

ASD Considerations on Sustainability and the European Defence Industry

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About ASD

The AeroSpace and Defence Industries Association of Europe represents the aeronautics, space, defence and security industries in Europe in all matters of common interest with the objective of promoting and supporting the competitive development of the sector. Its membership comprises major European aerospace and defence companies as well as national associations.

Introduction

Sustainability has become a leitmotiv for the European Union and a key driver for policies, economies and societies at large. At the same time, there is an intrinsic link between sustainability and defence: Defence is a crucial component of security, and security constitutes the prerequisite for peace, prosperity, international cooperation, economic and social development. This is recognized by the United Nations in the 17 Sustainable Development Goals, notably goal 16, relating to “*Peace, justice and strong institutions*”. Helping to ensure security, European defence manufacturers de facto make a vital contribution to a more sustainable world.

The link between sustainability and security is often neglected. On the contrary, in the debate about sustainability, defence activities are frequently stigmatized as ethically reprehensible and therefore not compatible with the Environmental, Social and Governance (ESG) criteria that are used to define what is sustainable. This has not only a negative impact on the defence industry’s social reputation but causes also a concrete and serious threat to its financial viability.

In this paper, we will outline that European defence companies are part of a diverse ecosystem that already today supports sustainability in many ways and is fully committed to further improve its sustainability efforts. Doing so, we will demonstrate that companies that produce equipment for Europe’s common security and comply with national and EU law are an indispensable part of a sustainable society. We will better explain the fundamentally positive role of defence industries for sustainability, but also raise awareness about the consequences of a misleading interpretation of sustainability. Lastly, we will stress the need for coherence of EU policies for achieving the Union’s strategic objectives to enhance its autonomy and assume greater responsibility for its security.

The societal benefits of defence

Freedom and democracy are not a given. They do have enemies and, as history has shown, these enemies sometimes do not shrink back from using force. One of the primary functions of any state is therefore to ensure the security of its citizens.

Security is a multi-faceted phenomenon, which has both an internal and external dimension. States use a broad variety of policies and instruments to achieve it, individually and collectively. Military power is the ultimate instrument of a state to ensure its external security.

Armed forces are indispensable to defend national territory or the territory of allies and thereby deter military aggression by other states. They also provide essential support in case of natural or man-made disasters, and it may also become necessary to deploy them in support of broader foreign policy goals, e.g. for crisis operations abroad. Armed forces are therefore essential for a state to fulfil its core sovereign tasks and guarantee its rights enshrined in the UN Charter.

In many parts of the world, instability is increasing rather than decreasing, and peace can never be taken for granted. European values, interests, security, independence and integrity are neither a given nor acquired for free. Europe must be ready and prepared to defend them and contribute actively to preserving peace, preventing conflicts and strengthening international security. This will not be possible if diplomacy cannot be backed up with credible military capabilities as a means of last resort.

An industry that actively supports sustainability

Armed forces can only fulfil their role as a security provider if they are equipped with the means they need to cope with the threats they may face. Only trusted and innovative companies, who have the necessary technological know-how and defence expertise, are able to develop and produce such equipment. As suppliers of our armed forces, European defence industries make an indispensable contribution to Europe's security, and thereby help to protect Europe's peaceful, democratic, and sustainable economic and social development.

Moreover, most companies with defence activities do business also in other sectors, mainly in security, space and aeronautics. Each of these sectors has a crucial role to play for sustainability: In security, these companies develop technologies for the fight against crime and terrorism, or equipment to prevent, respond and recover from man-made and natural disasters. In space, they develop, for example, systems that contribute to the green transformation, e.g. through monitoring of greenhouse-gases. Other (parts of these) companies contribute to the digital transformation and / or drive innovation in technologies that are required for carbon-free aviation.¹

In short, European defence companies are part of a diverse ecosystem that helps protect the life and the way of life of European citizens. Already today, this ecosystem supports sustainability in many ways and is fully committed to further improve its sustainability efforts. All its companies are very conscious of the need to ensure responsibility and sustainability in the way they operate and are fully committed to develop to the highest legal and ethical standards, as outlined in the UN Guiding Principles on Business and Human Rights and the OECD Guiding Principles for Multinational Enterprises.

An industry compliant with the most stringent regulatory constraints

Defence goods contribute to upholding peace and security but can also be misused. Therefore, the production of defence materiel represents a great responsibility and is subject to strict regulations. Not only have the EU and all Member States developed very tight national (and sometimes regional) regulations, but industry also supports a set of binding international treaties, such as the United Nations Arms Trade Treaty (ATT).

In force since 2014, the ATT is the first legally binding international agreement that regulates the legitimate global trade in conventional arms by establishing common international standards which countries have incorporated in their national control systems. The ATT "*acknowledges that regulation of the international trade in conventional arms and preventing their diversion should not hamper international cooperation and legitimate trade in material, equipment and technology for peaceful purposes*". It also underlines the necessary "*respect for the legitimate interests of States to acquire conventional arms to exercise their right to self-defence and for peacekeeping operations, and to produce, export, import and transfer conventional arms*".

In addition, there are five multilateral export control regimes which impose common obligations for the control of defence equipment according to internationally agreed lists of controlled items.² Other

¹ [Annual Single Market Report 2021](#), p. 80.

² The [Wassenaar Arrangement](#) on Export Controls for Conventional Arms and Dual-Use Goods and Technologies; the [Nuclear Suppliers Group](#), for the control of nuclear and nuclear-related technology, the [Australia Group](#) for the control of chemical and biological technology that could be weaponized, the [Missile Technology Control Regime](#) for the control of

International conventions ban the production and use of weapons deemed controversial because of their humanitarian impact (most notably chemical and biological weapons, antipersonnel mines and cluster munition).

All European defence companies are firmly rooted in the legal systems of the EU and their respective Member States. They strictly adhere to applicable international law and export control regimes and have embedded them in codes of conduct and internal compliance programs.

Misleading interpretations of sustainability with dire consequences

In recent years, the financial sector has witnessed an increasing trend towards more sustainable investments. Consequently, the integration of ESG criteria into the banking, financial and insurance markets is rapidly advancing.

In general, our industry supports the increased importance of sustainability. However, the debate about sustainable finance often lumps together in one category the suppliers of European armed forces with unlawful or morally questionable business practices. If this misguided perception prevails, the trend towards sustainability will severely affect the competitiveness and financial viability of Europe's defence industry.

Already today, the impact is real: there is a noticeable reluctance of many banks to support defence activities. In the absence of a binding regulatory framework, financial institutions are implementing their own internal guidelines that limit cooperation with defence companies. They also introduce new sustainable financial products, which expressly exclude equity or debt from defence firms. This has already led to the exclusion of their equity from funds and the termination of business accounts or other financial services. Such difficulties are not limited to large system integrators but concern also underlying supply chains and SMEs.

Altogether, these developments risk to severely undermine the ability of Europe's defence industry to ensure its financing and thereby its ability to support European armed forces with state-of-the-art equipment. What is at stake is not only the financial viability of an industry, but Member States' ability to protect their citizens, and the Union's key political objectives to become more resilient, less dependent in strategic sectors, and more credible as a security provider.

The importance of coherence between EU policies

The European Union has fully recognized the strategic importance of the European defence industrial and technological base. From the 2009 defence package to the 2016 Defence Action Plan, the European Defence Fund and, most recently, the Action Plan on Synergies: all these initiatives aim at fostering the competitiveness of Europe's defence industry as a key enabler for an appropriate level of strategic autonomy.³

rockets and other aerial vehicles capable of delivering weapons of mass destruction. While not formally an export control regime, the [Zangger Committee](#) has developed guidance on nuclear export restrictions required by the [Non-Proliferation Treaty](#).

³ https://ec.europa.eu/info/departments/defence-industry-and-space_en#department_plans. In this context, see Commission President Von der Leyen's 2021 [State of the Union Address](#): "Europe can – and clearly should – be able and willing to do more on its own" [on defence]. ... We need to provide stability in our neighborhood and across different regions. (...) the nature of the

All these EU efforts to support Europe's defence industries can only succeed if they are not undermined by other EU policies. In this context, the Commission's current efforts to establish a regulatory framework for sustainable finance become particularly important. ASD has closely followed the discussion about a possible extension of the EU sustainability taxonomy to social aspects and the preparatory work on the Ecolabel for financial retail products. In both cases, we observe with great concern a tendency to follow a misguided perception of defence business as socially harmful.

ASD therefore calls upon the European Commission and co-legislators to ensure that European regulation will not disqualify defence activities at large as "non-sustainable". This would further damage the reputation of defence companies in the financial market and spread disaffection from public and private credit organizations, insurers, and rating agencies. It would also negatively impact the sector's image in the wider public and its ability to develop and attract necessary talents and skills. It would remove any incentives for defence companies to proactively improve their sustainability practices and slow down, or ultimately eradicate, the progress they have already made in recent years in their sustainable transition. Even worse, it would also penalise the ecosystem as whole, including civil activities that are indispensable for achieving the Union's climate goals and need major investments to do so.⁴

In the recent Action Plan on Synergies, the Commission recognises the need to enhance access to finance for defence industries. What is more, "*the Commission also recalls its support, as stated in the Defence Action Plan of 2016, and the European Council Conclusions of December 2016, for an adaptation of the lending criteria of the European Investment Bank (EIB) to the defence sector...*".⁵ The Commission's support for lifting the exclusion of activities related to military equipment and infrastructures from EIB lending is welcome, but would also be in contradiction to a general exclusion of defence activities from EU regulation on sustainability.

Given all this, we find it imperative for the European Union to ensure that its policy on sustainable finance is coherent with its industrial strategy and other, defence-related policies.

Conclusion

Companies that develop and build products for Europe's security and comply with national and EU laws must be recognised as an indispensable part of a sustainable society. Europe needs a competitive and financially sound defence industry to protect its citizens and become a credible actor on the international scene. Weakening this industry would further reduce Europe's autonomy and resilience.

threats we face is evolving rapidly. (...) On the ground, our soldiers work side-by-side with police officers, lawyers and doctors, with humanitarian workers and human rights defenders, with teachers and engineers. We can combine military and civilian, along with diplomacy and development – and we have a long history in building and protecting peace". See also the [opening speech](#) of High Representative/Vice-President Josep Borrell at the 2020 annual (virtual) conference of EDA: "*...You cannot expect to be autonomous on anything if you do not have an industrial basis and, on defence, more than in any other thing... I am strongly convinced that the future of the European defence will start from the European defence industry.*" At the same conference, Commissioner Breton said in his [video message](#): "*... Europe needs to acquire some of the features of 'hard power' so that it can defend its vision and interests and become a more credible partner for its allies...it is of paramount importance that we collectively invest in defence and secure our supply by protecting our defence value supply chains*".

⁴ [Annual Single Market Report 2021](#), p. 81.

⁵ [Action Plan on Synergies between civil, defence and space industries, COM \(2021\) 70 final](#), p.6.

Therefore, ASD:

- calls on the EU institutions to clearly acknowledge and factor in throughout their political or regulatory initiatives, the positive contributions of the defence ecosystem to sustainability. This is the only way to ensure consistency between the ESG agenda, on the one hand, and the Union's declared high-level priorities and ambitions with respect to defence, geopolitics and open strategic autonomy;
- asks that any possible exclusion of defence activities from EU regulation on sustainability should mirror exclusively the exclusions set out in relevant international treaties signed, ratified, and adopted by all EU Member States. Any such exclusion should not hamper the legitimate trade in conventional armament as delineated by the UN Arms Trade Treaty and regulated accordingly by EU Member States.

ASD is ready to actively contribute to further developing the European framework for sustainable finance and the EU sustainability at large.

Signed by Jan Pie, ASD Secretary General, on 6 October 2021