



EUROPEAN  
COMMISSION

HIGH REPRESENTATIVE  
OF THE UNION FOR  
FOREIGN AFFAIRS AND  
SECURITY POLICY

Brussels, XXX  
[...] (2024) XXX draft

**SENSITIVE\***

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,  
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE  
COMMITTEE OF THE REGIONS**

**A new European Defence Industrial Strategy: Achieving EU readiness through a  
responsive and resilient European Defence Industry**

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## INTRODUCTION

On the occasion of its meeting on 14 and 15 December 2023, the European Council, having considered work carried out to implement the Versailles Declaration <sup>(1)</sup> and the Strategic Compass for Security and Defence <sup>(2)</sup>, underlined that more needs to be done to fulfil the Union's objectives of increasing defence readiness, notably by enhancing defence investment and increasing defence expenditure in a collaborative way <sup>(3)</sup>. Defence readiness can be defined as a steady state of preparedness of the Union and its Member States to withstand, and prevail over, any threat to the security of its citizens, the integrity of its territory and critical assets, or to its core democratic values.

To achieve such defence readiness, a strong European defence industry is a pre-requisite. This European Defence Industrial Strategy, based on the findings of the defence investment gap analysis presented in the Joint Communication of 18 May 2022 <sup>(4)</sup>, proposes a set of measures, together with a European Defence Industry Programme (EDIP), to strengthen the industrial pillar of EU defence readiness. This effort should be sustained under the next Multiannual Financial Framework (MFF, 2028-2035) through subsequent instruments powered-up by funding commensurate to the ambition pursued.

The steady increase of regional and global threat levels requires a step-change in the speed and scale at which Europe's defence technological and industrial base (EDTIB) can identify, develop and produce the requisite military equipment across the full spectrum, from consumables such as artillery ammunition, up to the highest end capabilities. Further strengthening and streamlining the tools and instruments that the EU has put in place over the past years is necessary in this respect.

Defence industrial readiness can only be achieved if Member States are willing and enabled, through the right tools and incentives, to prioritise collaborative investments, thereby reinforcing both military capabilities and the defence industrial base on which the EU and its Member States can rely. This will also directly reinforce NATO – Member States, when NATO Members <sup>(5)</sup> have a single set of forces – as well as the Union's wider economic security, as the EDTIB is a key driver of technological innovation and resilience across our societies.

This Strategy intends to enhance and support the Member States' commitment to **invest better, together, and European** (Section 2). The increased availability of defence

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<sup>(1)</sup> Informal meeting of the Heads of State or Government Versailles Declaration 10 and 11 March 2022, [20220311-versailles-declaration-en.pdf \(europa.eu\)](#)

<sup>(2)</sup> A Strategic Compass for Security and Defence - For a European Union that protects its citizens, values and interests and contributes to international peace and security, Brussels, 21 March 2022, [7371/22, pdf \(europa.eu\)](#)

<sup>(3)</sup> European Council meeting, Brussels, 15 December 2023, EUCO 20/23, [europeanCouncilConclusions-14-15-12-2023-en.pdf \(europa.eu\)](#). Conclusions read: "Having taken stock of work carried out to implement its previous conclusions, the Versailles Declaration and the Strategic Compass, the European Council underlines that more needs to be done to fulfil the Union's objectives of increasing defence readiness and increasing defence expenditure in a collaborative way, including enhancing defence investment and capability development, and to achieve an effective and integrated market for defence".

<sup>(4)</sup> Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on the Defence Investment Gaps Analysis and Way Forward. Brussels, 18.5.2022 JOIN(2022) 24 final.

<sup>(5)</sup> 22 out of the 27 Member States are currently NATO Members, with Sweden being set of joint the Alliance imminently.

products and systems should be achieved thanks to **a more efficient and responsive EDTIB, relying on enhanced security of supply** (Section 3). In addition, **a defence readiness culture should be mainstreamed across all EU policies and our societies** (Section 4). Finally, **partnerships** should be leveraged to enhance readiness and resilience (Section 5).

**The achievement of these objectives should be measured** through specific targets to assess progress, and the Union's defence industry strategy's contribution to the EDTIB's transformation by the end of the next Multi-Annual Financial Framework, in 2035. Thus:

- First, the common procurement of defence equipment should progressively become the norm in the EU. At least **[XX%] of defence equipment should be procured in a collaborative manner in 20[XX]**. In the European Defence Agency (EDA), Member States committed in 2007, and reiterated in the Permanent Structured Cooperation (PESCO) commitments, to spend 35% of their total equipment budget in European collaborative equipment procurement. Member States have to date missed this benchmark.
- Second, Member States should reverse the current trend of buying a vast majority of their defence systems from non-EU industries and ensure that by 20[35] intra-EU defence trade represents between one third and one half of the value of the EU defence market <sup>(6)</sup>.
- Third, the EDTIB should be helped to become more responsive to Member States' needs across all time horizons. **By 20[XX], a robust EU framework should underpin defence industrial responsiveness**, by providing ever-warm facilities in the most critical domains; by guaranteeing the immediate ramp up of critical defence products in the case of shortages or security crises; by facilitating the industrialisation and acquisition of the results of cooperative R&D actions; by supporting defence innovation by all ways and means; and by permitting the identification and mitigation of any critical dependency on third countries.
- Fourth, **defence readiness must be mainstreamed** across all EU policies and our societies. The defence sector's access to finance and to EU programmes should be enhanced. In addition, the attractiveness of the sector should be promoted to young people and to the most talented. To meet the financing needs of the sector and enable the full mobilisation of EU-Invest in support of defence readiness, **by 20[XX], the European Investment Bank's (EIB) lending policy should have been changed**.
- Fifth, EU defence readiness should be further enhanced through the strengthening of existing and establishment of **new defence and security partnerships**. The Ukrainian DTIB should be tied-up with the EDTIB. **By 20[XX], Ukraine should be fully associated to the EU industrial defence programmes**.

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<sup>(6)</sup> Data on Member States procurement is not collected in a centralised manner. Commission services will work, together with EEAS and EDA to develop a methodology to measure the share of procurement from the EDTIB compared to the one benefitting third countries entities. In parallel, and in the absence of more reliable data, data on EU Member States' Arms exports provided by the EEAS annual reports and database provides useful indications about the situation and trends affecting the European defence equipment market. Between 2017 and 2023 the EU defence market has grown by 64%<sup>6</sup> while intra-EU defence trade flowed only marginally increased, leading the ratio of the latter to the former to plummet from [23] to [16]6%.

## 1. ACHIEVING DEFENCE READINESS THROUGH A MORE RESPONSIVE AND RESILIENT EUROPEAN DEFENCE INDUSTRY

### 1.1. Defence readiness: imperative in the current geopolitical environment

Faced with the return of high intensity warfare in Europe, with Russia's unprovoked, full-scale invasion of Ukraine in 2022, the Union must swiftly enhance its defence readiness.

The rules-based global order is challenged to its core, and countries in the Union's vicinity and beyond are increasingly plagued by tensions, instability, and armed conflicts. Escalation at regional and global level cannot be excluded, given the growing mutual support among different threat actors. The EU and its Member States are also confronted with widespread hybrid threats, illustrated by a growing number of cyberattacks, sabotage and hacking of critical infrastructure and assets, and the contestation of Europe's access to strategic domains such as the space, cyber and maritime domains. These developments are challenging our security, prosperity, and democratic values.

The defence of the Member States' territory and citizens is a national responsibility, including through allies' commitments in the context of NATO. However, the geopolitical developments point to a compelling need for Europe to take increased responsibility for its own security and to get ready to effectively address the full spectrum of the threats it faces. Under the guidance of the Strategic Compass, the EU is and must continue to become a stronger actor in security and defence, thus a more capable security provider not only for its own citizens but also to the benefit of international peace and security.

For most Member States, who are also members of NATO, the Alliance remains the foundation of their collective defence. The constitution of a stronger European pillar within the Alliance would support the sharing of the transatlantic security burden and result into an increased European ownership. Defence readiness is also dependent on the possession of the necessary defence capabilities, the mastery of critical technologies and the ability to possess and protect the required infrastructures that secure access to strategic and increasingly contested domains.

Achieving defence readiness therefore requires investing massively in defence capabilities, including in critical infrastructure, while having the agility to constantly integrate innovation that increasingly originates from small and non-traditional players which are all too often struggling to see their potential contribution recognised. Adversaries have engaged in a global race for technological supremacy requiring from all actors ever faster and increasingly costly investment cycles: the EU cannot afford falling behind.

#### ***Box [X]. Buying little, predominantly alone and from abroad***

As highlighted by the Defence Investment Gap Analysis and Way Forward, **Member States underinvested in defence between 2006 and 2020, EUR 270 billion.**

In 2022, defence expenditure of the 27 Member States increased for the eighth year in a row, amounting to €240 billion. However, **78% of the defence acquisitions by EU countries since from the start of the war to June 2023 were made from non-EU companies.**

Between 2021 and 2022, there has been a 7% increase in procurement of new equipment, but **only 18%** of the total equipment spending was devoted to **EU collaborative defence equipment procurement** in 2022, far below the **current 35% target**.

Even those Member States with the largest defence budgets in the Union at their disposal are increasingly struggling to invest at the required levels on a standalone basis, exposing the EU to a widening capability and industrial gap and to increased critical dependencies. Defence readiness therefore calls for more cooperation and collective action. In times of high intensity/attrition warfare, this commands the ability to mass produce, faster and together as Europeans, a large set of defence equipment, such as ammunition, drones, MANPADS. A new industrial organisation of the sector is required.

## **1.2. Defence Readiness results from a strong, responsive and innovative EDTIB**

In line with the Strategic Compass and the EU Heads of State and governments' Granada Declaration, strengthening EU's defence readiness and investing in capabilities require developing a strong, agile and resilient technological and industrial base.

The EDTIB is an essential and integral part of a safe and sustainable European society today and in the future. A responsive and competitive EDTIB is the foundation of any credible defence.

EU defence industrial readiness, today and in the future, requires public and private investments across the full spectrum of needs, to enable defence industry's responsiveness in time and scale to the needs of Member States. Innovation must be a constant focus of attention, while resilience to any external shock should be ensured.

### ***Box [X]. The EDTIB today: a strong potential, to be further tapped***

The Union's defence technological and industrial base today consists of the **combination of a large set of prime contractors, with mid-caps and a large number small and medium enterprises (SMEs)**.

Besides **European leaders producing world-class advanced systems** and mostly located in a handful of Member States <sup>(7)</sup>, a no less crucial role is played by a **wealth of smaller, but often critical platform manufacturers, equipment suppliers, sub-suppliers, and niche producers**.

The EDTIB is competitive at global level, with an estimated **annual turnover of EUR 70 billion** and strong volumes exported (more than € 28 billion in 2021). Overall, the EDTIB is estimated to employ **500,000 people**.

Notwithstanding its overall competitiveness, the EDTIB's ability to unleash its full potential is undermined by years of underinvestment. This is the consequence of Member States' policy choices in the past decades, and in a different geopolitical context, to allocate the dividend of peace to other societal uses. Persistent industrial fragmentation along national lines also acts as a hindrance to the optimum efficiency of defence investments.

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<sup>(7)</sup> France, Germany, Italy, Spain and Sweden.

These trends have led to increased dependencies on third countries impairing the EDTIB's ability to punch at its weight.

### **1.3. Too little cooperative investment in the EU keeps the EDTIB punching below its weight**

In a complex market where sovereign states are the sole acquirers, demand is still largely organised along national lines, with most investment decisions arising from domestic considerations, and based on national programming, often failing to factor in broader strategic and efficiency considerations. As a result, and despite certain phases of consolidation in the past decades, the supply-side remains also essentially organised along national lines, with Member States opting for national solutions, because of industrial and security of supply considerations. This results in a scattered EDTIB, acting in different, too narrow defence markets, rather than in a single, much larger and integrated one.

This fragilizes the EDTIB. First, the demand-side struggles to express itself collectively in an optimal way. This results in duplications and foregone opportunities to mutualise and synchronise investment in commonly needed equipment or infrastructure. Second, the supply side is not enticed to cooperate or even integrate to match a more efficient expression of demand. It suffers from lack of predictability and critical mass in the orders placed, thereby failing to tap economies of scale. Third, Member States tend to acquire off-the-shelf from third countries, thereby drying up internal demand and investing European taxpayers' money in jobs abroad rather than in Europe.

This obliges in turn the EDTIB to focus on exports to ensure its viability, resulting in a risk of excessive reliance on third countries' orders, with the potential consequence that responding to the Member States becomes less a priority than honouring third country contracts in case of crises and related shortages.

Security of supply is undermined by the combination of the above patterns. The single market has become a reality at lower tiers where supply chains span widely across borders. However, security of supply in crises scenarios is not ensured due to a lack of collective strategic governance at the EU level. And the trend of overreliance on third countries' supplies further undermines security of supply and freedom of action in case of crises.

### **1.4. Helping Ukraine withstand the Russian aggression: a decisive Union contribution, but strong potential for improvement**

Notwithstanding the above, the EDTIB has also demonstrated its ability to effectively sustain the efforts deployed by the EU and its Member States to support Ukraine's armed forces. To date the EU and its Member States collectively delivered EUR [28 billion] worth of military equipment to Ukraine. In the context of the three-track initiative <sup>(8)</sup>, Member States have placed orders in the EU to procure additional artillery ammunition, and the EDA has put 60 framework contracts in place with the European defence industry.

Since the beginning of the war, the EDTIB has also increased its production capacity in artillery ammunition by 50%. It is already capable of producing one million round per year and is anticipated to reach a capacity of over 1.4 million by the end of 2024. Beyond the donations from Member States' stocks, the EDTIB has also provided a significant amount

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<sup>(8)</sup> Delivery and joint procurement of ammunition for Ukraine, Brussels, 20 March 2023, 7632/23, pdf ([europa.eu](https://europa.eu))



of artillery ammunition through direct contracts with Ukraine, displaying its ability to sustain the Ukrainian military effort.

Likewise, the EU has demonstrated its capacity to mobilise itself swiftly by activating and powering-up the European Peace Facility (EPF) to support Member States who send military assistance to Ukraine in just a few days and incentivise further deliveries of lethal and non-lethal equipment to Ukraine, including artillery ammunition under the three-track initiative. The EU also adopted new initiatives such as the Regulation on establishing an instrument for the reinforcement of the European defence industry through common procurement (EDIRPA) <sup>(9)</sup>, the three-track initiative on ammunition and the Regulation on Supporting Ammunition Production (ASAP) <sup>(10)</sup> to boost its capacity to support Ukraine and replenish national stocks.

Still, much more needs to be done, be it at industrial or governmental level.

### **1.5. From emergency responses to readiness: time for a paradigm shift**

It is time to move from emergency response to EU readiness across all time horizons. The EU needs to secure the availability of consumables in the requisite volumes, including during crisis times, while ensuring the timely delivery of tomorrow's high end critical capabilities in the coming years. A competitive EDTIB contributing to the security of Union's citizens means an industrial sector capable of maintaining its technological excellence while delivering what is needed, when it is needed, without restrictions stemming from dependencies or bottlenecks. An industry investing in new capacities and ready to shift to 'wartime' economic model whenever needed is essential.

This implies a collective public and private engagement. The EU is ready to support both Member States and the EDTIB by de-risking investments, contributing to a more ambitious defence industrial policy at EU level. To achieve this, the Union needs to maximise the benefits of both competition and cooperation. By the same token, the competitiveness of the EDTIB and its ability to export must be preserved, whilst nonetheless ensuring that Member States can rely fully on their defence industry to deliver on their needs in a timely manner and in the requisite volume, when the security of European citizens is at stake.

This Strategy introduces short to medium-term measures to support EU defence industrial readiness; to increase coordination of Member States' demand, support the EDTIB to produce more, ensure Security of Supply and mainstream a defence industrial readiness culture. In parallel, and as a first immediate initiative, the Commission is proposing a new regulation establishing a European Defence Industry Programme (EDIP), to ensure continuity of support to the EDTIB in the current Multiannual Financial Framework, while testing new forms of support in view of the next one.

The proposed EDIP will expand in time and scope the support to the competitiveness of the EDTIB brought by EDIRPA and ASAP. It will incentivize cooperation in the procurement phase of defence products manufactured by the EDTIB, support the industrialisation of products stemming from EDF funded actions and support the industrial

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<sup>(9)</sup> REGULATION (EU) 2023/2418 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 October 2023 on establishing an instrument for the reinforcement of the European defence industry through common procurement (EDIRPA).

<sup>(10)</sup> REGULATION (EU) 2023/1525 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 July 2023 on supporting ammunition production (ASAP).

ramp-up in the Union. It will also establish an EU Security of Supply regime to enhance solidarity and effectiveness within the Union in response to crises.

## **2. LEVERAGING READINESS THROUGH INVESTMENT: BETTER, TOGETHER, EUROPEAN**

Member States have increased their defence budgets at an extraordinary pace since February 2022 (see Box [X]). It is now vital that the Union collectively makes the most out of this budgetary increase to achieve defence industrial readiness. To that end the Commission and the High Representative / Head of the Agency, are ready to support Member States to invest better, together, and European.

### **2.1. Investing better**

Investing better means targeting investments where it matters the most, avoiding duplication and increasing efficiency. This requires increased coordination of Member States' investment plans and efforts.

#### *2.1.1. A new joint planning and programming function: the Defence Industrial Readiness Board*

As announced within the Joint Communication on Defence Investment Gaps Analysis and Way Forward, a structured approach to planning and programming at EU level will reinforce coordination, cooperation and transparency between Member States and European institutions. It will complement and streamline existing initiatives in the capability, industrial, research and defence infrastructure realms, allowing for refined and shared prioritisation.

This planning and programming function should be performed via a Defence Industrial Readiness Board (hereafter 'the Board'), bringing together Member States, the High Representative/Head of the Agency, and the Commission.

Complementing this effort to ensure an effective government-to-industry co-operation and to establish a closer dialogue and engagement <sup>(1)</sup>, a high-level European Defence Industry Group will be established. This Group will meet in specific configurations (i.e. sector-specific) depending on the issue at hand, and will function as a privileged interlocutor for the Board to consult with industry to increase consistency between Member States' plans and what the EDTIB can deliver.

Building on existing processes, the Board will be a forum for Member States and EU institutions to discuss and refine identified priorities at EU level. In relation to EU programmes supporting the competitiveness of the EDTIB, the Board will consider relevant flagship projects, industrial sectors to be ramped up, defence capacities to be industrialised, and critical bottlenecks hindering security of supply.

The Board will enable Member States to provide strategic guidance and advice, steer Union's actions in support of the EDTIB competitiveness, and secure the timely co-funding of initiatives, without prejudice to their role in the relevant programme committees. The Board will play a crucial role during crisis times to implement the new

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<sup>(1)</sup> In full respect of relevant financial and competition rules.

security of supply regime at EU level introduced by EDIP. The Board, with the support of the European Defence Industry Group, will be the pivot of a new governance at EU level.

The Commission is proposing to establish the Board through the EDIP. The Board will convene as soon as the EDIP regulation is adopted. Until its entry into force, the Defence Joint Procurement Task Force will continue to work with Member States to support the coordination of their procurement needs and provide estimates of the production capacities in the EU.

### *2.1.2. From strategic planning to Projects of common interest*

A central role of the Board as a new EU level joint planning and programming function will be the joint identification of [flagship projects] to focus EU effort and funding programmes. The new planning and programming function will build on the existing instruments, such as the Capability Development Plan (CDP), the Coordinated Annual Review on Defence (CARD) or the Permanent Structured Cooperation (PESCO).

As recalled by the Strategic Compass, strategic competitors work to undermine the Union's access to the maritime, air, cyber and space domain. Europe must protect its free access to these contested areas, which cannot effectively be protected by a single Member States alone.

Therefore, in view of increasing its defence readiness in the current security context, the Union should identify [flagship/projects of common interest] on which focus efforts and resources. By investing more, better, together and European, Member States will be able to maximise the impact of their investments to secure access to strategic domains and contested spaces, developing as appropriate systems acting as European defence infrastructure of common interest and use. Thus, by 20[XX], the EU should have in place, or at a mature stage of development, projects for capabilities that are European by nature, such as: a Union's Cyber Shield, an integrated European air and missile defence system, a Space Situational Awareness system, as well as an infrastructure for the protection of maritime and underwater space.

The Union should also accelerate the implementation of the EU Space Strategy for Security and Defence. An enhanced space situational awareness system, including through further coordination and data sharing and development of dual-use sensors, would allow to better detect and analyse threats and strengthen the protection of EU and Member States' space assets. Sovereign access to space capacities, together with in-space operations and services, would enhance readiness and versatility in support of security and defence. The Commission will work to systematically consider in the EU space programmes the defence needs expressed by the military.

## **2.2. Investing together**

Investing together more is a pre-requisite of a stronger EU defence readiness. Member States must cooperate more throughout the capability life cycle and at the procurement stage. Instruments to identify capability priorities (Capability Development Plan) and collaborative opportunities (Coordinated Annual Review on Defence) already exist. It is imperative to ensure that they effectively result in concrete defence capabilities.

2.2.1. *Common procurement as the norm when relevant: expanding the intervention logic developed under the programme EDIRPA.*

To further contribute to an effective expression of demand to support the competitiveness of the EDTIB, the Commission is proposing to expand the intervention logic successfully tested with EDIRPA to intensify the support to the common procurement of defence products stemming from the EDTIB. This window of the EDIP will offset the financial costs associated with the complexity of cooperation, going beyond the most urgent and critical defence products, broadening the intervention area of EDIRPA.

The joint procurement support window of EDIP will help speed up, in a collaborative manner, the adjustment of industry to structural changes. It will also incentivise solidarity between Member States by enabling them to increase efficiencies in public spending and contribute to interoperability and interchangeability. It should decisively help to achieve of the target already outlined for Member States of [XX%] of the Member States' defence equipment procurement spent in cooperation.

2.2.2. *Acting more systematically, in support of interoperability and interchangeability*

The conflict on Ukraine's soil crudely evidenced the need to be able to operate defence equipment effectively, in an interoperable and interchangeable manner. Lessons learned from the battlefield showed the challenges of using ammunition of the same calibre produced in different Union's countries. In addition to presenting an acute operational challenge, this harms the market prospects of defence companies. The current and unsustainable limitations in this respect find their root causes in issues related to national requirements, standards, certification.

***Box [X]: How suboptimal technical requirements, standards and certifications harm EU defence readiness***

Past European collaborative programmes have been too often plagued by **Member States' tendency to over-customise and over-use nationally agreed requirements** stemming from national capability planning processes. This has generally resulted in multiple versions of the same capability, increasing R&D costs and generated delays.

Whilst **standards** are an obvious way to overcome such issues, there is ample evidence that their existence has not yet sufficed to avert interoperability and interchangeability issues. Despite the Standardisation Agreements (STANAGs) implemented in the frame of NATO, the uptake of these voluntary standards remains an issue. Another challenge stems from the fact that agreed standards still too often fail, to date, to deliver the requisite real interoperability and interchangeability operational terms.

Finally, **certifications remain also an issue to be addressed**. Certifications are currently delivered by dedicated authorities at national level and not mutually recognised, although there are often no clear factual cases for that lack of recognition, which de facto fragments the market and hampers operations.

Many EDF projects already support standardization at EU level, in line with our strategic partners' operational standards, with a view to ensuring interoperability and interchangeability within any coalition. Thus, EDF requires Member States to define common functional requirements through the call harmonisation process in which all

Member States can participate. However, further efforts should focus on incentivising the use of the most common existing standards in armament production and procurement, building on, and complementing existing initiatives. <sup>(12)</sup> More must be done to ensure that all EU programmes and tools incentivise and prioritise projects that contribute to standardisation and harmonisation of requirements.

The Commission will therefore promote the identification and, if necessary, development of standards at an early stage, within the European Defence Fund (EDF), in complementarity with NATO's role and responsibilities, by promoting the use of existing common civilian or defence standards in projects submitted in response to future defence programmes calls, and strengthening the co-financing of projects aimed at developing new standards when needed as part of R&D actions.

To address certification related issues, the Commission will also support swift cross-certification activities, including associated testing when necessary. Such a cross certification is already a reality, on a voluntary basis, within the airworthiness sector in the framework of EDA. The Agency will also seek, to further facilitate other certification, testing and evaluation activities. In addition, under specific circumstances during crisis times, the Commission proposes to allow mutual recognition of national certifications, within the EDIP regulation.

### *2.2.3. Towards, robust cooperative, full life cycle armament programmes: the European Armament Programme as a new powerful tool*

Cooperative armament programmes in Union have been facing to date significant challenges, being mostly set up on *ad hoc* basis and undermined by a lack of tools commensurate to their complexity. This has often resulted in delays and cost overrun. To remedy this situation, encourage and power-up the commitment of the Member States towards cooperation throughout the whole life cycle of defence capabilities, a powerful is required at EU level. To make this happen, the Commission will making available a new legal instrument – the European Armament Programme - to underpin and strengthen defence cooperation.

Within this new legal framework, Member States will benefit from standardised procedures for initiating and managing cooperative defence programmes. Under this framework, Member States will be, subject to relevant conditions, to benefit from an increased funding rate in the context of EDIP, simplified and harmonised procurement procedures and, where Member States jointly own through the European Armament Programme the procured equipment, a VAT exemption. The international organisation status obtained will also allow Member States, if they so wish so, to issue bonds to ensure the long-term financing plan of armament programmes. While Commission would not be liable for debt issuance by Member States, a possible contribution to European Armament Programme via an EDIP grant might be used as a collateral for the bond issuance.

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<sup>(12)</sup> The **European Defence STANDards Reference system (EDSTAR)**, managed under the EDA, contains references to “Best-Practice” Standards (BPS), in support of Programme organisations, and aims at optimise effectiveness, efficiency, and interoperability of standards application for defence and security products and services.

This new tool will also step-up Member States cooperation efforts. It should thus serve the implementation of PESCO projects, and contribute to speed up, ease and support the fulfilment of more binding commitments undertaken by Member States. The European Armament Programme should help Member States to bring to the next level their collaborative efforts, notably in the context of the PESCO Strategic Review 2023-2025.

As described in the chapter 3 of this Communication, the European Armament Programme could also come in support of the development of prototypes stemming from collaborative R&D actions funded by the European Defence Fund towards industrial production.

### **2.3. Investing European**

Investing more, better, and together will increase the Union's defence readiness only if the increased investments resulting from larger national budgets benefit the Union's defence industry. Nevertheless, channelling Member States' investments into the EDTIB is highly dependent on the capacity of the latter to demonstrate its ability to meet the demand from the Member States in both time and volume.

The urgent acquisition decisions made by Member States in respect of the dramatically evolving security environment were undertaken against the backdrop of an EDTIB still constrained by limited, peace time-sized production capacity. The surge in acquisitions therefore benefited mostly non-EU industry, even when competitive European products were available, suggesting that potential limitations in terms of production capacity are not the sole driver.

The intensification of that trend has resulted in increasing existing dependencies or generating new ones, thereby limiting the potential virtuous circle of increased investment resulting in a strengthening of the EDTIB. The volume of acquisitions made through the US Foreign Military Sales (FMS) in Europe has increased by 89% between 2021 and 2022. Moreover, emerging armament manufacturers from other third countries have also penetrated the EU market. This trend, that undermines the competitiveness of the EDTIB and results in the taxpayers' money resulting in job creations abroad, must be reversed.

The Commission aims to that effect, first, at the creation of a mechanism increasing awareness on the availability of defence products from the EDTIB. The Commission proposes to test such mechanism through a pilot project within EDIP with a view to co-build with Member States and industry a fully-fledged mechanism from 2027 onwards. The mechanism will be organised in four pillars: a catalogue of defence products, financial support for the creation of a pool of defence capabilities being quickly available, provisions to ease procurement processes, and capacity building measures for procurement agents.

First, by building on existing tools, the Commission, in cooperation with High Representative/Head of Agency, will work towards the establishment of a *single, centralised, up to date catalogue of defence products* developed by the EDTIB. The ammunition crisis in the context of war in Ukraine revealed that the Union had at its disposal an important production capacity, that had been largely underestimated, to the benefits of attempts to buy from abroad. Such misperceptions are prejudicial to the EDTIB and should be corrected. To increase the visibility of EU-made solutions by Member States, the Commission will provide a single-entry point allowing for the identification of defence products made in the EU. Such a catalogue will be fed voluntarily from industry, through dedicated calls for expression of interest.

Second, the Commission will support the creation of a *defence industrial readiness pool*, to increase availability and speed up delivery time of EU-made defence products. Producing in limited quantities for narrow national markets, our industry suffer from a competitive disadvantage on export markets. Products often display a longer delivery lead-time compared to non-EU products supported by government having large stocks of defence equipment from which they can easily export. Within EDIP, the Commission proposes to financially support the purchase of additional quantities of defence capabilities for which Member States have decided to jointly procure within the framework of European Armament Programmes. This would allow the creation of a strategic reserve being quickly available for additional customers resulting into an attractive Government to Government scheme. The governance on the use of equipment in reserve will be established by Member States being part of the European Armament Programmes.

Third, the Commission proposes to introduce a *standard regime applicable to future defence contracts and framework agreements* with EU-based manufacturers. Whereas EU primary law allows Member States to open their contracts and framework agreements to other Member States when provided for at the outset of the procurement process, this possibility is never used hence closing off the potential to procure through such contracts and framework agreements. To remedy this situation in a structural manner, this standard regime would provide that, unless expressly otherwise stipulated, *a defence contract/framework agreement could be opened to any other Member State under the same conditions as for the procuring Member State*. Furthermore, based on the practice of Member States since the beginning of the Russian war of aggression against Ukraine, notably in the context of EDIRPA, it appears necessary to allow Member States to also use existing national framework contracts with EU-based manufacturers to procure additional quantities on behalf of others (lead nation framework). Therefore, the Commission proposes, in the context of EDIP, a temporary derogation from Directive 2009/81/EC (as provided within the ASAP regulation). Thanks to this ‘Industrial Solidarity Clause’ Member States would be able to benefit from other Member States’ contracts, reduce their administrative burden (as well as the industrial one), obtaining equipment with a reduced delivery lead time.

Fourth, to support Member States’ procurement from the EDTIB, the Commission will consider providing *financial support for administrative capacity building* as well as a *simplification of procurement procedures*, whenever relevant and possible. National procurement agencies could benefit from financial support from Commission for administrative capacity building (i.e. information exchange platform, technical support, education and training, governance and public administration), notably under existing instruments such as the Technical Support Instrument (TSI). Furthermore, EDA will support this administrative capacity building by providing forums for sharing best practices and envisioning further cooperative actions within the scope of its Effective Defence Acquisition network.

***Way forward:***

In order to help Member States invest better, together and European, the Commission:

- will set up a new **joint planning and programming function**, by creating the Defence Industrial Readiness Board, composed of Member States, the High Representative/Head of the Agency, and the Commission, as well a high-level Defence Industry Forum with a consultative role.

- proposes to **extend the EDIRPA logic** of supporting cooperation in procurement of products stemming from the EDTIB.
- proposes to enable, within EDIP, a **rapid mutual recognition of certification**, during crisis times.
- proposes to make available to Member States a new legal framework, the European Armament Programmes to strengthen defence cooperation.
- proposes the gradual creation of a **European Military Sales Mechanism** aimed at encouraging the availability of EU equipment in time and in volume and allowing back a level playing field for EU-made defence products in the procurement.

### 3. SECURING AVAILABILITY: A RESPONSIVE EDTIB UNDER ANY CIRCUMSTANCES AND TIME HORIZON

The EU can already rely on an overall competitive, world-class EDTIB. But in a dramatically changed geopolitical context where they must be the guarantors of the security of the European citizens, the EU and its Member States must more than ever partner to that end with a more responsive more resilient EDTIB, across the full type of Armed Forces' capability needs, from consumable to cutting edge defence systems. This is about creating the conditions for the EU's industry to meet Member States' demand in time and scale. While Member States are responsible for placing firm and long-term orders ensuring the necessary market predictability to defence industry, the Commission is ready to use its prerogatives and programmes to support this endeavour.

#### 3.1. Supporting a more rapid response and versatile adaptation to urgent needs

As vividly illustrated by the immediate consequences of the Russian unprovoked military aggression of Ukraine and the war of attrition raging at its doorstep, the Union's security and its ability to effectively support its neighbours depend in its ability swiftly mobilise defence products. As the threats level will remain very high in the foreseeable future, EDTIB must be able to deliver what is needed, in the right quantities, and at the right time.

The EU must show determination in de-risk its defence industry's efforts contribute to readiness by supporting the ramp-up of production capacity in the EU in areas collectively identified by Member States. To do so, the Commission proposes to expand the intervention logic of the ASAP programme, beyond ground-to-ground ammunition and missiles, for the EU to be able to accelerate productive investments in the EDTIB for the products that are the most needed. The EU financial support should permit, face with any shortage or crisis, to increase volume of production in relevant defence equipment, reduce their delivery lead-time and address potential bottlenecks and/or factors that could delay or impede their supply and production. As much as possible, such financial should also encourage cross-border industrial partnerships and collaboration of relevant companies in a joint industry effort <sup>(13)</sup>.

Nevertheless, supporting ramp-up also requires dealing with the industrial consequences of ramp-down once a supply crisis has been handled. Investing now in the development of

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<sup>(13)</sup> In full respect of relevant financial and competition rules.



ever-warm facilities and the possible repurposing of civilian production lines would provide a strong security guarantee to the Union's citizens, whilst preserving the flexibility of EDTIB manufacturing capacity and preserving its overall competitiveness.

The Commission will contribute via EDIP to the building up of 'ever-warm' spare industrial capacities. This would be particularly appropriate where critical supply shortages were identified by Member States.

It should be possible to provide for the funding, for instance, of machine tools and personnel costs to ensure that in case of a major crisis the EDTIB can mass-produce what is needed in a short time frame, by having supported the availability of resources that can be mobilised. This will ensure that an immediate ramp-up can take place in case of need.

The Commission will also explore with Member States measures to rapidly mobilise production lines from civilian industry for defence production purposes, and to ensure that the requisite qualified workforce is available under such scenarios (e.g. preparing staff in terms of security clearance and training). These effective, practical solutions will enable the EDTIB's production to be ready to adapt without delay to a fluctuation in the demand expressed by Member States.

To further support the EDTIB's versatility, the Commission is proposing, as part of the proposed EDIP, the creation of a Fund to Accelerate Defence Supply Chain Transformation (FAST). The fund will aim at facilitating access to debt and/or equity financing for SMEs and midcaps manufacturing defence technologies and products, as well as other companies within the defence industry's supply chain.

By leveraging additional public and private investments in support of the EDTIB, the FAST will strengthen the resilience of the Union's defence industry value chains. This initiative should also contribute to support the development of an ecosystem of investors focused on growth stages, investing in critical defence suppliers and supporting the scaling-up of innovative defence companies.

### **3.2. Answering the needs of tomorrow's defence**

While securing the EU's ability to respond in manufacturing terms to security urgencies, it is equally important for Europe to remain at the cutting edge of innovation. A sustained R&D effort is more necessary than ever to maintain the EDTIB competitiveness in the longer term, notably in terms of its availability to tap the full potential of the excellence of its scientists, engineers and innovators.

#### *3.2.1. Support innovation and realise the defence potential SMEs more proactively*

By encouraging and supporting more structured and systematic cooperation across the EU, the EDF has paved the way towards a more innovative EDTIB, through a virtuous confrontation of industrial cultures, and an incentivisation to the opening up and Europeanisation of supply chains. However, it is essential to further increase the EU's ambition to efficiently foster defence innovation and the emergence of new players in the defence supply chains. The sector needs to take full advantage of faster civil innovation cycles for technologies with dual-use potential to maintain its competitiveness and ensure the military's edge on the battlefield.

To remain competitive, the capacity and autonomy to develop innovative defence products must also be underpinned by support for research into future-proof defence capabilities,

including in disruptive technologies, as they can have a profoundly transformative effect on our militaries and provide a radical operational advantage. To that effect, the EU must seek to offer innovative companies – especially start-ups and SMEs and Research and Technology Organisations (RTOs) – more flexible, faster, and leaner funding cycles and better connections with military end-user and investors.

Against this background, within the current MFF and in the next one, the EU Defence Innovation Scheme (EUDIS) developed under the EDF programme will propose innovation support services for single entities, including through matchmaking with investors and partners and end-users, and strengthen support for innovative product and technology testing and validation. It will work to reduce red tape, especially for SMEs, by exploring for instance the introduction of ‘ever warm’ calls and ways to support promising technology transfer from civil to defence, where applicable.

The continuous and intense cooperation between the European Commission (EUDIS) and EDA (Hub for Defence Innovation (HEDI), allows defence innovators to take full advantage of tailored EU support measures, including the guidance on the military end-user capability requirements and opportunities to connect to European defence communities.

The Commission will also test ‘operational hackatons’. Armed Forces representatives and start-ups will be convened and asked to solve concrete battlefield issues, starting with challenges encountered on the ground by Ukrainian armed forces. Therefore, to ensure an adequate support throughout the growth cycle of innovators while ensuring that EU support for defence R&D maintains a level of ambition commensurate with the challenges of a constantly evolving geopolitical situation, a substantial increase of the budget of the EDF, including a strengthened EUDIS, be warranted under the next MFF.

### *3.2.2. Help EDF projects become a tangible reality beyond the R&D phase*

The EDF is already proving to be a powerful instrument to boost defence industrial cooperation and incentivise cross-border defence research and development contributing to more European defence industrial value chains. In three years, more than 145 projects involving 2618 participants have been launched,<sup>(14)</sup> forming the backbone of the EU defence industrial ecosystem, which currently addresses a wide range of cutting-edge defence capabilities and technologies. Cooperations involve research organisations (609 participations); SMEs (826 participations); larger entities (1113 participations), public bodies (456 participations) and higher education institutes (230 participations) that together constitute the EDTIB of the future.

However, beyond the research and early development phases, the collaborations reach a ‘valley of death’ at the prototyping stage, where the level of needed Member State involvement becomes significantly higher. There is therefore a need to strengthen the demand side take-up. To achieve this objective, the Commission will use the possibilities offered by the EDF Regulation (provisions on pre-commercial procurement) to leverage the procurement of R&D services from the EDTIB by the Member States, and to use EU grants to support and strengthen the joint procurement of such services.

Moreover, diverging operational requirements and national industrial policies might lead defence companies to interrupt cooperation once the EDF action ends. To avoid this,

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<sup>(14)</sup> Applications in response to the 2023 are currently under evaluation. By mid-March 2024, EUR 4 billion of EU investment in specific R&D topics will already have been decided.

defence cooperative actions initially supported by the EDF and having reached the prototype stage, based on common, harmonised functional requirements, might need *sustained support towards industrialisation*.

The European Armament Programmes and the extension of the EDIRPA logic will be instrumental to maximise the uptake of projects stemming from EDF. Moreover, in the frame of EDIP, *repayable grants will be provided for specific actions* linked with the productization and commercialisation of prototypes stemming from EDF.

The successful bridging of the valley of death after R&D phase of collaborative projects indeed also requires that the involved Member States agree when the prototype stage is reached, on the conditions for export of the jointly developed products. Considering in particular the ongoing review of the EU Common Position on arms export control, the Commission renews its call <sup>(15)</sup> to Member States to explore ways towards the streamlining and gradual further convergence of their arms export control practices, especially for those defence capabilities that are jointly developed. For the same purpose, Member States should also exchange best practices on export control rules for jointly developed capabilities.

Furthermore, the Commission will take actions in order to facilitate the intra-EU transfers of defence-related products in EU-funded projects and seek to simplify the management of transfers' licensing conditions and processes, in particular by introducing clauses regulating transfers in the concerned Model Grant Agreement with the aim of limiting the recourse to end-user certificates.

Several elements are currently impeding a correct and effective implementation of the 2009/43 Directive, which prevent the full exploitation of related benefits on the defence market. To better analyse existing challenges currently hindering its effective implementation, the Commission will perform an *assessment of the Directive*.

### **3.3. Ensuring Security of Supply at the EU level**

Resilience is a precondition of the EDTIB readiness and competitiveness. For several years now, the EU has developed tools and frameworks to increase industrial readiness and resilience to tackle future crisis situations. However, such measures are not available to support the EDTIB. An EU-wide Security of Supply (SoS) regime will therefore be put in place, warranting greater resilience and offering by the same token a competitive advantage for the EDTIB and EU defence supply chains. By providing a level of security of supply that external competitors cannot offer, EU defence supply chains could enjoy a 'trust dividend' from Member States.

#### *3.3.1. Greater security of supply to maximise the defence potential of the internal market*

Within EDIP, the Commission proposes the setup of a modular and gradual **EU Security of Supply regime** to enhance solidarity and effectiveness in response to tensions along the supply chains or security crises and allow for the timely identification of potential bottlenecks. Different sets of measures are proposed to tackle two types of crises:

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<sup>(15)</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Commission contribution to European defence

- **Supply crises, where shortages** of civilian or dual-use components, raw materials seriously threaten the **timely availability and supply of defence products**. In this case, after activation by the Council of a crisis stage, a toolbox will ensure the supply of the concerned components and/or raw materials for defence supply chains, including, where necessary, by ensuring priority over civilian supplies (*priority rated orders*).
- **Supply crises** which are directly linked to the existence of a **security crisis** within the Union or its neighbourhood. To face such scenarios, the Council should be given the possibility to activate a second, upper level of the crisis stage to resort to measures necessary and proportionate to the resolution of the crisis (mostly focusing on the supply of products specifically designed for military use).

To underpin the effective, efficient, and proportionate use of this two-layer crisis framework, the Commission proposes to perform an **identification and monitoring of critical products for certain defence supply chains**, to be identified together with Member States within the framework of the Defence Industrial Readiness Board.

Building upon the framework currently available in other sectors, and on the EDA Key Strategic Activities, this identification and monitoring will primarily rely on publicly available information and, only where needed, on data provided by undertakings (subject in any case to Member States national security guarantees).

### 3.3.2. *Enabling and de-risking strategic stockpiling*

To further de-risk security of supply for the EDTIB, as a long-term objective, the Commission will consider *funding strategic stockpiling by industry of basic components* such as electronic ones and raw materials being transversally used in defence systems. The creation of such stocks would allow for cost reduction, in case large orders are placed, and permit to contain the price inflation resulting from the surge in demand during a crisis.

As part of the EDIP, the Commission proposes a *small-scale preliminary pilot test*, by allowing for the support to the creation of strategic stockpiling. Such a system will helpfully complement the crisis time prioritisation mechanism, ensuring the latter will remain a last resort option. Ongoing work on resilience and preparedness measures as part of the Action Plan on Military Mobility 2.0, including through existing PESCO projects on military mobility and network of logistic hubs could also be considered in this regard.

### 3.3.3. *Identifying upfront and addressing the most critical dependencies*

Dependencies on technologies being critical for the defence sector hampers the freedom of action of Member States Armed Forces and have a potential negative impact on the competitiveness of the EDTIB, because of restrictions associated.

The Commission has already established, with the roadmap on technologies being critical for security and defence <sup>(16)</sup> the **EU Observatory of Critical Technologies**, to identify dependencies and develop technology roadmaps to mitigate them. Its first classified report has just been delivered to Member States.

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<sup>(16)</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Roadmap on critical technologies for security and defence, Strasbourg, 15.2.2022 COM(2022) 61 final.

A scaling up the Observatory will allow a faster identification of dependencies, monitoring of supply chains and will create an overview of criticalities. Work to date has been started with a subset of Electrical, Electronic and Electro-mechanical (EEE) semiconductor-based components and autonomous systems technologies.

In parallel, cross fertilisation between work programmes of other Union's instrument, such as the EDF and Chips for Europe programme, will be sought, to mitigate dependencies identified and ensure that the EDTIB has at its disposal defence industrial enabling technology and products such as trusted chips, supporting its readiness.

***Way forward:***

In order to secure availability based on a more responsive EDTIB across all time horizons, the Commission:

- proposes to **expand the ASAP intervention logic**, beyond ammunition and missiles, and complement it with the development of **ever-warm facilities** and the possible **repurposing of civilian production lines**.
- proposes, within EDIP, the creation of a **Fund to Accelerate Defence Supply Chain Transformation (FAST)**. This new financial instrument will support SMEs via debt financing.
- will provide **sustained support towards industrialisation** of defence cooperative actions initially supported by EDF, by using the possibility under the EDF regulation to directly fund consortia of buyers composed of Member States and the use of repayable grants under the framework of EDIP.
- proposes the setup of a modular and gradual **EU Security of Supply regime** to enhance solidarity and effectiveness in response to tensions along the supply chains or security crises and allow for the timely identification of potential bottlenecks.

#### **4. MAINSTREAMING A DEFENCE READINESS CULTURE ACROSS OUR SOCIETY AND EU POLICIES**

The European defence industry is a crucial contributor to resilience, security, and social sustainability. There will be no economic prosperity without peace on the continent, and the EDTIB role in this respect needs to be fully acknowledged in the Union's regulatory environment and policies. The EDTIB also forms a single and critical aerospace and defence ecosystem, whose key actors are also first-hand contributors to technologies are the core of the green transition.

It is therefore crucial to make sure that the EDTIB enjoys a level of access to finance that is commensurate to the level of investments needed, operates in the adequate regulatory environment and enjoys the requisite level of attractiveness for the young generations and the most talented.

## 4.1. Facilitating access to finance

Ensuring sufficient access to finance for the EU defence sector is vital given the compelling need to boost investment in this ecosystem. To achieve this, Commission will work to improve the EDTIB access to both private and public finance.

### 4.1.1. Access to private finance

The EDTIB faces strong barriers in accessing finance, in particular private finance. According to a recent Commission's study<sup>(17)</sup> SMEs operating within the defence sector face higher barriers to accessing finance compared to companies active in other sectors. During 2021-2022, 2/3<sup>rd</sup> of the consulted companies refrained from seeking equity financing and close to 50% refrained from seeking debt financing, a stark contrast to the 6.6% average among SMEs in the EU during the same period.

Financial actors' willingness to engage with the defence industry appears to be affected by perceived risks either related to the specificities of the defence market (including complexity of procurement) or incorrect assumptions around Environmental Social Governance ("ESG") factors. Despite this trend, under the EU sustainable finance framework, no EU rule impedes private investment in the defence industry.

With a view to boosting the sector's access to appropriate funding, the Commission will develop a network of investors prone to engage in the defence sector, and provide capacity building to support investments. The Commission will also provide guidance on the application of the EU sustainable finance framework in the area of defence, enhance the dialogue between the defence and financial sectors and contribute to increase transparency and the sharing of best practices about compliance matters in the area of defence, in close coordination with the EDA.

The Commission will also work towards a better recognition of EU's sovereignty, resilience and security within the EU sustainable finance framework, and the development of incentives for the financial sector to support activities contributing to these objectives. The Governmental Expert Network on ESG, managed by the EDA, is one example of platforms where such mutual understanding and trust could be potentially further developed.

Furthermore, the Commission will work together with the EU SME Envoy<sup>(18)</sup> on actions to support SMEs within the defence sector facing issues linked with access to finance or to Union's programme.

#### ***Box [X] Defence industry and the EU sustainable finance framework***

**The Union defence industry is a crucial contributor to the resilience and the security of the Union, and therefore to peace and social sustainability.** Against this backdrop, the EU sustainable finance framework is fully consistent with the Union's efforts to facilitate the European defence industry's sufficient access to finance and investment. It

<sup>(17)</sup> "Access to equity financing for European defence SMEs" [https://defence-industry-space.ec.europa.eu/study-results-access-equity-financing-european-defence-smes-2024-01-11\\_en](https://defence-industry-space.ec.europa.eu/study-results-access-equity-financing-european-defence-smes-2024-01-11_en)

<sup>(18)</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, SME Relief Package, COM(2023) 535 final, [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023DC0535](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023DC0535)

**does not impose any limitations to the financing any specific sector, including the defence sector.**

EU rules on sustainability disclosures and preferences apply horizontally across all industries and do not single out any sector. **Apart from the exposure to controversial weapons** subject to prohibitions by international conventions signed by Member States, which are therefore deemed by the EU incompatible with social sustainability, **investing in all defence-related activities is considered by the EU as compatible with social sustainability.**

The Commission has not issued any kind of ‘social Taxonomy’ so far and there are no concrete plans for doing so. In any case, **the defence sector’s contribution to social sustainability, given its crucial contribution to peace and the Union’s security, should be noted.**

To date, no specific defence industrial activities have been included in the EU’ Environmental Taxonomy. However, **the fact that a company does not have taxonomy-aligned activities does not mean that conclusions can be drawn regarding the company’s environmental performance or its ability to access finance.**

#### *4.1.2. Taking full benefit of existing horizontal EU financial instruments*

The EDTIB fully benefits from existing EU financial instruments, implemented via InvestEU. The EIB Groups’ current lending policy represent a major hurdle in the deployment of such financial instruments in support of the sector, as illustrated by the impossibility to implement the ASAP “Ramp-up Fund”. Modifying the EIB Group’s lending policy is thus necessary to ensure the defence sector, including companies developing weapons and ammunition, has access to EU financial instruments. Such a modification will also have cascading positive effects, by giving a significant positive signal to the financial market.

In addition, EU needs to maximise opportunities offered by synergies and complementarities between financing instruments. In the future MFF, this should include opportunities offered by optimizing synergies between EU instruments. For instance, possible strengthening of support allowing defence to tap into faster civil innovation cycles where applicable, and vice-versa, bearing in mind that some technologies used in defence platforms have dual-use potential.

The Commission and the High Representative/Head of the Agency invite Member States within the EIB Board to adapt defence-related exclusions from the EIB Group’s Lending Policies, in line with EU policy priorities. The Commission will also explore how to best deploy financial instruments in support of the EDTIB, taking into account defence-related exclusion policies in relation to the implementing partners and their financial intermediaries entrusted with the implementation of the InvestEU in the future.

#### *4.1.3. Full integration of defence and security as a strategic objective of all Union funding, including through a reformed ESIF and InvestEU*

The EDTIB should fully benefit from Union funding, including under the European structural and investment funds (ESIF) and InvestEU. While the defence industry is eligible under both instruments, a more steered deployment of these EU funds towards the

sector appears to be necessary to mirror its prominent role as a priority of the Union and a crucial contributor to the Union's stability and security.

In this respect, the Commission will include defence readiness, security and resilience as explicit objectives under the future ESIF and InvestEU and ensure that those reformed regulations support fully the Union's defence priority, including mechanisms that ensure that the implementing partners and intermediaries (in the case of InvestEU) proactively pursue those objectives.

#### **4.2. Ensuring that the EDTIB operates in an adequate regulatory environment**

Defence considerations needing to be mainstreamed in EU policies, it is essential that the EDTIB operates in the adequate regulatory environment. There is thus a need to identify and mitigate possible negative impacts on the EDTIB of Union's level initiatives. The Commission will therefore include in its initiatives defence industrial readiness considerations, on a more systematic basis.

With ASAP, the EU has demonstrated its capacity to set up a new programme and implement it in record time. However, the evolving security situation also requires the Commission to reflect on reducing administrative lead times, while ensuring the necessary degree of sound financial management.

The Commission will work towards a crisis time Financial Regulation allowing the Union to take the necessary steps under emergency conditions.

#### **4.3. Improving the attractiveness of the defence sector for the young generations and the most talented**

The prevailing skills shortage in the defence industry has its roots in the previous underinvestment in new defence programs and the lack of attractiveness of the sector as well as restricted work force mobility. While understanding and mitigating the negative perceptions of the defence industry is key to improve the sectors attractiveness, also for the workforce, further actions are needed by all stakeholders to be fully able to tap in the Union's human resource potential.

The Commission will, in addition to mainstreaming defence, also explore actions with the aim of workforce mobility and supporting defence-related education, in particular through the possibilities provided by the EU defence industrial programmes, cooperation between education providers and the European Security and Defence College. Together with Member States, the Commission will increase transparency and explore the feasibility and potential of a possible mutual recognition of National Security Clearances.

To contribute to the green transition and strengthen its resilience the EDTIB must continue its efforts to make its production and products more sustainable, reducing carbon emissions and increasing circularity. The Joint Communication on a new Climate and Security Nexus <sup>(19)</sup> acknowledges the importance of the defence industry for the climate adaptation and mitigation efforts of Member States' Armed Forces. Ensuring an appropriate visibility and recognition of efforts made by the defence sector towards environmental sustainability could also contribute to its overall societal acceptance.

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REFERENCE TO BE ADDED



The Commission and the High Representative/Head of the Agency will continue to support the EDTIB's efforts towards green transition, e.g. through the actions proposed in the Joint Communication on the Climate and Security Nexus, including Green Procurement.

***Way forward:***

In order to mainstream a European defence readiness culture, the Commission:

- together with the High Representative/Head of the Agency, invites Member States within the **EIB Board to adapt defence-related exclusions from the EIB Group's Lending Policies**, in line with EU policy priorities.
- will include **defence readiness, security and resilience as explicit objectives under the future ESIF and InvestEU**.
- will enhance the dialogue between the defence and financial sectors and provide guidance on the application of the EU sustainable finance framework.
- will work towards a **crisis time Financial Regulation** allowing the Union to take the necessary steps under emergency conditions.

## **5. ACHIEVING READINESS AND RESILIENCE THROUGH PARTNERSHIPS**

The ambition of the EU to swiftly achieve defence readiness should also be leveraged through partnerships, with Ukraine, as well as through enhanced cooperation with NATO and like-minded international partners,

### **5.1. Developing ever closer ties with Ukraine**

Ukraine is and will increasingly be a crucial partner of the Union in the defence industrial sector, notably in view of its full accession process. Faced with a high intensity conflict, the Ukrainian DTIB had to shift to a war economy model. It will emerge as one of the engines of the economic recovery of the country at the end of the war and a testbed of defence industrial readiness. It is essential to facilitate the development of the Ukrainian DTIB, in line with the Member States' pledge "to contribute, together with partners, to future security commitments to Ukraine, which will help the latter defence itself in the long term". The Ukrainian DTIB and the EDTIB could therefore mutually benefit from enhanced cooperation. By 20[XX] the Ukraine's DTIB should be fully integrated into EU's programmes supporting the competitiveness of the EDTIB.

The Commission is ready, together with the High Representative /Head of the Agency, to explore several measures to achieve this strategic objective.

- First, to strengthen ties between EDTIB and Ukraine's DTIB, the EDIP will provide the possibility for Ukraine to participate to joint procurement as if it was a Member States. This will translate into Ukrainian participation in joint procurement activities, support to industrial ramp-up in Ukraine, as well as cooperation between EDTIB and Ukrainian industries.
- Second, the cooperation between the Ukraine's DTIB and the EDTIB should be further stimulated, also in the context of the EU security commitments to Ukraine, by, inter alia: fostering dedicated information exchange on standards and on respective lessons learned.

- Third, and building on the existing Administrative Arrangement with Ukraine, EDA will together with Member States explore a possible revision of its scope as soon as conditions allow.
- Fourth the Commission will explore the support to the recovery and reconstruction of the Ukraine's DTIB through the use of Union budget by offsetting its contribution in order to participate in the Union's programmes in support of defence industry.

The High Representative/Head of Agency and the Commission will also continue to regularly update the Ukraine Defence Contact Group and explore ways to promote the participation of the EDTIB in the capability coalitions. Finally, in the context of the proposed Ukraine Assistance Fund, EEAS, in cooperation with EDA and the Commission services, will explore options to further incentivise joint procurement from the EDTIB, to give predictability to the EU defence industry to ramp-up production.

## 5.2. NATO

Building on the three Joint Declarations on EU-NATO cooperation<sup>(20)</sup>, enhanced staff talks with NATO could cover new industry-related activities and topics of mutual interest, including on circular economy, interoperability, emerging and disruptive technologies, industry aspects of climate change, standardisation cross-certification, and responses to new and emerging threats.

Both organisations should continue to exchange views and explore synergies and complementarity of efforts in the realm of supply chain security essential to capability development and delivery.

The EU will also explore the potential for strengthening cooperation between the European Defence Agency and the NATO Support and Procurement Agency (NSPA) to coordinate efforts with regard to joint procurement of defence capabilities, as well as between the Defence Innovation Accelerator for the North Atlantic (DIANA), the Hub for EU Defence Innovation (HEDI) and EUDIS on innovation.

## 5.3. Teaming-up with international partners to achieve defence readiness

The internationalisation of supply chains means that it is virtually impossible to maintain an end-to-end control on raw materials and thousands of components of a complex system. Strengthening partnerships with like-minded countries can amplify but not replace Union's effort towards defence industrial readiness. Such a cooperation should be pursued without creating new (or perpetuating existing) dependencies situation which would prevent the Union to act autonomously when needed.

Based on these principles, new defence and security partnerships with third countries and international organisations are therefore important, making sure that the prioritisation of needs from a partner cannot harm the EDTIB.

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<sup>(20)</sup> NATO - Official text: [Joint declaration by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization , 08-Jul.-2016](#); NATO - Official text: [Joint Declaration on EU-NATO Cooperation by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization, 10-Jul.-2018](#); NATO - Official text: [Joint Declaration on EU-NATO Cooperation by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization, 10-Jan.-2023](#).

The EEAS, in cooperation with Commission services and EDA will explore the idea of a dedicated regular high-level **Forum for Defence Industry Cooperation**, to allow exchanges of views and best practices between relevant EU stakeholders, Member States, EDTIB representatives, selected partners, multinational structures and the private sector.

***Way forward:***

The Commission and the High Representative /Head of the Agency, will:

- explore measures to enhance cooperation between the Ukrainian DTIB and the EDTIB, including **possibility for Ukraine to participate in joint procurement** and to amend the regulation establishing the Ukraine Facility
- explore the **support to the recovery and reconstruction of the Ukraine's DTIB through the use of Union budget** by offsetting its contribution in order to participate in the Union's programmes in support of defence industry.
- explore the potential for strengthening cooperation between the European Defence Agency and the NATO Support and Procurement Agency (NSPA) to **coordinate efforts with regard to joint procurement of defence capabilities**
- explore possible ways to synergise the efforts deployed in the context of the EU Defence innovation Scheme, the Hub for EU Defence Innovation (HEDI) and the Defence Innovation Accelerator for the North Atlantic (DIANA).
- explore the idea of a dedicated regular high-level **Forum for Defence Industry Cooperation**.

