



WAR IN UKRAINE : HOW TO GEAR UP EUROPEAN DEFENCE AND PROPEL THE EUROPEAN DEFENCE AND TECHNOLOGICAL INDUSTRIAL BASE?

ARES Group

May 2023

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ABOUT THE SEMINAR

This ARES Seminar Report summarises the exchange between the panelists, on the challenge facing EU member states and EDTIB regarding replenishment, ramp up and the development of joint acquisitions pushed by the recent EU initiatives.



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.

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ARES Group - EU

PROGRAMME

ARES SEMINAR

« War in Ukraine: How to gear up European Defence and propel
the European Defence and Technological Industrial Base? »

April 4, 2023, Brussels

9:00 – 9:05: Welcome Address

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

9:05 – 9:30: Introductory Speech

Jiří ŠEDIVÝ, Chief Executive, European Defence Agency

9:30 – 11:00: Ramp up Challenge in Time of High Intensity Conflict: Which EDTIB do we need?

Alexandre LAHOUSSE, Head of the Industrial Affairs and Economic Intelligence Department,
French armament directorate (DGA), French Ministry of Armed Forces

Maciej STADEJEK, Polish Representative to the Political and Security Committee EU

Karsten LEPPER, Representative of German Industry for Security and Defence to the EU, BDSV

Esa RAUTALINKO, President and CEO, Patria

Moderation: **Federico SANTOPINTO**, Senior Research Fellow, IRIS

11:20 – 12:50: Joint Acquisitions as a Response to this New Challenge: How to get them?

Gen. Stefano CONT, Capability, Armament and Planning Director, European Defence Agency

Anne FORT, Head of Unit, European Commission DG DEFIS

Baudouin HEUNINCKX, Colonel (GS), Belgian Air Force Deputy National Armaments Director
Belgian Defence Strategy Department

Dick ZANDEE, Head of Security Unit, Clingendael

Moderation: **Gaspard SCHNITZLER**, Research Fellow, IRIS

13:00: Conclusion

Jean-Pierre MAULNY, Deputy Director, IRIS

On April 4th 2023, the European-wide ARES Group gathered high-level speakers in Brussels to address some of the complex questions concerning the European Defence and Technological Industrial Base (EDTIB), arising from the current context of the war in Ukraine. Through two successive round tables, the participants first discussed the issues of replenishment and ramp-up, and then the issue of joint acquisitions. After recalling the issues at stake and the main objectives pursued at the European Union (EU) level, and through discussions, some leads have been identified to enhance the EDTIB and the industries' needs in this rapidly evolving environment have been highlighted. Concrete steps and measures were put forward, with a focus on joint procurement, and the role of the EU has been debated.

CONTEXTUAL REMINDERS, STATE OF PLAY AND OBJECTIVES

The return of high-intensity warfare on the European continent has sorely highlighted the investment gap in defence between most European countries, a gap now widened by the deliveries to Ukraine. The past decades have been characterised by a slowdown of investment in capabilities and an optimisation of orders to maintain production and skills at the minimum necessary level in the event of a ramp-up required by a case of high intensity. The European industrial tool is thus undersized to face the exploding demand and already saturated with the existing contracts. The war in Ukraine has indeed acted as a catalyst of the defence budgets' growth: if in 2021, EU Member States already spent together more than €220 billion, another €100 billion in aggregated growth is expected for the next two to three years. This sudden acceleration of expenses across Europe raises many questions for the EDTIB and for the Member States themselves. If not handled carefully, it could pose substantial risks: duplication and fragmentation of the EDTIB, increase of external dependencies, inflation of equipment prices, smaller Member States being left out in the forthcoming "arms race". To prevent these from happening, the European Commission and the European Defence Agency (EDA), mandated by the Member States, have already put several initiatives on the table – which will be reviewed below – and now aims at drawing the first “lessons learned” from the war in Ukraine, whilst coordinating the new objectives that emerge at the EU level.

These objectives can be framed in three time horizons: short-, medium-, and long-term, and should be carefully synchronised to ensure that short-term actions do not hamper long-term goals. In the short-term or even immediate term, the primary European objectives are to keep supplying Ukraine while replenishing national stocks. Then, depending on the speakers, the reinforcement of European capabilities and the adaptation of the industry to produce more and faster – or ramp-up – was seen as a short-term or medium-term priority. The need to

articulate the aid to Ukraine and the ramp-up of the European defence industry has been highlighted many times, as these priorities go hand in hand. Of course, the replenishment of stocks and support to Ukraine by the European industry are conditioned to the ramping up of the latter, otherwise contracts will be directed to other suppliers, speed being an imperative criterion. If sustainable, this reinforcement should enable the EU to look at the longer term, where, according to some, it should aim at developing its own security enablers and full spectrum high-end capabilities, making it a credible security provider both in its neighbourhood and with a projection capability in strategic areas. The question of the ability of Europeans to shoulder their share of the burden on their own continent without being overly dependent on the US was also raised. Pushed for by the US, this issue must be understood both as the capacity for the EU to ensure its own defence (and the defence of its partners) in the event of a protracted or renewed confrontation with Russia, and to reduce critical dependences – such as raw materials – vis-à-vis external suppliers. It has been underlined many times that this enhancement of European autonomy and capacity would be aligned with and complementary to NATO defence planning process. It was estimated that around 90% of EDA activities are aligned with the priorities of NATO NDPP, in terms of standards, capability, codification taxonomy and interoperability.

If the main objectives that should be pursued at EU level were broadly agreed on, some modalities were more intensely discussed. Based on the observation that Member States need to increase the efficiency and effectiveness of the defence spending at European level, and that the defence industry was in need of some kind of reconfiguration to face the new context, a few different lines of thought were put forward. The notion of "consolidation" of the EDTIB was pointed out as a potential yet undesirable excuse to concentrate efforts on huge enterprises, in large states with an already well-developed DTIB and where 90% of the procurement is directed towards the domestic industry. Similarly, the Europeanisation of supply and value chains through a form of "labour division" desired by some should, according to others, be balanced with a preservation of national capacities, seen as essential for the security of supply, and a reasonably dispersed industry. The role and participation of third countries in the strengthening of the European industry was also discussed, as some participants argued that cooperation with allies was necessary when the European version of equipment was simply not available or even non-existent, and that partners' industries had to be used in support of the European industry. In reaction to this, it was underlined that Europeans should indeed be pragmatic in this scenario, but also had to ask themselves if they wanted this situation to be perpetual or not. The issue of cooperation with third actors should also be reflected on in the specific case of Ukraine, whose planned accession to the EU raises

interrogations on its future place in the EDTIB. Some argued that in regard to its strong defence industry and innovation capacity, Ukraine should more and more be viewed as a partner, instead of a customer.

WHAT THE INDUSTRY NEEDS

At a time where the industrial productive tool seems to be back at the core priorities of politicians at national and European level, and in the context of the highly expected "ramp-up", the needs of the industries should be carefully considered. It should also be kept in mind that these needs may slightly differ from one country to another because of variables such as size and market structure. Special attention was drawn on SMEs, which are in need of support and consolidation as much as their bigger counterparts, and which sometimes offer precious technologies. These differences set aside, the industry mainly requires two things: funding and visibility, which together ensure the stability and the predictability that are crucial to the sector. The necessity for the defence industry to be provided with a long-term vision translated into fixed orders has been emphasised. Considering the current gaps in European capabilities, it seems that the industry could have work for the ten to twenty years. The access to funding comes hand in hand with the visibility issue. An industry with such cost-intensive technology crucially needs investments to be able to ramp up its production, since a new factory of shells for ammunition can cost up to €700 million for example. The investments should be unlocked through state procurement contracts in the first place, but also through private funding. Currently, banks are still reluctant to invest in the defence and security industry, constrained by ESG criteria. This particular issue could and should be – according to some speakers – brought to the European level. The industries' preoccupations also relate to the qualification of the workforce and the human resources, without which any ramping up seems unlikely.

Norms and bureaucracy were also identified by several speakers as brakes and obstacles to a quick and efficient industrial ramp-up, for example at the national level when regulations impose that the acquired equipment are certified according to national military standards. Overall, this observation on norms and bureaucracy concerns both the national and the European level, but the EU was repeatedly called upon as a key actor in a norm reduction and simplification process that would enable the industry to accelerate the movement. The EU green taxonomy in particular was pointed out as a potential source of damage for the defence and security sector. On the other hand, a new agreement on export licences would answer the need for Europe to sell part of its production to its allies, in order to facilitate economies

of scale. Finally, the temporary or permanent updating of EU procurement directives was pointed out as an urgent matter to cope with the new challenges that Europe is facing. In addition, cooperation between industries from different Member States should be facilitated, including through a normative simplification, but according to some speakers it should not be artificially incentivised or forced in any way. It was indeed underlined in this respect that industrial cooperation should be the result of a commercial decision arising from a specific need, and not a way for big industries to attract funding and increase their predominance on the European market at the expense of smaller enterprises.

JOINT ACQUISITIONS: THE SILVER BULLET TO A EUROPEAN CHALLENGE?

Joint acquisitions have been identified as one solution to the many issues raised before, even as an "operational need" that was neither impossible to achieve anymore, nor delayable any longer. In the current context, a coordination of the demand would not only contribute to ensuring more efficiency in terms of budgetary expenditures, but also foster interoperability and send a clear signal to the industry in need of more visibility. This process is thus a component of several initiatives proposed at the EU level by the European Commission and the European Defence Agency, in particular the EDIRPA and the Common Procurement of Ammunition plan. It was recalled that the EDIRPA aimed at acting on both the demand and supply sides by incentivising investments in the EDTIB, laying the first stones of a European industrial programme. Joint procurement will in any case be accompanied by specific industrial measures aimed at supporting the ramp-up. These elements should be found in the forthcoming European Defence Investment Plan (EDIP).

There are a few prerequisites to make joint procurement a reality in the EU, starting with the harmonisation of the participants' requirements and priorities. In this respect, several speakers encouraged the Member States to start thinking about what was really necessary and set aside the rest. An effective implementation of joint procurement directives, in particular projects that would be ambitious in terms of equipment purchased, imply indeed to go even beyond the concept of interoperability, to aim at interchangeability. It was argued that national specific requirements are in fact necessary and non-negotiable in very rare cases, and that they should be avoided as much as possible the rest of the time. A few speakers advocated for an even broader movement of harmonisation at the EU level to create the conditions for joint procurement – especially bigger programmes – by implementing joint

planning. This would require to harmonise concepts and doctrines, and to synchronise the budget planning of the Member States. Convergence of industrial consideration and synchronisation with the industry's R&D, production capability and strategic orientation were also deemed necessary. Finally, it was underlined that successful cooperation requires national benefits, whether political, economic, industrial, operational, etc. Basically, it was argued that efforts should be made by Member States to try to converge on as many points as possible, as early as possible in the process... and to continue cooperating throughout the life of the systems procured, so that technical evolutions do not render each national model different from its counterparts.

The implementation of joint procurement initiatives is not without raising several questions, one of them being about cooperation with third partners. Several EU members have indeed advocated for including the possibility to purchase munitions for Ukraine from other NATO allies if the European industry could not fill the demand in a reasonable time frame and have thus been disappointed that this option was excluded from the EDA's project arrangement. Another important issue is the synchronisation with national initiatives, as some countries have already announced that they plan to opt for the national solution for framework contracts every time this would be the more efficient option, such as the French framework on 155mm rounds and Mistral missiles. In this case, coordination would be necessary to avoid competition between different procurement contracts. Closely linked to that, the stance, role, and competence of the EU, in contrast with the Member States', has been the subject of debate.

WHERE DOES THE EU STAND?

A few of the measures taken at the national level were recalled by the speakers: France is working on its Military Programming Law (which should allocate more than €400 billion to defence for the next seven years), and on the security of supply, by relocating companies in Europe or in France. France supports the many European initiatives such as the Chips Act and the Critical Raw Material Act, but places particular emphasis on the "made in Europe" and the reduction of mid-term to long-term dependencies. Poland, in the midst of rearmament, insists on pragmatism and efficiency, especially when it comes to supporting Ukraine, and pleads in favour of "buying where you can buy", even outside Europe if needed, as long as European defence industrial capacities do not follow. Germany continues its epochal change or "Zeitenwende". How does all this articulate with EU initiatives? How to build a common vision? How to define priorities? Regarding the latter, it was also emphasised that for the EU

and its Member States to actually move forward, workable capability priorities had to be defined. In this respect, one speaker underlined that only the Member States were able to assess their gaps and needs in function of their defence scenario. All agreed for example that the stockpiles of ammunition had not only to be replenished, but also increased, and that the new volumes had to be carefully reflected on in the light of the new context. According to some, this question can only be answered at national level, and the EU defence exists only as the collective compiled capabilities of EU Member States. On the other hand, the EDA can – and has done within the framework of the Capability Development Plan – map the European defence landscape through the Coordinated Annual Review on Defence (CARD), and offer Member States the set of data and information needed to identify potential collaborative opportunities. The EDA is also working closely with the Commission on plans to foster innovation, in particular by facilitating the integration of civilian technologies into the military world, and by shortening the journey before an innovative solution gets translated into actual capability. But Member States also have "homework" to do. It has been recalled for example that the framework contracts for the purchase of ammunition should be ready in a few months and that, in the meantime, it was up to the participating countries to discuss among themselves how much of the millions of shells should be purchased by whom. Similarly, with EDIRPA, discussions should already be taking place at the Member States' level.

The forthcoming EU measures on supporting the industrial ramp-up – EU budget money to inject in the industry and support for the European Commission – are very much expected in the Member States. But among the speakers, some thought that EU funds should be earmarked for programmes and projects benefiting all Member States instead of financing more specific procurement programmes such as frigates or missile defence, even if paradoxically the format of smaller groups of willing states was encouraged to foster European defence. On this matter, someone argued that Berlin, Paris, and Madrid should open the FCAS' doors to other European countries if those were willing to put money on the table.

Overall, EU institutions and agencies have shown a certain level of agility and adaptability in the context of the war in Ukraine but are still constrained by the way they were dimensioned in the first place. The EDA's staff for example is extremely thin (8 purchasing officers, compared to 200 at the NSPA), thus raising the question of the agency's capacity to place itself as a credible actor in joint procurement. Is the EU capable of ensuring the efficiency that has been repeatedly mentioned as one, if not the main, criterion, and reassure Member States on the fact that they will be able to replenish their stocks within a reasonable time? To continue with the example of ammunition, the estimated delivery time differed between one and two years depending on speakers. In this respect, it was mentioned that this would still be quicker

than going through the NSPA, which could take up to 3 years to deliver in this case, according to some. More generally, some doubted the EU machinery's ability to keep up with the high speed at which initiatives are launched and advocated for intergovernmentalism when decisions had to be taken quickly to address urgent needs. On the other hand, some insisted that the community method remained more efficient in terms of swift implementation and should thus not be dismissed so fast. A speaker underlined that tools were still missing at the European level to harmonise national concepts and doctrines, and to foster convergence at the industry level. Another one called for a high-level flagship programme to go even beyond the current mechanisms and guide the EU into the future.

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