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ASD Policy Paper

Strategic Priorities for Defence

About ASD

ASD represents the Aeronautics, Space, Security and Defence industries in Europe. Based in Brussels, the organisation's membership today comprises 15 major European aerospace and defence companies and 27 member associations in 20 countries (Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey and the UK). These industries reach a turnover of 197.3 billion euros, invest 20 billion euros in R&D, employ 778,000 people and count over 3000 companies, 80,000 suppliers, many of which are SMEs.

ASD Strategic Priorities For Defence

A More Consistent Political Posture

1. Europe's leaders regularly affirm the importance of maintaining strong, coherent defence capabilities in Europeⁱ. Yet, deep defence cuts have become the normⁱⁱ and Member States' military forces are struggling to maintain effective fighting capabilities.
2. The U.S. has made clear that it wants European NATO members to take on more of the burden of defending European interests, and that some European allies have reduced their defence capability/spending too far, given the backdrop of recent events.
 - The European defence industry urges all stakeholders to close this gap between rhetoric and reality, bearing in mind that Europe's security and economic wealth depend on the stability that comes from robust, credible defence capability.
 - The main responsibility for defence remains with Member States. They define and fund military capabilities, and therefore fund the underpinning industrial base. It is therefore for them to ensure that the funding matches the level of their declared ambitions.
 - In 2013, the European Council and the European Commission also announced numerous initiatives to strengthen CSDP and the European defence industrial base. These should now be rapidly translated into concrete actions. Wherever defence industrial issues are concerned, European industry should be involved in this process through its association ASD.

Strengthening European Defence Industry to Ensure Strategic Autonomy

3. Europe needs "strategic autonomy" to be a credible international partner and assume its responsibilities on the global scene. The European defence industry is a crucial element of this strategic autonomy. It assures security of supply and freedom of action by ensuring that design capabilities and rights are owned on-shore. It also provides a vital component of operational advantage to militaries by enabling in-depth understanding of defence systems and their underlying technologies. This means that European governments can make full autonomous use of those defence systems. They can also choose to modify or export them without having to rely on or be hampered by other countries. European military operational capability and defence industrial know-how are therefore intrinsically linked.
4. As European defence industrial capability declines, so too will the military operational capability that depends on it. Once defence industrial know-how is lost, it is difficult and expensive to resurrect. The severity and duration of the budget cuts mean that these capabilities are declining rapidly in some key areas.
5. Replacing on-shore European design, development and production with imports will not sustain the European industry, even if these imports include some local manufacturing or sub-system development work. Indeed, although these create short-term employment, they actually disguise the critical loss of know-how that is occurring.
6. Sustainment of full-scope capabilities may no longer be a realistic goal for individual Member States. But it is vital that there is a comprehensive understanding of which capabilities are essential to the retention of Europe's Strategic Autonomy as a whole.
7. The many decades of defence industrial investment in Europe, coupled with significant export success, have helped limit the decline in European sovereign industrial design capability. But the recent lack of new product development inevitably means that this can only be a temporary stay of execution.

- We urge European policy-makers to recognise the importance of retaining a strong defence industry in Europe and encourage Member States to identify the key defence industrial capabilities needed to underpin Europe’s operational capabilities. This exercise should be used to clarify the ill-defined “EDTIB” concept.
- The relevant know-how must remain in Europe. If necessary, security of supply requirements and security restrictions can be used to ensure that any change of industrial ownership or political stance abroad cannot risk its loss from Europe.
- Member States need to undertake this assessment both individually and at European level, taking the NATO context into account. This will enable an assessment of Europe’s cumulative military capability and coherence, and identification of gaps that need to be addressed.

The Future of Europe’s Defence Industry

1. The defence industrial sector is not only of strategic importance for Europe’s security, it is also a major contributor to the European economy with a total turnover of 100B€/year and 1.4 million highly skilled people directly or indirectly employed in Europe. Due to decades of sustained investment, on the one hand, and high entry barriers for newcomers, on the other, it is one of the few hi-tech sectors where Europe has a realistic chance to remain a world leader. Defence industries constantly push the bounds of technology and generate spin-off technologies which reinforce the competitiveness of other important sectors such as civil aviation, space and electronics. They can therefore make a major contribution to the Commission’s objective to bring industry weight in the EU’s GDP back to 20% by 2020. Conversely, for every €1 cut in EU defence investment, there is a €1.50 decline in EU GDP.ⁱⁱⁱ
 - We urge policy makers to recognise the value of the defence industry and the economic multiplier effect that defence investment brings. Because of its positive effects on other sectors, defence industry should be recognised as a key area of the Europe 2020 strategy for growth.
 - We recall that the new SEC2010 accountability recognizes defense spending as investment and no longer as debt. As a next step, the European Commission should explore the possibility to classify defence expenditure as “productive investment”, therefore eligible for the Two Pack’s exclusion from the Fiscal Compact.
2. The industry recognises the need to consolidate and become more efficient. A key driver for achieving this is the launching of new European collaborative programmes. Yet there are fewer such programmes in the pipeline than ever before.^{iv}
 - We urge Member States to do far more to harmonize requirements, align cross-border procurements in Europe and commit to launching new collaborative programmes.
3. Long-term investment in defence R&T is essential to the long-term sustainability of the European defence industry.
 - We call for a rapid and substantial increase in investment in defence-oriented research through cooperative R&T projects. These should focus on the key technologies that will underpin the operational capabilities essential to sustaining Europe’s strategic autonomy and act as precursors to collaborative equipment programmes.
 - The Preparatory Action on CSDP-related research proposed by the European Commission is welcome, but needs to be followed up by a fully-fledged European defence research programme which complements national research activities.

4. Small, medium and intermediate companies (SMIEs) are all indispensable elements of Europe's DTIB and play a crucial role in ensuring European sovereignty in key capability requirements. Primes and SMIEs are strongly dependent on each other, and continuous efforts are required to refresh these relationships both in terms of access to competitive supply chains and innovative ideas. Strengthening and enhancing the competitiveness of European supply chains is also necessary to withstand international competition and to sustain European defence solutions in the long-term. Moreover, there would be far less pressure on offshore primes to use European SMIEs, if they did not have to compete with European primes.
 - The European Council of December 2013 tasked the European Commission to develop proposals for promoting competitive cross-border supply chains. In this context, we urge policy-makers to adopt a balanced approach to sustaining world-class European primes and a strong, competitive European supply chain.

5. To maintain a competitive defence industry, it is essential to strengthen the internal market for defence. In this context, EU-wide competition is important, but not sufficient. Equally important is to pool demand and establish a regulatory framework which facilitates cross-border cooperation and consolidation. In this context, the free circulation of defence goods and services within the European Union is crucial.
 - We call upon the Commission to develop a balanced approach between market and industrial policies, to ensure in the internal market fair competition for European industry also vis-à-vis suppliers from third countries, and to develop together with Member States an ambitious roadmap for an EU-wide regime for security of supply, as stipulated by the European Council.

6. The global defence export market is highly political and exhibits some unique features such as government-to-government export sales mechanisms. This means that there is rarely a truly level playing field.
 - Since it is not feasible for Europe to prohibit or regulate such external mechanisms, the European defence industry advocates that: when Member States are acquiring defence equipment and sourcing on the global market is considered an option, this should be based on the principles of equity and fairness both ways. As long as this cannot be achieved, individual Member States should favour European sourcing for those capabilities which underpin Europe's strategic autonomy.
 - It is for Member States to authorise defence exports, and this decision should remain a national prerogative.

Jan Pie, ASD Secretary General

ⁱ The December 2103 Heads of State and Government Council Conclusions underscored that more robust defence capabilities are required in Europe. At the September 2014 NATO summit, the target for members' defence spending of 2% of GDP was reasserted.

ⁱⁱ EDA statistics show that defence spending has declined steadily as a proportion of GDP from 1.78% in 2006 to 1.5% in 2012.

ⁱⁱⁱ From EDA study: "The economic case for investing in Europe's Defence Industry", July 2014

<https://www.eda.europa.eu/info-hub/news/2014/07/28/spending-that-matters-the-economic-case-for-investing-in-europe-s-defence-industry>

^{iv} Data from the EDA show that in 2012, only 16.8% of defence equipment was procured via European collaborative programmes, which is the lowest since 2006, when EDA started compiling data.