

#26

THE EUROPEAN DEFENCE FUND: CHALLENGES AND OPPORTUNITIES FOR THE LAND ARMAMENT INDUSTRY

By

Jean-Pierre MAULNY

Deputy Director, IRIS

June 2018

*The views expressed here are solely those of the authors.
They do not reflect the views of any organization.*

Comment

ABSTRACT

Out of all the recent European initiatives, the European Defence Fund could be the real game changer for the defence industry. Community funding will complement national defence budgets to finance defence research and armament programs. This fund will incentivise Europeans to collaborate with each other.

How is the land armament industry preparing for such an evolution? What types of projects will be funded by the European Union? The answers to these questions will shed light on the specific challenges facing the land armament industry, the opportunities that may arise and the solutions that this sector could provide to benefit from these Community funds.

Keywords: European Defence Fund, Land armament programmes, European land armament industry, Armament Cooperation, R & D, Innovation, EDIDP, PADR, European Commission, European Defence Agency

In the coming years, defence companies are likely to have access to significant EU funding for joint research or capability projects at the development stage. The EU will allocate 90 million euros over three years to research between 2017 and 2019 within the Preparatory Action on Defence Research (PADR), and 500 million euros over the period 2019-2020 for the European Defence Industrial Development Programme (EDIDP). Within the Multiannual Financial Framework (MFF) 2021-2027 which is still to be adopted by the European Parliament, the EU is set to contribute 500 million euros per year for the research window of the European defence fund (EDF) and 1 billion euros per year for the capability window of the EDF from 2021 to 2027.

The land armament sector must question its strategy to benefit from these Community Funds. Here, two introductory remarks have to be made:

- Only projects of a cooperative nature are eligible to these funds. For instance, beneficiaries coming together on a joint project have to be established in at least three different states for the PADR (eligibility rules are the same as for H2020), while projects financed under the EDIDP must be led by at least 3 undertakings located in 3 different EU Member States. Even though these rules are likely to be modified in the draft European regulation establishing the European Defence Fund (EDF) for the period 2021-2027, financing collaborative efforts will remain a priority.
- The sums announced are significant. The 500 Million euros allocated to research in the next Community budget represent 25% of the overall credits currently dedicated to

defence research within the European Union¹. Concerning research and development, the amount of 1 billion euros per year represents 11.5% of current defence R & D expenditure within the European Union. Moreover, in the latter case, the European Fund will fuel proper armament programmes leading to the production of equipment. However, today only 20% of defence acquisitions are made in cooperation with other European countries, which means that the European Commission is now making available a sum that represents more than half of what is currently being spent by European nations on cooperation at that level. If EU Member States want to benefit from Community funds, they have an interest in significantly increasing their level of cooperation. The European Defence Fund, therefore, provides strong incentives for armament cooperation.

If the land armament industry wants to benefit from Community funds, it must reflect on the type of projects it strives to develop in the future. As long as the philosophy of the various ongoing European initiatives such as the Coordinated Annual Review on Defence (CARD), Permanent Structured Cooperation (PESCO), and EDF, is incorporated into these projects, the most ambitious ones will be funded for two reasons:

- The European Union needs a genuine defence technology initiative if it wants to make its desire for greater strategic autonomy credible.
- The projects that the European Union will co-finance through the capacity window of the European Defence Fund must be the most ambitious ones. Ambitious projects here imply those that EU member states cannot develop at the national level alone because of a lack of financial resources and technological capabilities, and which they, therefore, are reluctant to launch. The European Defence Fund thus fulfils its role: it enables the development of equipment for the most demanding missions of the CSDP (outlined in Article 42 paragraph 6 of the Treaty on European Union which allows for the possibility of creating the PESCO), it creates incentives for cooperation schemes, and at the same time reinforces the EDTIB's competitiveness.

However, today, the land-based arms sector is certainly not in the best position to access the European Defence Fund's resources:

- The percentage of R&D costs in a land-based armament programme is rarely more than 15% of the whole cost acquisition while it can reach 30% in a combat aircraft. However, the higher the R & D rate of an armament programme, the more hesitant States are to launch them and the more the European Defence Fund is pushed to fund them to limit the financial risks states take.
- The land armament industry is the field with the lowest number of cooperation projects. For instance, there are currently 17 types of armoured infantry fighting vehicles in the European Union. Two explanations can be given to this phenomenon:

1. These programmes cost less than aeronautical programmes which are among the most expensive: the total cost of an armoured infantry fighting vehicle like the VBCI of the

¹ EDA Collective and National Defence Data 2005-2014 (Excel), <https://www.eda.europa.eu/info-hub/defence-data-portal>

French Army is 2.8 billion euros while it is 41 billion euros for a combat aircraft like the Rafale². As a result, many countries in the European Union consider that they have the financial means to develop their land systems at the national level. For equipment that does not require a high level of technology, companies sometimes even consider that they can produce products with their own funds if they believe that there is a significant and accessible export market.

2. Land-based equipment is designed for close combat. It is or has been used daily in Mali currently or in Afghanistan in the first decade of the 2000s. Because soldiers' protection is at stake, armed forces encounter difficulties in compromising on their operational requirements. This problem is compounded by the fact that all European Union countries do not have the same culture regarding the armed forces' role.

All these characteristics should not be denied. They must be taken into account by the land armament industry as well as by EU Member States to guide their approach to access the European Defence Fund. Some recommendations can be made taking into account the specificities of the land armament sector:

Firstly, national and European industrial land armament associations must demonstrate their will to cooperate and offer common solutions for the future of equipment in their sector. They need to draw strength out of these weaknesses and show that the ongoing initiatives of the European Union will be a game changer for the land armament industry.

Concerning the research window of the EDF, manufacturers should suggest innovative projects that relate to either protection or robotisation and the use of cutting-edge technologies. Thus, projects related to equipment protection could be funded, which would complete the Soldier Protection Force Protection and Soldier Systems project funded in 2017 within the PADR framework. Additionally, projects aiming to develop unmanned vehicles using AI that could be used for defensive missions would also benefit.

For the capability window of the EDF, priority should be given to financing the most expensive projects such as the future main combat land system to which the French and German have already committed.

Other models of cooperation can be imagined which could be eligible for community funding due to their innovative nature. One solution would be, for example, to design a common armoured infantry fighting vehicle platform upon on which countries would develop their own version according to their specific needs. This initiative would mirror the existing model of cooperation in the automobile sector. The savings achieved through this type of cooperation alone would justify the European Union's participation in the initial investments.

² Cour des comptes, 'La conduite des programmes d'armement', *Rapport public annuel 2010*, p. 68.

One could also imagine a model of cooperation wherein European states would define a common land combat system encompassing all the platforms dedicated to different missions, with the EU member states distributing the manufacture of each different platform among themselves. In this case, the definition of the common architecture would be financed by the European Union. This last model of cooperation is very ambitious given the existing obstacles to cooperation in the domain of land armament, regardless, it should not prevent companies from thinking of this model of cooperation in the future.

In conclusion, if land-based equipment with which our soldiers fight today on the ground could not benefit from the EDF, it would undoubtedly be damaging. The European land armament industry has an important role to play if it wants some of its projects to be funded by the European Defence Fund. Moreover, EU member states must also encourage this sector to propose innovative models of cooperation in the future. ■

#26

Comment

THE EUROPEAN DEFENCE FUND: CHALLENGES AND OPPORTUNITIES FOR THE LAND ARMAMENT INDUSTRY

BY

Jean-Pierre MAULNY / Deputy Director, IRIS

June 2018

The views expressed here are solely those of the authors. They do not reflect the views of any organization.

ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

CONTACT [Pilots]:

Jean-Pierre Maulny, Olivier de France, Sylvie Matelly, Sophie Lefeez

ares@iris-france.org

+33 (0)1 53 27 60 60

www.iris-france.org/ares

#AresGroup