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OPENING KEYNOTE SPEECH: JORGE DOMECQ

The Chief Executive of the European Defence Agency started his remarks by commending the remarkable year that it has been for European defence. The Global Strategy in particular has focussed on delivering its promise of developing the EU as a more capable actor in the defence arena.

The speaker spoke of various EDA initiatives supporting the Global Strategy, such as the Coordinated Annual Review of Defence (CARD), but stressed that all the projects under these initiatives need to be coherent and mutually beneficial, adopting a cross-cutting approach. Regarding the EDF specifically, the speaker stressed repeatedly that the development of these projects, their prioritisation and implementation is ultimately up to the Member States.

He also highlighted the role of the defence industry, calling them 'strategic partners' and stating the importance of engagement with them through a structured dialogue. This engagement has to be integrated into wider EDA activities to be efficient, and is key for developing Europe's strategic autonomy. Hence, there needs to be support for industries: building partners across borders, and improving information sharing activities to strengthen SMEs and facilitate their access to the market.

As for the UK, its exact role in the EDA post-Brexit is yet to be determined – the exit deal needs to be finalised first. Regardless, there are already clear ways for third countries to successfully engage with the EDA, as Norway currently does.

Keynote speaker: Fabrizio Luciolli

The EU and its partners face growing security challenges. The ATA has a significant impact for security and the EU-Atlantic communication channels. The transatlantic bond has enabled the maintenance of a strategic edge against adversaries. Cyber security and counter-terrorism are priorities. Hence, the ATA strongly supports the partnership between the EU and NATO. Both institutions rely on the capabilities of their members, which, with economies on the rise, also means that achieving the NATO 2% target is on the horizon.

The opportunity of fostering defence technology is essential. For example, the progress of Artificial Intelligence poses new challenges, but it equally presents opportunities for development. ATA established its first SME advisory group, which is aimed at developing new and cutting-edge technologies.

There is a role for academia as well in this, which is key for the ATA. Scientific research needs to take place alongside commercial activities to maximise potential benefits.

The ATA will continue to serve alongside NATO and EU industry partners to work towards peace.

Session 1: EU-NATO Strategic Partnership: Mobilising Tools and Resources

Panel: Camille Grand, Octávia Frota, Pierre Delsaux
Moderator: David Bond

The first panel focussed on research and capability development, the EU-NATO relationship and the need for complementary action, and finally the challenge of data and information sharing.

There was consensus among the panellists that Europe today faces a changing security environment – it has changed dramatically in comparison to 5 years ago. The changes in the external environment are in turn also driving the political and decision-making process with regards to defence: there has been a 'wake-up call' that defence does in fact matter.

A key requirement is ensuring the closing of gaps both at the EU level and the NATO level, which in turn requires an open dialogue and continues collaboration and cooperation with NATO.

There was a clear line in this discussion too that the European Commission merely seeks to facilitate the process for developing EDF projects by providing a financial incentive. The specific projects will need to be proposed by the defence industry and the Member States.

At the moment, cooperative projects are not taking shape within Europe. To ensure stronger and better co-operation, this needs to change. There is a clear need for European countries to develop better capabilities through their defence industries, which will allow Member States to provide more security – capabilities, that, in turn, can also be used in support of the North Atlantic Treaty. Of course, this needs to be joined up with the needs of Member States in the long term, for which we need equipment and research.

There was discussion on the use of EDF funds and the overlap between research on capability development for military purposes, and for civilian purposes – and how to draw the distinction. The purpose of the EDF is to dedicate EU funds to EU defence projects, to ultimately create a stronger European defence industry. It is not to replace the Horizon 2020 programme, nor to divert funds from it. Questions around access to the EDF for non-EU Member States, however, remained outstanding.

Funding for both defence research and capabilities are being decided on at the moment – it is looking to be approximately €500 million for two years. However, this will only be valid until the end of this Multi-Annual Financial Framework cycle, which ends in 2020. In the negotiations for the next budget cycle, the European defence community will have to demonstrate the added value of spending significant sums on defence for the spending to be justified. Political willingness will be crucial too.

Proposals for the Preparatory Action for Defence Research are currently being reviewed, with the aim of awarding the first contracts before the end of this year. It is a positive development that almost 200 companies from nearly all Member States have submitted proposals.

Finally, the new security environment also means that there is a need for high quality data for real-time decision-making. Data exchange is at the core of international relations, and, therefore, the sharing and use of data is, in turn, also a trust building tool between states. The increased importance of data in the current security environment has two key implications: 1) we will increasingly become 'data societies', and 2) technology and industry frameworks will need to learn to adapt fast. A challenge, however, is that Member States currently face fragmentation of data platforms. To tackle this, Member States need to ensure interoperability in two ways: 1) interoperability in a traditional way, and 2) interoperability as a means that enables allies to engage with one another.

Session 2: Development of Equipment and Technologies

Panel: Giedrimas Jeglinskas, Christina Wilén, George Sharkov, Chris Lombardi
Moderator: Brooks Tigner

The second panel focussed on questions of regional cooperation, cyber security and research and innovation in defence.

First, regarding regional cooperation. It was argued that there exists a different threat perception between various Member States. The Eastern countries are predominantly concerned with cyber, informational warfare and military action, whereas the Southern countries are more focussed on stability in the EU's southern neighbourhood.

The Baltic states have two elements ensuring their national security: the first is the recognition that states cannot ensure safeguarding on their own, and need international support – hence wider and deeper bilateral cooperation, for example Sweden's cooperation with Finland, Poland and the UK. The second is the need for self-reliance for national security. This is demonstrated by a hike in defence spending, and a shift from international cooperation to regional cooperation. Equally, there is a need for wartime preparedness – and thus accepting the cost of this.

Second, cyber is another area where regional cooperation is important. Tackling cyber threats effectively and cost-efficiently will be challenging to accomplish for individual states. Instead, a multi-stakeholder approach is required, coupled with a realisation that cyber, in fact, consists of a large terrain – contrary to being narrow and highly technical. The newest threat in particular is 'cybrid': the old threat of hybrid warfare, which is now able to develop much quicker due to cyber capabilities.

There was some discussion on whether tackling cyber should, and could, only be done defensively. In particular during a cyber-attack, the line between offensive and defensive becomes blurred. Cyber security is one of the areas eligible for EDF funds. Funding offensive cyber projects under the EDF, however, may prove difficult as projects will need to be approved by all Member States. This may prove problematic due to the high level of scrutiny required for proposed projects.

Third, data and intelligence sharing returned as a challenge in this panel too. As of yet, there are no clear standard operating procedures in place, and these are needed to exchange sensitive information. It was noted that information sharing has multiple purposes; in addition to increasing one state's intelligence, it can also serve as a trust building tool between states.

For all these points raised, there was a call to move to 'active security', namely using simulations to prepare and test the systems.

Finally, defence cooperation should not be seen as a zero-sum game. There are many non-EU firms who operate within the EU – thereby bringing employment, skills and innovation at the local level. Defence industries cooperating leads to more accurate and faster defence systems being developed, while driving down the cost. Hence there is a mutually beneficial pillar to broader transatlantic relations. Furthermore, defence cooperation also has intangible effects, such as the growing of diplomatic relations between states.

As for SMEs, we need to understand where their competitive advantage lies and utilise this – otherwise they may well seek a place in other countries' supply chains. We need to have incentives in place for SMEs which must be accommodated by the EDF.

This should not be a conversation about spending, but rather about investing. There needs to be an external rate of investment through the procurement process.

Session 3: Fostering Investment and Strengthening the Single Market for Defence

Panel: Jerzy Kwieciński, Arturo Alfonso-Meiriño, Gunnar Muent, Rudy Priem, Jaanus Tamm
Moderator: Teri Schultz

The final panel of the day focussed on the importance of transatlantic cooperation, and looked in detail at the role of SMEs. The panel started from the premise that €120bn is lost annually because of a lacking joint procurement market.

The transatlantic nature of defence industries and the global supply chain is also important. Defence companies may be headquartered outside of the EU, but develop capabilities and employ staff across EU Member States. Hence there is again a question of access to the EDF. Equally, European companies operate globally. There is a risk that a lack of skills and budget in the EU might force companies to relocate elsewhere, for example to China, the Middle East, or Brazil.

There is a financing gap where there is a need for risk capital to support risk ventures. Companies are shying away from investing due to long lead times and the uncertainty of future demand. This, in turn, leads back to the question of procurement, which is not a level playing field: it is predominantly still focussed on national supply chains in EU Member States. Hence we need a rethinking of regulation for the defence supply market in the EU. The single market is the biggest possible leveller. This must be employed effectively, or else it is unlikely that that efficiency gains hoped for will come to fruition.

There existed consensus among the panellists that SMEs are needed to foster investment. The question remains, however, about how to do this. SMEs play a key role in the supply chain for larger procurement projects. They are often agile, and can develop very cost-effectively. Their main challenge, however, is up-scaling, and thereby accessing the market directly. It was noted, therefore, that more needs to be done to facilitate their access to the market. To achieve this, a regulatory framework is important, as is the financing. There are existing guidelines for SMEs to access the market, yet often they are not adhered to. It is a difficult position: it would not be wise for SMEs to challenge costumers in the ECJ, for example, as they only really have 28 (soon to be 27) costumers, namely the Member States.

It is also imperative for states to demonstrate a return on their investment, otherwise there may be a risk that the public will not support investment in this area. The EDF is one pillar of the European defence agenda. Investment and the single market are the two other pillars.

EUROPEAN **DEFENCE**
INDUSTRY SUMMIT

04.12.2017
EGMONT PALACE
BRUSSELS - BELGIUM
MEETING SUMMARY

Closing Remarks: Elźbieta Bieńkowska

2017 has been an important year for EU defence cooperation, and this is a good moment to take stock. This year has demonstrated how much can be achieved with strong political will from the Member States. The first phase of defence cooperation is the mobilisation of the defence industry, and the quick progress made in this regard is a milestone. Defence cooperation has not often been discussed in the past. Today, however, defence cooperation is becoming a cornerstone of the EU.

In the past decade, the Member States have decreased defence spending by 11%, and research spending by 20%. However, the external environment is changing, as are the security challenges.

There are geopolitical reasons for building Europe's strategic autonomy – hence the launch of the EU's defence programme. Cooperation remains at the heart of this new industrial pillar, which marks the first time the EU budget will be used to support joint EU defence research. The common objective for this is that EU money goes to EU companies across Member States: projects need to involve at least 2 Member States, and at least 3 companies.

The current level of cooperation between NATO and the EU is unprecedented, marked by the Joint Warsaw Declaration. The EU stepping up efforts in defence is not contradictory to NATO, but instead the unions will strengthen each other.

There are guidelines in place to support SMEs and facilitate their access to the market, but at the moment they are not being implemented properly. Members States are at risk of severe action if they do not start complying.

This is the start of EU defence cooperation. It has started with the industrial pillar, which is important for job creation, the economy, and R&D.