European Economic and Social Committee

CCMI/116
Strategy to strengthen Europe's defence sector

Brussels, 17 October 2013

OPINION

of the

European Economic and Social Committee

on

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Towards a more competitive and efficient defence and security sector

COM(2013) 542 final

____

Rapporteur: **Mr van Iersel**

Co-rapporteur: **Ms Hrušecká**

____

Rue Belliard/Belliardstraat 99 — 1040 Bruxelles/Brussel — BELGIQUE/BELGIË

Tel. +32 25469011 — Fax +32 25134893 — Internet: http://www.eesc.europa.eu

EN

On 3 July 2013, the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union (TFEU), on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Towards a more competitive and efficient defence and security sector.
COM(2013) 542 final.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 September 2013.

At its 493rd plenary session, held on 16 and 17 October 2013 (meeting of 17 October), the European Economic and Social Committee adopted the following opinion by 172 votes to 23 with 24 abstentions.

*

*   *

1. **Conclusions and recommendations**

1.1 The EESC very much welcomes the forthcoming European Council on Defence this December, to be based on the EC Communication[1] and the High Representative/Head of Defence Agency report[2]. These initiatives are a very urgent and timely response to internal and external challenges, with a view to promoting the long-term predictability and credibility of European defence.

1.2 In going beyond traditional taboos, the Communication and the (provisional) viewpoint of the High Representative put the current situation and the actions to be taken in the right perspective.

1.3 The High Representative's report, in particular, argues convincingly that a comprehensive CSDP-strategy is indispensable to respond to European defence and security requirements. The EESC agrees that a CSDP will provide the most appropriate framework for effective cooperation in the area of military capability, but stresses, in addition, that cooperation will also be a condition for a credible CSDP.

1 Towards a more competitive and efficient defence and security sector, COM etc.

2 This document is not yet published. A provisional point of view of the HR is available.

1.4 If this initiative is to succeed, favourable political conditions must be put in place. Given that the road to making substantial adjustments in European (industrial) defence structures will be a long and thorny one, involving inter-related policies, the EESC considers that the foremost condition for achieving badly needed breakthroughs will be a consistent commitment on the part of EU government leaders.

1.5 The EESC urges the Council to adopt a number of tangible actions and measures to strengthen competitiveness and cooperation in the European defence sector, sending a clear message for the future.

1.6 The EESC supports the aim of sustaining an independent European defence, commensurate with Europe's economic weight and other interests in the world. The long-term goal should be autonomous protection of European citizens, ensuring that the military is provided with up-to-date equipment on an on-going basis and guaranteeing European values (human rights, democracy)[3].

1.7 The new phase of transition is also having an impact on defence and security in Europe. Geopolitical shifts are taking shape in a period of serious stagnation of the economy and persistent unemployment in large parts of Europe. In parallel, new actors are appearing on the world scene. Global developments are outpacing developments in Europe. The gap is increasing. Europe must adjust faster to keep pace with other countries.

1.8 In addition, the need for industry to be competitive, combined with shrinking financial resources, necessitates cost-effectiveness. European approaches, substituting for counterproductive overlaps, uncoordinated policies and gaps, must foster value for money, leading to less waste of money and higher output, to the benefit of the taxpayer.

1.9 The EESC is happy with the pointed and acute analysis in the EC Communication concerning the relative position of Europe. A comparable analysis brought the EESC to plead, last year, for a radical change of mind in Europe towards common defence issues[4].

1.10 The EESC agrees in particular with Chapter 9 of the EC Communication on essential elements for the agenda of the Council, namely: a strategic European concept, a Common Security and Defence Policy[5], and a European Defence Industrial Strategy.

1.11 Europe badly needs a "common defence language". This asks indeed for a shift from national to shared European thinking on strategic needs, which would promote that national interests are fulfilled through the pursuit of EU strategic objectives.

---

3 OJ C 299, 4.10.2012, p.17.

4 OJ C 299, 4.10.2012, p. 17.

5 See Article 42 TEU.

1.12 A political and civil engagement is also needed to ensure that public opinion is properly informed about the importance of European strategic global and industrial interests in order to foster the active support of citizens and taxpayers. The EESC agrees with the Commission that a healthy Europe-based defence industry will also deliver a vital contribution to the European manufacturing industry at large[6].

1.13 The largest possible number of Member States (MS) must be committed to achieving this far reaching goal. If not all MS are willing to take part, the process should be put on the rails with those that are willing to do so.

1.14 The EESC underlines the role of the Commission and the EDA, which must be expected to work closely together in implementing the Communication. It largely supports the actions envisaged by the Commission. In Chapter 6 of this Opinion it adds additional observations and recommendations to the proposals.

1.15 The EC Communication does not discuss a pro-active industrial policy. The EESC, by contrast, points to the exceptional position of the defence sector in 100% institutional markets around the world. A pro-active industrial policy in selected areas, carried out by the Member States and/or the Commission, is indispensable to attain up-to-date production and cost-effectiveness. Shared EU and national competences as well as effective interaction and synergies between civil and military projects and technology will turn out to be highly beneficial and cost-efficient.

1.16 New projects in a multilateral European framework must be identified from the conceptual phase onward, taking advantage of EDA. It can take decades before such projects become fully operational. The earlier they start the better.

1.17 Public and private R&D is core business. In this area defence investment is at its lowest level since 2006[7]. Ways of improving the conditions for investment and its application in concrete projects should be put in place in the overall concept.

1.18 The greatest responsibility falls on the main producing countries as drivers of the process. A harmonious relationship between these and the other MS must be ensured. SMEs and research facilities in all countries must be broadly interconnected in order to get as many MS on board for a European strategy as possible.

1.19 Given the unrest amongst those working in the sector, due to unstructured reorganisations, predictable policies are all the more necessary. Coordination in anticipating change is also

6 In this respect a very illustrative example in the civil industry is the successful and vibrant development of Airbus.

7 See EDA Defence data 2011.

required in order to ensure decent labour contracts and prospects. Social dialogues must be in place.

1.20 This Opinion focuses primarily on policy principles, envisaging an urgent breakthrough in a strategic area that brooks no delay. The first steps in December should pave the way for a successful follow-up. The European Council, governments, the Commission, EDA, parliaments, and industry (including employee representatives) should all be involved when it comes to the elaboration of strategic orientations and concrete projects.

2. Europe is challenged

2.1 The Commission rightly points to a shift *"in the world's balance of power as new centres of gravity are emerging and the US is rebalancing its strategic focus towards Asia"*. The BRICs are intensifying their military expenditure. China and Russia, in particular, are considerably increasing their budgets up to 2015.

2.2 American pressure on Europe to take its full part in the overall military spending of the Western world is increasing incessantly. Due to budgetary constraints, the US is rationalising its defence and this is also affecting agreements with the Europeans.

2.3 The gap between the US and Europe is huge. In 2010 the total European defence budget (excepting Denmark) was EUR 196 bn. compared to the EUR 520 bn. of the American budget[8]. More importantly, the overall European R&D budget is 1/7 of the American one, affecting the equipment and the deployment of the people under arms.

2.4 Meanwhile the threats are manifold. Political and military tensions are not decreasing, new tensions are arising – some of these at Europe's doorstep. In order to be level with traditional powers, new ambitious world players want to ensure that their national defence matches their economic and other interests.

3. European approaches

A. Political

3.1 The Europeans are facing two interlinked categories of problems:

- a substantial drop in defence spending, creating gaps and damage to national defence capabilities and effectiveness, especially due to continuous reduction in R&D spending;
- geopolitical shifts, which should lead to far closer European cooperation and a higher degree of independence in defence and security.

---

8 Source: EDA, January 2012.

However, the state of the European debate on these two interlinked fields is still in its infancy.

3.2 Government papers[9] all reflect a substantial decline in defence expenditure[10]. They are focusing primarily on adjustments within a national framework: how to be as cost-effective as possible in maintaining sufficient output of the capabilities. MS are still far removed from a way of thinking that places national defence capabilities in a natural way in a European perspective.

3.3 The EESC concluded last year that, "Defence policy is shaped by countries' strategic interests which in Europe are mainly defined in national terms. Obsolete approaches visibly lead to increasing fragmentation, gaps, overcapacity and a lack of interoperability in European defence capabilities"[11].

3.4 Sixty years of European integration and the single market have given rise to resilient economic and company structures that generate a strong home-based pattern of economic activities. However, in military and defence thinking, let alone in organising, Europe is still at the beginning.

3.5 Defence as a function of foreign policy, which is still the expression par excellence of national sovereignty, is conceived, built up, and run along national lines. Any multinational cooperation, either with European partners or beyond, is seen from that angle.

3.6 Initiatives to overcome the inherent obstacles have to a large extent failed thus far. The St. Malo Anglo-French military pact or agreement on defence cooperation in 1998 was expected to mark significant steps in military cooperation. After fifteen years, and despite further negotiations, the results remain meagre.

3.7 A Six-Nation initiative in 1998 generated, in 2000, a Letter of Intent of the six most important producing countries – France, Germany, the United Kingdom, Italy, Spain and Sweden, the so-called LoI countries – resulting in a Treaty on restructuring and operation of the defence industry. This Treaty on planning and cooperation with industry as well as on capabilities and research has, over a long period, generated no tangible results.

3.8 Other forms of cooperation also exist between MS, such as between the Dutch and Belgian Navies, the Nordic Defence Cooperation (Denmark, Finland, Iceland, Norway and Sweden),

---

9 **Strategic Defence and Security Review**, UK, October 2010. Livre Blanc sur la Défense et la sécurité nationale, France, May 2013.

10 Very open on the impact of this decline were the pointed comments of the French Minister of Defence, Jean-Yves Le Drian, in a speech for the Ecole militaire in Paris on 29 April this year.

11 Ibid. point 1.2.

and the German and Dutch Land forces. However, these should not be confused with industrial cooperation, which is still largely lacking.

3.9 In 2004 the European Defence Agency was established, envisaging structural defence cooperation, also supported by Commission initiatives. Despite some progress, structural cooperation has so far not got off the ground due to a lack of commitment on the part of the MS.

3.10 In conclusion, the EESC notes that despite growing awareness of the need for closer cooperation and a European vision on defence, the lack of political will, traditional views, and vested interests have hampered any substantial progress.

B. Industry

3.11 The reaction of the European defence industry towards international developments has been rather different:

- It operates in a world context. It is necessarily linked to national governments, but is also very active in international markets, increasingly a basis for positive results.
- Moreover, the main industries are working both in the military and in the civil sector. The more dynamic civil part is increasing due to shrinking military sales and earnings, especially in Europe.

3.12 For a long time, industry has been concerned about its competitive position. The institutional position of industry varies greatly from country to country: from completely state owned companies to private business and all variations in-between. The common denominator is that the role of governments is overriding everywhere. Despite (partial) privatisation the link between industry and governments remains very strong as it is dependent on (monopolistic) government demand and regulation, and on licenses for exports.

3.13 The preference of industry would be consolidation on a European scale, but the market is too limited. BAE-Systems, Finmeccanica, and, to a lesser degree Thales and EADS, are very active in the US. However, they cannot freely operate in Europe because, due to special relationships, national governments remain at the helm of any strategic decision in industry.

3.14 Market dynamics enhance competition worldwide. The American industry is intensifying its efforts in exports in order to compensate for the reduction of certain domestic markets. New world actors will increasingly fill their own needs. They will also target exports and thus compete with European industry on third country markets.

3.15 Finally, industry takes the position the EESC strongly underlined last year, namely that a mature defence industry can never hold a credible international position without a solid home-base. Given the high technology component of military equipment, no single national market or national defence budget is any longer of sufficient volume. This has already been the case for twenty years and the consequences are becoming ever more acute.

3.16 On the way to an independent European defence the EESC underlines the high priority of sovereign capabilities and high added value investments, which are crucial for Europe to play a distinctive role worldwide and will also contribute to new thinking among Europeans.

3.17 Recently, industry has reiterated all the usual arguments in favour of stable and predictable long-term European driven technology and production schemes in any important area.

3.18 Industry is ringing the alarm bell. In order to survive and maintain its earning capacity and employment, the alternative is to increase civil production. In that case, however, Europe would lack, to an ever larger degree, a home-based defence industry, which would also affect its foreign policy.

3.19 Trade unions, represented by IndustriAll, reflect similar feelings of great uneasiness. In 2011, 733 000 qualified people in Europe[12] were directly employed by the aerospace and defence sector and another two million people depended on it. Over the last decade the workforce has been substantially reduced and further budgetary cuts are threatening jobs. Young people are insufficiently attracted to the defence sector due to its unpredictable future.

3.20 The EESC points to the fact that the employees are largely paying for governments' failure to restructure their defence organisations. By postponing the rationalisation of the military base, governments are missing the opportunity to invest in renewing capabilities effectively, which has a negative impact on the workforce.

3.21 The current situation will provoke increasing resistance, as long as unplanned and unstructured reorganisations continue. In putting pro-active policy changes in place, the participation of representatives of the workforce at company and territorial level will be necessary in order to avoid abrupt adjustments.

3.22 Employment, maybe on a smaller scale, will require far more European coordination in technology and production. In this process, precarious employment must be prevented by new skills and competences in order to ensure as much as possible decent labour contracts and prospects. Effective social dialogues at various levels must be in place.

3.23 The slimming down of European production due to budget cuts must be managed in a structured way, involving decent social dialogues aimed at maintaining jobs and redeploying redundant workers. Both industry and personnel are better off in a predictable market-driven

12 ASD Annual Report 2012.

European context than in short-term and badly planned reorganisations on a purely national basis without clear objectives[13].

4. **Political conditions and potential prospects**

4.1 The prospects of the European defence industry will gradually get so uncertain that a fundamental debate among Europeans on the future in needed - and if not among all, then at least among those that are willing.

4.2 There is a need for a new mindset and for the development of a "common language" between MS and in the EU, starting from three basic assumptions:

- an integrated European economy needs a common approach to defence and security to safeguard and protect its interests, its citizens and its views in the world;
- there is a need for a common analysis of existing and expected (long-term) world developments as a starting point to elaborate ideas and concrete approaches to sustain Europe's overall position in the world;
- the link needs to be made between foreign policy, threats, defence and security, long-term prospects, and a sustainable defence industry, including employment.

4.3 The EESC is fully aware of the huge impact of these interrelated assumptions that are continuously insufficiently discussed. Numerous initiatives that were started over the last fifteen years in good faith have failed because national sovereignty, i.e. national perceptions of threats and positions, expressed by national foreign policy, has never been questioned. Consequently, Europe is currently living with a wide range of positions that are, to a certain extent, incompatible. The EESC believes that a serious breakthrough is illusionary without an acceptance of shared sovereignty in the framework of the EU.

The debate must start on a new footing for new, more promising processes.

4.4 Given the wide range of policy areas involved, the EESC very much welcomes the European Council on Defence this December. Until now, the responsibility for defence and security has been mainly in the hands of the Ministers of Defence, generally in line with general guidelines of the Ministers of Foreign Affairs, and under the strict surveillance of the Ministers of Finance.

4.5 Meanwhile, the context is changing completely, due to drastic budget constraints and the need for rationalisation together with new paradigms and, consequently, new threats. Given, amongst other things, the interrelationship between civil and military technology and

13 See also "Twelve demands for a sustainable industrial policy", IndustriAll Europe Executive Committee, 12-13 June 2013.

innovation, and the link between defence and public security, other parts of governmental policy are equally involved. All these factors call for a holistic and global approach.

4.6 Many people, notably industrialists and employees, are counting on structural thinking and action from December onward. If the EU misses this opportunity, it may take years again to get a positive process on track.

4.7 The European Council in December will be the first EU Council to address the defence issue in overall terms. Given the overwhelming complications involved in setting course for new directions, the EESC believes that subsequent European Councils will be indispensable to provide a visible pathway, credibility, and predictability.

5. Industrial policy

5.1 The EESC very positively welcomed the EC Communication on Industrial policy[14] aiming at stimulating beneficial conditions, policies and programmes to start, build up and reinforce industrial activities in Europe. Europe must ensure its industrial future in an open environment.

5.2 Defence is a predominant and exceptional sector. It functions, by its very nature, in 100% institutional markets around the world. The sector and research facilities alike are set up and organised mainly along national lines. The smaller countries, lacking their own industrial production, buy "off the shelf", which in fact boils down to buying from the US.

5.3 Through consolidation in industry – cross-border mergers and take-overs – and internationalising - notably with the US industrial fabric - big companies and SMEs across the continent are interlinked. Exports are still running positively. The biggest obstacle is the laborious relationship with European governments due to the lack of a common horizon.

5.4 In addition to the actions of the EDA, the EU started with two directives envisaging the opening of intra-European markets[15]. The deadline for transposition was the summer of 2011[16], but actual implementation is slow.

5.5 The EESC very much welcomes the EC Communication[17], which demonstrates substantial progress in analyses and proposals. The Commission rightly underlines, in the framework of

14 EC Communication on Industrial policy (COM(2012) 582 final) and EESC Opinion on this Communication.

15 Defence Package, 2007.

16 Directives 2009/43EC (OJ L 146, 10.6.2009) on Transfer of defence-related products and 2009/81EC (OJ L 216, 20.8.2009) on Defence and security procurement. The Defence Package contained also a Communication "Strategy for a Stronger and More Competitive European Defence Industry", COM(2007) 764, 5.12.2007.

17 See footnote 1.

an industrial policy for the defence sector, the significance of the internal market for defence products, R&D, the role of SMEs, the potential contribution of regional policy, and the development of appropriate skills.

5.6 However, as a point of criticism the EESC points to the fact that the Commission highlights insufficiently the exceptional position of the defence sector as well as the need for a pro-active industrial policy. It is not only about the opening of markets, as this must be defined properly, due to the specific characteristics of the defence sector, including Art. 346 TFEU.

5.7 It is also about creating a political basis in Europe for governments to work together on their common destiny in the long term. Only then will the conditions be fulfilled to start serious common programmes from the conceptual phase on to focused research, innovation and production in the European home-market over a long-term period.

5.8 R&D is key at the start of the value chain that should be Europeanised[18]. These were the reasons for stressing R&T and R&D cooperation in the setting-up of EDA, its predecessors (WEAG and IEPG) as well as in NATO. However, the implementation is, once again, missing.

5.9 Over 30 years, failing cooperation has been a rule rather than an exception. Some projects, such as NH-90 and A400M, have been started, but examples prove equally that system requirements were too often a simple adding up of national requirements, that the development phases were way too long, and that the final products were overly costly.

5.10 Apart from some relative successes, other cooperation initiatives, such as the NF-90, have failed and a range of competing fighter aircraft programmes have been implemented in parallel (Typhoon, Rafale, Grippen), while many countries have joined the US F-35 programme as well as a wide variety of missile programmes.

5.11 No major, large-scale programmes are currently being implemented, whilst existing systems are ageing and becoming obsolete. As a case in point, the EESC points to armoured vehicles, sub-marines, transport helicopters and portable air defence systems. Here, the new unmanned systems would seem to offer an ideal opportunity for common initiatives, but in practice, no such objectives have yet emerged. Another possibility would be less ambitious cooperation, such as standardising air to air refuelling capabilities.

5.12 The EESC calls for the launch of European programmes, in particular on the next generation of RPAS, building on synergies with the Commission and on secure satellite communications. One can also look at areas for cooperation (with the Americans), such as air to air refuelling

18 In line with many documents. See also OJ C 299, 4.10.2012, p. 17.

capabilities, which are an area of major shortfall and where the EDA is looking at European solutions.

5.13 The EC Communication mentions opportunities which require full political support. In this regard, starting a European high resolution space-based surveillance capability, providing successor systems for Helios, RadarSat etc. would seem to be a crucial initiative. A key issue here is the bundling of the combined expertise in the MS, the ESA and the Joint Research Centres, including financial resources. No European country is able to do this on its own.

5.14 Defence projects must be linked to EU R&D programmes wherever appropriate. FP7 is already involved in dual use projects. An added value is that it favours cross-border projects. The EESC calls for more systematic consideration of dual use technologies in Horizon 2020.

5.15 It is crucial that industrial policy in defence should also address the gap between the main producing and other countries. Participation of industries from all countries must be actively promoted to get as many countries politically on board and economically involved as possible. In this way the issue of off-sets, that usually arouses much debate and criticism, can gradually disappear. These elements should become an integral part of an overall European defence strategy.

5.16 The EESC points to the thorny issue of buying "off-the-shelf" outside the EU. In the framework of a European defence strategy such policies must be reconsidered. This essential and very complicated issue must be tackled at the highest level.

5.17 A well-managed European defence sector offers far better opportunities for balanced international cooperation, notably with the US. Given America's protection of its strategic interests, the EESC calls for careful consideration of the defence sector as an exceptional one on both sides of the Atlantic during the negotiations on the forthcoming FTA.

5.18 In this framework also, the continuity of supply of critical and sensitive parts of American origin in the European value chain must be duly ensured. A common European position will also facilitate negotiations with third countries on supply of critical raw materials.

5.19 Similarly, European intellectual property rights must be duly ensured when exporting to third countries.

5.20 Successful collaboration between industries from various countries should not be undermined by MS unilateral decisions concerning export control that would result in a diversified application of criteria for export controls in relation to the Common Position[19] as well as between MS national criteria.

---

19 2008/944/CFSP.

6. Actions of the Commission

6.1 The EESC agrees largely with the proposed actions of the Commission. It considers them as a substantial step forward. On some issues it would like to add the following.

6.2 Cooperation with the EDA is crucial. The EESC considers coordination and dovetailing between the Commission and the EDA, as proposed in various envisaged actions in the Communication, an indispensable condition for progress and success. The EESC also points to the promotion of dual use capabilities, such as airlift capabilities.

6.3 The EESC stresses that, to realise its full potential, the EDA needs a firmer financial base and full commitment on the part of the MS. It should be given a more prominent role in defence planning in support of the MS.

6.4 The EESC endorses strongly the Commission proposals on standards and certification that will contribute to cross-border cooperation in industry as well as regional specialisation and networks of excellence. It encourages synergies between the EDA and the EASA, notably concerning certification.

6.5 SMEs, interlinked also with big companies, are very important for Europe's defence innovation and production. In support of the proposed actions the EESC underlines the need for open networks. Less, but better focused (European) projects can give rise to new opportunities.

6.6 The involvement of a broad spectrum of SMEs across Europe will also help to engage as many countries as possible. Their involvement can equally be an opportunity to compensate countries in shifting from buying "off-the-shelf" into European orientations.

6.7 The EESC strongly supports the envisaged Commission actions on skills, which are crucial. It very much welcomes a positive contribution of the European Social Fund and the Structural Funds, and welcomes the work of the EDA in raising Member States' awareness, supporting the design of concrete projects in these domains.

6.8 The EESC reiterates its firm support for the Commission action to exploit actively dual-use technologies.

6.9 The EESC emphasises the potentially positive link between space policies and defence for existing and newly designed projects[20].

---

20 See EESC Opinion on Space, September 2013.

6.10 The EESC endorses the proposed actions on energy. They will also engage an increasing number of SMEs.

6.11 The international dimension is of utmost importance, as will be the envisaged Communication on a long-term vision for EU strategic export controls. The EESC points to the fact that external industrial relations can only be successful if there is a genuine internal market.

6.12 Finally, the EESC fully endorses the entirety of the strategic considerations in chapter 9.2 of the Communication.

Brussels, 17 October 2013.

The President
of the
European Economic and Social Committee

Henri Malosse

____