

Industry initial considerations on the White Paper on the Future of European Defence

Introduction

In their mission letters from the President of the European Commission, the Commissioner-designate for Defence and Space and the High Representative-designate of the Union for Foreign Affairs and Security Policy have been tasked with presenting a *White Paper on the Future of European Defence*. The White Paper is intended to “frame a new approach to defence and identify investment needs to deliver full-spectrum European defence capabilities based on joint investments, readying the EU and Member States for the most extreme military contingencies”.

This initiative arrives at a critical juncture, in time to inform the upcoming negotiations over the next EU Multiannual Financial Framework and to enshrine the importance of European defence.

As the scope of the White Paper covers defence in general, it will have to take into account the Treaty-based distribution of competences, which limits the EU’s role to the Internal Market, industrial policy and the Common Security and Defence Policy. In what follows, we approach the initiative from a defence industrial perspective.

This note addresses two main elements that the White Paper is intended to include, namely the ‘new approach’ to defence and the ‘investment needs’ for delivering full-spectrum European defence capabilities. In determining these elements, two considerations are key: First, as the mission letter indicates, both the approach and investments must be geared towards **preparing Europe for “the most extreme military contingencies”**, i.e. high-intensity warfare. Secondly, both the approach and investments must consider **defence industry itself as a key military capability and a crucial part of deterrence**. This is because a competitive, robust and resilient EDTIB is needed to provide armed forces with all the materiel they need, as well as to sustain, repair and replace it during a conflict, which would be crucial in a high-intensity war of attrition. To fulfil its role as an insurance policy for Europe’s security, European defence industry must be supported in scaling up and accelerating, to reach a critical mass and remain technologically at the cutting edge.

A ‘new approach’ to defence

Bridging defence planning and industrial policy

From an industrial perspective, defining a new approach to defence at European level does not need to start from a blank slate, but can and should complement the existing EU defence industrial policy framework. This includes the 2022 Strategic Compass and especially the 2024 European Defence Industrial Strategy (EDIS), which outlines a comprehensive vision for Europe’s defence industry and sets ‘defence industrial readiness’ as the key strategic objective. The White Paper should retain this objective, focus on making the current framework truly effective and thereby create the basis for a successful implementation of EDIS.

With respect to industrial capacities, a new EU approach to defence should start from a fundamental principle: defence industry serves first and foremost the needs of the armed forces. As such, the overarching purpose of EDIS and all instruments under it must be to help enable European defence

industry to satisfy Member States' capability needs and operational requirements under any possible scenario, including high-intensity peer warfare. To achieve this, **EU defence industrial policy must ultimately be guided by Member States' defence planning**, where capability targets and operational requirements are defined.

What is needed is therefore a mechanism for translating Member States' capability needs and targets, as derived from defence planning at national and NATO level, into defence industrial output targets with concrete quantities and timelines for both peace- and wartime. From this Member State-driven process should also emerge which priorities for capabilities and technologies should be addressed at the EU level. Such a mechanism would have to be much more systematic than today's CARD framework and would require much better cooperation between the European Commission, the EDA, Member States, and NATO.

Output targets and priorities must, in a following step, be transformed into firm long-term commitments for procurement and investment. This would provide industry with the visibility and certainty it needs to make its own investments in the production capacities, technologies, personnel, and supply chains. This combination of clear output targets and firm financial commitments is thus necessary to ensure industry's readiness to deliver under any circumstances what Member States need at the required rate and scale.

Optimising the defence industrial policy toolbox

EU instruments can and should support the transformation of targets and priorities into procurement and investment commitments. These should ultimately lead to contracts for deliveries and/or preparedness measures underpinned by appropriate risk-sharing arrangements. With the EDF, ASAP, EDIRPA and possibly EDIP, the Union has already developed tools to support Member States' investment in and procurement from European defence industry. The EU must now rapidly assess and learn from their implementation to make its toolbox more effective and efficient.

This effort should be guided by certain **core principles**: First, all instruments should be well coordinated and consistent with each other and with the overarching objective of addressing Member States' capability needs. Secondly, they should be simplified and focused on where EU-level action can bring real added value. Thirdly, they should always respect certain essentials, namely the protection of companies' IPRs and Member States' sole responsibility for exports. Finally, they should include clear eligibility criteria which channel investment into European products and technologies as well as procurement from European companies, as defined by the European Commission. To qualify for EU financial support, a defence product should in particular meet a number of criteria such as a design authority based in the Union or an associated country. Such 'European preference' is a necessary contribution to reverse the current predominance of non-European suppliers on European defence markets. This will be a process, but it is vital for strengthening our industrial base and bolstering our armed forces' security of supply. 'European Preference' in defence is thus more than an economic objective, but a strategic imperative for enhancing Europe's defence and deterrence capacity.

A key instrument in this toolbox would be EU flagship projects, in the form of **European Defence Projects of Common Interest** (EDPCI). Their nature, objectives and governance will need to be clarified, and they should be implemented under the authority of the Member States. These EDPCIs could be used to support the industrial and technological capacities that underpin major priorities that several Member States have in common and cannot afford individually (capability or industrial wise). This could be the case for example for certain critical enablers for which Europeans currently rely almost entirely on the US. EDPCIs could provide a framework for complex, multifaceted and expensive projects, structuring the

combined use of ‘specialised’ EU instruments and the respective allocation of financial resources in support of the EU’s defence industrial base.

Beyond the EDPICs, the EU defence industrial policy toolbox should be further developed along three strands: a) improving existing defence-specific instruments, in line with the principles outlined above; b) developing new defence-specific instruments, where necessary; and c) optimising the use of non-defence-specific instruments for the purposes of the EU defence industrial policy.

- **Improve and reinforce defence-specific instruments:** This should include a better resourced, more strategic, and more efficient successor to the European Defence Fund, as well as an ambitious and fully-fledged successor to the European Defence Industry Programme, based on a longer-term, structural approach. It is important to strike the right balance between support to R&D, on one hand, and production capacity and procurement, on the other, to ensure that the pursuit of short-term goals does not come at the expense of longer-term objectives and future capabilities. These instruments should also be articulated in a way that ensures market uptake of EU-funded research results and addresses relevant enablers, such as skills, certification, and standards.
- **Develop new defence-specific instruments, where appropriate:** This could include initiatives to promote a more integrated European market for defence, including by removing obstacles to cross-border industrial activity and promoting the Europeanisation of defence supply chains. Supply chain shall remain however under the management of the industry, in particular of the prime contractors, aiming at industrial and economic logic and efficiency. In addition, new funding instruments could be explored to tackle defence industrial needs that are better addressed at the national level, and which could operate through national allocations disbursed by governments based on specific conditions, similarly to today’s structural and cohesion funds.
- **Defence-optimize horizontal instruments:** This would include the review and, where needed, revision of existing cross-sectoral instruments to ensure that they a) do not undermine EU defence policy objectives (e.g. REACH, CSRD, CS3D); b) allow full and unimpeded access to defence-related entities/activities (e.g. InvestEU, Cohesion Funds, EIB lending policy); and c) prioritise defence-related entities/activities, as appropriate (e.g. Chips Act, CRM Act).

Partners

In utilising its toolbox, the EU should, wherever appropriate and mutually beneficial, cooperate closely with like-minded partners and allies. This includes Norway, as an associated country, and Ukraine, as an accession candidate strongly tied to the EU.

Essential in this context is the relationship with the UK: strong EU-UK defence industrial cooperation would make eminent sense, given the two sides’ shared capability challenges, dense defence industrial links, and closely aligned goals for the evolution of the European defence industrial base.

Investment needs to deliver full-spectrum European defence capabilities

Today, Europe’s security environment is more dangerous than any time since the Cold War. At the same time, decades of underinvestment have left deep scars in Europe’s defence capabilities and industrial capacities, which weaken its capacity to defend itself and support its partners and allies. Despite recent

increases in defence spending, Europe's current rate of investment and procurement is not sufficient to keep up with today's and tomorrow's geopolitical threats. Europe will have to rapidly and significantly ramp up its defence investment and to sustain it over a longer period.

During the Cold War, Europeans routinely spent over 3% of their GDP on defence. Given today's security environment, a similar effort would probably be required for the foreseeable future to ensure a minimum degree of defence readiness and deterrence capacity. This would also be in line with NATO officials who are reportedly acknowledging that spending 2% of GDP on defence will not be enough to implement the Alliance's regional defence plans.

Assuming at least 2.5% of GDP dedicated to defence spending and holding fixed the 20% investment target agreed in NATO (and enshrined in PESCO), the aggregate annual defence spending of EU Member States would be approximately €425 billion (based on 2023 GDP and prices), of which €85 billion for defence investment. Based on the agreed EDA target of 35% for collaborative defence investment, and assuming that roughly half of this investment would be channelled through the EU, **the EU budget for defence investment should be at least €100 billion over the next MFF period.** The final amount of budget shall be strictly linked to the implementation of an effective governance and a clear European preference.

In this context, it is particularly important to recall that EU defence actions aim at supporting, initiating and incentivising actions of Member States, who will in any case remain the customers of defence equipment and therefore by far the most important defence spenders. From our perspective, this means two things: first, the EU budget for defence must reach a certain critical mass, i.e., an appreciable share of Europe's overall defence investment, to support its defence industrial tools with financial means that make a difference and have a structural effect. Hence, a ratio as proposed above. Secondly, the EU budget will only fulfil its purpose if it doesn't come at the expense of national defence spending and must therefore not be an excuse for Member States not to increase and sustain their national efforts.

At first sight, the figures above may appear extraordinary. However, it should not be forgotten that, after 30 years of 'peace dividend', Europe today has an accumulated defence spending gap of €1.8 trillion, including an investment deficit of €600 billion.¹ Against this background, 2.5 to 3% of GDP for defence spending at least €100 billion MFF budget for defence are the bare minimum for starting to rebuild our military and industrial capacities – in fact, much more would be needed to compensate for our past complacency.

Finally, time is of essence. While the next MFF will not be in place before 2028, there is little hope for Europe's security environment to improve in the next three years. It is true that certain Member States have announced further defence budget increases, but others have not, and the financial envelopes currently planned for the EDF and a possible EDIP are insufficient in light of today's challenges. This situation may call for extraordinary financial measures to rapidly address Europe's most critical capability gaps.

Conclusion

Given the EU's competencies, the EU Defence White Paper will inevitably differ in purpose and content from national Defence White Papers. However, the EU can make an important contribution to Europe's capacity to defend itself and deter military aggression. The White Paper can be an opportunity for the new Commission to further conceptualise this contribution with a view to the next MFF.

From a defence industrial perspective, we believe that the strategic objective of EDIS remains valid: enhance Europe's defence preparedness and, as part of it, its defence industrial readiness. To achieve this, the White Paper should spell out how the EU can best help Member States to rapidly strengthen their military capabilities, and how it can help industry in its capacity to support our armed forces in all circumstances with whatever they need.

In this context, we believe that three issues are key: 1) better link EU defence industrial instruments with Member States' defence capability requirements; 2) optimise the EU industrial policy toolbox in line with the principles outlined above; and 3) mobilise sufficient funding to make a difference. The more compelling the White Paper is on the first two points, the more it will convince Member States and the European Parliament on the third one.

Finally, we don't expect the White Paper to provide all the answers, but rather to set a strategic framework for action and give orientation on the way forward, in particular for a successful implementation of EDIS. Against this background, the release of the White Paper should not mark the end of the journey, but rather the beginning of a structured and comprehensive consultation process that involves all relevant stakeholders and allows adequate time for proper deliberation and dialogue. In the meantime, ASD stands ready to provide further input to the preparation of the White Paper.

A handwritten signature in black ink, appearing to read 'Jan Pie', written in a cursive style.

Jan Pie

Secretary General of ASD

Brussels, 13/11/2024