

Our position

Time to rekindle transatlantic defence technological and industrial cooperation (TADIC)

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 €3.4 trillion in 2021, 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 American Chamber of Commerce to the EU (AmCham EU) shares the objectives of the European Commission to create a stronger EU's Defence Technological and Industrial Base (EDTIB), which is vital in the context of the unlawful and unprovoked invasion of Ukraine by Russia and the increasingly unstable geopolitical environment surrounding the EU. To ensure this, the Commission should consider a stronger and more capable framework for transatlantic defence technological and industrial cooperation (TADIC) as the key enabler in supporting the EU in achieving its objectives.

In order to maximise the potential of the EDTIB, the EU should focus on strengthening the EU-US Security and Defence Dialogue as well as completing an administrative arrangement between the US Department of Defense and the European Defence Agency (EDA). Additionally, expanding the scope of the Trade and Technology Council (TTC)'s working group on export controls to include critical issues for military products could also help to achieve regulatory alignment.

On top of this, the EU should establish a more flexible approach to joint intra-EU procurement, enabling national governments to acquire the best available capabilities to ensure their territorial security; including those originating from like-minded allies. In this sense, reinforcing EU defence industry policies through closer cooperation with NATO, should also be a priority. Overall, the EU should embrace all EU-based entities, recognising the industrial added-value and opportunity that equipment controlled by like-minded third countries could bring the EU.

Introduction

Since 2007, the EU and its Member States have been working to strengthen the European Defence Technological and Industrial Base (EDTIB). Under the headline of (open) strategic autonomy, the EU has introduced several instruments that will play a key role in increasing the sector's innovation capacity, reducing fragmentation and strengthening the EU's military capacity. The EU's 2022 Strategic Compass, together with the Joint Communication on the Defence Investment Gaps Analysis and Way Forward (Joint Communication) released 18 May 2022, outline the EU's strategic goals and the means by which they should be achieved. In the short-term and in response to the Ukraine war, the EU will look to replenish stockpiles, replace Soviet-era equipment and reinforce critical defence systems. In the longer-term, these ambitions will be aimed towards developing key indigenous platforms to support the strategic autonomy of the EU and its EDTIB. Given the size of the task, the EU should not need to face these challenges by itself.

A stronger and more capable framework for transatlantic defence technological and industrial cooperation (TADIC) can be a key enabler in supporting the EU in achieving its objectives. Closer EU-US cooperation will provide vital support for addressing urgent capacity needs with best-in-class equipment in a timely and cost-efficient manner – all while ensuring maximum interoperability between its allies and strongly benefitting the EDTIB. As the EU looks to develop strategic capabilities indigenously and further support the innovation capacity of the sector, it should look to include all entities in the EDTIB that can provide added value, including those owned by entities headquartered in like-minded allied countries. These third-country entities have proven that they can fulfil all necessary security conditions and contribute to EU projects without compromising their integrity. Excluding these highly capable third-country entities that often design and develop cutting-edge technologies without any third-country controls, will stifle the innovation capacity of the sector,

reduce valuable foreign direct investment (FDI) and weaken the EDTIB without any actual benefits in terms of additional security or autonomy. Given these circumstances, challenges and ambitions, policymakers on both sides of the Atlantic should recognise the value of rekindling and advancing TADIC.

Building the foundations for closer transatlantic cooperation

Given the complexities involved in establishing a framework for security and defence cooperation, EU and US policymakers alike should ensure that the necessary foundations are in place to enable a more open, continuous and fruitful exchange. A key challenge in this regard has been to establish open communication lines that allow both sides to properly inform and explain certain initiatives, while also permitting the exchange of best practices.

The initiation of the EU-US Security and Defence Dialogue has been a welcome development in 2022, and it should be the basis for a more regular platform of exchange. The transatlantic partners should also work to complete an administrative arrangement between the US Department of Defense and the European Defence Agency (EDA). Not only would this establish standardised procedures for the exchange of sensitive information between the EDA and the US, but also ensure greater alignment between allies and enable both sides to benefit from each other's respective expertise. This arrangement should be completed as soon as possible in order to regularise relationships, foster a culture of exchange and provide a framework for EU-US cooperation in military practices, R&D, requirement setting, acquisition and sustainment. It should also enable the participation of like-minded third-country entities to certain EDA projects and programmes.

The Trade and Technology Council (TTC) has been successful in creating a forum for the EU and US to coordinate key global issues, such as trade, economy and technology. Given the highly technical expertise that is involved in TTC discussions, policymakers should also consider its applicability for addressing hurdles for a closer TADIC, such as export controls. Already today, a working group has been tasked with finding ways to improve export control coordination on strategic goods and dual-use items. Expanding its scope to include critical issues regarding export controls for military products could build a framework for regulatory alignment and joint action in support of a mutually beneficial TADIC.

Facilitating the joint intra-EU procurement of best-in-class defence capabilities

The EU is facing a rapidly changing geopolitical environment. Russia's war of aggression and the subsequent commitment by European countries to supply Ukraine with defensive aid has unearthed many capacity shortfalls and capability gaps in the EU. As highlighted in the EU's Joint Communication and a flurry of other recent announcements, European armed forces urgently need to backfill their rapidly depleting equipment stockpiles and establish military capability in order to guarantee security in the EU. While joint procurement can support national governments in lowering cost, reducing duplications and maximising efficiencies, it should also enable them to acquire the best available capabilities including those originating from like-minded allies. Joint procurement should be seen as

the best means to support national governments in acquiring the capabilities required to ensure territorial security, specially at a time when critical capability gaps are visibly present. EU action in this space should therefore prioritise the support for Member States in driving price reductions and advancing economies of scale, while ensuring improved delivery times and coordination amongst Member States.

A more flexible approach to joint intra-EU procurement can strengthen the EDTIB. The inclusion of products and services with like-minded third-country control, if properly executed, can create new opportunities and additional value-streams for EU industry. Moreover, by blocking the acquisition of collaboratively developed systems in the Euro-Atlantic area, the EDTIB may suffer. NATO's Airborne Warning and Control System (AWACS) capability is a great example of what can be achieved when the best and brightest on both sides of the Atlantic come together. For over 40 years, NATO AWACS aircraft have been continuously engaged in maintaining peace and security around the world, from the former Yugoslavia to Afghanistan, and now in support of Ukraine.

Reinforcing EU defence industry policies through closer cooperation with NATO

The EU, as well as its closest allies and partners, have been working on additional ways to support innovation and capability building in their respective defence industries. This has, amongst other things, led to the introduction of the European Defence Fund (EDF) and more recently the announcement of the EDA's Hub for Defence Innovation (HEDI). Similarly, NATO has been working towards these objectives with the launch of the NATO Innovation Fund and the Defence Innovation Accelerator for the North Atlantic (DIANA). With the high risk of overlap, both in terms of participants and scope on these initiatives, it will be necessary to ensure that the EU and NATO can achieve a common understanding on defence innovation and capability development. This would promote synergies, support the coordinated development of priorities/requirements and enhance the effectiveness of these programmes. By recognising the opportunities and risks that come with defence industrial action in the EU and NATO, policymakers should consider how transatlantic cooperation can be advanced in this area. This could take the shape of a new EU-NATO Joint Declaration that addresses, amongst other things, defence innovation and accelerated capability development and delivery (ACD2). This can also be an opportunity for all NATO allies to further strengthen cooperation in areas of climate change and the development of military standards.

Embracing all EU-based entities for a stronger EDTIB

EU-based entities with third-country entity ownership from like-minded allies are an integral part of the EDTIB. Many of these companies are innovators and leaders in their field and design, develop or manufacture cutting-edge technologies and capabilities in the EU. While the European Defence Fund (EDF) has established a solid framework for the participation of EU-based companies with third-country entity control without risking the strategic autonomy of the EU or its Member States, there is still a risk that these companies could be excluded from future opportunities. In many cases, these companies can design, develop and/ or manufacture in the EU. However, third-country controls may still apply in some cases where controlled parts are included in the final product. These controls are a

key consideration for both governments and industry, as they play a prominent role in the evaluation of military bids where they are measured against other factors such as capability, price or time of delivery. Export controls are, however, increasingly becoming a redline and may even lead to the exclusion from the outset of a campaign irrelevant from the industrial potential for the EU or the purchasing country.

While recognising the strategic sensitivities and inherent differences of the defence sector compared to other commercial activities, there is value in considering some of its common practices. For example, in many countries a product's origin is determined by the last place of substantial transformation (ie final assembly) or by a percentage of manufacturing and processing operations. In order to fully benefit from the EDTIB and draw from its strength in its entirety, policymakers should place greater consideration on the industrial added-value and opportunity that equipment controlled by like-minded third countries could bring to the EU.

Conclusion

The 2016 EU-NATO Joint Declaration confirmed the urgent need to develop multilateral projects as well as complementary and interoperable defence capabilities. It also highlighted the importance of facilitating a stronger defence industry and defence research and industrial cooperation. In the spirit of these ideals and recognising the rapidly changing geopolitical environment, we call on policymakers from both sides of the Atlantic to embrace the value of rekindling TADIC and driving its advancement.