

Considerations by the Netherlands on the European Defence Industry Programme

Summary

The four main objectives that EDIP should address are:

1. Increase the effectiveness of the European efforts on security and defence
2. Strengthen EU-NATO complementarity and avoid duplication
3. Foster a competitive EDTIB
4. Make the EDTIB resilient to shocks

Introduction

In recent years, European defence cooperation has deepened considerably. Due to geopolitical developments, in particular the war in Ukraine, there is a strong realisation that the European Union (EU) and its Member States need to expand and improve their capabilities in order to be able to take more responsibility in the field of security and defence. This should encompass collaboration between EU Member States on research, capability development and procurement, in a way that reduces fragmentation and contributes to interoperability and interchangeability. Collaboration between EU Member States is also necessary in terms of adaptability, to be able to quickly react to changing geopolitical realities, and to effectively contribute to collective defence and deterrence in the NATO framework.

Strengthened defence collaboration should be underpinned by a stronger, innovative and more integrated European Defence Technological and Industrial Base (EDTIB). Currently, the EDTIB is not fit for purpose. Despite defence budgets increasing in recent years, the European defence industry still embodies a long period of underinvestment in defence. The existing production capacity and output of companies throughout the supply chain is not able to meet current and expected future demand. Now that higher defence budgets and urgent needs have significantly increased demand, production capacity has to be ramped up, now and especially in the long run. This concerns the whole value chain, as a sustainable ramp up can only be achieved in case the whole value chain catches up. Enhanced production capacity should be coupled with further investment in research and development of defence capabilities.

Despite attempts to promote an open and competitive European defence market, supply and demand of defence related products are mostly organised nationally. The same holds true for implementation of export control, resulting in diverging interpretations of the common European export control framework. Many prime contractors and their supply chains are essentially located within one Member State for (understandable) national security reasons. However, this impedes the rapid and sustainable ramp up of the EDTIB. Without a different European policy framework, increasing demand only exacerbates the fragmentation of the EDTIB. This all leads to inefficiencies, persistent bottlenecks and the inability of the collective European defence industry to jointly address the geopolitical challenges we are facing in an effective way.

Objectives

The European Defence Industry Programme (EDIP), together with current relevant EU instruments, can serve as the necessary policy framework to expand and improve European capabilities and sustainably reinforce the EDTIB in an inclusive way whereby all Member States will be able to reap the benefits. It should serve as a blueprint for future European defence collaboration.

For it to be successful, EDIP should fulfil the following objectives:

1. *Increase the effectiveness of the European efforts on security and defence*

The main goal of strengthening the EDTIB should be to increase the capacity of the EU and EU Member States to take responsibility for their own security and defence. The purpose of EDIP should be to make a tangible contribution to this goal by ramping up industrial production capacity, stimulating joint procurement, focussing on research and development of defence capabilities, enhancing supply chain resilience and incentivising more cross-border industrial cooperation. The effectiveness of European defence cooperation can only be increased by countering fragmentation and stimulating joint efforts. Joint procurement should prioritise addressing European capability

gaps based on the Capability Development Priorities of the European Defence Agency (EDA) and outcomes of the research and development projects stemming from the European Defence Fund (EDF). Moreover, to ensure tangible results and viable cooperation, joint procurement could be based on a coalition of the willing of Member States, for instance by pooling and sharing of resources. The Multinational Multi-Role Tanker Transport Fleet Programme (MRTT) is a good example of how this could work in practice.

2. Strengthen EU-NATO complementarity and avoid duplication

EDIP offers an important opportunity to contribute to strengthening European defence capabilities in a way that is complementary to efforts in NATO. This is important, as one of the key principles of EU-NATO cooperation is that of a single set of forces. If calibrated correctly, the respective roles of the EU and NATO in the defence field hold great potential for synergy and strengthen the Euro-Atlantic security community as a whole. In this scenario, the EU is able to yield its industrial clout to channel and unlock investments, while countering fragmentation through greater coordination in defence spending, in a way that fulfils Alliance defence planning, interoperability and standardisation. This should be accompanied by clear strategic communications stressing that EDIP aims at strengthening European defence capabilities in a way that also reinforces the NATO Alliance, but at the same time aims at enhancing defence cooperation with NATO Allies and strategic partners.

3. Foster a competitive EDTIB

EDIP offers a unique opportunity to build a genuine and strong *European* DTIB that will benefit all Member States. Joint procurement of defence capabilities should go hand in hand with further integration of the European defence market. To succeed in this endeavour, EDIP should promote the Europeanisation of defence supply chains, instead of preserving national supply chains or remaining too dependent on suppliers outside the EU. The current geopolitical situation provides a great impetus to reduce fragmentation, integrate the European defence market, open up supply chains of prime contractors and top tier suppliers and streamline export control in the interest of a level playing field for joint production at the European level.

By expanding the supplier base of prime contractors through adding best value suppliers from across the EU, equipment costs can remain competitive for Member States and contracting authorities can get their equipment faster. Furthermore, prime contractors will be able to sustainably increase their production capacity, reduce their risk with a diversified supply base and shorten lead production times. At the same time, suppliers in different tiers throughout the Union, including many small and medium sized enterprises (SMEs), will have a fair chance of entering a supply chain of a prime contractor or top tier supplier, irrespective of the Member State wherein it is based. Further convergence in export control will strengthen a joint understanding and implementation of the EU Common Position on arms export control, resulting in a more level playing field for defence companies throughout the Union. Finally, from an EU perspective, sourcing from competitive suppliers from all Member States ensures resilient supply chains, enables ramped up production, strengthens security of supply on the EU level and alleviates strategic dependencies.

4. Make the EDTIB resilient to shocks

Through EDIP, the EDTIB should be made more resilient to sudden shocks that hinder the ramp up of production and thereby future stable supply of critical defence related products. In recent years, it has once again become clear that global value chains are fragile and security of supply cannot always be guaranteed. For defence, even more than in other domains, a secure supply of critical defence related products is vital. In times of unexpected disruptions, competition for scarce goods between the defence industry and companies in the civil domain may not be in the overall European interest related to defence and security. Enhanced preparedness before a shock occurs makes the EDTIB more resilient. One important way to reinforce preparedness is through R&D and the introduction of new materials, tools and manufacturing processes. Therefore, EDIP should incentivise the EDTIB to come up with innovative ideas in this regard. Both preparedness and response measures should be brought together in a comprehensive resilience framework to ensure that the EDTIB becomes less susceptible to sudden shocks that threaten the security of the Union. If a crisis occurs, additional measures may be required to ensure security of supply and thereby safeguard the security of the Union.

EDIP

EDIP should at least consist of three pillars:

1. A European framework for joint procurement of EU Member States
2. A European framework for production capacity of the EDTIB
3. A European framework for resilience related to the EDTIB

From 2028 onwards, these three pillars could be expanded to include at least a pillar for a European framework for defence-related R&D, as a successor to the current EDF. EDIP thereby explicitly provides a framework for a consolidated comprehensive defence industrial programme.

Joint procurement

Structure

- EDIP should allow for joint procurement of both defence capabilities developed through the EDF and capabilities not developed through EDF.
- Member States that jointly procure through EDIP should be incentivised to procure interchangeable material, ensure the synchronisation of requirements, and guarantee that the capability is fully adherent to NATO standards to ensure interoperability.
- Notwithstanding rules on the origin of the procured defence products, the participation of non-EU allies in EDIP joint procurement should be strongly considered as this would directly create a larger market to the advantage of the EDTIB.
- In addition to procuring the capability itself, EDIP should also provide a framework for the rest of the lifecycle of the jointly procured capability.
- To enhance EU defence capabilities, any EDIP procurement should oblige contractors to provide specific guarantees ensuring security of supply both through contractual arrangements as well as operational implementation (e.g. stocks, back up production and maintenance capabilities, including physical presence in the relevant jurisdictions).
- EDIP procurement should be fully compatible with the Capability Development Priorities.

Cross border industrial collaboration

- EDIP should incentivize and enforce cross-border industrial collaboration and involvement of SMEs. By doing so, cross border industrial networks developed through the EDF can be sustained and extended with new entities in the production and the sustainment phase.
- Cross border industrial cooperation could be fostered in the following ways through EDIP procurement:
 - o A procurement agent that implements an EDIP procurement shall oblige the prime contractor selected to award subcontracts in a competitive manner in accordance with Directive 2009/81 Articles 50-53.
 - o The EU funding rate for EDIP procurement shall increase with a wider distribution of tier 1 and tier 2 suppliers across Member States and if the involvement of SMEs in the supply chain of the prime contractors is larger.
 - o EDIP procurement should inter alia be evaluated on the basis of the competitive award of subcontracts by prime contractors and top tier suppliers, the number of suppliers in different tiers in the supply chain from other countries than wherein the concerning prime contractor is based as well as the number of SMEs in different tiers in the supply chain.
 - o Member States shall grant General Transfer Licences for the transfer of defence related products related to the production of concerning end products procured through EDIP in accordance with Directive 2009/43 Article 5 (3).

Production capacity

- EDIP should boost the production capacity of the EDTIB in general, inter alia through the following instruments:
 - o Long term EU financial support for the scale up of production capacity, especially in the case of critical capability gaps. Regarding production capacity, the emphasis should be on green field investment and new and innovative production facilities.

Reinforcement of production capacity should not exclude the licensed production in the EU of weapon systems from producers from non-EU allied countries.

- Regulatory mechanisms that incentivise Member States to place large orders with the EDTIB and provide long term (framework) contracts.
- Means to speed up the process of granting permits to defence companies that want to scale up production capacity.
- Deployment of the financial toolbox of the EU to address the challenges of the EDTIB regarding access to finance, for example through guarantees to secure long term orders.

Resilience

Mapping and monitoring

- A European list of the most critical defence related products, components and raw materials should be established, preferably by the Defence Joint Procurement Task Force, on the basis of voluntary information sharing.
- The supply of the selected critical defence related products must be monitored, the global value chains must be mapped and (potential) suppliers and vulnerabilities identified.

Supply chain resilience

- The EDF and future EU programmes on defence related R&D and innovation should include resilience as an important aspect in programming. Innovation can make value chains more resilient and address dependencies.
- EDIP should provide for an obligation for EU companies to maintain minimum stocks and reserves of critical defence related products, spare parts, components as well as the raw materials and semi-finished products needed for the production of those items.
- Coordination between the EU and strategic partners on supply chain resilience should be deepened by appointing a Supply Chain Resilience Envoy within the Commission, in close coordination with current relevant cooperation fora.

Crisis measures

- If a crisis occurs, only Member States should be able to activate a crisis stage, in which additional measures can be taken, through a Council Implementing Act. The crisis stage can only be activated in exceptional cases on the basis of clear and verifiable criteria and for a limited period of time.
- As part of the crisis stage, the following measures could be considered for EDIP:
 - In addition to the instruments to strengthen the production capacity of the EDTIB in general, in times of crisis, the production capacity of the most urgent capabilities (defined and determined by the Member States) or components thereof should be ramped up, thereby addressing critical bottlenecks in times of need.
 - EDIP should provide for common purchasing in the crisis stage. Member States shall determine when common purchasing is warranted in case of major disruptions in the market for critical defence related products.
 - Common purchasing should always be conducted at the request and on behalf of Member States. In accordance with joint procurement, Member States should be able to designate the European Defence Agency or an international organisation to conduct common purchasing on their behalf.
 - Common purchasing should only concern components, semi-finished materials and raw materials needed to produce the most critical defence related products.
 - Common purchasing upon request and on behalf of the Member States should be based on strict criteria and with a high level of involvement of Member States along the entire purchase process.
 - Priority rated orders should only be applied in exceptional cases as a last resort option to avoid unnecessary distortions on the Single Market as much as possible. A priority rated orders mechanism can only be activated by the Member States.
 - Priority rated orders should only be applied if supplies for civilian applications are demonstrably at the expense of supplies for defence applications. Orders placed by

contracting authorities at suppliers of defence related end products should be excluded from the scope of priority orders in EDIP.