

## Our position

# The European Defence Industrial Strategy (EDIS) and the European Defence Industry Programme (EDIP)

Strengthening European defence technological and industrial base (EDTIB) and supporting Member States

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €3.7 trillion in 2022, directly supports more than 4.9 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

## Executive summary

The European Defence Industrial Strategy (EDIS) and its regulatory instrumentation through the European Defence Industry Programme (EDIP) are a welcome addition to the growing legislative work intended to strengthen the European Defence Technological and Industrial Base (EDTIB) and Europe's security more broadly. These documents present a long-term vision for the EDTIB that puts the EU-based industry at their core, ensuring it can support the EU's current and future needs through new 'out of the box' thinking. If properly implemented, this vision could provide a framework to not only sufficiently support the needs of industry but also the requirements of national governments.

Despite its potential, EDIS presents shortcomings, as it fails to sufficiently address the need to strengthen collaboration with like-minded countries beyond Ukraine, including the United States, Canada, Japan, the Republic of Korea and the United Kingdom. In addition, the strategy does not pragmatically balance urgent short-term military needs that are a result of the current geopolitical challenges with its long-term ambition to strengthen the EDTIB. Further to this, EDIS should emphasise the crucial role advanced and interoperable technologies play on the battlefield, such as artificial intelligence (AI), supercomputing, tactical 5G solutions, and hybrid, multi-cloud and edge analytics.

This paper includes a set of recommendations that would increase the effectiveness of EDIS and EDIP. At the heart of these suggestions is one common message: only by ensuring sufficient flexibility, advancing industrial collaboration, integrating advanced technologies and strengthening partnerships with like-minded allies will the EU successfully overcome current geopolitical threats whilst increasing the competitiveness and readiness of its EDTIB.

## Introduction

The European Commission has recently made efforts to coordinate demand; strengthen supply chains; foster innovation, talent, and science, technology, engineering, and mathematics education; support sector competitiveness; and integrate defence objectives into broader EU policies. This reflects a holistic approach to shaping this strategy. While EDIS is a welcome reinforcement of political, financial and public support for a sector that has been undervalued for many years, the Commission did not address several gaps that could have provided a more holistic perspective.

Member companies of the American Chamber of Commerce to the EU (AmCham EU) represent a broad cross-section of the European industrial base, including companies involved in the security and defence sector. These entities support tens of thousands of jobs in Europe, leading to European design, development, manufacturing and sustainment capability. Not only does this add tremendous value and capacity to the European defence industrial base, but many of the items developed and produced in Europe by AmCham EU members are third-country control (eg ITAR (International Traffic in Arms Regulations) /EAR (Encryption and Export Administration Regulations) free. Collaboration with these entities and their European technologies/products does not lead to US export controls being applied to the results.

## Challenges and limitations of EDIS

First amongst these gaps was the **failure to sufficiently provide a vision for the relationship, both politically and industrially, with vital, like-minded third-country allies**. While EDIS includes a strong pillar on Ukraine and the role of the Ukrainian industrial base, there is no mention of other critical security partners such as Canada, the United Kingdom or the United States. EDIS could ideally have

shaped a longer-term vision for how the partnership between the EU and its critical allies should develop, adjust or if necessary, change. This is a missed opportunity that will continue to create confusion and doubt amongst allies. **The defence industries in the Euro-Atlantic Area are increasingly intertwined, something that EDIS does not sufficiently recognise, nor does it consider the opportunities that this brings.**

Overall, **there seems to be a disconnect between the short-term needs of the EU Member States' armed forces and the EDTIB's longer-term industrial ambitions.** The EU currently does not have the industrial capacity to serve its own military needs, let alone sufficient production to properly arm Ukraine to defend itself from Russia. **Ukraine needs to secure and procure the most urgent capabilities and EDIS must provide the EU Member States with the tools to support this objective.** While the longer-term objective should be to build the EDTIB to serve an increasing share of the EU's defence needs, there should be a pragmatic sense that this cannot be achieved overnight and across the entire military product and supply chain portfolios. Additionally, the EU must not ignore the need for interoperability and interchangeability across Member States, especially in light of the growing use of advanced technologies in strengthening military and defence capabilities. In the current context, where data plays a critical role at the tactical edge, integrating resilient, advanced and interoperable information technology (IT) systems is crucial for the EU's defence strategies.

**To address this disconnect, the EU should build on strong transatlantic ties and advance co-design, co-development, co-production and co-sustainment concepts that leverage the best available capabilities and advanced technologies while reducing cost and importantly, the speed of delivery.** Ultimately, the EDTIB should strive to achieve the EDIS' targets. However, they should not be bound to any timeframes (eg by 2030 or 2035), but rather focus on the strategic capabilities and assets where the EU should aim for self-reliance.

## Recommendations for an improved strategy

The EDIS – together with the EDIP proposal – brings forward some bold notions that will provide decisive benefits to the EDTIB and the EU Member States. As part of the EDTIB and key transatlantic partners to the majority of the EU Member States' armed forces, the following considerations can further strengthen the proposal to ensure it supports short-term capability needs and longer-term industrial competitiveness:

### 1. Ensuring a flexible approach in order to support national requirements

EU defence industrial policymaking from the European Defence Fund (EDF) to the current EDIP proposal should serve the dual objectives of strengthening the EDTIB and supporting the EU Member States' armed forces. Both are two sides of the same coin and should be mutually reinforcing. However, to ensure that this is the case, **EU frameworks need to provide flexibility to accommodate national requirements and preferences.** A too restrictive and prescriptive approach by the EU will weaken the purpose of these instruments and ultimately make them less appealing for comprehensive use by the EU Member States. Especially when matters pertain to the procurement of defence goods and services, there is a myriad of standards and conditions specific to national requirements or situations that need to be considered. **A blanket approach that does not accommodate this diversity in procurement may limit the usability of such an instrument for the EU Member States. In that light, it is also important that the EU provides a coherent regulatory framework to allow for the production and import of critical military components and equipment in Europe.**

The Structure for European Armament Programme (SEAP) needs to be at the heart of this effort, as it could introduce an instrument that can serve most EU Member States' needs from early-stage development of new technologies/capabilities, to procurement, operation and sustainment. The current framework could offer sufficient flexibility in accommodating national needs, while also providing sufficient incentives of which EU Member States could take advantage. **This level of flexibility needs to be preserved and maintained to ensure that SEAP becomes an effective instrument that also finds use for key cross-EU projects.**

Considering today's offering of military capabilities, and especially those of the highest complexity and performance such as aircraft or missile systems, it may be difficult to find items that are completely free of any like-minded third country-controlled components. For decades, the EDTIB has used leading-edge component from allies to benefit their capabilities and reduce duplication, cost and lead times. This has allowed the EU to develop highly innovative and capable platforms but does mean EU Member States use controlled components. Most of the EU's flagship programmes, such as the Eurofighter, A400M, NH90, and others, fall under this category.

With this in mind, EDIP is the next step in supporting joint intra-EU procurement of EU-made items and an instrument to support the EDTIB. EDIP needs to reflect this reality and provide the right flexibility mechanism to support certain controlled items to benefit the EDTIB and/or the security of the EU and EU Member States.

The European Defence Industry Reinforcement through common Procurement Act (EDIRPA) addressed this issue and ensured that given the current situation and urgency, EU Member States could continue to benefit from the instrument when procuring controlled items. Since neither the situation nor the urgency has changed, **legislators should use this agreed upon language in Art. 9 (1-11) of EDIRPA as the base for ongoing EDIP discussions.**

The additions that were introduced in EDRIPA reflect the current geopolitical, industrial and military circumstances. This is particularly visible in the addition of the foreign direct investment test (Regulation (EU) 2019/452) to determine eligibility and the derogation for third-country controls under certain conditions.

**Finally, policymakers should ensure that the EDTIB's ambition is aligned with the scope of EDIP.** In view of the EDTIB's rapidly evolving technology and technological requirements, policymakers need to pay attention to the scope and definitions used in the EDIP proposal to ensure that key defence technologies do not fall out of the scope of this programme. By way of example, the current EDIP definition of defence fabrics under Art. 2.7 does not include critical fabrics used to ensure the functionality and effectiveness of defence systems such as shrouds for radar and air defence cover systems.

## **2. Providing predictability and ensuring third-country participation – semantics matter**

The EDTIB should include all EU-based entities that have or are able to prove that their participation does not harm the security and defence interests of the EU and its Member States. This includes EU-based entities with third-country entity ownership from like-minded allies. Many of these companies are innovators and leaders in their field and design, develop or manufacture cutting-edge technologies and capabilities in the EU. A stronger and more capable EDTIB will require the support of these companies, which should be reflected in EU legislation. Continued confusion and a narrative that

seemingly tries to restrict these companies' participation will ultimately weaken the EDTIB by isolating their vital contributions and scaring off further investments by their parent entities. Ensuring that the EU remains an open and attractive region for investment enhances its overall resilience, while a shift towards protectionism could conversely result in job losses, loss of technology and intellectual property, and interoperability/interchangeability issues.

**EU action should support the EDTIB, while ensuring that this applies to all valued contributors, including those EU-based entities owned by third-country entities from like-minded allied countries.**

In the long term, policymakers should move away from the concept and terminology of derogations, such as those established in Art. 9 EDF or Art. 10 EDIP, as it could imply that this legal accommodation will only be a temporary measure. Moreover, many of these companies are treated and regarded as valued national contributors – with the EU providing a very different interpretation of their status, and often even challenging this status. For such entities to continue to flourish and increase their contribution to the EDTIB, industry requires long-term consistency and predictability when it comes to their role in the EDTIB.

In the Joint Declaration on EU-NATO Cooperation,<sup>1</sup> co-signed on 10 January 2023 by the President of the European Council, the President of the European Commission and the Secretary General of the North Atlantic Treaty Organization (NATO), leaders 'encourage the fullest possible involvement of the NATO Allies that are not members of the EU in its initiatives and the fullest possible involvement of the EU members that are not part of the Alliance in its initiatives.' It is one thing for US-headquartered companies to be eligible for EU programmes, but as long as these companies are marked as derogation participants, that might also reduce the overall scoring of a proposed project. It will be more difficult for them to participate and provide all the benefits they could offer.

As with the section above, a specific modification to Art. 9 EDIP would resolve this issue with regard to the EDIP. Specifically, the definition of 'associated countries' should be expanded to include other like-minded third-country allies such as the United States and Canada. This could be done, for example, by adding certain member countries of NATO to the list of associated countries through bilateral agreements. Such an approach would open new opportunities for transatlantic collaboration, provide opportunities for enhancing the available financial means and ensure that EU-based companies with like-minded third-country entity ownership are treated as full members of the EDTIB.

To elevate the full potential of these industries in the Euro-Atlantic Area, strengthen key international partnerships and address potential barriers to cooperation with third-country entities, the European Commission should consider the creation of a function within DG Defence Industry and Space for International Defence Industrial Cooperation.

### **3. Embedding advanced technologies in EDIP is necessary to keep pace with rapidly evolving military and defence needs**

**The EDIP should explicitly pinpoint the role of advanced technologies in strengthening Europe's military and defence needs.** In the current geopolitical context, the importance of having resilient, pervasive and robust military IT architectures enabled by advanced technologies – such as AI, supercomputing, tactical 5G solutions and data analytics at the edge – has never been more central to European and global security. High-speed and accurate communication and information exchange

<sup>1</sup> [https://www.nato.int/cps/en/natohq/official\\_texts\\_210549.htm](https://www.nato.int/cps/en/natohq/official_texts_210549.htm)

at the frontline, and amongst specified stakeholders, are crucial for successful and efficient military and defence activities. Advancements in a range of emerging technologies mean armed forces, and other security actors are capable of delivering a competitive and strategic edge in a complex and unpredictable global security environment.

To be a strategic decision-making asset in dynamic situations, data analytics and edge processing must be based on the highest possible levels of speed and precision, which in turn are enabled by AI and Machine Learning (ML) at the edge, as well as supercomputing capacity. Data interoperability and integration into local systems will ensure that data can be transferred securely in high-pressure and classified environments. Edge processing and miniaturisation are crucial for ensuring interconnected and distributed systems, underpinning precision warfare. In this way, edge solutions can ensure military forces are future proofed and able to maintain and extend tactical advantages in the conflicts of today and tomorrow.

EDIS and EDIP's lack of focus on incorporating advanced technologies could weaken Europe's defence industrial policy and miss the enormous potential offered by tools such as edge analytics, secure communications and supercomputing. **To ensure Europe's military and defence capacities are future proof, the upcoming EDIP work programmes must pinpoint advanced technologies as a key area of investment for military and defence.**

#### 4. Financing the EDTIB – time for the Single Market for financial services

The EDTIB must have sufficient financial means to execute a historic ramp-up to accommodate significantly higher demand and adapt to new geopolitical circumstances. The strategy and attached EDIP together with political action from the EU Member States and the European Defence Agency, are instrumental in addressing some of the bottlenecks, but **more is needed**.

In this context, the **European Investment Bank (EIB)** is seeking to enhance its lending capabilities to take on a larger role in defence. Officials from different EU Member States have publicly praised this step as a **significant and transformative development**. Similar steps have also been taken by other key actors, such as the prime ministers of the Nordic countries, who in a recent press release, advocated for the use of funds from the EIB and the **Nordic Investment Bank** to increase private financing of the defence sector **beyond existing dual-use projects**.<sup>2</sup>

However, while work is underway to ensure that companies, particularly small and medium-sized enterprises, are able to access financing, **the EU should push towards** the completion of the Single Market for financial services, including the **Capital Markets Union**. Integrated capital markets are key for financing an inclusive and resilient economy, including in the area of defence/security/space, and have the potential to unlock additional sources of capital. It is crucial that the EU's capital markets are kept open to international finance to ensure that capital needs are met. At the same time, the EU should avoid additional market fragmentation and increased obstacles to cross-border investments.

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<sup>2</sup> <https://www.government.se/globalassets/government/dokument/statsradsberedningen/nordic-declaration-on-competitiveness-and-security-may-13-2024.pdf>

## Conclusion

By introducing innovative ideas, the EDIS and the EDIP proposal have the potential to offer substantial advantages to the EDTIB and EU Member States. However, to successfully accomplish its short-term and long-term objectives, the EU will need to increase its collaboration with like-minded third-country partners, provide predictability and consistency for the participation of valuable contributors owned by third-country entities from allied countries, as well as push towards the completion of the Single Market for financial services.

EU policymakers should not be swayed by protectionism and instead focus on aligning the EU's defence strategy with those international allies that share common values and objectives like the United Kingdom, Japan, the Republic of Korea, Canada and the United States. As allies' industries are increasingly intertwined, there are numerous technological, political, military, supply chain resilience/security, competition and economic arguments for increased collaboration, highlighting that strategic autonomy and transatlantic collaboration can be mutually reinforcing pillars.