

ANNEX A

Some comments on the main thrusts of the Joint Communication from the Commission and the High Representative on a new Defence Industrial Strategy of 5 March 2024

The Joint Communication of 5 March 2024 on a new European Defence Industrial Strategy is an indisputable step forward, not least for the simple reason that it focuses on the industrial aspect of Europe's defence capability and therefore on strengthening itself and the Alliance. **What are the strengths and weaknesses of this communication?** We focus here on the founding principles of this Communication and not on its detailed recommendations for implementation, which is the subject of the proposal for an EDIP regulation, which will be discussed within the European bodies:

-**The strategic frameworks**, namely the Versailles Declaration of 10-11 March 2022 and the Strategic Compass adopted unanimously by the members of the European Council on 21 March 2021, are well mentioned. However, it is regrettable that **the ambition** of strategic autonomy and European sovereignty is not explicitly mentioned. It is said but in a different way, and it is a pity: affirmation of the objective of strengthening the EDTIB, by explicitly pointing out the **need to reduce, including with third partners, the EU's strategic dependencies without creating new ones (or perpetuating existing ones)**. In addition, the guidance, analyses, and proposals that are very focused on the topic of the single market (common practice in the EU) are not relevant for the defence industry, as has been recognised by the Commission since 2016 and in all recitals of the regulations covering the EDTIB (see also the comments on the supply chain below).

-At the base of everything, **the harmonisation of expressions of operational requirements** is well highlighted, **but the essential roles** of the Ministers of Defence, the General Staffs, and the European Defence Agency (EDA) are **not addressed!**

-**It is to be welcomed that the ambition to reconquer the European internal arms market by the European industrialists with a premium on cooperation within the Union** has been clearly and repeatedly **affirmed**: distressing diagnoses and duly proactive objectives¹.

-**The supply-side aspect of industrial policy is impeccably handled in its "supply-chain" dimension** (which must be innovative, non-dependent, and competitive) but simply **ignored** the absolute need to get and sustain **major European world class prime contractors**: however, a strong and sustainable European offer requires 'head and legs'.

The need to promote the creation and sustainability of European champions with critical mass on a global scale is the **one left out** of the Communication: competition is highlighted on multiple occasions, but the term 'consolidation' is only put forward once. However, to reach the global critical mass of the European prime contractors, it is necessary to promote their **consolidation, depending on the domain, into one or few competitive companies in order to sustain their technological and industrial capabilities at the best competitive world level, if not at the European level, and ensure security of supply of EU MS**, through cross-border intergovernmental and industrial programmes and **the industrial integration** thus made possible: not a word about this imperative, which has nevertheless proved its worth in civil aeronautics and its military derivatives, in tactical missiles, helicopters, satellites or

¹ -> finding that between February 2022 and June 2023, only 22% of European defence acquisitions were from European sources; This percentage was already only 40% over the period 2007-2016; Invitation to Member States to reach 50% by 2030 and then 60% by 2035 of their acquisitions in Europe.

-> note that in 2022 only 18% of capital expenditure was allocated to cooperative programmes, instead of the 35% of the common target set in 2007; now aiming for 40% by 2030.

-> aim for 35% of acquisitions by 2030, instead of 15% today, to result from intra-European trade.

sonars. Integration remains to be done in shipbuilding, to be pushed in land armament and to be preserved in launchers².

-Export is an essential ingredient in achieving and sustaining critical mass. But it is not just an industrial consideration; it must be first or at least at the same time a **key element of the foreign policy of the European countries concerned**. Why not explicitly mention the progress made by the Franco-German-Spanish agreement, to which the United Kingdom, the Netherlands and Italy have already expressed their wish to join? Moreover, the recommendation to limit the use of the non-re-export certificate for projects co-financed by the EU is surprising, when we are witnessing many transfers of military technology in breach of the sanctions adopted jointly.

Each of the detailed initiatives proposed certainly has its reason and several of them are to be found in the draft EDIP regulation: **development of European defence infrastructures of common interest** 'by nature'; **creation of a European FMS**; establishment of a **catalogue of available European solutions**; constitution of **strategic reserves and industrial stocks** and a **Fund for the acceleration of the subcontracting chain (FAST)**, a system of **repayable advances** to support the industrialization phases; development of a **Strategic Roadmap on Drone Technologies**; **European Security of Supply Regime**.

-But to the central question of the necessary financing, to spend more and better and in Europe, the Commission falls short of addressing it!

-€>1.5 billion to be allocated to EDIP; This does not seem to be a good measure of what is stated to be the case.

->the legal basis for the proposal to use **the interest on Russian capital** frozen in Europe under sanctions obviously deserves to be explored.

->the encouragement of **private and public** (EIB) financing from the EDTIB is more than welcome; EIB has recently eased its conditions for financing dual use companies. However access to private money remains a serious issue.

->**But this does not fix the financial issue:** given the level of debt in many European countries, the increase in budgetary efforts at the national level is at a standstill. Hence the major interest of the proposal already supported by Estonia, Poland, and France for **a new common loan of 100 billion euros, dedicated to the EDTIB**, in the manner of the recovery plan for the European economy put in place during the COVID crisis. Unfortunately, the idea is not taken up in **the Communication, which is limited to this quite vague call**: "necessity to launch a discussion on quantifying the EU's financing needs for Defence Industrial readiness". On the contrary, it would be necessary to give a real impetus, with well-defined governance rules, for the creation of such a fund to which the Member States could resort to increase their **financing capacity in optimized financial terms of European solutions responding to their short-term capacity emergency (particularly in terms of volume) and to the preparation of the future** with innovative technologies, or even disruptive ones to be developed in cooperation.

We would like to add also to this discussion the need to develop a clear and actionable policy for **community procured and owned capabilities** such as space, airborne or borders surveillance systems. These capabilities should be available for all EU MS.

² The case of launchers is particularly eloquent: the Ariane consolidation is being challenged by new integrator competitors, while its supply chain remains weighed down by national requirements for fair return, particularly from the same countries that support the so-called new integrator competitors. A programme without consolidation or consolidation without a programme is unfinished business. The EDF (European Defence Fund) must now assume its duty to consolidate the key strengths of the European DTIB. In the field of defence in particular, competition is measured on a global scale and not just on a domestic scale.