



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

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ARES Group

March 7<sup>th</sup> 2024



## ABOUT THE SEMINAR

This report summarises the exchange between the panelists of the seminar “What future European Defence Technological and Industrial Base (EDTIB) do we want/need?” organized by ARES Group.

It took place on the 7th of March 2024, two days after the publication of the European defence industrial strategy (EDIS) and the proposal of regulation on European Defence Industrial Programme (EDIP).

This seminar intended to provide an opportunity for a constructive and forward-looking debate between national and European decision-makers, financial stakeholders, defence companies, and think tanks experts to share views on the future trajectory and imperatives of the European Defence Technological and Industrial Base (EDTIB).



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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## PROGRAMME

### *ARES Seminar*

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

March 7<sup>th</sup>, 2024, Brussels

### 9:10 – 9:20: Welcome Address and Introductory Speech

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

### 9:20 – 11:00: Building up a True Competitive Defence Industry vs. Delivering Capabilities Quickly: How to Conciliate Both Objectives?

**Renaud BELLAIS**, Group Chief Defence Economist, MBDA

**Baudouin HEUNINCKX**, Acting Director Industry, Synergies and Enablers, European Defence Agency

**Christine MICHENZI**, Founder and CEO, MMR Defense Solutions

**Mathieu RYCKEWAERT**, Chief Sustainability & Governmental Affairs Officer, FN Herstal Group

**Ester SABATINO**, Associate Research Fellow for Defence and Military Analysis, International Institute for Strategic Studies (IISS)

Moderation: **Federico SANTOPINTO**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

### 11:25 – 12:55: Unpacking the European Defence Industrial Strategy (EDIS): What Long-Term Vision and Support for the EDTIB?

**Daniel FIOTT**, Head, Defence and Statecraft Programme, Centre for Security, Diplomacy and Strategy, Brussels School of Governance

**Edouard SIMON**, DG DEFIS, European Commission

**Christian HEDELIN**, SvP and Chief Strategy Officer, Saab Group

**Martin SCHNAUSE**, Head of Branch Armaments Policy, Permanent Representation of the Federal Republic of Germany to the European Union

Moderation: **Gaspard SCHNITZLER**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

### 12:55 – 13:00: Conclusion

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

## INTRODUCTION

On March 7<sup>th</sup>, 2024, the ARES Group convened distinguished panellists in Brussels to engage in a discussion regarding the future trajectory and imperatives of the European Defence Technological and Industrial Base (EDTIB). With Russia’s full-scale invasion of Ukraine, creating a robust, competitive, and sustainable EDTIB has become paramount for long-term security and stability.

The timing of the seminar coincided with a seminal event in the European defence landscape. On March 5<sup>th</sup>, 2024, the European Commission issued a regulation proposal, the European Defence Investment Plan (EDIP), and the first ever European Defence Industrial Strategy (EDIS). These initiatives represented a concerted effort to transition away from short-term emergency measures towards a more enduring framework aimed at fortifying the European Union’s defence industrial readiness for the foreseeable future.

To discuss this topic, two pivotal panels grappled with distinct yet intertwined challenges. The first panel, *“Building up a True Competitive Defence Industry vs. Delivering Capabilities Quickly: How to Conciliate Both Objectives?”*, delved into the delicate balance required to meet both imperatives effectively. Meanwhile, the second panel, *“Unpacking the European Defence Industrial Strategy (EDIS): What Long-Term Vision and Support for the EDTIB?”*, scrutinised the EDIS as a support mechanism vital for the EDTIB’s sustainability. These discussions were critical in discussing Europe’s pursuit towards a cohesive and forward-looking EDTIB.

## BUILDING UP A TRUE COMPETITIVE DEFENCE INDUSTRY VS. DELIVERING CAPABILITIES QUICKLY: HOW TO CONCILIATE BOTH OBJECTIVES?

In the first panel, the insightful discussions shunned a spotlight on the relation between short-term imperatives, that is, delivering capabilities quickly, and long-term objectives, in other words, building up a true competitive European defence industry. To bring this out more clearly, the panellists provided an overview of the current European defence landscape, shedding light on several challenges faced by industrials today between the urgent need to help Ukraine, by buying arms and especially munitions where they are available, and the longer-term need to support and structure industrial production capacity within the EU. The discussions then revolved around finding solutions to conciliate the two imperatives at hand such as investing better, reshoring industrial capacities, and involving Mid-Cap companies.

## The Lack of Predictability and a Fragmented European Industrial Defence Landscape

Although much has been done to improve the EDTIB, European countries' difficulty in supplying ammunition to Ukraine and delivering capabilities quickly showcases the EU's inability to find the financial and industrial resources adapted to war times. Indeed, the European defence industry has traditionally been sized for peacetime and has thus been unable to provide sufficient equipment to Ukraine, with a proportion of investments lower than the acquisition of equipment.

Following this logic, one of the panel participants underscored the lack of predictability in the European defence industrial market, which impedes industrials to invest in long-term European production chains. Put simply, some European governments choose to procure off-the-shelf equipment from the United States due to its perceived swiftness and predictability, shying away from cooperation with European actors. This absence of predictability in the EU industrial landscape diminishes the attractiveness of investing in defence, further hindering growth in the industry.

In addition, another panellist mentioned the complexity of dealing with the fragmented European industrial market. Diverse national interests among European countries lead to varying procurement strategies and priorities. Regulatory differences across Member States also create barriers to harmonisation and standardisation. More specifically, duplicated systems and their lack of interoperability lead to unnecessary costs and hinder collaborative efforts. Disparities in defence budgets and investment levels further exacerbate market fragmentation. The EU Multiannual Financial Framework (MFF) budget is decided for seven years (we are currently in the 2021-2027 budget period) and allocated to specific areas with strict regulations, making it harder to suddenly increase spending on defence or redirect funds from other areas to defence. Not to mention the EU is made up of 27 Member States, each with its own views on how the MFF budget should be spent. Reaching a consensus on increasing defence spending, especially in a crisis situation, is, therefore, challenging.

Questions also arose regarding the sustainability of third countries procurement dependencies. To bring this out more clearly, between February 2022 and July 2023, almost 80% of acquisitions came from outside the EU. As highlighted by one of the speakers, the necessity for pragmatism in addressing Europe's defence partnerships cannot be overstated. Indeed, recent procurement decisions by several EU members, opting to purchase equipment from non-EU sources, signify a persisting dependency likely to endure for decades. It should also be noted that certain Critical Raw Materials (CRMs), such as those exclusively mined in regions like China or South Africa, present barriers to reshoring. All in all, these parameters (an EDTIB tailored for peacetime, the lack of predictability, the fragmented nature of the European industrial landscape, inflexible defence budgets, and procurement dependencies to third countries) limit the EU Member States' ability to deliver capabilities quickly to Ukraine and build up a true competitive defence industry.

## Strategies to Mitigate Challenges in the European Industrial Defence Landscape

To achieve higher volume and greater speed of delivery, one of the speakers emphasised the need for proper investment. For example, from 2023 to 2028, MBDA is investing 2.4 billion euros in its industry. Indeed, the lesson learned from the war in Ukraine underscores the imperative to adequately invest to provide equipment swiftly at any given time. As such, fostering investment in defence innovation and cutting-edge technologies is essential to maintain technological superiority. Such efforts will also improve the image of the EU defence sector and enhance its attractiveness. A panellist also discussed enhancing the predictability of demand. In this regard, the European Defence Agency (EDA) can play a crucial role by fostering collaborative activities, harmonising requirements among Member States, and actively involving the industry in the process.

Furthermore, reshoring industrial capacities and shortening the cycle of production within the EU could bolster “strategic autonomy” and mitigate dependencies towards third countries. However, “strategic autonomy is a process”, as insightfully put by another panelist, emphasizing the potential of building sustainable partnerships to address these dependencies. Rather than disengaging drastically from global networks, the panelist emphasized de-risking and effectively balancing interdependencies.

Drawing insights from the US’ approach to production strategies, the discussion touched upon the necessity for certain key capabilities to be domestically sourced, while acknowledging the impracticality of national production for all defence capabilities. The panelist further explained that ramping up capabilities in Europe should be encouraged but it is not incompatible with continued collaboration with the US. This perspective encourages co-development and co-production with allied nations, emphasizing that “production is diplomacy”. The speaker also underscored the importance of flexibility within the US’ Defense Industrial Base (DIB), which is typically optimised for peacetime efficiency but requires the capacity to scale up rapidly during crises. Constant investment in modernisation and maintenance necessitates this adaptability and flexibility to meet sudden demands. Therefore, fostering balanced relationships and managing interdependencies effectively remain crucial in forging both a competitive EDTIB and delivering capabilities quickly.

Nevertheless, another panellist argued that the relocation of defence manufacturing facilities to the EU should be encouraged, ensuring self-reliance or EU reliance. In addition, the panellist mentioned facilitating intra-EU equipment transfer as vital for promoting interoperability and efficiency within the European defence market. Streamlining regulations and procedures, like the Commission proposes, will facilitate seamless transfer and utilisation of defence equipment among EU Member States. Moreover, to manage these third country procurement dependencies, Member States should diversify supply chains and seek alternative sources. Navigating these complexities demands a pragmatic approach, encompassing tailored frameworks, strategic partnerships, and careful risk assessment.

In addition, the involvement of Mid-Cap companies is pivotal. Mid-Cap companies often face challenges in navigating defence procurement and cooperation, including lengthy implementation timelines and

balancing national and company interests. Nonetheless, despite operating in niche markets, their specialised expertise significantly contributes to the diversity and resilience of the EU defence industry. In this context, according to one speaker, the needs for Small and Medium-Sized enterprises (SMEs), particularly those located in small or medium-sized countries, must be fully integrated into the EU's defence industrial plans. For example, the Belgian Ministry of Defence established a long-term partnership with a Mid-Cap company for 20 years. This agreement guarantees the security of supply and contributes to supporting the industrial capability of a Mid-Cap company. To conclude, the need to invest more, better, and European, is a step closer to mitigating the challenges posed by the current defence industrial landscape.

## **UNPACKING THE EUROPEAN DEFENCE INDUSTRIAL STRATEGY (EDIS): WHAT LONG-TERM VISION AND SUPPORT FOR THE EDTIB?**

In the second panel, the speakers welcomed the publication of the non-binding European Defence Industrial Strategy (EDIS) published two days prior to the seminar. As described by all, the EDIS represents a major step for the EU defence community. Moving away from a crisis-response perspective, the EDIS attempts to develop a structural approach to defence industrial readiness, reversing the trend whereby Member States procure most of their equipment outside of the EU. That being said, the panellists also raised some concerns as to how the Strategy will be implemented.

### **“New Actions, Greater Ambitions” for Improved Cooperation**

As clearly explained by one of the panelists, the EDIS is not about changing the defence culture, but the defence industry. The EDIS will thus build on existing resources and tools to ensure the readiness of the defence industry. In concrete terms, the Strategy will implement a programme to facilitate EU Member States' defence cooperation and a mechanism to enhance availability of EU equipment. This could improve industrial visibility within the EDTIB as well as develop speed, interoperability, interchangeability, and competitiveness.

Within this framework, the Strategy will also prepare a comprehensive mapping of needs and current supply chains, providing greater insight into the capabilities of the EDTIB. This increased visibility will dispel misconceptions regarding the number of producers within the industry and help centralise and connect resources effectively. Member States will be better informed about the available resources within the EDTIB, thereby facilitating efficient collaboration and resource allocation. The objective will be to procure at least 40% of defence equipment in a collaborative manner.

In addition, one of the speakers highlighted the pressing need for interoperability of defence systems to ensure effective collaboration and joint operations. The EDIS' initiatives to improve standardisation and promote information sharing could, therefore, bolster interoperability. However, a balanced approach is necessary. Understanding the optimal approach for each initiative and striking a balance

between different levels of governance is paramount for achieving desired outcomes in the European defence arena and promote cooperation between Member States.

### **Innovative Mechanisms within the European Defence Industry**

The panellists then discussed the innovative mechanisms put in place by the EDIS. Not only will the Strategy invest in responsive production capacities, but it will also establish a Fund to Accelerate Defence Supply Chain Transformation (FAST) to provide financial support to Small and Medium-sized Enterprises (SMEs) and Mid-Cap companies, fostering their participation in defence-related projects.

Moreover, to mitigate dependencies on third countries, the EDIS will focus on securing supply chains and ensuring the availability of defence procurement. As stated by a panellist, this will help solve tensions along the supply chains and identify bottlenecks. By prioritising these aspects, the EDIS aims to bolster the resilience of the European defence industry. Moreover, the EDIS will also team-up with like-minded, strategic, and international partners. The Strategy will thus strengthen ties with Ukraine by treating it as closely as possible to an EU Member State. This involves taking concrete steps to integrate Ukraine into the internal market, thereby fostering cooperation and alignment within the European defence sector.

Another key aspect of the EDIS mentioned by a speaker is the proposal to include defence readiness security and resilience as explicit objectives under future relevant EU programs. This initiative aims to mainstream defence priorities within the broader framework of EU policies, ensuring that defence considerations are adequately addressed across various sectors and initiatives. By embedding defence readiness objectives into EU programs, policymakers can effectively leverage EU resources and capabilities to enhance Europe's preparedness for emerging security challenges and threats.

Furthermore, the panellists discussed the establishment of a mainstream defence readiness culture, which entails fostering preparedness across various sectors and policies within the EU. Central to this initiative is the integration of the financial sector. The speakers thus debated on the EDIS' initiatives in the financial sector to bolster Europe's defence capabilities. By encouraging investment and financial support for defence-related initiatives, the Strategy could stimulate innovation, enhance technological advancements, and strengthen the industrial base. As mentioned by another panellist, defence investment could also involve supranational organisations. Integrating defence considerations into financial policies could facilitate the allocation of resources towards critical defence projects and initiatives, albeit requiring a change in approaching finance and defence culture.

### **Addressing Budgetary Concerns and Strategic Clarity in the EDIS**

Nevertheless, some interrogations were raised on the implementation of the Strategy. Although accurately identifying the challenges inherent to the industrial defence landscape and developing instruments to bridge the gap from 2024/25 to 2027, the budget issue remains open. As one of the participants noted, although the EDIS addresses market demand, it neglects to consider market size. In



fact, a speaker underscored that defence readiness was purely defined in industrial terms. Yet, the ways, means, and ends to ensure defence preparedness could and should also be defined strategically.

Furthermore, the objectives laid out in the EDIS are laudable, but it is not clear how they will be achieved. Indeed, the question of the functionality of several mechanisms outlined in the EDIS was raised, such as for the EU Military Sales Tool, which remains unclear, or the Structure for European Armament Programs (SEAP). Although the EDIS addresses cross-certification and standardization, NATO predominantly drives these initiatives through its Standardization Agreements (STANAGs). While the European Defence Agency (EDA) is coordinating such efforts on standardisation, the Commission's role remains unclear in this aspect. Moreover, the crisis mechanism proposed in the EDIS was questioned, noting its two-step approach and its broader scope beyond industrial matters encroaches into Member States' competencies, raising more broadly the question of the European Commission's role. Indeed, questions linger about the concept of shared responsibility within the industry sector.

In conclusion, the panellists emphasized the need for additional funding in the European Defence Investment Plan (EDIP), acknowledging that ambition alone is insufficient. There is consensus that more efforts are required from all sides to effectively address the challenges. There is a shared belief that lessons from standardization in other sectors, like that of the tech sector, should be applied to the defence industry.

## CONCLUSION

The discussions from both panels shed light on the intricate challenges facing the European defence landscape and highlighted the need for concerted efforts to reconcile short-term imperatives with long-term objectives. The lack of predictability and fragmentation within the European industrial defence landscape pose significant barriers to achieving both a competitive defence industry and a swift delivery of capabilities. The discussions revolved around the EDIS and its strategy to address such challenges. Encouraging collaboration between EU Member States, fostering resilient supply chains, and reducing dependencies from outside the EU are imperative for ensuring long-term security and strategic autonomy. The seminar emphasized the importance of a balanced approach that combines ambitious long-term visions with pragmatic and structural solutions. Ultimately, there is a collective call to action for doing more, faster, everywhere, in an interoperable, efficient, and affordable manner. As the EU endeavors to strengthen its defence capabilities in the face of evolving security threats, it is evident that a comprehensive and coordinated approach is essential.

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