SWEDEN'S PERCEPTION OF THE EU DEFENCE INDUSTRIAL "TOOLBOX"

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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

Over time, the European Union (EU) could gradually become a major player in the EDTIB, the European Defence Technological and Industrial Base. In recent years, it has developed several initiatives to support defence industrial cooperation between Member States and their defence companies[1]. For European capitals, this represents a major paradigm shift. How do they perceive this new role that the EU, and the Commission in particular, are in the process of acquiring? What is their perception of the EU's toolbox for supporting the EDTIB?

To answer these questions, the Ares Group has decided to launch a series of seven papers (comments) on as many European countries. In the case of Sweden, Lorenzo Scarazzato from SIPRI explains that Stockholm is looking at the EU's initiatives with interest, but also with a degree of scepticism. There are historical and structural reasons for this scepticism, as well as Sweden's relatively limited capacity to influence Brussels, which ultimately fuels doubts about the Commission's growing powers.

Keywords: European defence / Sweden / European Commission / EDTIB / EDF / PESCO / EDIRPA / ASAP / European strategic autonomy

[1] These initiatives are in addition to those carried out within the framework of the European Defence Agency (EDA), and include, among others, the European Defence Fund (EDF), the Permanent Structured Cooperation (PESCO), the European Peace Facility (EPF), the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), the Act in Support of Ammunition Production (ASAP) and the future European Defence Industrial Programme (EDIP).

On 9 December 2022, in the aftermath of the Russian invasion of Ukraine, the Swedish Defence Commission (Försvarsutskottet)[2] was tasked with compiling a report to analyse international developments and their consequences for Swedish defence and security policy. In the excerpts published in June 2023, it is stated that "Sweden must continue to build security together with others, as a loyal member of NATO and the EU". While Sweden is still waiting for its NATO admission to be ratified, membership in the Organisation is already defined as "Sweden's most important defence policy arena", whereas the EU "is Sweden's most important foreign policy arena".[3] The distinction made in the report epitomises Sweden's lukewarm attitude towards EU defence initiatives. While the interest of the European Commission in the EU's Defence Technological and Industrial Base (EDITB) is largely perceived as positive, political measures aimed at tackling fragmentation do not satisfy Stockholm. Interlinked reasons underpin such scepticism: **history**, **resources**, and **structure**. All three possess both political and industrial dimensions.

History includes the relevance that Sweden has long attributed to self-reliance —maintaining a broad array of mostly indigenous weapon systems— and to the transatlantic bond as a reliable source of technological transfers[4] and —ultimately— security guarantees. The 2022 bid to access NATO has only reinvigorated the deep links with the United States and the United Kingdom. While EU institutions have embraced the expression 'European strategic autonomy', Sweden has often advocated for the inclusion of non-EU third parties when establishing defence cooperation tools. The compromises reached for instruments such as the European Defence Fund (EDF) are considered to be predominantly in contrast with the wishes expressed by Stockholm on third-party participation.[5]

Sweden's **limited resources** for influence within the EU is another problem. The Swedish presence in Brussels is limited and so is its lobbying clout. Despite the overall satisfactory

[2] The Defence Commission serves as a forum for consultations between the Government and representatives of the political parties represented in the Riksdag. The ambition is to reach a broad consensus on Sweden's defence and security policy. Drawing in part on the Defence Commission's reports, the Government will formulate its proposals to be presented to the Riksdag. See: https://www.government.se/government-of-sweden/ministry-of-defence/defence-commission/

[3] Swedish Defence Commission, 'Report on Security Policy', June 2023, 4,https://www.government.se/globalassets/government/dokument/forsvarsdepartementet/forsvarsberedningen/excerpts-of-the-swedish-defence-comissions-report-on-security-policy-2023.pdf.

[4] Jean Belin et al., 'Defence Industrial Links between the EU and the US', *Ares Group Reports*, no. 20 (2017): 19–24.

[5] Olsson, P., Dalberg, S., & Junerfält, T., 'Defense Industrial Outlook – A Global Outlook with a Special Focus on the European Defense Fund' (Stockholm: Totalförsvarets forskningsinstitut, 1 November 2022), 43, https://www.foi.se/rapporter/rapportsammanfattning.html?reportNo=FOI-R--5333--SE.

performance of its companies in the EDF calls,[6] tools addressed to the EDTIB are still perceived as being skewed in favour of bigger member states. Their complexity is seen as hampering participation among small and midsize enterprises, as specialised expertise is required to allow their involvement in such calls. While this issue is not unique to Sweden, it is perceived as particularly challenging for its defence industrial structure. In this regard, bilateral agreements with (mainly) UK and US defence companies are considered as less complex than EU tools: they involve private entities, fewer moving parts, and grant access to bigger, less fragmented markets.

There are also **structural reasons** for Stockholm's perplexities with regard to the EU toolbox. The Swedish defence industrial base is highly developed in relation to the size of the country but is mostly composed of small and midsize enterprises. More importantly, it is completely private. Full privatisation dates back to the 1990s when the government divested from the few remaining state-owned defence companies, pushing for consolidation and internationalisation. The phenomenon shaped the current defence industrial base, in which Sweden-based Saab is the largest firm but UK companies BAE Systems and Melrose Industries play a major role through their local subsidiaries.[7] Another consequence of state divestments has been the increasing reliance on exports and the exposure to high degrees of market competition. In this context, the absence of state stakes is perceived as a disadvantage by the Swedish defence industry, as competitors can often count on export promotion fostered by their governments. A similar situation arises when competing for EU calls: other member states possess a stronger link between the industrial and political spheres that allows for better insight and increased involvement between the two at early stages. Swedish stakeholders have a liberal view of how the defence industry should be managed. They tend to prioritise a bottom-up approach where the market picks winners —in spite of political considerations— to incentivise a competitive and innovative industrial environment. This discourse, however, has its limitations when it comes to certain technological sectors: the government has declared combat aircraft, underwater (submarine) domain, and electronic warfare as essential security interests.[8] These are mainly covered by Saab.

[6] Ann Lundberg, 'En fond för stora och små? Analys av deltagandet i Europeiska försvarsfonden 2021', no. FOI-R--5446--SE (March 2023): 55.

[7] By acquiring US companies Alvis and United Defense, BAE Systems became the owner of Hägglunds in 2004 and Boforos in 2005. GKN Aerospace acquired Volvo Aero in 2012 before becoming part of Melrose Industries in 2018. *See* SIPRI Arms Industry Database, https://www.sipri.org/databases/armsindustry.

[8] 'Government Bill Totalförsvaret 2021–2025 (Total Defence 2021-2025)' (Swedish Ministry of Defence, 15 December 2020), https://www.swedenabroad.se/globalassets/ambassader/nederlanderna-haag/documents/government-bill-totalforsvaret-20212025.pdf.

The second facet of the structural element is the number of decentralised agencies dealing with defence procurement in the Swedish government.[9] While there was good coordination among them and with the industry during the Cold War, the perception is that only the war in Ukraine has prompted an effort to renew a consistent dialogue among the parties.

These three dimensions —history, resources, and structure— are the metrics that Sweden employs to gauge tools deployed by the EU. While Stockholm seems to be becoming more proactive in engaging with EU instruments targeting the EDTIB, it remains sceptical of supranational initiatives that it considers driven by the European Commission's attempt to gain more competence in the defence domain, a sentiment widely shared across its parliament aisles. During the discussions on the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) proposal, the Swedish parliament lamented the absence of "an impact assessment to ensure that the [European] Commission is not given greater influence over decisions regarding defence policy which were previously taken at a national level". The reasoned opinion submitted by the Swedish parliament also warned of the possibility that the European Commission could "control the distribution of resources based on criteria which are still not sufficiently transparent and measurable".[10] However, after some tweaking of the text an agreement on EDIRPA was found under the Swedish presidency of the EU Council.

The Swedish Presidency's support for EDIRPA and ASAP shows that national players are still interested in implementing these new instruments. Even the Swedish Defence Commission expressed a "positive view of the overall objectives of the proposed regulation [EDIRPA], that is to foster the competitiveness and efficiency of the EDTIB for a more resilient Union".[11] As mentioned above, Swedish companies participate in EDF projects and can therefore also aspire to benefit from new and future EU instruments.

[9] The involved parties under Ministry of Defence there are the Armed Forces, the Defence Materiel Administration (FMV), and the Defence Research Agency (FOI)

[10] Swedish Defence Commission, 'Subsidiarity Check on the Commission's Proposal for a Regulation on Establishing the European Defence Industry Reinforcement through a Common Procurement Act', October 2022.

[11] Swedish Defence Commission.

The expected easing of the learning curve for Swedish defence companies in dealing with EDF calls is likely to alleviate their resource challenges in the future. However, little seems to be improving on the front of structure and historic ties. On the contrary, Sweden's forthcoming NATO accession is likely to bolster ties with the US and the UK. Well aware of the lock-out effect, the Swedish government and companies will keep hedging their bets, since bilateral agreements and EU tools are not exclusive. Therefore, in the short term, Sweden is likely to remain seated on the fence, employing the link to the US and the UK as a counterweight to the European Commission's growing ambitions to tackle fragmentation in the EDTIB.

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