

BUILDING THE EDTIB BEYOND 2020

ARES Seminar Report

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The EDTIB is at a crossroads. In the midst of a path that could lead to an increase of the EDTIB's competitiveness and the capacity to build a level of European strategic autonomy, it has to confront the withdrawal of the United Kingdom (UK) from the European Union (EU). This tension raises questions surrounding Brexit's impact on the EDTIB and the potential for strategic autonomy, and vis-à-vis the desirability of future UK-EU agreement in this domain. Moreover, while the dialogue over the EDIDP is taking place, and the European Commission is preparing its proposal for the European Defence Fund as part of the Multiannual Financial Framework 2021-2027, the issue of the European Defence Fund's (EDF) beneficiaries has become fundamental. These two questions—Brexit and the nature of the European Defence Fund—will undoubtedly shape the future of the EDTIB. These topics of discussion will be at the heart of the debates driving this seminar.

SESSION I – IS A EUROPEAN STRATEGIC AUTONOMY POSSIBLE WITHOUT THE UK?

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In the introduction, speakers set the terms of the debate surrounding Brexit's potential consequences on the strategic autonomy objective contained in a number of EU strategic documents (global strategy of the European Union, communications of the European Commission).

There are four main issues to consider regarding the potential for European strategic autonomy without the UK. Firstly, the definition of European Strategic Autonomy should be clarified with regards to EU members' contributions, the role of NATO and the US in European security matters, and the cost of capability development. The second issue relates to the definition of European Strategic Autonomy in the UK's absence from the EU. Indeed, the EU-UK relationship in the defence and security area needs to be redefined. The third point stems from the previous concern: how to define and manage this relationship to support European Strategic autonomy? Finally, establishing a relationship with the UK as a future "third country" brings the topic of European preference to the forefront. Consequently, the UK's access to European funds will be a critical concern in the coming months.

Speakers first agreed that the question of European strategic autonomy without the UK could not be decoupled from the broader international strategic context.

The “Trump moment,” which suggests a US foreign policy withdrawal from the international stage, as well as BREXIT are two key elements which call for the renewal of a strong CSDP. The current international context represents an opportunity for the European Union to define the area of strategic autonomy. There is an implicit path of emancipation from the United States' influence on security matters for three reasons. Firstly, throughout the coming century, America will ineluctably focus on its geostrategic revival with China and across the Pacific. There is a need to redefine the EU-UK relationship in the defence and security sector as the United States are pushing their ‘Asiatic Pivot’ policy further. Secondly, American disengagement in Europe in security matters is perceived as inevitable. Thirdly, a healthy transatlantic rapport between the US and the EU is fundamental, but it should be based on a more balanced relation (“Europe stands on its own feet”). A healthy relationship between the US and the EU should rely on an equal desire to share common interests without expectations of dominance. Currently, the EU is in a “Damaging dependence,” because of the high price to pay for US protection.

The challenge is to continue to keep allies close while pushing for independence and strategic autonomy in European choices. The aim is to develop a powerful European perspective and deliver additional resources in support of all alliances (especially NATO) policies. Moreover, NATO remains a crucial security partner in Europe as the Alliance is a vital actor regarding common European defence, which differs from the concept of European strategic autonomy. Common European defence implies and requires a robust European alliance with the United States. European strategic autonomy is nonetheless possible. When it comes to strategic autonomy, the EU needs to have the capability to safeguard its interests outside EU borders

The other motivation for building strategic autonomy stems from the risk that the emergence of new technologies will undermine it.

The European Union should invest in new platforms to replace old assets. We also need to face unique challenges such as Artificial Intelligence, the development of autonomous systems, and new emerging threats. Many technologies could very well become game-changers. Significant efforts are required to develop autonomous capabilities in this context. However, a major portion of products in Europe come from the US or Israel which means we do not possess autonomic strategy in that way. Additionally, the fragmentation of the European market is a tricky issue.

As a result, the European Union and its Member States are at a crossroads, and they face a strategic choice. They can, on the one hand, buy American products which are directly available and less expensive, and therefore support a short-term vision of the defence industry. On the other hand, a long-term perspective would consist of investing in strategic capabilities (MPA, satellites, future aircraft...). This approach would be more expensive in the short-term but is critical to develop real strategic autonomy; It follows that European Member States would have to invest in the European Defence Technological and Industrial Base (DTIB) to provide reliable equipment capable of reinforcing the CSDP.

The defence industries' segmentation also disadvantages the European Union. National sovereignty remains an active aspect of European Member States industrial policy. Defence industries mainly act on a national scale. As a consequence, the EDTIB is still fragmented and nationally oriented. Article 346 does not reinforce the EDTIB because strong national perspectives are still robust. Moreover, the US still provides many elements of strategic importance to EU defence policy surrounding conventional autonomy (strategic transports because of A400M programme difficulties, air-to-air refuelling capabilities in operations, all kind of smart bombs and the GPS issues). Less dependence and more autonomy could be the motor of EU defence policy

Brexit cannot help but have an impact on the European Union's desire for strategic autonomy even though it is poorly defined.

First of all, there are strong links between the European and British defence industry. The UK-EU process involves many companies: THALES, MBDA, Rolls-Royce (MTU in Germany), BAE SYSTEMS. We, therefore, need to find a balance in the EU which involves the UK. Secondly, British military capacities contribute to the European Union's security. European strategic autonomy cannot be achieved without nuclear deterrence capabilities. Strategic autonomy is synonymous with nuclear deterrence as it guarantees European security. We should keep in mind that when Russia's nuclear deterrence capabilities become more visible, European Member States feel more threatened. The EU should emancipate itself from the US with regards to nuclear capability. True autonomy is only possible if the EU replaces the US' nuclear umbrella. The question then becomes whether France will extend nuclear deterrence within the EU territory and whether the EU Members States will accept this extension. It appears difficult to achieve autonomy at this level without the UK, even if the United Kingdom and the American DTIB are historically and actively connected regarding exports equipment and nuclear deterrence.

While it appears necessary to find an agreement between the UK and the EU to preserve and strengthen the EU's strategic autonomy potential, the speakers nuanced this observation. In theory, BREXIT is a “loose-loose game” for both the European Union and the United Kingdom with regards to defence and security matters. It will indeed be challenging to preserve the same fruitful defence and security relationship after Brexit takes place. However, the EU 27 can achieve strategic autonomy on their own even without the UK. The UK's departure from EU institutions is not necessarily an insurmountable hindrance as deeper integration was not at the core of the UK's European defence vision. Moreover, Europeans' capacity to develop strategic autonomy does not depend solely on the United Kingdom but on the EU 27 themselves. Strategic autonomy entails spending defence budgets on defence aims. Commitment in that area will vary depending on people's culture (are they prepared for this organizational structure? national army's issues?) regarding defence issues (defence itself, armed interventions). These variables matter significantly if Member States are to invest jointly in defence matters on a European scale.

However, the relative weight of British military expenditure, and in particular its capital expenditure, must be taken into account. The United Kingdom is heavily investing in defence and security R&D, with 40% of total European investments. Moreover, the UK represents about ¼ of EU total military capabilities spending. These statistics demonstrate the UK's weight in defence. The EDTIB's development without the UK will therefore probably be to the detriment of the European Union. Consequently, the UK's involvement in the European perimeter is necessary to reach economies of scale and critical mass. Some, therefore, believe that European strategic autonomy cannot be achieved without a close partnership with the UK, even when speaking of higher strategic autonomy degree rather than total autonomy.

Finally, some people think that if the starting point of Brexit is a loose-loose game, so will be the future EU-UK future relationship. Three different generic solutions could shape it. The first is the “no agreement” scenario. The second is the “Third-state status” agreement on defence questions, modelled on pre-existing ones such as the Norway-EU relationship. The third solution of a EU-UK specific defence treaty seems unlikely as the UK currently has specific requests for a treaty which only cover specific areas of cooperation: organised crime, terrorism.

In conclusion, the question is whether the EU needs to become more British or the UK more European? In a sense, it suggests the capability to share common values on the future of the European defence and security structure (concerning capabilities, threat perception, the culture of armed forces,). Emmanuel Macron's defence intervention initiative revolves around this idea.

SESSION II – WHO SHOULD BE THE BENEFICIARIES OF THE EUROPEAN DEFENCE FUND?

Moderator: **Olivier JEHIN**, *Journalist, Bruxelles 2 (B2)*

General Vincenzo CAMPORINI, *Vice-President, Istituto Affari Internazionali (IAI)*

Jean-Pierre Maulny, *Deputy Director, French Institute for International and Strategic Affairs (IRIS)*

Trevor TAYLOR, *Professorial Research Fellow, Defence, Industries and Society, Royal United Services Institute (RUSI)*

The topic of EDF beneficiaries is directly connected to European Strategic autonomy and depends on decisions made by European institutions and EU member states surrounding investments in European Defence industries. Will they only finance industries from European countries? Which projects will be supported by the EDF? Which companies will benefit from the European Defence Fund? What can the operationally oriented companies who are using military equipment in the field expect? The question, therefore, has an economic as well as political and operational impact.

To answer these questions, one must strive to understand the broader framework in which the European Defence Fund operates. The European Defence Fund is an integral part of the initiatives launched with the purpose of jumpstarting the Common Security and Defence Policy (CSDP). These include the Coordinated Annual Review on Defence (CARD) and the Permanent Structured Cooperation (PESCO). Hence, it is within this overall framework that the European Defence Fund should be analysed although the Fund is not legally bound to the other two initiatives. The EDF is an initiative with multiple objectives, but its legal basis is Article 173 of the Treaty on the Functioning of the European Union: it is therefore intended to support EDTIB. Defence will thus become a new industrial policy of the European Union

The EDF's primary goal is to give fresh momentum to the CSDP. This fund also works towards three other objectives. Firstly, it aims to develop the European Union's military capabilities to conduct CSDP military operations autonomously and achieve an appropriate level of strategic autonomy for the European Union. As a result, the EDF will promote operational autonomy and freedom of action for European states via reduced external dependence. Secondly, it seeks to strengthen NATO's overall capabilities under the 'one single set of forces' principle. Thirdly, it strives to develop EU Member States capabilities within a collaborative framework. This collaborative framework should enable the DTIB's enhancement and consolidation and thus contribute the European Defence Equipment Market's (EDEM) establishment while strengthening EU forces interoperability. It is essential to keep in mind that all these objectives have to be pursued in concert within the EDF's framework. The EU is a political organization with the aim of enhancing further economic and political integration. The EDF must, therefore, develop the EDTIB and military capabilities, in a way that achieves the appropriate level of strategic autonomy.

With regards to the military staff, the EDF should be seen as an incentive for military staff to agree on increasingly unified common requirements, which relates back to the issue of culture (Vincenzo Camporini).

One of the main issues that arise with the EDF is the eligibility criteria which is also being debated on the EDIDP. When considering the eligibility criteria, the different objectives pursued by the EDF may become contradictory. If the EDF is intended to enhance the competitiveness of the EDTIB, it cannot benefit non-European undertakings. The ‘Proposal for a Regulation’ presented by the Commission emphasises that approach. It is hard to see why EU funds, to which European citizens contribute, should benefit to non-European entities.

However, there is also the goal of developing the European Union's capabilities. These funds are supposed to expand capabilities used by war-fighters. If the EDF is to promote European cooperation in armaments, it should not preclude cooperation with other countries or with third-country undertakings if their contribution is necessary to strengthen or increase capabilities. The aim is not to build a fortress Europe. The ‘Proposal for a Regulation Establishing the EDIDP’ made provisions to finance cooperative projects with third-country involvement with one caveat: third-party companies may not directly receive these EU funds.

A closely related debate focuses on companies that are located in EU Member States territory but are not controlled by European undertakings. States’ natural inclination is to protect foreign investments as a source of employment and thus not to exclude these companies from access to the Fund. However, at the same time, the original objective must be preserved: the fund is intended to strengthen the EDTIB and not European companies’ competitors. The whole purpose of the negotiations in the framework of the Trilogue was to find an agreement that would allow these two objectives to be fulfilled, i.e., not to penalize localized cases within the European Union while generally precluding non-European undertakings from benefitting from the European Defence Fund. An agreement now seems close to being reached.

The question of entities eligible to the EDF is both strategic and a complex as the EU never defined the status of third-country defence companies and it is an issue beyond the WTO’s scope. Today we are obliged to do so and must take into account that the question before us is political in nature—the European Union as a political actor developing an appropriate level of strategic autonomy—and also economic and industrial since Member States’ prosperity is also at stake. We have little time now to find a response that satisfies all these objectives. If we have some missteps in this domain, we have to view the EDIDP as a sort of test-run for the capability window of the EDF. Drawing lessons from the EDIDP, the EU could consider modifying the eligibility conditions

in the future 'Regulation on the EDF', even at a late stage, if it became apparent that the rules adopted for the EDIDP are not fit for purpose.

Naturally, the status of the United Kingdom concerning this Fund has been subject to discussions. Some have argued that the United Kingdom has a significant economic weight in research and development spending in the European Union. The European Defence Agency (EDA) 27 defence research spending in 2014 amounted to EUR 2,201 billion, with France (EUR 764 million), Germany (EUR 483 million) and the United Kingdom (EUR 493 million) contributing the most (Trevor Taylor). Regarding the defence development area, which amounted to EUR 6,794 billion in 2014, France and the United Kingdom are the two major investors with respectively EUR 2,799 billion invested and EUR 3,260 billion invested.

As a consequence, the current reflexion can be split into two scenarios. The first option is to exclude the UK from the European defence area. In this situation, there is a real risk of short-term loss of UK funding and industrial and technological expertise, as well as a more limited range and scope of potential projects in which France would be the most critical player. Moreover, the long-term spending patterns could change, and Germany could become the most significant player. The second option, pushed by the British Government would see the UK continuously involved in EDA projects and collaborative European projects and therefore with access to the European Defence Fund.

The type of projects that could be financed by the European Defence Fund is also brought into question. The EDF should provide a top-up for launch spending by existing players for systems that selected states will buy and operate (the Typhoon/A400M/Meteor model) as well as for systems to be owned and operated on a European basis (The Galileo model). Moreover, the purpose of the fund should be to help spread defence industrial development and production capabilities more widely (high technical and financial risk) The EDF could be a solution on early development, de-risking, prototypes and the Valley of Death (transition from R&T to R&D).

It is necessary to invest in the EDF keeping in mind some inevitable difficulties such as different motives or players, management challenges, slow decision-making, the need for harmonised requirements and different national funding arrangements. Moreover, a European project needs to embrace the pace of technological advances, respond to security threats and face challenges posed by the restrictive ITAR US legislation on arms exports.

Finally, there seem to be many questions with few answers. This is especially the case for the United-Kingdom with whom a short-term break should be avoided to perpetuate pre-existing cooperation initiatives. For one speaker, solutions will increasingly entail developing European industrial capacities through transnational investments within European defence companies. ■