateway - on its website. It is dedicated specifically to defence related business opportunities and information at EU and national levels.

Similarly, SMEs often find it difficult to access to EU funds, due predominantly to a lack of specific institutional knowledge and dedicated manpower. To help SMEs, EDA is raising "awareness" by undertaking dedicated workshops in Member States. The Agency also supports industry to gain access to European Structural Funds for pilot projects focusing on dual-use critical technologies. This support will be extended into 2014.

Advancing standardisation and certification

In the current economic climate there is a need for greater harmonisation and standardisation. Ultimately, this will enhance the prospects of closer cooperation and collaboration between Member States and industry, in order to find common solutions.

The lack of harmonisation in the application of standards prevails during the development and procurement of defence material. Interoperability of defence material and a strong defence industrial base are essential for Member States. EDA has established a European Defence Reference system (EDSTAR) to support the harmonisation of the application of standards for defence procurement. Further information about EDSTAR is available at www.eda.europa.eu/edstar.

Ammunition

In the European ammunition sector Member States' interpretations of standards can lead to unnecessary duplication. As a result, each European ammunition manufacturer must apply subtly different qualification procedures for each EU Member State. This can cause considerable additional processes with their associated costs (up to 20-30% of the overall cost). Following a decision by Defence Ministers in March 2012, the European Defence Agency developed an action plan to improve the Harmonisation of Ammunition Qualification in Europe. This aims to reduce Member States' ammunition

acquisition costs and the additional burden for European defence industry.

Airworthiness

The development of a full suite of harmonised European Military Airworthiness Requirements (EMARS), together with mutual recognition between participating Member States is a 'key enabler' for nations to reduce defence expenditure. At the same time it contributes to an improved and more competitive European defence aerospace industry. The implementation of the EMARS into national regulations will unlock benefits for both Member States and industry to reduce aircraft support and certification costs (for both future and legacy platforms). It will also enable an open European market for the 'Pooling & Sharing' of aircraft maintenance resources, enhance 'test and evaluation' activities and significantly drive down the duplication of effort between and within Member States. At the Steering Board in November 2013, Defence Ministers signed a Political Declaration on Certification and Airworthiness to achieve long-term results and tasked EDA to prepare, in close coordination with Member States, the European framework conditions for certifying RPAS.



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Promoting consolidation of demand

The EDA is promoting the consolidation of demand by identifying common demand and supporting joint procurement cases. At the request of Member States, EDA acts as a central purchasing body, as set down in the Defence and Security Procurement Directive, starting with pilot cases with an aggregated value of €278m. One of the main objectives is to boost cooperation between Member States - a win-win approach. Through joint procurement, Member States can benefit from economies of scale, cost-savings, increased cross-border competition and improved interoperability. Also from the industrial side, the consolidation of the demand and the synchronisation

of procurement cycles allows defence companies to be more efficient in their production and to obtain longer European contracts in the Pooling & Sharing context.

Improving Security of Supply (SoS)

Integration of defence supply chains, as well as the need to build a globally competitive and robust EDTIB, increases the importance of European cross-border Security of Supply. The lack of SoS has far reaching long-term implications - more cooperation between the Member States is required, and necessary, due to limited resources.

On 19 November 2013 the EDA Steering Board approved an updated SoS Framework Arrangement, which addresses a broad spectrum of national requirements, both in peacetime and times of crisis. It can also be applied to SoS requirements arising from Pooling & Sharing, and provides great potential to enhance and broaden Member States mutual support and assistance.

Acting as a clearing house, EDA will facilitate national implementation of the Framework Arrangement in a coherent manner and will also analyse issues related to sectorial SoS, focusing on the list of critical defence technologies. The Agency is in parallel intensifying its work on the wider issues of SoS.

Not only governmental but industrial SoS considerations have to be addressed. To this end, EDA is undertaking further consultation, in conjunction with defence industry.

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