



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

Félix Arteaga / Senior Analyst,
the Elcano Royal Institute

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ABOUT THE AUTHOR



Félix Arteaga / Senior Analyst, the Elcano Royal Institute

Félix Arteaga is a Senior Analyst at the Elcano Royal Institute and a Lecturer at the Instituto Universitario General Gutiérrez Mellado (Universidad Nacional de Educación a Distancia, UNED). His area of expertise is international security and defence. Over the past few years he has carried out research on defence policy, international, European and national security, international missions and international crisis management.



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 companies¹. For European capitals, this represents a major paradigm shift. How do they see 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 this paper, Félix Arteaga examines how Spain integrates EU instruments into national decision-making, as well as what are the complementarity between national and EU defence industrial policies. The paper shows that Spain wants its strategic autonomy to be compatible with that of the EU, but not subordinate to it. Concerning the EDIP, Madrid believes that such an instrument should be included in a spectrum of cooperation that extends to procurement, service support, preparation and production in emergency and crisis situations. Spain is ready to work with the Commission to achieve these objectives, provided that its national sovereignty is not compromised and that the goals set out in the Defence Industrial Strategy 2023 are pursued.

Keywords: Spain / EU / Defence Industry / European Commission / EDF / EDA / European Defence

¹ These initiatives are in addition to those carried out under 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).

Spain is fully committed to the development of the European Defence, as every official document on the subject confirms. Among others, the National Defence Directive of 2020 and the National Security Strategy of 2021 confirm the political will of Spain to join the core group of countries contributing to the strengthening of the European Defence and Technological Industrial Base (EDTIB) (Presidency of Government, 2020, 2021).

Since 2016, Spain has welcomed the approval of the European Defence Action Plan (EDAP) and the launch of the European Defence Fund (EDF) by the European Commission. The positive results of the 2017 Preparatory Action on Defence Research (PADR) and the of the 2019 European Defence Industrial Development Programme (EDIDP) helped government and private stakeholders to broaden and deepen their engagement in the projects funded by the EDF (Arteaga, 2019). Spain led three PADR research projects with a total of nineteen stakeholders and a combined value of €60 million together and eight EDIDP projects with sixty-four members and a value of €371 million (Fiott, 2023). The assessment of Spain's participation in EDF calls for 2021 and 2022 also confirms the progressive integration of the EU instruments in the defence industrial decision-making and the growing influence of European cooperation incentives, although not to the extent of subordinating national planning priorities to European ones.² The Spanish ecosystem participated in 42/60 EDF projects in 2021 (70%) and 32/41 in 2022 (78%), ranking third among EU member states after France and Germany (Fiott, 2023).

According to the latest Defence Industrial Strategy (DIS), the strategic goal of the MoD's armaments and materiel policy is to safeguard the national interests in strategic technological and industrial areas (Ministry of Defence, 2023). This includes building the European DTIB and a significant Spanish DTIB within it, by maximising the return on investment, positioning the Spanish companies within European supply chains, and strengthening the industrial and technological fabric. The main goals of the DIS 2023 are, in order of priority, firstly, to increase the country's level of strategic autonomy and reduce its dependence on third parties, mainly on the strategic defence industrial capabilities listed in the strategy.³ Secondly, to contribute

² Defence planning is still the central element of the decision-making process, but the MoD has sought to improve its coordination with the industrial and technological planning and, progressively with those of the Capability Development Plan (CDP), the Coordinated Annual Review on Defence (CARD) or the Permanent Structured Cooperation (PESCO) in the latest defence investment cycle of 2018 (Colom, 2021).

³ The strategic defence industrial capabilities to be prioritized in the DIS 2003 are: cyber defence, encryption and cryptography, tactical communications, counter-unmanned vehicle systems (C-UVS), electronic warfare, guided munitions and missiles, combat cloud, airborne/sea/land platforms, sensors, simulators, anti-missile systems, combat/mission systems, command and control systems, navigation and control systems, propulsion systems, satellite observation and communication systems, and unmanned vehicles.

to the development of European defence, the CSDP and the EDTIB, and thirdly to consolidate a competitive and sustainable Spanish DTIB.

Although Spain's national policies are in line with EU financial instruments, the inadequacy of national defence budgets and the lack of a long-term financial planning have weakened the financial stability of the Spanish DTIB. In the past, budget instability has affected investment, maintenance, research and development in general, and cooperation programmes in particular, as annual budgets are not flexible enough to accommodate multiannual payment schedules (Arteaga, 2021). In 2014, at the NATO summit in Wales, Madrid pledged to meet the 2% of GDP spending commitment by 2024, but Spanish governments have repeatedly postponed its compliance. At the NATO summit in Madrid in 2022, the government reaffirmed its commitment to reach this target by 2029. However, and despite the nominal increase - 25.8% in 2023 to reach the 1.2% of GDP- budgeting remains unstable as budgets are approved annually and depending on economic circumstances. If the increase in expenditure is not spread evenly over time and compliance with the commitments is postponed to later years, the achievement of the final 2% target could be jeopardised (Fonfria & Calvo, 2023).

The consistency of the Spanish approach to the EU's toolbox is also hampered by the difficulty of applying public procurement rules to defence contracts due to their specificities. Under the current procurement and budgetary rules, Spain cannot lead joint procurement consortia, nor can it buy on their behalf or manage their funds. The limitations of the Spanish budgetary and contractual legislation have forced Spain to implement contracts only through intergovernmental agencies (EDA, OCCAR), since the Ministry of Defence does not have the legal capacity or the necessary public body/agency to carry out contracts on behalf of third countries. The various Spanish governments that have succeeded one another are aware of the lost opportunities for the country and its defence industry due to the lack of adequate legal instruments to directly manage cooperative projects with multinational funding, without the intervention of external agencies, and continue to review the current rules to bring them in line with EU contractual procedures.⁴

Another source of inconsistency is due to the shortage of personnel and expertise in the Ministry of Defence to oversee the management of EDF-funded programmes. The General Directorate of Armaments and Material (DGAM in Spanish acronyms) of the Ministry of Defence (DGAM, 2023) was designed to centralise the decision-making and the supervision of the collaborative projects, but the gradual expansion of its industrial, technological,

⁴ The use of non-national agencies increases administrative costs and reduces control over contracting procedures, but Spanish procurement laws do not allow government-to-government contracts or contracts to be signed without the financial commitment of all participants prior to signing.

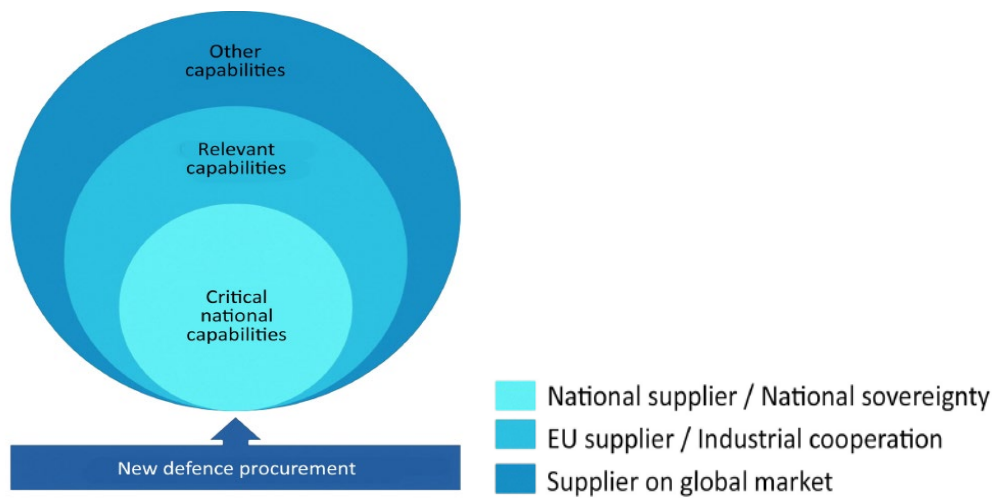
research and development responsibilities, as well as the proliferation of national and European projects, have overwhelmed its management capacities. As a result, the DGAM is once again sharing management with the headquarters of the armed services (Carrasco, 2023). The increasing complexity and proliferation of projects suggest the need to create a single procurement agency or to provide the DGAM with adequate capabilities to overcome the current management limitations of the system.

Finally, the multiplication of national and European commitments has pushed the Spanish DTIB to its limits. The latter has tried to adapt its structure and capacity production, but it has not been able to meet the exponential growth in demand generated by Russia's large-scale and illegal invasion of Ukraine. The sector's capacity in terms of investment, human and technological resources is limited, and it should avoid punching over its weight to maintain its high level of performance in the European market (Fiott, 23).

CONSISTENCY BETWEEN EU INSTRUMENTS AND EUROPEAN COOPERATION

Spain's participation in international projects depends on the concept of strategic autonomy as defined in official documents. Overall, the priority of Spanish strategic autonomy is to satisfy all possible industrial and military capabilities through the national defence budgets and the Spanish DTIB, without depending on third parties (national strategic autonomy). Secondly, when cooperation with third parties is necessary, to participate in European multilateral or bilateral projects that strengthen the European DTIB (European strategic autonomy). Finally, Spain does not exclude cooperation with third strategic allies, whether or not they are members of the EU, if such cooperation benefits its military or industrial capabilities (open strategic autonomy).

Spain's Capability Procurement Policy



Source: DIS 2023, p. 33.

EU financial instruments encourage cross-border cooperation, but they are not decisive for Member States to abandon their national priorities and interests. Member States already have to fund their own defence budgets. If they want more EU incentives, they will have to contribute more to the EU common budgets. The problem is that the EU funds allocated to defence must compete with the other priorities of the Multiannual Financial Framework (MFF), as well as with other funds such as the European Peace Facility (EPF), which has grown steadily since it was used to support Ukraine. Spain therefore doubts that the Member States, including itself, will be willing or able to increase their contributions to the common budget in the coming years so that the Commission can have more resources available for defence. For example, the Commission proposed an additional €1.5 billion for the EDF in June 2023 to reach a total of €9.5 billion by 2027, but such an increase remains uncertain as it depends on the approval of the Member States and the European Parliament (as was the case in 2018, when they reduced the Commission's proposal from €13 billion to €8 billion). Said in other words, the Commission's ability to allocate more funds to significantly stimulate European cooperation cannot be taken for granted.

The Commission has also reprioritized existing funds (InvestEU, Horizon Europe, Innovation Fund, EU4Health, Digital Europe, Recovery and Resilience Facility, Cohesion...) for strategic technologies with 'defence applications' in the new instrument of the Strategic Technologies for Europe Platform (STEP) of 2022. The DIS 2023 does not mention STEP among the EU funding instruments, although it could be used in deep and digital tech projects for defence

applications under the European Defence Fund. This omission shows the difficulties of the Spanish DTIB to optimize the use of dual-technology funds to generate synergies between the civil, defence and space industries (Arteaga, 2021) and the need to open up the defence innovation system to new dual-use instruments.

Finally, the Spanish contribution to cooperation projects depends on the level of return. The Ministry of Finance has always upheld the unwritten rule that investments in collective projects must strive for a level of return close to the national mandatory percentage (around 9% for Spain).⁵

Latest developments in EU instruments: EDIRPA, ASAP and the future EDIP

The DIS 2023 cannot specify the Spanish position on the new instruments, since they were adopted after its publication. The DIS 2023 only notes their importance as tools to promote a more pro-European orientation of the defence sector. Spain supported the EDIRPA and did not enter the controversial debate on the principle of subsidiarity. The government and parliament considered that the proposal did not violate the principle of subsidiarity as it did not oblige member states to increase the EU budget or to participate in common procurement (Cortes Generales, 2022).

Spain is paying close attention to the development of EDIRPA as a pilot experience for joint procurement and stocks replenishment. In particular, Spain would like to understand how this instrument will improve the efficiency and competitiveness of the EDTIB, in line with the legal basis of Art. 173 TFEU and without contradicting Art. 41.2 TEU⁶. The EDIRPA process has been shaped by the urgency of the acquisitions and the reluctance to set irreversible precedents that the EDIP could consolidate in the future. Thus, the monitoring of the learning process may be more important than its short-term impact on the Spanish DTIB.

For its part, the Act in Support of Ammunition Production (ASAP) is an instrument designed to support the production of ammunition and missiles. This time, Spain joined the group of Member States that opposed the Commission's initiative to obtain control over the companies' data, priority orders, or the removal of national exports licenses for the intra-Community trade concerned (Jehin, 2023). As Spain does not have any national ammunition

⁵ Spain invested €200 million to cover a total amount of €1.9 billion in EDF projects between 2021 and 2022, around €100 million per year over the seven years of the MFF.

⁶ Article 173 of the Treaty on the Functioning of the EU gives the Union powers in the field of industrial policy. Article 41.2 of the Treaty on the EU sets limits on the use of the EU's ordinary budget for military expenditure of an operational nature.

factories, its opposition is a matter of principle and provides an insight into the approach it will take in the EDIP process.⁷

The EDIP package, as part of the EU's defence industrial strategy, will be presented in the first quarter of 2024, after many months of delay. It will set out the conditions and criteria for Member States to form consortia for the joint acquisition of military capabilities. The drafting of the EDIP will take into account the lessons learned from the EDF, EDIRPA and ASAP as well as the positions and expectations of the Member States and the European Commission. One of the main challenges the EDIP will face is how to move from where EDF projects end: pre-commercial procurement, to the production and procurement phase. This is a gap in the EDF that all Spanish DTIB stakeholders would like to fill. For Spain, the EDIP should therefore be involved in a spectrum of cooperation that extends to procurement, service support, preparation and production in emergency and crisis situations.

Specifically, Spain would like the EDIP to reach a sufficiently high level of ambition to be able to: promote the acquisition and sustainment of standardised and interoperable systems, provide service support throughout the life-cycle, including decommissioning; and improve the efficiency of the European supply chains to enable them to rump up production in wartime crises.⁸ In addition, and given the problems experienced in the past with several European cooperation projects, whether funded by the EDF or not, the EDIP should accompany its ambition with mechanisms to evaluate its results. The evaluation should not only correct the inefficiencies of the projects, but also their negative impact on the competition rules of the internal market and the balanced redistribution of their benefits among the EDTIB.

⁷ Expal was the last remaining large-caliber ammunition factory in Spain and was sold to Rheinmetall in 2023, as was the case before when the Slovakian MSM Group acquired the Ammunition Factory of Granada in 2020 and the Norwegian NAMMO bought the Arms Factory of Palencia in 2012.

⁸ Interview with officials, October 2023.

SPAIN AND THE EU FUTURE DEFENCE INDUSTRIAL STRATEGY

Beyond what the new EU financial instruments can do for EDTIB, what Spanish stakeholders consider necessary is a new conceptual framework. The Commission President Ursula von der Leyen announced in her State of the Union address in September 2023 that a European Defence Industrial Strategy (EDIS) would be put forward, which may also include a Defence Production Act (European Commission, 2023). The strategy, scheduled for the first quarter of 2024 in the Commission's work programme, is intended to provide strategic guidance for the technological and industrial sector, particularly over the long term (DG DEFIS, 2023). The global defence industry and market are facing profound changes and a strategy focused on mitigating the shortcomings of the EDTIB in the past may not be sufficient.

According to Spanish practitioners, the strategy, more than an industrial programme, is expected to provide the European DTIB and national DTIB with the desired end state of the transformation process to mobilise structural reforms.⁹ Strategic decisions on foreign direct investment, export controls, European or global competition, war and peacetime sizing, EU champions or EU supply chains will impact national and European DTIBs, and decision-makers need strategic guidance in advance.

Europe's defence industrial strategy should encourage an innovative, competitive, and resilient EDTIB, ensuring security of supply and cutting-edge technologies. The EDTIB should be agile enough to cope with a changing strategic environment and identify cooperation models that ensure greater efficiency and economies of scale. Timely adoption of the strategy would allow the future Commission and the European Parliament, due for re-election in 2024, to take greater ownership of the EU's new role in the EDTIB. It would also pave the way for negotiations on the future Multiannual Financial Framework to be adopted in 2024. On the contrary, any delay would create uncertainty about the continuity of the industrial momentum within the EDTIB.

⁹ Interviews with officials and private stakeholders of the Spain's DTIB, October 2023.

SPAIN VIS-À-VIS THE EUROPEAN COMMISSION IN THE EDTIB

The Spanish perception of the Commission's role in the future EDTIB depends on its national interests and the evolving strategic context. The former is unlikely to change in the medium term while the latter is highly volatile. Policy is set in the Council, where Spain has influence, and in intergovernmental bodies such as the European Defence Agency, but the Commission also has a margin of autonomy in the governance of the EDTIB, and tensions with national interests could arise. If the EDTIB evolves in a way that satisfies the Commission and the Member States (positive sum), Spain will continue to support the autonomy of the Commission, but it will cease to do so if it puts national sovereignty at risk (zero sum).

In the context of the Ukrainian war, the EDTIB and national DTIBs are leaving in a best-case scenario made up of the expansion of defence budgets and military procurement. The European defence market is facing a supply crisis and EDTIB production is unable to meet wartime demands (Mölling & Helmonds, 2023). As the national industries currently have more money and orders at their disposal, they may be less interested in taking advantage of European incentives to participate in cooperation projects. Paradoxically, the positive momentum of the EDTIB could perpetuate its current fragmentation.

Nevertheless, the strategic context could evolve towards a worst-case scenario if the recovery of the international economy stalls, the need to support Ukraine diminishes, and social spending regains priority in the agenda-setting. In such circumstances, the political and social support for defence expenditures in general, and for the defence industry in particular, could diminish. Even, and under adverse conditions, the European banking sector's reluctance to finance the defence industry due to ESG criteria or the lack of profitability would increase.

The gap between the promising short-term strategic scenario and the uncertain longer-term scenario makes it difficult for Spain to make decisions on what EDTIB should look like in the future. Whatever it may be, the purpose of the future EU Defence Industrial Strategy and its instruments should be linked to the Europe's strategic needs, just as the DIS 2023 is linked to the development of national and European strategic capabilities.¹⁰

The debate on the EU's new financial instruments has revealed the opposition of several EU member states to the Commission's attempt to extend its regulatory powers at the expense of governments. In this debate, Spain did not oppose the Commission's proposals because they responded to a context of urgency, but Spain will be vigilant to ensure that the EDIP does not facilitate the Commission's attempt to extend its competences. The best way to achieve

¹⁰ Interview with officials, October 2023.

sustainable cooperation and coherence between the EU's financial instruments and the strengthening of the EDTIB is through the establishment of a common authority that sets guidelines and rules, taking into account the perspectives and capacities of the national DTIBs. It is not enough to create instruments. It is also necessary to provide them with mechanisms to evaluate their implementation and results, as the PESCO and CARD annual reports do.

Spain is in a solid position to face the transition process that the EU Defence Industrial Strategy and the EDIP are likely to trigger. It has used previous EU instruments to integrate the Spanish companies into European consortia, and is adapting national decision-making processes and regulations to facilitate the interaction of its DTIB with the European one. Meanwhile, the national DTIB is leaving a remarkable momentum with new investment cycles, significant political and social support for defence investment and a new defence industrial strategy. Therefore, Spain will continue to cooperate with the EU instruments to strengthen its strategic autonomy as well as the European one but without giving up its sovereignty in defence matters.

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The 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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