



Can the European Commission develop Europe's defence industry?

by Sophia Besch
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The EU aims to develop a home-grown European defence equipment market, and has created a new defence industry and space portfolio in the Commission to facilitate this. But the EU's ambitions face stiff headwinds in an area dominated by national interests, the US and NATO.

For decades, member-states have resisted the European Union's involvement in the development, production and procurement of military goods and services. National defence industries were considered matters of a country's vital national interest and therefore immune to the union's regulatory reach. But in the last three years, several things have challenged this approach and led to calls for the EU to play a greater role: Europe's neighbourhood has come under threat; the US commitment to guaranteeing Europe's security has been called into question; and the UK has voted to leave the EU. As a result, the EU has agreed a [range of new defence initiatives](#). The European Commission now proposes to allocate a total of €13 billion to defence research and development in the EU's 2021-2027 budget cycle – a [22-fold increase](#) over the previous budget.

The new European Commission has also established its first ever Directorate-General for the defence industry and space, a bold statement that it intends to develop a home-grown pan-European defence equipment market. Once the new College of Commissioners takes office, the new DG will be subordinate to the French European Commissioner, Thierry Breton, a former economy, finance and industry minister, who will be in charge of an immense portfolio covering the internal market, defence, and digital issues. The new DG is the culmination of [several years of high-profile announcements](#) about how the EU would step up its game as a defence actor.

However, Breton has his work cut out for him. In order to realise the union's ambitions, he will have to deal with member-states that fiercely guard their national interests, industries, and export deals, and disagree about how to co-operate with third countries, especially the US. But he can make progress if he hires the right advisors, looks to complement national efforts, improves the EU's defence planning, champions the right projects, and advances co-operation with NATO.

Commission President-elect Ursula von der Leyen has outlined Breton's tasks clearly. The new Commissioner [has been told to](#) realise plans for the European Defence Fund (EDF); to build an open and competitive European defence equipment market by enforcing EU procurement rules on defence; and to implement plans to increase military mobility. With this mandate, von der Leyen and the member-states have made two decisions about the role of this Commission in EU defence. One relates to scope: the new DG's activities are focused on the defence market rather than on defence policy per se. This makes sense, as market regulation is both the Commission's area of expertise and its legal mandate. The other decision about the Commission's mandate relates to scale: the new DG has been tasked with focusing on implementation – new EU defence formats, initiatives and plans need to be brought to fruition over the next few years.

The main objective of the Commission should be to build an open and competitive European defence equipment market, to increase competition and create economies of scale so as to lower the cost of defence for EU member-states over time. Ten years after the Commission first tried to regulate defence procurement with the 2009 'defence procurement directive', there is still no single European defence market. The directive, which aimed to help develop the defence equipment market to increase competition, reduce duplication and reduce prices, [has had limited success](#). Member-states continue to sidestep the framework by invoking Article 346 of the Treaty on the Functioning of the EU, which allows any government "to take such measures as it considers necessary for the protection of the essential interests of its security".

Most major military equipment contracts have continued to be awarded without an EU-wide tender. Governments have mostly applied the procurement directive's provisions to contracts that deal with maintenance and repair, facilities management, or the acquisition of equipment with low strategic value. In 2018, the Commission [opened infringement procedures](#) for the first time against five member-states for breaches of the procurement directive. Due to the sensitive and highly political nature of procurement decisions, however, the Commission and defence companies have proved to be reluctant to take member-states to court. A newly empowered Commission could change the tone. Or it could change track: while the Commission made little progress with regulation, financial incentives to encourage member-states to co-operate might prove more successful. This is where the defence fund comes in.

The [defence fund](#) is the most high-profile new EU defence initiative, with the biggest budget attached to it. The Commission plans to spend €8.9 billion to co-finance collaborative capability development projects and €4.1 billion to fund collaborative defence research between 2021-2027. Such sums will not transform the European defence market, but it is a start. Even though member-states have progressively increased their overall defence spending in recent years, research and development expenditure remains low and continues to fall. The EDF promises to catapult the EU into the [top four](#) of defence research and technology funders in Europe, after the UK, France, and Germany. And if European leaders consider it a success, the next budget might include an even bigger pot for defence.

To support the development of European defence capabilities, the Commission should hire defence planners for the EDF, facilitate the exchange of sensitive data between member-states and, above all, support the right projects. That will prove difficult. Traditionally it is the member-states, not the Commission, that make the decisions about defence policy and operations. And while many European governments agree that they want to do more militarily through the EU – a goal that is at times

subsumed under the '[strategic autonomy](#)' label – they find it hard to agree on what kind of operations they want to carry out in the future. Should the EU's focus be on crisis management in the Sahel, cyber defence against non-state actors, or on territorial defence for EU member-states that are not members of NATO? Developing capabilities and strengthening Europe's defence technology and industry is only useful if paired with a clear sense of the job they are required for.

Through NATO, Europeans have identified a few obvious capability gaps, for instance in air-to-air refuelling, or technology for intelligence, surveillance and reconnaissance. Europeans are currently unable to carry out these tasks without help from the US military. Member-states are also pursuing capability projects that aim to make Europeans less dependent on US industry, such as a next generation fighter jet, the so-called [Future Combat Air System](#) (FCAS), which France, Germany and Spain are developing.

The Commission could demonstrate the EU's added value by helping to bring these high-level projects to fruition. But Commission funding for technology development comes with strings attached. Joint armament projects are often based on a delicate quid pro quo that guarantees industries from all participating nations a piece of the pie. The Commission must maximise value for the EU rather than individual member-states. That includes open, competitive tendering processes – not an easy feat in a sector shaped by protectionism. The Commission will have to strike a balance between two contradictory goals for the defence market: on the one hand, it is supposed to integrate and streamline the sector, which would mean the most globally competitive firms winning out over those that are kept afloat by state subsidies and national demand. On the other hand, it is supposed to keep member-states on board. But member-states that are not home to one of the EU's top defence firms will not want to miss out on funds from the common budget. Member-state support for the EU's defence programmes will hinge on how Breton manages this conundrum, and whether he can achieve a degree of regional balance by promoting investment in small and medium-sized defence companies across Europe.

The research side of the defence fund could be less controversial – member-states will probably appreciate investment in early-stage research into new technologies. Here, however, the European Parliament could demand more oversight: when it [first voted](#) on the EDF in April 2019, 328 MEPs supported it, while 231 voted against. Among other things, lawmakers objected to using EU funds to support new technologies (including artificial intelligence, robotics and unmanned systems) that could pose ethical dilemmas.

Arms exports are another potential stumbling block for EU defence industrial co-operation. As the CER has [recently argued](#), member-states will only develop new equipment or weapon systems jointly if they trust each other to supply components in times of crisis, including to export customers. The Commission currently has no authority over arms exports, even when it co-funds the technology in question. It relies on member-states to agree on export arrangements for EDF-funded projects, which is not always a given. The new DG might also have to deal with a European Parliament demanding more oversight of EU-funded defence projects and where they are exported.

The Commission will also need to get member-states to agree rules to determine how companies from third countries can access EDF-funded projects. This issue [flared up](#) earlier this year with US concerns about EU protectionism in defence. Washington has criticised the EDF's strict [intellectual property rights rules](#). The UK is also [concerned](#) that it might be excluded from new multilateral capability development

projects after Brexit, though its status in EU defence industrial co-operation will not be settled until the overall future relationship with the EU is clearer. The Commission stresses that it is not aiming to exclude non-European firms from the EDF, but rather pursuing reciprocity, [based on the conditions](#) that EU companies face in third countries such as the US. Commission officials must strike a difficult balance between the objective of strengthening European industry in order to develop the technology needed to defend Europe 'at home', and the reality that European companies depend heavily on components developed in third countries, notably in the US.

Negotiations between Brussels and Washington about defence procurement are complicated by the fact that EU member-states themselves have differing interests – with some, like France, stressing the importance of 'buying European' and others, like Sweden, Poland or the Netherlands, keen to maintain close industrial and security links with the US. In truth, regardless of the funding it provides, the Commission does not own the technology or the intellectual property generated, which remains in member-states' hands. Nevertheless, the Commission would like to exert some control over the use of technology it funds: it wants to be notified whenever third countries get access and ask for its money back if the intellectual property transfer contravenes the security and defence interests of the Union. After months of political posturing by the EU and the US, the talks on third country access had recently turned to less contentious, more technical details – in part because neither side was interested in a public falling out in the run-up to the [next NATO meeting](#) in December. French President Emmanuel Macron's recent *The Economist* [interview](#), however, has once again stoked the flames. He told the magazine that US President Donald Trump considered NATO a commercial project where the US acted as a sort of "geopolitical umbrella" in exchange for Europeans buying American products – Macron added that this was an arrangement which "France did not sign up for".

The relationship with NATO will be another challenge for the Commission as it looks to grow its new defence responsibilities. NATO and the EU are working together on 'military mobility' in an effort to make it easier for personnel and equipment to cross borders within Europe and thus to respond faster to crises. After a hiatus following the Cold War, NATO put military mobility back on its agenda when Russia annexed Crimea in 2014 and the alliance subsequently decided to deploy troops in the Baltic States and Poland. The EU then made military mobility a binding commitment under [PESCO \(permanent structured co-operation\)](#), a political framework that aims to help EU countries develop military capabilities together and improve their ability to deploy them. Participating PESCO members pledged to simplify and standardise their military infrastructure. The Commission launched an [action plan on military mobility](#) in March 2018, committing itself to identify those parts of the European transport network that are suitable for military transport; to develop plans to upgrade existing infrastructure (the weight capacity of bridges for example); and to simplify customs formalities for military operations and the transport of dangerous goods. A total of €6.5 billion has been allocated in the 2021-2027 Multi-annual Financial Framework for military mobility alone.

Military mobility is a useful flagship project for co-operation between NATO and the EU, which has seen a significant improvement under the leadership of the 2014-19 EU High Representative, Federica Mogherini, and NATO Secretary General Jens Stoltenberg. More work still needs to be done to co-ordinate the capability planning processes of the two institutions. Defence planning and acquisition still happens mostly nationally. Both the EU and NATO want member-states to co-ordinate planning at the European level. Some smaller member-states have aligned their defence planning almost completely with NATO's planning framework, a complex process in which allies identify common capability gaps and

decide who is most suitable to fill them. While NATO's planning process is well-established, the European Court of Auditors recently [pointed out](#) that the EU has now created as many as four different planning tools – the EU Military Staff's capability development mechanism, the European Defence Agency's capability development plan, the new 'co-ordinated annual review for defence' and PESCO – which often overlap or contradict each other and should be co-ordinated internally, as well as aligned with NATO defence planning timelines. Fixing EU defence planning is going to be a huge institutional challenge for the Commission, which will need to work together with all institutions involved.

Even with a mandate limited to implementation, Breton faces huge challenges in getting the new DG to deliver improved European defence capability. As the first-ever Commissioner for the defence industry, the choices he makes while in office will shape the EU's defence industrial agenda for years to come.

Sophia Besch is a senior research fellow at the Centre for European Reform.