



European Security and Defence Assembly
Assembly of Western European Union

DOCUMENT A/2048

3 December 2009

FIFTY-SEVENTH SESSION

Strengthening the European Defence Technological and
Industrial Base (EDTIB) - reply to the annual report of the
Council

REPORT

submitted on behalf of the Technological and Aerospace Committee
by Claire Curtis-Thomas (United Kingdom, Socialist Group) and Edward O'Hara
(United Kingdom, Socialist Group), Rapporteurs

FIFTY-SEVENTH SESSION

Strengthening the European Defence Technological and
Industrial Base (EDTIB) - reply to the annual report of
the Council

REPORT

submitted on behalf of the Technological and Aerospace Committee
by Claire Curtis-Thomas (United Kingdom, Socialist Group) and Edward O'Hara
(United Kingdom, Socialist Group), Rapporteurs

Report transmitted to: the President of the Council of WEU; the Secretary-General of the WEU; the President of the Council of the European Union; the High Representative of the Union for Foreign Affairs and Security Policy; the President of the European Commission; the EU Commissioner for institutional relations and communication strategy; the Presidents/Speakers and the Chairmen of the Foreign Affairs, Defence and European Affairs Committees of the 39 national parliaments represented in the Assembly; the Presidents of the Parliamentary Assembly of the Council of Europe, the NATO Parliamentary Assembly, the OSCE Parliamentary Assembly, the Baltic Assembly, the Nordic Council, the Euro-Mediterranean Parliamentary Assembly, the Parliamentary Assembly of the Mediterranean, the Parliamentary Assembly of the Black Sea Economic Cooperation, the CIS Parliamentary Assembly, the Parliamentary Assembly of the Collective Security Treaty Organisation; the President of the European Parliament; the Secretaries General of the Parliamentary Assemblies of the Council of Europe, NATO and the OSCE.

Strengthening the European Defence Technological and Industrial Base (EDTIB) – reply to the annual report of the Council

REPORT¹

*submitted on behalf of the Technological and Aerospace Committee
by Claire Curtis-Thomas (United Kingdom, Socialist Group) and Edward O’Hara (United Kingdom, Socialist Group), Rapporteurs*

TABLE OF CONTENTS

RECOMMENDATION 849

on the European Defence Technological and Industrial Base – reply to the annual report of the Council

EXPLANATORY MEMORANDUM

submitted by Claire Curtis-Thomas (United Kingdom, Socialist Group) and Edward O’Hara (United Kingdom, Socialist Group), Rapporteurs

- I. Summary
- II. Introduction
- III. The European defence technological and industrial base: state of play and the players
 1. The European Defence Agency and the EDTIB: coordination and impetus
 - (a) Competition
 - (b) Cooperation
 2. The European Commission: communications and directives
 3. Defence companies and the EDTIB: the ASD

MEMBERS OF THE COMMITTEE

¹ Adopted by the Committee on 3 November 2009.

RECOMMENDATION 849²

on the European Defence Technological and Industrial Base – reply to the annual report of the Council

The Assembly,

- (i) Considering that the European Union's Common Security and Defence Policy (CSDP) must be founded on a European Defence Technological and Industrial Base (EDTIB);
- (ii) Noting the significant contribution of the Defence Technological and Industrial Base to maintaining and developing national defence capabilities;
- (iii) Considering that a robust EDTIB is a prerequisite for autonomous European defence capabilities;
- (iv) Considering the impact of the global economic crisis on defence budgets and on investments in defence programmes and defence research and technological development (R&TD) programmes in the medium term;
- (v) Taking account of the detrimental effects of the crisis on national and European defence firms, the slowdown in equipment orders and the uncertainties hanging over future programmes;
- (vi) Considering that the EDTIB needs a stable environment in which to develop and that it is incumbent upon the European states to define needs and ensure funding for programmes;
- (vii) Considering that while the European defence equipment market must be open and transparent internally, it must guard against distortion of competition from the outside;
- (viii) Considering that the European states should cooperate more closely with a view to defining, identifying and harmonising common needs, and thus promote interoperability;
- (ix) Considering that such an approach would promote the development of the EDTIB and permit savings on the cost of acquiring defence equipment and technologies;
- (x) Considering the importance of research and technological development and innovation in strengthening and developing the EDTIB;
- (xi) Noting the low level of national investment in cooperative R&TD ventures;
- (xii) Noting that the European Defence Agency plays an increasing role as the central framework for shaping a European defence R&TD policy;
- (xiii) Considering that in order to achieve its task the Agency must be able to incorporate the acquis of the 1998 Framework Agreement and the 2001 European equipment procurement programme with a view to extending the rules to all the member states participating in the Agency;
- (xiv) Noting the contribution of the Agency to the development of the EDTIB, in particular through the voluntary code of conduct on defence procurement, the code of best practices in the supply chain and the code of conduct on offsets;
- (xv) Noting the key role played by the European Commission in developing rules aimed at making defence procurement and intra-EU transfers of defence equipment and technology more open and transparent;
- (xvi) Noting the contribution of the defence industries to such initiatives, in particular through the Aerospace and Defence Industries Association of Europe (ASD), and deeming it necessary for the ASD to become more involved in decisions taken upstream by the states;
- (xvii) Considering the important role played by small and medium-sized enterprises (SMEs) which contribute to employment in their respective states and provide a source of technological innovation and development;

² Adopted by the Assembly on 3 December 2009 at the 4th sitting.

(xviii) Considering that, in the wake of Agency and Commission initiatives aimed at strengthening the EDTIB in general and that are to the benefit of large firms, it is necessary to envisage initiatives and regulations aimed specifically at developing SMEs in the defence sector;

(xix) Considering that the development of the EDTIB also requires increased transatlantic and international cooperation, based on reciprocity and fair exchange in particular as regards technology transfers,

RECOMMENDS THAT THE COUNCIL INVITE THE WESTERN EUROPEAN UNION MEMBER STATES, AS MEMBERS OF THE EUROPEAN UNION, TO:

1. Pursue efforts within the European Defence Agency to identify and define common needs;
2. Allocate an increasing share of defence spending and investment to jointly agreed defence equipment and programmes;
3. Encourage cooperation in defence equipment and technology procurement;
4. Abide by the commitments subscribed to in the codes of conduct drawn up within the European Defence Agency and ensure compliance with Commission directives on defence procurement, offsets and defence technology transfers;
5. Maintain the current budget – failing the possibility to increase it – for defence equipment and technology;
6. Ensure that legacy programmes or major equipment programmes in the future do not overly limit the ability to meet the current and immediate needs of forces deployed in external operations;
7. Develop legislative measures and specific programmes likely to create an economic environment favourable to competitive SMEs, in particular in the field of R&DT.

EXPLANATORY MEMORANDUM

submitted by Claire Curtis-Thomas (United Kingdom, Socialist Group) and Edward O'Hara (United Kingdom, Socialist Group), Rapporteurs

I. Summary

1. Excluded from the treaties establishing European economic and political cooperation, the European Defence Technological and Industrial Base (EDTIB) got caught up in the momentum of European construction – as embodied in the European Union – at the end of the 1990s. The small step forward that confirmed such progress was the establishment of the European Defence Agency in 2003-2004.
2. More recently, the European Commission issued a Communication and two Directives on the industrial base, giving it a Community dimension that had so far been lacking. The Commission thus intends to take on the role of regulator regarding industrial, technological and market decisions in an area that remains the prerogative of the member states under Article 296 of the Treaty establishing the European Community.
3. This article has been taken up in the Treaty on the Functioning of the European Union – part of the Lisbon Treaty – in Part Seven “General and Final Provisions”, Articles 346 to 348. As the new articles take account of European Court of Justice rulings, the scope of Article 296 is more clearly defined.
4. Nevertheless, the EDTIB falls largely outside the EU’s area of competence, whether in the intergovernmental or the community sphere. The concept is so vast and flexible and has so many implications – political, economic, technological and social, for example – that it would be difficult for a single decision-making body to oversee its implementation.
5. The EDTIB is de facto the sum of national bases and capacities, with the added value of the common or cooperative approach of the European states that are members of the EU and NATO. The EDTIB has three simultaneous dimensions to it: national, European and transatlantic/international, which are interwoven at all levels of decision-making and the implementation of policies and initiatives in this area.
6. Another factor to take on board is that while the EDTIB cannot simply remain the sum of fragmented and unequal national capacities, it has not yet reached an adequate level of integration to supplement national output, in particular that of countries that are major producers and consumers of defence equipment and technology where the bulk of the industrial and technological resources in the field of security and defence are concentrated.
7. With no central impetus or cyclical pressures such as an economic crisis or a major international crisis, the EDTIB is growing and developing through voluntary ad hoc European cooperation initiatives that are sector-based and centred on programmes requiring a high level of investment or that exceed national resources. Such is the case with the aeronautical and space sectors, for instance.
8. Many European commentators and experts consider that the next stage in establishing the EDTIB consists in extending such practices to the maritime and land sectors and to the new network-centric technologies. For the time being progress is slow, with the emphasis firmly on national TIB which exercise real influence on their governments. In global terms, Europe already has an expanding military-industrial complex (MIC), but it is made up of large and small national MIC.
9. For national players, moving towards the EDTIB represents an opportunity, a challenge and a risk at the same time. It is these issues that the Technological and Aerospace Committee of the European Security and Defence Assembly has decided to address in this report and in the framework of a colloquy entitled “Strengthening the EDTIB” held in cooperation with the Swedish Presidency of the European Union.

II. Introduction

10. The concept of a defence technological and industrial base (DTIB), national or European, broadly encompasses all the human, institutional, industrial and technological elements that make up the defence capabilities of a state or an alliance of states, such as the European Union or the European component of NATO. Internal security and the protection of borders also come into play.

11. This is partly the result of the 11 September 2001 attacks and partly born of the search for synergies between internal protection and external projection. This idea enjoys great popularity in Europe given that security budgets and security research and technology budgets have been increasing since 2001. Many industrial actors that are present in both the security and defence (in the strict sense of military) sectors are in favour of them converging, especially as this would provide access to more substantial public funds and European Community funds.

12. In very simple terms, we can identify three constituent elements of any technological and industrial base: production capabilities; monitoring, maintenance and upgrade capabilities; and technological research and development (TRD) capabilities.

13. The first category includes industries and other public and private production units; the second covers storage and handling facilities, bases, depots, arsenals, technical centres and the firms carrying out such tasks; the third consists of all the public and private institutions, universities, laboratories, research, trial and assessment centres, and staff involved in the area of TRD.

14. Other aspects to be taken into account in defining the notion of the DTIB are the overall state of the economy, legislation and the education system. The DTIB performs three essential tasks: it meets the needs of security and military forces; develops, produces and guarantees the supply of modern equipment; and is capable of innovating and evolving in order to reach or maintain a high level of technology. The latter aspect is one of the key factors in ensuring the operational edge in a mission and to increase the national command and control capability in coalition operations.

15. The DTIB also has an important international dimension. International cooperation, technology exchange, projects undertaken in cooperation, military aid and the export of defence equipment and technologies contribute to the development of the national base and, in the case of the EU and the European component of NATO, may herald the emergence of a European base that is greater than the sum of its national parts.

16. In the current state of European integration, it is the national bases that predominate. The European states that are members of the EU and NATO make pledges about European integration and are engaging in cooperation, while at the same time seeking to maintain, strengthen and develop their national bases.

17. Each state steers its own path, either by trying to keep a hard core of industrial and technological skills – as do the large states that produce and use security and defence equipment and technologies (SDET); or by trying to develop what was an originally weak national base – a marked tendency among the new member states that want offsets and industrial capability transfers (production) and know-how (technologies) in security and defence equipment procurement contracts.

18. It is clear that national bases in Europe are increasingly interdependent, as there are too few orders from domestic markets to meet the economic needs of the industrial sector and national capacities alone cannot meet the challenges of technological innovation which is largely responsible for pushing up the cost of equipment and lengthening development and production times – two of the main reasons for cost overruns and delays in past and current weapons programmes.

19. The emerging European base is the result of voluntary action undertaken by a number of European states over the past 30 years or more. It continues to grow through the bilateral and multilateral cooperation efforts of various bodies (NATO, WEU and now the EU), either centring on specific programmes (aircraft, land vehicles, ships, for example) or in the framework of general talks on European defence equipment cooperation, the restructuring of industries and technological innovation.

20. Among the many past and present initiatives worthy of particular mention are Eurogroup (within NATO), the Independent European Programme Group (IEPG), the Western European Armaments Group (WEAG) and the Western European Armaments Organisation (WEAO) (within WEU), the Letter of Intent/Framework Agreement on the restructuring of the European defence industry, the Organisation for Joint Armament Cooperation (OCCAR), the European Technology Acquisition Programme (ETAP) and the European Defence Agency (within the European Union). Another non-state actor also involved in this process is the European Commission.

21. This body of institutions has an industrial counterpart, represented at European level by the Aerospace and Defence Industries Association of Europe (ASD), transnational companies such as Thales and EADS, and national firms with a strong international presence such as BAE Systems and Finmeccanica as well as other largely private national concerns. All these actors are present on the domestic security markets.

22. On top of this comes a vast network of universities, research institutes and technological innovation centres, and plans to establish European networks of trial and assessment centres, laboratories and simulation centres in the security and defence field. The European Union's Joint Research Centre (JRC) and its seven specialised institutes also participate in the EDTIB. The focus is more on security and civil technologies, some of which have military applications (electronic data output and transfer, positioning, sensors, etc).

23. The EDTIB is thus scattered among a myriad of public and private, and national and European actors. It is all-embracing and is not restricted to Europe – foreign companies, in particular American firms, are present and participate in the market. The major American security and defence firms sell equipment and take part in European programmes either directly or through subsidiaries.

24. European actors also operate in the United States, but the relationship between the European base and the national American base is far from balanced. The European presence is erratic and European players have varying levels of influence. Furthermore, for military, economic and structural reasons, the American DTIB is highly protected and when it does open up to the outside world, it is more a matter of expediency – influence, export markets and poaching new technologies – rather than necessity.

25. The level of defence spending in the United States – up 72%, after allowing for inflation, since 2001 – is at least three times higher than in Europe (EU and NATO). In barely a decade, the United States is said to have spent almost two thousand billion dollars on defence equipment.³ This means there are a host of opportunities for European companies held in check by the size of European national markets and by the lack of a more integrated if not a single pan-European defence market. For the EDTIB, external markets are a necessity.

26. There is a risk that growing transatlantic interdependence might lead to a one-sided transfer of European capabilities and technologies to the American DTIB. However, the idea of creating a transatlantic security and defence market or gradually joining a common transatlantic security and defence space (that goes beyond the present NATO structures) also presents advantages, including improved access to the American market, greater RTD efforts in Europe, tax revenue from profits made by European companies on the American market and a semblance of political influence in the United States by way of job creation, local tax contributions and political campaign contributions (lobbying).

27. If the EDTIB were to do nothing more than serve as a subcontractor to the American base, it would be a clear indication that Europe had given up all ambition of being a leading international actor and an equal partner of the United States. In order to avoid this fate, the European DTIB must be allowed to flourish in its own backyard and for that to happen, the European states and the European Union must try to create the right conditions for it to develop, gain a firm foothold and expand on the international scene.

³ “Air Force Would Cancel Boeing C-130 Upgrade, 15 Other Programs”, 2 September 2009, Bloomberg.com, www.bloomberg.com.

III. The European defence technological and industrial base: state of play and the players

28. Europe's defence technological and industrial base accounts for more than 600 000 jobs in the European Union (but out of a total of over 200 million). It has capacity covering more than 80% of European requirements and total turnover in the field of defence equipment of some 50 billion euros, including more than 10 billion euros' worth of exports (of which Germany, France and the United Kingdom account for more than two thirds).

29. The European DTIB is the sum of its national and transnational (European and international) capacities (suppliers and cooperative ventures). For almost 20 years, at both national and European level, it has suffered the effects of the strategic changes that accompanied the end of the cold war, as well as of public spending cuts, rapid technological developments and operational requirements divided between conventional territorial defence and long-duration expeditionary operations.

30. Countries continue to respond in piecemeal fashion to those challenges, although there is a minimal degree of coordination at European level, based essentially on limited cooperative ventures and codes of conduct established under European Union or European Defence Agency auspices. That coordination arose in the 1990s in the WEU framework and was among the acquis transferred to the European Union.

31. The end of the static East-West confrontation in Europe led to a scaling-down of national defence systems and a slackening-off and reduction of defence equipment orders. This was a necessary adaptation, since numbers had ceased to be a deciding factor, at least as far as the strategic situation in Europe was concerned.

32. Moreover, the need to maintain in a state of operational readiness the hundreds or thousands of aircraft, tanks, miscellaneous vehicles and ships now confined to bases, storage hangars or ports is becoming an expensive and uncertain business. Although some cold war equipment remains in service, much of it is gradually becoming technologically obsolete, and the deterioration of its condition and performance over time is a source of risk for human operators.

33. Technological progress has brought with it new concepts and doctrines. As a consequence, much of the equipment inherited from the cold war is ill-adapted, while the programmes launched in the 1980s have either had to be adapted to the new requirements, leading to extra costs, or else scaled down and or even stopped.

34. Meanwhile individual states have endeavoured to preserve national capacities and skills and to avoid – though with little success – the need for plant closures and large-scale lay-offs of white and blue collar staff, while at the same time encouraging company mergers and the consolidation of industrial capacities.

35. The aeronautical sector, where initial investment costs are huge, where highly specialised skills on the part of staff and outstanding precision and premium quality on the part of equipment suppliers are a necessity, was the first to go down that path, which was not a smooth one. It was 10 years before the formation, in 2000, of the EADS group, which together with BAE now dominates the European civilian and military aerospace sectors.

36. In the land and naval equipment sectors that process has not yet led to the formation of a pan-European giant: these sectors are dominated by national companies, that can be both partners and rivals, depending on the market. However, their production volumes are limited and export markets are crucial for their development, which exacerbates competition within Europe and at international level.

37. Furthermore, technological innovation, as well as bringing benefits, increases the costs of materials, which are produced in smaller quantities. At the same time the process, launched at the end of the cold war, of scaling down the armed forces – ultimately culminating in a transition from conscript to professional armies – has made it even more important to use technology in order to gain the tactical and strategic advantage.

38. This development originated partly in the United States and spread to a large extent, although not exclusively, through NATO into Europe. The existence of budgetary constraints and of limits to the capacities of Europe's national military-industrial complexes is conducive to Eurocentric approaches, which are better suited to the local context.

39. However, the consolidation of the national DTIBs has not yet been taken to its logical conclusion, which is the integration at European level of the capacities in this area. There has been a concentration of the major capacities and resources of six states: France, Germany, Italy, Spain, Sweden and the United Kingdom, but each country strives to preserve its *acquis* and to develop them independently of the others.

40. These countries established the major European cooperative ventures of the 1990s and the beginning of the 21st century: WEAG, OCCAR, the Letter of Intent/Framework Agreement, ETAP and key programmes such as Eurofighter-Typhoon, A400-M, MEADS (with the United States), FSAF (Future Surface-to-Air Family), Helios, Tiger, Storm Shadow/SCALP-EG FREMM, Neuron and ESSOR.

41. The number of participants in these programmes varies and is often restricted to only two or three large states. Other programmes such as ESSOR (software-defined radio) or force protection projects are open to countries with more limited capacities and resources. It is in the aerospace sector that programmes are developed more, as the technological and financial commitments required limit the number of participants with decision-making powers.

42. At the same time, national programmes have continued apace over the last twenty years, with no fewer than three fighter aircraft: the European Eurofighter-Typhoon, the French Rafale and the Swedish Gripen. France, Germany, Sweden and Spain still maintain national conventional submarine programmes using different technologies and domestic land-equipment industries remain preferred suppliers despite the fact that they have voluntarily opened up to European and international competition.

43. The United Kingdom is the leading market in terms of volume and its domestic market is most open to competition. This does not necessarily ensure efficiency and a rapid response to needs, as can be seen by the land vehicle procurement and update programme FRES (Future Rapid Effect Systems), under constant review with the announcement, withdrawal and re-issue of invitations to tender.

44. One of the most troublesome programmes remains the A400-M airlifter which has suffered significant delays, in particular due to engine development problems and the industrial set-up. Managed by OCCAR on behalf of the participating states, it is not subject to the "juste retour" principle that still applies to other programmes. Each participating state has its part to play in the programme and final assembly will take place in Seville, Spain.

45. The re-emergence of central European states as industrial and technological actors in the area of defence capabilities and equipment must also be taken on board. These states, of which Poland is the largest, intend to develop their military-industrial complexes through cooperation, industrial offsets, technology transfers and retrofitting military equipment inherited from the cold war.

46. The fact that they belong to NATO and the EU enables them to actively defend their national interests within these organisations, or to come together as they did recently to launch a joint programme of modernisation, bringing up to NATO standards and simulator training for the Mil Mi-17 (the export version of the Russian Mil Mi-8) transport helicopter crews, a programme backed in part by Italian industrial partners (Galileo Avionica).

47. The European DTIB benefits from all such initiatives and programmes that in turn strengthen and develop national capacities. However, this virtuous circle is not sustainable in the long term unless there is sufficient growth and investment for a greater number of states and firms alike to participate in defence equipment and technology programmes.

48. By and large, resources and spending are concentrated in a small number of states which, in the wake of the international economic crisis of 2008, have taken protectionist measures at home. In Europe, as in the United States, government offers of financial guarantees to banks and firms have

been accompanied by requests for domestic investment and the maintenance of capacities and jobs in the national framework.

49. While such an approach is understandable, it nevertheless leads to a decline in the share of investment devoted to cooperative programmes and projects. It helps maintain national capacities – which is perfectly legitimate – but at the same time reinforces duplication, dispersal and fragmentation, regardless of the size of a firm or of its ability to survive without state aid or subsidies in an open and competitive market.

50. Notwithstanding the speeches and declarations in favour of such a market, it is an inevitable fact that the national DTIB dodge the common European regime and rely on the exception in Article 296 of the TEC/Article 346 of the Lisbon Treaty (“General and Final Provisions”). The legal protection offered by the provisions has been limited by the rulings of the Court of Justice of the European Communities and by the new directives of the European Commission.

51. Nevertheless, the EU member states have failed to agree either on a revision of the text (and the annexed list of equipment, dated 31 March 1958 (!)) or on its possible repeal at a later date. The provisions do not stand in the way of establishing a EDTIB and a European defence equipment market, but reduce the possibility of further integrating the national DTIB into a European DTIB.

52. The European DTIB will continue to develop under the control of the member states and will be dependent on their commitment to cooperative programmes and projects. For the time being and for as long as the effects of the economic crisis on government investment and debt continue to be felt, national capacities will be the main focus of attention, even more so given that defence budgets have remained constant or are actually shrinking in relative terms.

53. The possibility of setting up permanent structured cooperation in the field of defence capabilities within the European Union – if the Lisbon Treaty comes into effect – increases the prospects of establishing convergence built on industrial and technological capacities and financial commitments and scheduling. Otherwise, the European DTIB will continue to be based on cooperative ventures that are ad hoc or implemented in other restrictive frameworks such as OCCAR, the Letter of Intent/Framework Agreement and the ETAP programme.

54. The current climate poses another dilemma for the member states which are increasingly obliged to make rapid decisions. They are faced with the urgencies of present and future external operations, such as Afghanistan, and the need to maintain “heavy” capabilities which can respond to conventional conflicts with potential adversaries that also have high-level industrial and technological capacities. “Every man for himself” is no longer viable in this scenario which calls for a robust European DTIB.

55. At EU level, the European Defence Agency and the Commission – in practice a new player in this field – can take the process forward and encourage the European DTIB to develop beyond national capacities. After the member states themselves, it is the firms in this sector – represented by the Aerospace and Defence Industries Association of Europe (ASD) – that have a major role to play in this process.

1. The European Defence Agency and the EDTIB: coordination and impetus

56. Established by a European Union Council Joint Action on 12 July 2004, the European Defence Agency is the central forum for discussion and coordination in the area of ESDP capabilities. Of the Agency’s four main directorates, the Industry and Market Directorate has as its main task to support “the restructuring and strengthening of the European Defence Technological and Industrial Base through implementation of the European DTIB strategy agreed by Defence Ministers”.

57. The Agency’s working methods are based on complementarity and the directorates responsible for capabilities development, armaments cooperation and research and technology also contribute to this “restructuring and strengthening” of the EDTIB. However, the EDA has no executive powers or state delegated competences to exercise any real influence on the strategic direction of the EDTIB which is defined in an intergovernmental framework, both inside and outside the EU, and where the interests of the national bases prevail.

58. The EDA is not a procurement agency, nor does it manage equipment and technology programmes on behalf of the participating member states (26 + 1; Denmark does not participate in the activities of the EDA, but Norway has “associate” status). The EDA does not have the financial means available to member states, not even the poorest. The budget for 2009 is 30 million euros, 8 million of which are allocated to producing technical studies. The Agency employs a staff of approximately 100 whose contracts are renewed or who are replaced every three years.

59. In spite of its limitations, in a short space of time the Agency has succeeded in establishing frameworks for cooperation in the defence equipment market, with the aim of increasing transparency and encouraging intra-European cooperation: the voluntary Code of Conduct on Defence Procurement, aimed at the member states, and the Code of Best Practice in the Supply Chain, aimed at industry, came into force in 2006; and the voluntary Code of Conduct on Offsets came into force on 1 July 2009.

60. The Agency also has working relationships with OCCAR and the states that signed the Letter of Intent/Framework Agreement and, following on from there, with ETAP, in particular in the field of future air systems which combine manned and unmanned aircraft in a network architecture for communications, sensors and target identification and acquisition. More recently, towards the end of 2008, the Agency invested in the space sector and projects on earth observation from space, communication satellites and space for security and defence.

61. On 20 September 2006 a meeting of the EDA Steering Board, held at the level of the National Armaments Directors of the member states, identified trends in the EDTIB and proposed ways forward. The very succinct document produced did not deal with the make-up, state or workings of the EDTIB, but defined in simple terms three characteristics that the EDTIB should be endowed with and the mechanisms required to make it more efficient.

62. The three main criteria identified were: the ability to respond to capability needs; competence; and, competition. In order to meet these aims, the Steering Board proposed working towards more consolidation (of industry), work-sharing in programmes, security of supply, simplified procedures for intra-community transfers of equipment and technologies, centres of excellence spread out among a larger number of states, integration into the civil industrial base – security and defence dual use – and less dependence on non-European sources (in particular, the United States) for defence equipment and technologies.

63. This broad outline served as the basis for a strategy for the EDTIB, drawn up by the EDA Steering Board at defence ministers’ level on 14 May 2007. The brief seven-page strategy statement sets out the Board’s view of what the EDTIB should be, its aims and what policies needed to be implemented in order to achieve that strategy. As in the preliminary 2006 document, the EDTIB was described in abstract terms, which is partly due to the need for the Agency’s participating member states (pMS) to reach consensus. And reference is made in the text to both national and European DTIB.

64. The functions of the EDTIB, according to this document, are strategic (political), capability-driven, operational and economic:

“[...] DTIB in Europe is a fundamental underpinning of the European Security and Defence Policy. It is our DTIB which supplies the bulk of the equipment and systems our Armed Forces require; which ensures that they have the best which world-leading technology can provide for them; and which guarantees that we can operate with appropriate independence. And the DTIB is also a valuable economic asset, as a major source of jobs, exports and technological advance – which in turn helps to maintain public support for defence”.

65. The strategy acknowledges the qualities of the EDTIB at the same time as highlighting aspects having both a negative and a positive effect on it: the legacy of past efforts and programmes, the relative fall-off in investment, the speed of technological change and the constraints of adapting and the ensuing cost, the consequences of progress, transatlantic and international competition (Asia was specifically mentioned). It was the ministers’ opinion that the current (2007) situation had to change and that time was short.

66. They call to move beyond the framework of national DTIB and to develop a European DTIB as something more than a sum of its national parts. They raise the matter of economic constraints that limit the activities of individual states and the demands of multinational operations, including interoperability and security of supply. They propose moving forward with shared equipment and capability requirements that would be met by an increasingly integrated EDTIB.

67. Picking up the general recommendations of the Steering Board in 2006, the defence ministers identify three main areas. The first concerns specific actions to be taken by the pMS in their role as regulators, consumers and investors:

- clarifying priorities in the area of capabilities, identifying key defence technologies and which industrial capacities need to be preserved (this approach is developed more explicitly in the United Kingdom’s Defence Industrial Strategy, published in December 2005);
- consolidating demand by aligning and combining national needs, in particular through the European Union’s Capability Development Plan, which the Agency is tasked with overseeing, and by focussing on collaborative projects and programmes; emphasis is placed on the role of the Agency in promoting cooperation by identifying needs and bringing the various actors together (states and industries).
- increasing investments, or at least increasing the proportion spent on defence research and technological development, following the example of the United States (30% of the US defence budget as opposed to an average of 5% in Europe and less than 2% on collaborative RTD);
- ensuring security of supply and taking confidence-building measures to increase mutual dependence between states for the supply of defence equipment and technologies. According to the ministers, this also requires monitoring the state of key technological capabilities in supplier states to ensure a continued supply, in case a particular company should go bankrupt for example;
- increasing competition and cooperation within the EDTIB. This would appear to be motivated more by the need to reassure states and economic actors that there is no intention of creating a protectionist or “state-controlled” EDTIB.

The concepts of competition and cooperation are developed in detail in the strategy for the EDTIB.

(a) Competition

68. Competition is a means of developing the European defence equipment market (EDEM). According to the defence ministers, this market is hampered by states having recourse to Article 296 of the TEC in more than half of the defence equipment and technology contracts signed by national governments. In the absence of a consensus on amending or repealing Article 296 (reproduced in the Lisbon Treaty), the voluntary Code of Conduct on Defence Procurement commits subscribing member states to be more open and transparent as regards national defence contracts (all pMS with the exception of Romania).

69. The Code of Conduct is complemented by the Code of Best Practice in the Supply Chain which applies to companies operating in the sector. Along the same lines as the Electronic Bulletin Board for government contract opportunities (EBB I), companies that win a contract can call on manufacturers and subcontractors via their own dedicated bulletin board (EBB II). The EDA administers the system, but has no influence over the selection of contractors and companies. The Code of Best Practice was implemented in 2006 to encourage the participation of small and medium-sized companies in defence equipment and technology programmes.

70. The ministers stress this point in the strategy document where it is stated: “the future success of the DTIB in Europe will depend upon effective utilisation of human capital and innovation wherever these are to be found in Europe – in SMEs, and in suppliers not always associated with defence (universities, software houses, providers of dual-use technology), and in the new Member States”.

71. The reference to SMEs and the new member states is made in an effort to seek consensus, as small and medium-sized states, new member states and SMEs often feel, and understandably so, that current EDEM regulations are weighted in favour of major European national, transnational and international companies. Hence the call for the large companies of “western Europe” to see the new member states as places to invest in rather than just sell to – a call that is slightly out of place in a “strategic” document.

72. In the area of competition, and on top of the question of security of supply, three important issues are highlighted that require concerted efforts: intra-EU transfers of defence equipment and technologies, offsets and equity amongst competitors. The first of these points is rather delicate, as it calls into question current procedures, national priorities and interests, as well as bilateral relations with third parties, in particular with the United States as regards the transfer of sensitive and key technologies.

73. That explains why the ministers leave the matter in the hands of the participating member states and at the same time concede a role to the European Commission which, with support from companies in the sector, is working on a draft directive on this very issue. The Agency is invited to lend its support as and when the pMS deem it appropriate.

74. On the question of offsets – which is a delicate matter not only in Europe but also in the international market – the large states are divided from medium and small states. For the latter there is an economic advantage in such practices and a means of developing their national DTIB. There are some states that are prepared to abandon the idea of offsets outside the main market in return for local production opportunities, technology transfers and a share in the workload. With a view to reconciling the interests of large (no offsets) and small, a voluntary code of conduct was drawn up within the Agency and entered into force on 1 July 2009.

75. Regarding invitations to tender, a practice that should be avoided is that of defining needs, drafting specifications and publishing tender notices in such a way that the statements and requests are slanted in favour of a particular national (for questions of local employment or political influence) or European company over other firms that work in the same field and are equally capable of meeting the specified requirements. This is in fact common practice in the large majority of states, including especially the United States, for economic, political and social reasons and as a way of guaranteeing a return on investments and protecting key technologies. It should be stressed that of the European states, the United Kingdom is the most committed to having an open and transparent market and ensuring fair competition in the tender process.

(b) Cooperation

76. In light of the history of European cooperation in defence equipment and technology programmes, the Agency’s Steering Board calls for more, and more effective, collaboration. The ministers acknowledge that it is a mixed record of successes and failures. The major aeronautical, space, naval and land equipment programmes, some of which are managed by OCCAR, are a good case in point, from the successful Storm Shadow/SCALP-NG missile to the key but controversial Airbus A-400M airlifter – a programme that has suffered an array of technical and industrial setbacks.

77. The same goes for transatlantic cooperation which, for example, has known success with the MEADS air defence programme (United States, Germany and Italy), while the Lightning II – Joint Strike Fighter project (which the United Kingdom, Italy, the Netherlands, Turkey, Norway and Denmark have committed to investing in) has had an uncertain impact on Europe.

78. According to the strategy for the EDTIB, cooperation is neither a cure-all nor an end in itself. It is a tool and a desirable approach. In order to break with usual practices, including cost overruns and national bias in the choice of companies and sharing the workload, the ministers propose a less interventionist approach, and allowing industry more scope in finding appropriate and efficient solutions. They question the principle of “fair shares” (“juste retour”), as has already happened in OCCAR where the member states have explicitly rejected the practice.

79. The ministers make three main recommendations:

- that shared requirements should be realistic, which can be interpreted as a call for more exchanges between states when defining needs at national level and for participants in a cooperative project to contribute only what they can. This supposes that in large-scale cooperative projects between states of differing economic, industrial and technological levels, the objectives are accessible and participation will provide a mutual exchange and not simply the means to acquire a national capability that can later be used in competition with the other participants;
- that efforts should be made to identify opportunities for cooperation in existing national programmes where national needs have been defined. To this effect, the ministers put forward the EU's Capability Development Plan as a tool, with the Agency playing a role in identifying opportunities and bringing potential collaborators together. This entails a willingness on the part of the states to build relations of cooperation and mutual dependence. Because of the costs involved and the technological and industrial limitations of individual states, for large-scale European defence equipment and technology programmes cooperation is already the rule, while purely national programmes (with certain nuances for the naval sector) are tending to become the exception;
- that cooperation should be extended to include in-service support, upgrades and modernisation. These tasks are largely the preserve of national actors and this for a number of reasons including language, jobs on the home market, and the preservation and development of national technological capabilities. Other factors to be taken into account are security, liability and supply guarantees.

80. The ministers also promote cooperation in research and technology upstream of defence equipment development programmes. In their view, technical convergence can lead to greater cooperation in identifying needs and shared programmes. R&T is seen either as an end in itself – in order to maintain skills and identify and invest in emerging sectors (communications, sensors, munitions, robotics, etc.) – or as a way of exploring potential applications through technology demonstrators. The combat drone technology demonstrator programme, Neuron (France, Sweden, Italy, Greece and Switzerland) is one such example. The ministers feel that the sums involved in R&T and demonstrators are less than for equipment development programmes – an appealing argument in an economic crisis.

81. With a view to implementing the May 2007 strategy for the EDTIB, the EDA's Steering Board (at the level of national armaments directors) issued guidelines on 25 September 2007. These roadmaps deal with the identification of key industrial capacities, solutions with respect to security of supply between states, boosting competition in the EDEM, diversifying the supplier base (opening markets, more transparency) and improved armaments cooperation.

82. At the same time, the pMS approved a Code of Conduct for coordinating investment in the European Defence Test and Evaluation Base – a very important step for the development of the EDTIB – the aim being to register and set up a network of test and evaluation facilities, equipment and technologies that would be open to the largest possible number of subscribing states.

83. It could help reduce the need for building more centres and facilities at national level which are likely to lead to overcapacity, dispersal and high maintenance and development costs for individual nations. It also encourages participating states and firms to share experiences and data, as well as sharing staff, engineers and technicians. Investment in developing and upgrading facilities would be shared and probably free up resources for needs.

84. With this strategy, the implementation of which is under the strict control of the participating states, the European Defence Agency has become the mouthpiece and forum for initiatives to develop the EDTIB. Through its many activities, its promotion of cooperation and its work in new fields and technologies such as space, software-defined radio, communication systems, taking drones into restricted airspace and many other small but dogged achievements, the Agency also provides impetus for a cooperative EDTIB.

85. Nevertheless, despite the fact that it is intergovernmental and subject to strong national influences, the EDTIB is also within the remit of a major European actor, the European Commission, which wants to extend its regulatory powers to the EDEM and the EDTIB.

2. The European Commission: communications and directives

86. Since the Maastricht Treaty the European Commission has endeavoured to extend its jurisdiction over the security and defence market, approaching it from the public procurement and industrial and technological angle. Article 296 of the TEC excludes armaments programmes and deals from Community competence, though it has never been an absolute exclusion and to a certain extent the scope of Article 296 has been limited in practice ever since the EU member states decided to establish the ESDP.

87. The European Security and Defence Policy not only concerns military and civil crisis management, but also involves defence industrial and technological capabilities and therefore contributes to the emergence and development of the EDTIB. In the last decade of the 20th century, European cooperation on the EDTIB took place outside the framework of the EU, WEU and NATO (for the transatlantic component) in smaller set-ups such as OCCAR, the Framework Agreement or ETAP.

88. From 1999-2000, political momentum for European defence began moving towards the European Union, as the initiatives of the 1990s were gradually brought under EU auspices. The European Defence Agency has become the framework for coordinating or even integrating intergovernmental initiatives. Strategic direction, forces and operational issues remain within the exclusive competence of the member states.

89. However, everything connected with defence equipment and technologies falls within the scope of policy areas such as industry, research, education, regional development, economic and social affairs and the organisation of financial markets and industries as autonomous actors that are independent of government. This being the case, the national political authorities have only limited powers of control.

90. Taking this angle of approach, the European Commission began developing its competence in the field of the defence – and security – industry and technologies. Its efforts of the past 10 or so years, supported by many companies which feel that national frameworks are restricted and that there are too many national barriers to developing an integrated European defence equipment market, have led to a number of directives – the Commission’s ultimate means of action.

91. From 1996 onwards, the European Commission began extending its competence and influence over matters pertaining to the EDEM and the EDTIB. In a first Communication dated January 1996, “The challenges facing the European defence-related industry – A contribution for action at European level”, the Commission called for greater synergy between Community and intergovernmental action, and for the creation of a European armaments agency (an objective that WEU did not manage to achieve). It also stated that “securing a competitive European defence-related industry is also a precondition for a European security and defence identity”.

92. The Communication of 4 December 1997, “Implementing the European Union strategy on defence-related industries”, prepared the ground for Commission action over the years to come. The Commission urged the governments of the member states to adopt a common position on “the development of a European armaments policy” and implement an action plan for the defence-related industries. The proposed armaments policy explicitly covered intra-EU transfers, public procurement and the customs code – points that are central to the two directives adopted 12 years later in 2009.

93. The action plan was based on the premise that the DTIB, a strategic asset for Europe, must be preserved and consolidated, for three main reasons: as a prerequisite “for the establishment of a genuine European Security and Defence Identity”; a necessity “for the preservation and development of an important technological and industrial base [...] for both civil and military purposes”; and as “an important factor for employment [...] and for many SMEs.”

94. The action plan put forward no less than 14 proposals for action aimed at enhancing the competitiveness of Europe's industries, preserving the DTIB and promoting its integration into the "civilian" economy (synergy, dual civil-military uses of certain equipment and applications, for example) as well as creating the conditions for a European security and defence. While that last aspect does not fall within the Commission's remit, being a strategic political issue, it did allow the Commission to present its own initiatives within the context of the general debate on the future ESDP that was gradually to emerge as of 1999.

95. The Communication – welcomed by industry, which sees the Commission a tool for opening up markets and also as a potential source of investment using community funds – met with a reserved response from governments, which continued their discussions at intergovernmental level, the setting up of various cooperation structures such as OCCAR, the Framework Agreement and ETAP and their WEAG and WEAO activities within the WEU framework.

96. Industrial restructuring and consolidation continued with, in particular, the creation of the EADS group and the emergence of Thales (in July and December 2000, respectively) as examples of the process of Europeanising and internationalising the European defence industry. Two other national champions – BAE Systems (United Kingdom) and Finmeccanica (Italy) – were emblematic of the industrial restructuring and consolidation process in their two countries, taking on a major international dimension, in the case of BAE Systems with a significant presence on the US market as the Pentagon's sixth supplier for major contracts.

97. The beginning of the 21st century was also marked by the framing of a European Security and Defence Policy within the EU, further strengthening the Commission's case for forging ahead with its plans for the EDTIB. With its 11 March 2003 Communication, "European Defence: Industrial and Market issues – Towards an EU Defence Equipment Policy", the Commission entered the stage as a player alongside governments and industry in the debate on the EDTIB.

98. Taking note of the Helsinki and Cologne European Council decisions with their precise timetables for the establishment of political and military crisis-management structures and the development of military capabilities (the 2003 Headline Goal regarding, for example, deployable forces and capabilities), the Commission expresses the view that "strengthening the industrial and market situation of European defence companies will greatly improve the EU's ability to fulfil the Petersberg tasks in the accomplishment of ESDP. It will also benefit collective defence by strengthening Europe's contribution to NATO".

99. In its Communication it calls for the framing of a European defence equipment policy covering four areas: defence equipment demand; defence equipment supply; defence equipment market; research.

100. The first pertains to issues of harmonisation and equipment interoperability, the second to industrial consolidation and possible support from the Commission and member states for that process, the third to the regulatory framework, procurement rules and exports and the fourth to the advantages of cooperation and of coherence of defence-related research and to the search for "civil-military synergies" (reminiscent of the current notion of a continuum between security and defence that has gained widespread acceptance since the 9/11 attacks in the United States).

101. In order to move towards a European defence equipment market the Commission proposes various actions and an initial timeframe for the period 2003-2004. The actions cover standardisation, the statistical monitoring of defence industries, intra-community transfers, competition policy, the rationalisation of defence procurement and the export control of dual-use goods and technologies.

102. Particular emphasis is laid on security research, for which the Commission proposes to launch a specific programme with a modest pluriannual budget for the period 2004-2006 (65 million euros in total). The European Security Research Programme (ESRP) too was enthusiastically welcomed by the security and defence industries.

103. The ESRP led to the insertion into the EU's big Framework Programme for Technological Research and Development for 2007-2013 of a chapter on security and one on space, each with total funding of 1.3 billion euros (some 200 million euros each year).

104. While those sums may seem small set against a European security and defence market worth tens of billions of euros a year, they nonetheless represent fresh money allowing many companies to maintain industrial and research capacities. Moreover, since these are Community programmes they also encourage cooperation and are supportive of SMEs.

105. In its Communication the Commission also tried to intervene in the intergovernmental debate on the creation of the European Defence Agency and security of supply, as well as on issues pertaining to defence equipment exports and export licences, which fall under the EU's 1998 Code of Conduct. However as a rule the control over and competence for these issues remains with governments.

106. The 2003 Communication was to be followed very quickly by a Green Paper on public defence procurement, dated 23 September 2004. The document was opened for public consultation, a process in which governments, companies and other players (research centres and individual contributors) were involved. The content of that Communication and the different contributions were discussed in a report submitted by the Assembly's Technological and Aerospace Committee in 2005.

107. The 2003 Communication, the Green Paper and all that went with them led to two actions, one on the part of the Commission, the other on the part of governments, almost in parallel. Regarding the Commission, the favourable response to its Green Paper from companies and many governments, in particular those of the small and medium-sized countries, strengthened its resolve to legislate on public defence procurement and certain intra-community transfers of defence equipment and technologies not covered by TEC Article 296.

108. The governments pre-empted Commission action with the adoption in 2006 of a voluntary code of conduct on defence procurement, to be monitored by the European Defence Agency. However, unlike the Commission, which has the relevant legal instruments, the EDA does not have any powers to sanction non-compliance with the provisions of that code.

109. Following the same line of thought, the Commission in December 2005 announced its intention of issuing an interpretative communication on TEC Article 296, with a view among other things to helping limit its scope, and of submitting two draft directives: one on the "coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security", and the other on "simplifying terms and conditions of transfers of defence-related products within the Community". The first entered into force on 21 August 2009 and the second on 30 June 2009.

110. The deadline for their transposition into the national legislation is 2011 and they should enter into application from 2011-2012. Follow-up reports are planned for 2012 and 2016. The two documents were the subject of a report submitted in 2008 on behalf of the Technological and Aerospace Committee by the former Chairman of the Committee, Edward O'Hara (United Kingdom).

111. The Commission's Directives and Interpretative Communication make it an influential player for the future of the European defence equipment market and the EDTIB. The Commission respects the intergovernmental nature of the ESDP and does not attempt to interfere in government decisions regarding defence equipment and technologies or on ongoing and future programmes. Indeed these are questions for individual states: they are the subject of studies by the European Defence Agency and of programmes within and outside the OCCAR framework.

112. Similarly, the Commission has avoided the pitfall of trying to enter the debate, inflamed by the international economic crisis, on economic patriotism, the European preference and the distortion of competition caused by national actions on the major defence equipment markets. Neither has it joined the transatlantic debate on the defence equipment market and on technology transfers: it is not in any case mandated by governments to be party to such discussions, contrary to what happens in the civilian sector.

113. However, the Commission's initiatives are partly a response to a demand on the part of companies which are being held back by listless and unreliable national markets and are looking for their salvation to a large, open and competitive European market. The protection enjoyed at national level by some companies, in the name of the national preference, security of supply or of safeguarding

critical technologies and return on investment, become disadvantageous if all states adopt the same precautionary measures.

114. It is too soon to say what overall effect the directives will have in regard not only to the European but also to the transatlantic market, for US firms are present in Europe through the acquisition of European companies (e.g. General Dynamics Land Systems Europe) or through subsidiaries registered in European states. However, those measures do inject a dose of Community into what is an intergovernmental area and states have to take account of the impact of those directives on the defence equipment procurement and programmes needed to meet their capability requirements.

115. The Commission initiatives have also lent companies more weight in this area, giving them additional tools with which to contest biased decisions at national level as well as more flexibility and transparency in the context of a European defence equipment market which, if governments also have the will for that to happen, can become more dynamic and competitive to the benefit of an increasingly integrated EDTIB in the framework of a single European defence market.

3. Defence companies and the EDTIB: the ASD

116. Defence companies form the core of both the national and the European DTIB. All European states, whether large, medium-sized or small, have defence industries, some of them with a European and international dimension. The latter are concentrated in a small number of states, for the most part in the western part of Europe, for reasons linked with their history and with their economic and technological development.

117. Although defence firms depend on national markets they are no longer state-owned companies. In some cases the state maintains a controlling or “golden” share giving it decision and veto rights. This is the case, above all, of companies deemed to be strategic, such as those in charge of nuclear and aerospace programmes. But the majority of defence companies are privately owned. In some cases they are listed on the stock market and, as a result of cross-holdings, have boards of directors with a European or international membership.

118. Alongside the major firms such as BAE Systems, EADS, Thales, Safran, Saab, Cobham, Rheinmetall, Diehl, Finmeccanica and Dassault Aviation there are thousands of SMEs specialised in niche technologies in the IT, robotics or UAV fields, or which are simply sub-contractors or suppliers for the major industrial groups. Europe is not without industrial capacities but the national markets are no longer sufficient to preserve the highly diverse nature of this sector: what is needed are a European market and European programmes.

119. Hence it would make sense for Europe’s defence companies to support and help implement all initiatives designed to develop the EDTIB by creating a more transparent and competitive European market: an integrated and dynamic European market would strengthen their position on the transatlantic and international markets. For the moment, however, states and companies are still all too inclined to operate within the national framework and with limited resources.

120. When it comes to international tenders the different European states with their national champions are in competition with one another. France’s Rafale, the EADS Eurofighter-Typhoon and the Gripen-JAS 36 are all in the running for the Brazilian and Indian aeronautical reequipment programmes, for example. At stake are the influence of the supplier country and the economic and industrial prospects of the competing firms. Whereas the United States is a single country with two companies – Boeing and Lockheed Martin – Europe is represented in this instance by three different countries and three different companies.

121. While that diversity is a tribute to Europe’s dynamism, Europe as such rarely feels the benefits of a successful bid. The influence and advantages remain in the national sphere, with the national DTIB. Yet such major international contracts are few and far between; in the long run companies must work within the constraints of limited national markets and of a European market whose contours are ill defined.

122. Some companies endeavour to offset those drawbacks by investing more in the transatlantic market and seeking synergy with major US firms. American legislation and practice are such that in

order to have access to the US defence market firms must be present in the United States, either through direct investment, or through the acquisition of American companies, or else through joint ventures with US partners. This is what BAE Systems, EADS, Thales, Finmeccanica and Diehl do, for example. Apart from BAE North America, which to all intents and purposes is a major American firm that is very independent of the parent company, European companies are in a vulnerable position with regard to the “buy American” clause, as demonstrated by the endless controversy surrounding the contract for the supply of tanker aircraft to the US Air Force.

123. A European single defence market, not as large as the US market but more profitable, would make it less necessary for companies to invest in the transatlantic market in the position of weakness that comes from applying a policy of “every firm for itself”. It would also give European countries and companies more clout in cooperative programmes and in negotiations, on the opening up of markets and technology transfers, for example.

124. Although the European market and the EDTIB are only just beginning to emerge, European companies – which are at the same time partners, competitors and complementary – are already trying to speak with one voice, having formed a coalition within the Aerospace and Defence Industries Association of Europe (ASD).

125. The ASD’s creation in 2004 marked the culmination of more than 50 years of institutional cooperation among European defence and aerospace companies. It was from a merger of the European Association of Aerospace Industries (AECMA), the Association of European Space Industry (EUROSPACE) and the European Defence Industries Group (EDIG).

126. The ASD, which is not a trade association, currently represents more than 2 000 companies and 80 000 SMEs (equipment and component suppliers and various subcontractors) with a total labour force of 649 000 people and total annual turnover of 132.2 billion euros, according to its own statistics. Those figures give us some idea of the potential of the European defence technological and industrial base.

127. The ASD is composed of a Council, whose members are the presidents of the major national and European defence companies, and a Board comprising representatives of the national defence industry associations. Together they form the General Assembly. The ASD has eight major commissions (sub-divided into various working groups and committees):

- External Affairs Commission;
- Equipment/SME Commission;
- Air Transport Commission;
- Operations Commission;
- R&T Commission;
- Security Commission;
- Defence Commission; and
- Space Commission.

128. The ASD acts, as it were, as a “European Union of defence industries”, taking action geared to the European perspective. Its five main aims are to:

- “Represent the European industry to promote its interests and to ensure high priority for this sector in European public policy, provide early warning on policy issues, assess impact, initiate and shape policy and develop common positions;
- Offer a single point of contact between this industry sector and relevant stakeholders in the European institutions;
- Facilitate the development of SMEs and the Equipment sector within a competitive supply chain;

- Coordinate at the European level such services and activities as R&T, cooperative European initiatives, environment, standardisation, training/retraining, quality, airworthiness ; assess human resource and skills as well as social impact, promote trade in coordination with National Associations, sponsor workshops/conferences initiatives;
- Promote international cooperation, lead the dialogue with other International Associations and Organisations and represent the European Aerospace and Defence industry towards the industry of other countries/regions where a European common denominator exists.”.

129. Worth mentioning among the ASD’s vast range of activities and initiatives is a set of “Common Industry Standards for European Aerospace and Defence” adopted by its Council on 26 April 2007 in order “to promote and enhance integrity practices amongst [...] companies taking into consideration the European context”.

130. Those standards make an important contribution to the development of the European defence equipment market and to promoting the European industrial code of ethics at transatlantic and international level. Its aim is to demonstrate vis-à-vis the United States, with its rules of industrial ethics, the integrity of European firms, in order to counter baseless accusations that could undermine the efforts of those firms on the US market. At international level, promoting European standards is a way of influencing the drafting of international standards to avoid a distortion of competition with third players, including the American competitors.

131. In order to ensure compliance with good practice the major companies among the ASD’s members have set up a task force on ethics and corruption, important issues also for the EDTIB. Indeed in order to have a transparent, open and competitive European defence equipment market companies must be able to operate on a level playing field, where the best equipment, the best service and the best solution at the best price are the decisive criteria for government defence procurement choices.

132. The ASD is also involved in the Union’s activities as regards the European defence equipment market (EDEM) and defence technologies. It made a contribution to the European Commission Green Paper on defence procurement, presenting the position of its member companies and submitting proposals on the ways and means of setting up the EDEM and the EDTIB.

133. In its contribution of 21 January 2005, while supporting in part the Commission’s approach, the ASD also acknowledged that European cooperation on defence and on the development of the EDEM and EDTIB depended more on political will, national initiatives and intergovernmental cooperation. It openly stated its support for the voluntary code of conduct on defence procurement that at the time was in the process of being drafted and negotiated in the European Defence Agency framework.

134. In its reply the ASD also proposed introducing a voluntary intergovernmental code of conduct covering that part of the European defence equipment market for which the Commission was not competent, in other words, defence goods falling under the exemption in TEC Article 296. The code would include measures for verifying states’ compliance and would also aim to encourage coordination among governments with a view to placing joint orders for defence services and equipment.

135. Although that proposal was not taken up by the governments, many of the ideas put forward by the ASD are reflected in the texts drawn up by the European Defence Agency, such as the Code of Conduct on Defence Procurement, the Code of Best Practice and the Code of Conduct on Offsets – and by the Commission in its two Directives of 2009. Although the response of governments and of the Union may have fallen short of the ASD’s expectations the latter has nonetheless been able to bring some influence to bear in the Europe-wide debate on the defence equipment market and the EDTIB.

136. In an editorial published in the winter 2008-2009 issue of ASD Focus, ASD President Alan Cook (from the company Cobham), identified three priorities: making the most of the political change under the Obama Administration to strengthen transatlantic relations on the basis of “genuine trust and partnership”, increasing the share of public investment in R&D in order to preserve and develop European capacities and restore the balance in transatlantic relations; and state action to support

companies and jobs by offering motivating working conditions and pay and by organising closer contacts between industry on the one hand, and schools and universities, on the other, in order to deal with the recruitment challenge.

137. In the same issue of ASD Focus, ASD Secretary-General François Gayet underlined the need to forge ahead with creating a genuine European defence equipment market. While expressing support for the governments' initiatives and programmes, in particular in the field of naval interoperability and space-based earth observation (MUSIS) and for the EDA's growing role in the fields of coordination, cooperation and studies, he pointed to the dangers of a fragmented EDTIB that would be further exacerbated by protectionist measures adopted by some nations in response to the international economic crisis:

“Ultimately, market fragmentation is bound to undermine Europe's Defence Technological and Industrial Base (DTIB), as it generates duplication and wastefulness, and therefore reduces the overall amount of public spending available for strategic investments – in particular in R&D and high-tech equipment”.

138. He takes the view that the Commission initiatives are a positive step on the way to setting up the EDEM and underscores the ASD's commitment to working with the European Union, the EDA and governments in order to strengthen European defence industrial capacities. The two articles reflect the position of the defence industries which have also been hit by the economic crisis and are worried about the long term repercussions for the European states' defence programme, R&T and R&D budgets. The future lies with more cooperation and the creation of a common European defence area of which all the companies of the sector form an integral part.

139. The European aeronautical sector quite rightly figures among the areas deemed by the ASD to be strategic. Its economic dimension and capacity for innovation are major drivers for the EDTIB as a whole. This was the message put across to the members of the Assembly during the seminar it co-organised with the Swedish company SAAB in Stockholm on 29 October 2009 in the context of the Swedish EU Presidency. Executive Vice-President of SAAB Lennart Sindahl presented the ASD vision set out in its paper entitled “European Future Air Power Systems in the 2035+ perspective”, which contains a number of proposals.

140. The document draws five major conclusions:

- “Air power will always be a prerequisite for the ESDP;
- Access to sovereign air power solutions in strategic areas will be key;
- A Future Air Systems vision is required together with a strategy and funded road map;
- Europe needs to prepare now for the future; and
- Pilot programmes in critical areas should immediately be launched:⁴

This appeal to European enterprises to mobilise for the future must now be passed on through the European Defence Agency to European governments, for only they can take the necessary strategic decisions and guarantee the level of funding that companies need in order to pursue their activities for the benefit of the EDTIB.

141. The possible alternative, according to the ASD Board's conclusions, is the following negative scenario depicted by Mr Sindahl:

- “A serious decline in the EDTIB capability within the Air Power domain such as; system of system integration skills, facilities, technologies; and
- Other impacts to EU society for example; less employment, decrease in spill-over of technologies and know-how, loss of political independence”.

⁴ “Aerospace: manned and unmanned aircraft systems for future security and defence needs”, address by Lennart Sindahl, Executive VP, Saab AB and Chairman, ASD Aircraft Sectoral Group, ESDA-SAAB Seminar, Stockholm, 29 October 2009.

142. The ASD's list of priorities for 2009 reflects that desire to anticipate the future and to move beyond the national framework in order to adopt a more cooperative, or even an integrated approach, whenever this is possible. Among its eight priorities, three are directly defence-related: "Encourage the Implementation of the Appropriate and Robust Defence Industry, & Market Policies at EU level; Encourage the Implementation of Robust Security Industry & Market Policies at EU level; Pave the way towards R&T roadmaps for sustainable Aerospace and Defence industry of Europe".

143. For the ASD resolving these issues is crucial for the future of this sector which is very dynamic and competitive: it is de facto the world's number two; for certain land vehicles and equipment it is even in first place, ahead of the United States. But the national markets on their own, no matter how big, are insufficient as long as all the barriers and obstacles within and between states remain.

144. Concerted action by the Agency, the Commission and the ASD may make a decisive contribution to turning this situation around with a view to setting about creating a genuine European defence equipment market and a common or integrated EDTIB. There is no magical solution and in times of economic crisis such protectionist instincts, understandably, abound. The solution is to have a little more solidarity and cooperation, given that the economic crisis will also make it necessary to forego certain defence programmes and to redefine priorities.

145. All this in a context in which European forces are becoming increasingly involved in the war in Afghanistan without there being a timetable for their departure, and in which there are growing demands for a European response to other geopolitical problems, the energy crisis and climate change which Europe must address. The EDTIB is one of the factors that will determine whether the Union succeeds its ambition of becoming a global security and defence player in the world of the 21st century.

MEMBERS OF THE COMMITTEE

Chairman

Mr Axel E. FISCHER, MdB (DE) (Fed)

Vice-Chairmen

Mr Nigel EVANS, MP (UK) (Fed)

Mrs Rodoula ZISSI (GR) (Soc)

Titular Members

Mr Alejandro ALONSO NUNEZ (ES) (Soc)

Mr Luuk BLOM (NL) (Soc)

Mr Kurt BODEWIG, MdB (DE) (Soc)

Mr Erol Aslan CEBECI (TR) (Fed)

Mr Imre CZINEGE (HU) (Soc)

Mrs Blanca FERNÁNDEZ-CAPEL (ES) (Fed)

Mr Paolo GIARETTA (IT) (Lib)

Mr Pavel HOJDA (CZ)

Mr Reijo KALLIO (FI)

Mrs Birgen KELES (TR) (Soc)

Mr Jozef KLIM (PL) (Fed)

Mr Geert LAMBERT (BE) (Soc)

Mr Eduard LINTNER, MdB (DE) (Fed)

Mr Waclaw MARTYNIUK (PL)

Mrs Manuela de MELO (PT) (Soc)

Mr Philippe MONFILS (BE) (Lib)

Mr Germinal PEIRO (FR) (Soc)

Mrs Adoración QUESADA BRAVO (ES) (Soc)

Mrs Beata SANIOVA (SK) (Fed)

Mr Mehmet TEKELIOGLU (TR) (Fed)

Mr Noel TREACY (IE) (Soc)

Mr George VOULGARAKIS (GR) (Fed)

Mr Arturas ZUOKAS (LT) (Lib)

Mrs Deborah BERGAMINI (IT) (Fed)

Mr Fernand BODEN (LU) (Fed)

Dr Marton BRAUN (HU) (Fed)

Mr Alain COUSIN (FR) (Fed)

Mr Bill ETHERINGTON, MP (UK) (Soc)

Mr Giuseppe GALATI (IT) (Fed)

Mr Stanislaw GOGACZ (PL) (Fed)

Mr Joachim HÖRSTER, MdB (DE) (Fed)

Mr Jan KASAL (CZ) (Fed)

Ms Sarmite KIKUSTE (LV) (Fed)

Mr Jean-Pierre KUCHEIDA (FR) (Soc)

Mr Jean-François LE GRAND (FR) (Fed)

Mr Radu Catalin MARDARE (RO)

Mr Alan MEALE, MP (UK) (Soc)

Mr José MENDES BOTA (PT) (Fed)

Mrs Tuija NURMI (FI) (Fed)

Mr Rudolf PETAN (SI) (Fed)

Mr Giacinto RUSSO (IT) (Lib)

Mr Imre SOOÄÄR (EE) (Lib)

Mr Angel TILVAR (RO) (Soc)

Dr Rudolf VIS, MP (UK) (Soc)

Mr Frans WEEKERS (NL) (Lib)

Alternate Members

Mrs Ine AASTED-MADSEN-van STIPHOUT (NL) (Fed)

Mrs Fatima ABURTO BASELGA (ES) (Soc)

Mr Miguel ARIAS CAÑETE (ES) (Fed)

Mrs Doris BARNETT, MdB (DE) (Soc)

Mr Tim BOSWELL, MP (UK) (Fed)

Mrs Claire CURTIS-THOMAS, MP (UK) (Soc)

Mrs Josette DURRIEU (FR) (Soc)

Mrs Gisèle GAUTIER (FR) (Fed)

Mrs Claude GREFF (FR) (Fed)

Mr Jean HUSS (LU) (Soc)

Mr Haluk KOC (TR) (Soc)

Mr Tiny KOX (NL) (Soc)

Mr Markku LAUKKANEN (FI) (Lib)

Mr Krzysztof MATYJASZCZYK (PL)

Mr Pasquale NESSA (IT) (Fed)

Mr Brian O'SHEA (IE) (Lib)

Mr Milos PATERA (CZ) (Fed)

Mr Yves POZZO DI BORGIO (FR) (Fed)

Mr Paul ROWEN, MP (UK) (Lib)

Mr Adrian SOLOMON (RO)

Mr Mustafa UNAL (TR) (Fed)

Mr Pol VAN DEN DRIESSCHE (BE)

Mr Adam ABRAMOWICZ (PL) (Fed)

Mr Ruhi AÇIKGÖZ (TR) (Fed)

Mr Mario BARBI (IT) (Lib)

Mrs Maria de BELÉM ROSEIRA (PT) (Soc)

Mrs Patrizia BUGNANO (IT) (Lib)

Mr Hubert DEITERT, MdB (DE) (Fed)

Mr Herbert FRANKENHAUSER, MdB (DE) (Fed)

Mr Kestutis GLAVECKAS (LT)

Mr Bernd HEYNEMANN, MdB (DE) (Fed)

Mrs Florina Ruxandra JIPA (RO) (Soc)

Mr Jozef KOCHAN (CZ) (Fed)

Mr Jaakko LAAKSO (FI) (Soc)

Mr Jorge MACHADO (PT)

Mr Patrick MORIAU (BE)

Mr Edward O'HARA, MP (UK) (Soc)

Mrs Elsa PAPADEMETRIOU (GR) (Fed)

Mr Pavol PAVLIS (SK) (Soc)

Mr Gabino PUCHE RODRÍGUEZ (ES) (Fed)

Mr Witold SITARZ (PL) (Fed)

Mr Dimitris STAMATIS (GR) (Fed)

Mr Giuseppe VALENTINO (IT) (Fed)

Secretary

Mr José-Manuel PEDREGOSA (ES)

Assistant

Mrs Carmela ROBERT (FR)

