WHAT FUTURE EUROPEAN DEFENCE AND TECHNOLOGICAL INDUSTRIAL BASIS (EDTIB) DO WE WANT/NEED?

The Italian case

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Armament Industry European Research 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.

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ABSTRACT

Due to the unstable international situation, the steady support of EU Member States to Ukraine and the increased spending in defence, understanding the type of European Defence and Technological Industrial Base (EDTIB) Member States would like to pursue is particularly relevant. This paper investigates the kind of EDTIB Italy intends to promote at the EU level. The maintenance and development of local know-how and expertise is a cornerstone of the Italian industrial policy. If strengthening of the national industry is a common objective of other major EU countries, the importance of cooperation with international partners and like-minded countries is a characterising feature of the Italian position.

Keywords: Italian defence / Defence industry / EDTIB / Competitiveness

The Russian war in Ukraine represented a wake-up call for EU member states. It constituted a decisive factor to invest more in defence and technology, continue providing Ukraine with military equipment and increase the level of readiness and volumes of inventories of their armed forces. Against this background, the development of a strong European Defence Technological and Industrial Base (EDTIB) is among the priorities of EU Member States, thanks to increased availability of funds after decades of underinvestment in the sector.

The strengthening of the EDTIB is a priority Italy set before the start of the war in Ukraine and to do so the country is working towards the strengthening of the national defence industry as part of the broader European industrial ecosystem, through increased coordination and cooperation with EU and international partners. This paper investigates the main changes in the defence industrial apparatus of the country since the start of the war in Ukraine and analyses the main characteristics of the Italian understanding of EDTIB. After an analysis of the main impediments to a truly European EDTIB, it proposes a way ahead.

THE "UKRAINE EFFECT" ON THE ITALIAN DEFENCE PROCUREMENT AND DEFENCE INDUSTRIAL STRATEGY

Since February 24, 2022, Italy did not undergo a process of profound change in terms of strategic industrial choices. From a budgetary point of view, the 2023 allocations to the Ministry of defence is estimated at 1.46% of Gross Domestic Product (GDP) in 2023 (Chamber of Deputies, 2023e). In absolute terms, the 2023 budget amounts to around EUR 27,7 billion, against a total of almost EUR 26 billion in 2022 (Ministry of defence, 2022b). The goal to spend 2% GDP in defence[1] is set politically, but there is a long, challenging, road to reach the target. The high public debt - 2.816,7 billion euro in May 2023 (BankItalia, 2023) - does not allow for a substantial increase of defence budget, while an exemption of defence spending from the EU stability pact is looked at as a way to unlock further funding to the sector and replenish stocks (Chamber of Deputies, 2023c).

Prior to the war in Ukraine and to sustain the acquisition of equipment and improve inventories, the 2021 State's budget laws for 2022 included a multiannual investment fund dedicated to the defence sector (2021-2035). The fund has a total expected amount of EUR 12.95 billion, with EUR 800 million being allocated in 2023 (Chamber of Deputies, 2023a). This budget is part of the allocations of the Ministry of Defence for investment – totaling EUR 6.100,55 million for 2023 – that represent 22% of the Defence budget. To these, however, the

[1] NATO members declared the 2% target as a least target for defence spending at the NATO Summit in Vilnius in July 2023.

annual allocations from the Ministry of Enterprise and Made in Italy (former allocations of the Ministry of Economic Development) should be added - EUR 2.304,1 million expected in 2023 (Chamber of Deputies, 2023a). While the introduction of a multiannual investment fund is certainly positive, the introduction of a multiannual law for defence procurement and related financing, as called for by the Minister of Defence and enshrined in the Official Guidelines of the Ministry (Ministry of Defence, 2023a), would better help increasing certainty of investment and programmes, with positive repercussions on the industrial base.

The war in Ukraine did not trigger an update of the 2021 first ever directive for industrial defence policy of the Ministry of Defence (MoD), nor is there any planned revision of the document. Nonetheless, both the Strategic Concept of the Chief of Defence (2022) and the 2023 Official Guidelines call for a better integration of, and dialogue with, the industrial apparatus and the latter document advances the proposal of creating a plan to support the national defence industry.

From a procurement point of view, the acquisition of military equipment is based on the priorities indicated in the three-year Pluriannual Programmatic Document (*Documento programmatico Pluriennale*, DPP) lastly published in September 2022 and is dependent on the funding made available in the annual State's financial law, leaving limited room for manoeuvre for non-planned procurement activities. Consequentially, there have been no changes in the procurement planning since February 2022. Updated priorities on procurement will be included in the 2023 Pluriannual Programmatic Document, expected to be released in July 2023, which is also predicted to bring some changes. Furthermore, the Ministry is working towards the rationalization and simplification of the procurement process, to give the country faster and more efficient instrument to operate procurement (Ministry of Defence, 2023a). In terms of trends in the acquisition priorities, there are signals of a shift towards high-intensity scenarios and equipment. Examples in this direction refer to the possible acquisition of Leopard 2A8 from Germany in parallel with the upgrade of the Ariete main battle tanks (Chamber of Deputies, 2023d), the next generation helicopter, or the national development of the U212 NFS submarines (Chamber of Deputies, 2023e). These projects however, were already identified in the previous DPP and reflect acquisition priorities that were specified long before the start of the war in Ukraine.

Discussions are rather ongoing for the increase of production rate and opening of new State's owned sites for ammunitions. For instance, the military factories for nitrocellulose and explosive powders (in Fontana Liri), big calibre projectiles and grenades (in Baiano) and small calibre bullets (in Capua) have the potential to increase production (Agenzia Industrie Difesa,

2023). This kind of projects might receive fundings from the EU Commission Act in Support of Ammunition Production (ASAP), once it will be adopted (Agenzia Industrie Difesa, 2023). In the meantime, the government unlocked funding under the State's special and reserve funds[2] to modernise and open new production facilities in sectors of high technology intensity and of strategic interest of the ministry, allocating EUR 5.5 million for FY2023 and EUR 9 million for FY2024 (Official Gazette of the Italian Republic, 2023).

THE EUROPEAN PROJECT OF EDTIB: BETWEEN NATIONAL STRATEGIC AUTONOMY AND PARTNERS

The disruption to global supply chains due to the COVID-19 pandemic and the Russian war in Ukraine, the velocity of the technological advancements in defence, as well as the strong presence of assertive international competitors have all contributed to increasing the relevance of having a truly European and robust EDTIB. From an Italian perspective, the development of a strong EDTIB is a priority. To reach this end Italy is focusing on the involvement in EU projects for the development of military capabilities, actively contributing to the Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF). Italy detains among the highest number of participations in 2021 and 2022 EDF projects, with a total of 215 participations for although Italian companies have a leading role in only seven projects (Masson H., 2023). The participation in such projects allow for the development of two lines of actions: the first one is the strengthening of the Italian defence industry, the second is the creation and consolidation of collaborative practices with other European Member States and industries. This will flow into the strengthening of the national DTIB to be part of a more competitive, resilient and technologically autonomous EDTIB. Gaining new expertise through collaborations is in line with the 2021 defence industrial directive of the MoD that highlights the centrality of cooperation for the acquisition of complementary know-how and technology, and for a competitiveness improvement of the national industry. Furthermore, both the 2022 Directive for the national military policy (Ministry of Defence, 2022a) and the 2023 Official Guidelines state that the preservation of national strategic autonomy and technological sovereignty in the sector are to be reached towards more collaboration, standardization, and interoperability, also at the EU level. When it comes to

[2] The State's special and reserve funds are part of the "Funds to be shared" available for all ministries and included in the annual budget of the Ministry of Economy and Finance. These funds are not assigned to cover a specific expense in the annual financial law, but their allocation is determined by subsequent acts (Ministry of Economy and Finance, no date). The total allocation of the State's special and reserve funds for the FY 2023 is of around EUR 5.649 million (Ministry of Economy and Finance, 2023).

sectors in which Italy wants to focus on and maintain an expertise, no official document delineates them. Investments are allocated not only to those sectors in which the country already detains expertise, but also to those in which it did not invest consistently in the last years, e.g. the land domain. Among the reasons behind this approach there is the determination to strengthen the Italian defence industrial apparatus, to offer competence and expertise to be included in the EDTIB (Chamber of Deputies, 2023b). The difficulty in setting centralised priorities resides also in the structure of the defence apparatus. The high level of autonomy of each branch of the armed forces, institutions, and the presence of constituencies of defence industry strongly limit the capacity to operate a synthesis of priorities and strategic sectors to safeguard.

Against this background, the Italian understanding of EDTIB does not exclude cooperation with relevant international actors and partners outside of the EU. More than preventing cooperation with any non-EU actor, stronger attention should be given to the exclusion of adversaries or rivals, to avert the acquisition of technology and know-how from undesired recipients.[3] And it could not be different, given the composition of the Italian defence sector, the interconnections Italy has with European, Transatlantic, and international partners, and the composition of its supply chain.[4] The country will continue working towards the strengthening of national expertise not to "subordinate the capacity to defend national interests to the willingness of those who have the technological know-how" (Chamber of Deputies, 2023b). Yet, this does not exclude interconnections with allies and like-minded partners given the already existent ties and, most importantly, their technological expertise. This position collides with that of other EU Member States who prioritize the concept of (closed) strategic autonomy in terms of inclusion of third-entities in EU funded projects over competitiveness. In the Italian view, bilateral and multilateral international projects, both with EU and non-EU partners are to be valued if they enable to provide the military with the appropriate equipment, gain expertise and consolidate a market position. This is also among the reasons why Italy promoted the opening of European Defence Fund (EDF) projects to third entities and, more recently, managed to build consensus on the need to soften the proposition included in the first draft of the European defence industry through common procurement act (EDIRPA) with regards to the share of components originating from third countries. As it stands

[3] Through the Golden Power instrument, in 2022 Italy conducted 69 preliminary investigations on foreign direct investments against 31 performed in 2019 (Chamber of Deputies, 2023b). For further statistics please refer to European Commission (2022).

[4] It is sufficient to cite the Italian participation in the Joint Strike Fighter programme, or the involvement in the Global Combat Air Programme (GCAP). Moreover, from an industrial point of view, Italian companies, e.g. Leonardo, Fincantieri or Beretta have subsidiaries outside of the EU, and namely in the UK and/or in the USA and beyond.

now, the proposal allows for a maximum of 30% of the cost of components from non-associated third countries. If this formulation excludes the possibility of using the instruments to buy off-the-shelf, it does not completely exclude the involvement of third countries, in consideration of the existent industrial ties and composition of inventories of European armed forces (European Parliamentary Research Service, 2023).

NO EDTIB WITHOUT MONEY AND COORDINATION

The limited budget is considered one of the most relevant impediments for a stronger European defence industrial sector. Its structure evolved over time to satisfy the requests of the armed forces in peace time in the post-Cold war period, also characterised by underinvestment. Additionally, differences among EU Member States in the acquisition priorities, procedures and timelines make it more difficult to coordinate at the EU level.

As abovementioned, the Italian procurement system is limited by the financial allocations made available with annual State's financial laws. At the European level, both current and future initiatives, such as the European Peace Facility (EPF) and the EDIRPA regulation, are based on a (limited) reimbursement logic and not on a financing one, thus requiring countries to first incur the expenses on which they will, eventually, be partially reimbursed. It is in the Italian view, that an increase in the available EU budget, as well as a different mechanism to finance defence production could profit the Europeanization of the defence technological and industrial base, by creating a stronger lever to cooperate, also to compensate for a possible budget downturn that may follow the end of the war in Ukraine. The current international situation further requires faster production capacity, and aggregation of demand and offer to speed the process and reduce costs. However, stronger coordination on requirements, standardization and planning are needed to allow the development of a truly European EDTIB. The EDIRPA regulation itself is a mechanism for "common", not "joint" procurement. While the latter would have suggested a deeper coordination and joint work towards the definition of requirements and standards, the word "common" in the title suggests there is still a considerable harmonisation of priorities and standards to be performed, before it will be possible to talk about a truly European EDTIB. In the specific case of EDIRPA, this is understandable as Member States operate different systems, but there should be a future convergence in the mid- to long-term on the types of equipment adopted, or at least an improved interoperability and interchangeability of systems. Further aspects that are considered prerequisite for a future EDTIB are the Europeanisation of enabling factors, such as export practices, control on Foreign Direct Investments and fiscal and labour laws for the

sector. On this, Italy intends to play a more active role in creating consensus on the coordination and delineation of priorities at the EU level, to operationalise the strategic compass, strengthen the industry, and anticipate security threats (Ministry of Defence, 2023a). At national level, coordination of the EU and national priorities is also performed by the Coordination Board (*Tavolo di Coordinamento*) for defence industrial policy, introduced by the 2021 Defence industrial Directive. This Board meets whenever is deemed necessary, to help developing an Italian position that takes into consideration developments at the EU level.

LOOKING AHEAD

The Italian government is determined to work towards a more Europeanised EDTIB. On this, the future European Defence Investment Programme (EDIP) can have the potential to overturn, in the long-run, the functioning of the defence industrial landscape by laying the ground for joint procurement. In general terms, procurement choices are currently defined by pragmatism and, in some cases, are a result of the type of systems already in used in the armed forces of EU Member States. However, if the EU goal is the restructuring of the industrial base towards a Europeanised EDTIB, coordination and harmonisation of planning and requirements need to be further strengthened and strategic choices on European industrial expertise operated. Italy is working towards this end-goal and it intends to maintain the technological and strategic comparative advantage the national defence industry has, to become a stronger and more relevant player in the European arena, able to provide relevant technology and products. Towards this end it will continue promoting and being involved in EU's projects and cooperation with relevant European and international like-minded partners to complement expertise and know-how. Pursuing this ambitious approach with stagnating defence budget may risks to spread limited funding to sectors in which the country has a competency gap. Unlike other EU Member States, Rome lacks a document delineating key strategic technologies the country wants to maintain and further develop. This can be considered by some to blurs the strategic direction Italy pursues, although the country maintains an open stance to dialogue on industrial policy at the EU level. Nonetheless, , a thinking of the segments in which Italy strongly advocates for itself a leading technological and industrial role could help reaching higher outputs in a cooperative and European way, that at the moment is mainly industry-driven, particularly in the case of the Italian participation in PESCO and EDF

projects. In parallel, the adoption of a multiannual procurement law[5] would serve the purposes of providing additional stability to investment (and contracts) in defence, and allowing for a longer planning and stabilisation both from a military and industrial perspectives.

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[5] A future multiannual procurement law is not to be confused with the DPP that is updated every year and that states the priorities of the armed forces for equipment acquisition.

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