Armament Industry European Research Group

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

Alessandro Marrone / Head of Defence Programme, Istituto Affari Internazionali (IAI)

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ABOUT THE AUTHOR

Alessandro Marrone / Head of Defence Programme,
Istituto Affari Internazionali (IAI)

Alessandro Marrone is Head of IAI Defence Programme. He has been working at IAI since 2007, and currently manages research projects and publications related to European and transatlantic security as well as to Italy's defence policy. Since 2018, he has also Professor at the Istituto Superiore di Stato Maggiore Interforze of the Italian Ministry of Defence. Since 2016, he has been a member of the Scientific Board of the Armament Industry European Research Group (ARES Group).

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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

Edited by Federico Santopinto, Senior Research Fellow, IRIS
ares@iris-france.org
+33 (0)1 53 27 60 60

iris-france.org/ares
#ARESGroup

@AresGroup_EU

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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, has been assuming? What is their perception of the so-called "EU toolbox" for supporting the EDTIB?

To answer these questions, the Ares Group is issuing a series of seven papers (comments) on as many European countries. This paper covers the case of Italy. It is written by Alessandro Marrone, Head of the Defence Programme of the Istituto Affari Internazionali in Rome. According to Marrone, ''a majority in the Italian policy community have three items in mind when they think about the EU defence financing toolbox: the availability of economic resources, the need of a grand design, and a focus on specificities and complementarity. At the same time, there is a widespread cautiousness on the growing role of the European Commission, and deep-rooted concerns about the French activism at EU level ''.

Keywords: Italy / EU / Defence Industry / European Commission / EDF / France / EDA / European Defence

[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).

Four preliminary considerations help better understand the Italian perspective on the EU's toolbox aiming to support the EDTIB. First, the group of practitioners and experts who are knowledgeable about the EU's initiatives in defence is relatively small, as these initiatives remain largely unknownamong political forces and public opinion. Second, there is a discrepancy between a narrative that has been and remains supportive of the EU's initiatives – which Italy values as it considers the European dimension crucial for the future of its national DTIB[2] – and significant concerns that remain often unexpressed. Third, over the past year, the conservative government of Georgia Meloni, whilst pledging Italy's continued support to European defence, has tended to prioritise NATO and the wider Mediterranean area[3]. Of course, the Italian executive continues to support EU financing toolbox as well as previous initiatives such as PESCO and CARD in line with the traditional Italian posture[4], and the 2023 Multiannual Programming Document (Documento Programmatico Pluriennale, DPP) issued by the Ministry of Defence (MoD) states that Italy "will actively seek a growing integration of member states' resources and capabilities"[5]. However, to date, the political capital invested by the Meloni government in trying to stimulate EU initiatives has remained limited, even if Defence Minister Guido Crosetto has a good understanding of defence industrial policy. Last but not least, Italy continues to balance and value both European and transatlantic cooperation, including on the F-35, and Rome is also keen to sustain strong defence cooperation with the UK, among others through the Global Combat Air Programme (GCAP)[6].

Against this backdrop, a majority in the Italian policy community have three items in mind when they think about the EU defence financing toolbox: the availability of economic resources, the need of a grand design, and a focus on specificities and complementarity. At the same time, there is a widespread cautiousness on the growing role of the European Commission, and deep-rooted concerns about the French activism at EU level.

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[2] See in this regards the analysis of Ester Sabatino :
Ester Sabatino, *What future European Defence and Technological Industrial Basis (EDTIB) do we want/need? The Italian case*, ARES Group, (Paris : IRIS, July 2023). https://www.iris-france.org/wp-content/uploads/2023/07/ARES-84-Comment.pdf

[3] On the Meloni government's broader approach to European integration process see : Nathalie Tocci and Leo Goretti, *Giorgia Meloni's Italy and Europe: Ambitions and Realities* (Rome : IAI, September 2023). https://www.iai.it/it/pubblicazioni/giorgia-melonis-italy-and-europe-ambitions-and-realities

[4] Alessandro Marrone, *The Defence Policy of Giorgia Meloni's Government: A Traditional Posture with a Conservative Tinge* (Rome : IAI, November 2022). https://www.iai.it/it/pubblicazioni/defence-policy-giorgia-melonis-government

[5] Ministerio della Difesa, Documento programmatico pluriennale della difesa per il triennio 2023-2025 (Rome : 2023) : 13. https://www.difesa.it/Content/Documents/DPP%202023-2025.pdf

[6] On the latter see:
"How GCAP progress is bolstering industrial ties between Italy, Japan, UK", *Decode 39*, September 12, 2023. https://decode39.com/7716/gcap-progress-bolstering-industrial-ties-italy-japan-uk/ and
"Expanding the GCAP: Italian Def Min, industries call out to innovators", *Decode 39*, April 12, 2023. https://decode39.com/6440/expanding-gcap-italian-defence-industries-call-innovators/

ECONOMIC RESOURCES: GOOD, BUT NOT ENOUGH

The economic incentive represented by the European Defence Fund (EDF) primarily, but also the Act in Support of Ammunition Production (ASAP), the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), and, eventually in the near future, the European Defence Industrial Programme (EDIP), is deemed important by Italian defence stakeholders, but not adequate. Certainly, it is an improvement in comparison with the pre-2016 situation, when no such incentives existed. From this point of view, the glass can be seen as half-full. However, compared with the budgets needed to cope with the reality dictated by the Ukraine war, and in light of the final budget agreed in comparison with initial Commission ambitions (8 billion euro EDF budget over 2021-2027 vs 13 billion initially proposed), this is by far insufficient. In that light, the glass can be seen as half-empty.

Altogether, EDF is therefore not a game changer leading industries to reshape their approach to business and cooperation. Still, it is deemed an important stimulus to national defence R&D in that it covers non-recurrent costs and related risks, and partly compensates for the weaknesses of the Italian military research plan (*Piano Nazionale di Ricerca Militare*)[7]. The EDF is seen as also a valuable financial resource by many Italian SMEs, and as a potentially useful asset by large companies.

MISSING A GRAND DESIGN

The economic resources made available by the various EU toolbox initiatives are not the only concern from an Italian perspective. While each single initiative may be valuable per se, their sum is not part of a grand design for a European defence industrial policy. Accordingly, they are not (yet) effective in helping the EU's defence market make a quantum leap in terms of demand aggregation and supply competitiveness. This would require a clear agreement on the end state, which does not exist at present. For sure, there is a consensus on the overarching intent of establishing a more robust and competitive EDTIB to support European defence, but a number of key questions remain open. What kind of industry and market do the Union and its members want? Which balance is acceptable between EU-wide competition and European champions? What specialisation, division of labour and interdependence across Member States and sectors should we be aiming for? What is the point of equilibrium do we

[7] On the weaknesses of Italian military research see: Alessandro Marrone, "Defence Innovation: New Models and Procurement Implications. The Italian Case", ARES Group, (Paris : IRIS, October 2020). https://www.iris-france.org/wp-content/uploads/2020/10/64-DefInnov-Italy.pdf

want to reach between European competitiveness and national sovereignty? What degree of openness should the EDITB maintain towards non-EU strategic partners, such as the UK and the US, in terms of both markets and supply chains? As long as no pan-EU grand bargain emerges on these fundamental questions, Italian stakeholders will remain cautious towards European initiatives. The recent announcement of an upcoming European Defence Industrial Strategy by the European Commission has not yet responded to such concerns.

SPECIFICITIES & COMPLEMENTARITY

Beyond the general concerns on economic resources and grand design, views are more nuanced on specific aspects. Overall, Italy is rather satisfied with the agreements reached so far on the respective EDF and EDIRPA regulations, for instance with regards to the 'European economic operator' definition and recognition of national powers regarding Foreign Direct Investments. However the fact that it took so many months for EDIRPA to be approved – the European Parliament adopted the regulation only in September 2023[8] – raised concerns on the ability of EU institutions and members to take timely decisions on defence industrial initiatives. By contrast, agreement on the ASAP was reached relatively fast, but simple munitions are quite different from complex systems.

Italian stakeholders also hold a rather positive view of EDF. They were somehow prepared by its predecessors, the Preparatory Action on Defence Research (PADR) and the European Defence Industrial Development Programme (EDIDP). Accordingy, national co-funding of EDF projects has slowly found its place in MoD multiannual financial planning[9], with 37 million allocated in the 2023 budget[10]. Still, there is large room for improvement. Many appreciate this incentive given to industrial cooperation across Europe with a view to achieving economies of scale and joint procurement. However, there is also a clear demand for the prioritisation of fewer, properly funded projects, and more continuity to fund the identified priorities. Moreover, some stakeholders emphasise that the defence market has specificities, which the EDF management should take into account better, such as the strategic relevance

[8] European Parliament, "MEPs vote to strengthen EU defence industry through common procurement", Press releases, Brussels, November 12, 2023. https://www.europarl.europa.eu/news/en/press-room/20230911IPR04908/meps-vote-to-strengthen-eu-defence-industry-through-common-procurement

[9] See for example : Ministerio della Difesa, Documento programmatico pluriennale della difesa per il triennio 2022-2024 (Rome : 2022) : 35. https://www.difesa.it/Il_Ministro/Documents/DPP_2022_2024.pdf

[10] Ministerio della Difesa, Documento programmatico pluriennale della difesa per il triennio 2023-2025 (Rome : 2023) : 13. https://www.difesa.it/Content/Documents/DPP%202023-2025.pdf

of supply chains and the presence of transnational European champions, as exist for example in the missile sector.

Italian stakeholders appreciate that the EDF is meant to support R&D and should not be diverted towards procurement in order to exploit its innovation potentiality. Accordingly, they see the need for a complementary tool to support joint procurement. In its absence, the technological output of EDF-related R&D would remain idle. Here, the expectation is that the EDIP will fill the gap, as neither EDIRPA nor the ASAP are suited for that purpose. This would enable consortia participating in EDF projects to move towards the joint development of technologies, with a view to the most valuable outputs of those projects moving to industrial scale production. Such a scheme would also prevent the risk of work-share remaining stove-piped across country lines. Actually, there is a degree of concern in Italy that the many national off-the-shelf acquisitions decided by EU member states since 2022 – in the wake of the Ukraine crisis – will weaken the EDF by saturating the European market with state-of-the art equipment before its outputs have had the time to mature[11]. In order to mitigate such market saturation, envisaging an EDIP that builds on EDF most valubale outputs is key to incentive joint production over a mid-term horizon and thus fuel cooperation through interdependencies.

CAUTION VIS-À-VIS THE ROLE OF THE EUROPEAN COMMISSION

Italian defence stakeholders are fully aware that the role of the European Commission – and particularly DG Defence Industry and Space (DEFIS) – is expanding through the oversight of the EDF, EDIRPA and ASAP, and will eventually continue do do so through the EDIP in the near future. This creates a novel equilibrium between the intergovernmental and communitarian pillars of the European integration process in defence. Broadly speaking, Italy feels more comfortable operating in the intergovernmental framework, i.e. through the European Defence Agency (EDA) and a possible future formal Defence Ministers' Council, than in the Community framework, due to the aforementioned uncertainties affecting the end-state of the EU's financing initiatives.

In this context, what is perceived as an under-representation of Italian nationals at DG DEFIS[12] – in comparison with France, for example – is a cause for concern. Italy prioritise accountability

[11] IAI, "Il futuro incerto dell'Europa della difesa", *Huffington Post*, September 27, 2023. https://www.huffingtonpost.it/blog/2023/09/27/news/lincerto_futuro_delleuropa_della_difesa-13453281/

[12] The issue of adequate human resources investment in EU institutions dealing with defence emerged in the national debate on the 2022 EU Strategic Compass and its implementation. See in this regard: Elio Calcagno, Alessandro Marrone and Michele

towards all Member States and the balancing of national interests in the management of EDIRPA and the future EDIP[13]. From an Italian perspective, even if a grand design is still missing, the EDF, EDIRPA and the EDIP are building blocks of a long-term European defence integration process, which needs to respond to guidance that is politico-strategic in nature. This guidance is essential to ensure Member States' commitment, in a win-win logic. Such a logic is a key element for a grand design, also to ensure Member States' support for a robust EDF and EDIP budget in the next multiannual financial framework.

DEEP-ROOTED CONCERNS ON FRANCE'S ROLE

For Italy, in the end, there is an elephant in the room of the EU toolbox to support EDTIB, and that is France. The strength and activism of the French public-private ecosystem, the close and historically complicated Franco-Italian relations in the naval and space domains, the cultural differences between the two countries' approaches to cooperation and competition, and, last but not least, the major French influence at EU level when it comes to defence industrial initiatives, all these factors contribute to an overlap between the Italian assessments of Brussels' and Paris' respective roles on EU toolbox. Therefore, improving the Italian-French relations is a key factor for a positive evolution of Italy's approach to the EU toolbox supporting EDTIB.

Nones, *La Bussola strategica Ue e dodici sfide per l'Italia* (Rome : IAI, June 2022). https://www.iai.it/it/pubblicazioni/la-bussola-strategica-ue-e-dodici-sfide-litalia, p. 9

[13] This approach was already part of Italy's expectations with regards to EDF governance, see in this regard: Alessandro Marrone, *National expectations regarding the European Defence Fund: The Italian Perspective*, ARES Group, (Paris : IRIS, October 2019). https://www.iris-france.org/wp-content/uploads/2019/10/ARES-42-EDF-Italy.pdf

The Armament Industry European Research Group

Armament Industry
European Research
Group

2 bis, rue Mercœur - 75011 PARIS / France

+ 33 (0) 1 53 27 60 60

ares@iris-france.org

iris-france.org/ares

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