

Our position

A European Defence Industrial Strategy that serves all



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

Executive summary

Following the successes of the previous years, the European Defence Industrial Strategy represents an opportunity to further advance EU defence industrial policy framework and lay out a long-term vision for the EU as a security and defence actor. In order to ensure that new ambitions serve all members of the EU's Defence Technological and Industrial Base (EDTIB), the Commission should focus on articulating a way forward to ensuring closer cooperation with like-minded allies, especially in the areas of Research and Development (R&D), joint procurement, security of supply chains and improving the defence environment. Overall, there is a need for international collaboration with trusted partners (including NATO allies) in numerous areas so that the EU can achieve its long-term objective of strengthening the EDTIB whilst meeting the shorter-term needs imposed by the current geopolitical challenges. There already exist international platforms as well as transatlantic frameworks and programmes that could be further used as the base to achieve these objectives.

Introduction

The development of the European Defence Industrial Strategy (EDIS) promises to advance the EU's ambitions to achieve strategic autonomy and foster a resilient industrial base. However, it should aim to do so through stronger transatlantic partnerships. Strategic autonomy and transatlantic collaboration are not mutually exclusive; rather, they are mutually reinforcing pillars that promote the EU's competitiveness and capacity to be a capable security provider. As the industrial bases on both sides of the Atlantic are increasingly intertwined, there are technological, political, military, competition and economic arguments for increased collaboration instead of isolation.

General issues: scope and definition of EDTIB

As the EU continues to develop its defence industrial policy framework, the question of what can be considered to be an EU entity participating to the European Defence Technological and Industrial Base (EDTIB) has become increasingly pertinent. Not providing sufficient clarity to European companies with like-minded third-country entity ownership will ultimately weaken the EDTIB by isolating vital contributors and scare off further investments.

The EDTIB includes all European entities that have or are able to prove that their participation does not harm the security and defence interests of the EU and its Member States. This understanding of the EDTIB has also been reinforced by the EDF, which – through its regulatory framework – a permits a wide range of European entities to participate. While the rules established in the EDF may not be entirely suitable for broader application across the defence value-chain (eg procurement, sustainment, etc) given the differences in requirements and various nuances, the EDF remains an excellent best practice and should lends its inclusive spirit also to EDIS (European Defence Industrial Strategy)

The current discourse also lacks substantial discussion on how the EU envisions industrial collaboration with like-minded allies to bolster collective resilience and security. While considering closer industrial ties with Ukraine are paramount and must remain a priority, the European Commission should widening this discussion to include other vital like-minded allied third-countries, such as the United Kingdom and the USA. Further developing the decades-long industrial ties of the

Transatlantic Defence and Industrial Base (TADIB) will ensure European industrial competitiveness and boost the resilience of the EDTIB.

We therefore urge the European Commission to articulate strategies that aim to ensure closer cooperation with like-minded allies and foster collaborative endeavours that amplify the effectiveness of the EDTIB.

Transatlantic defence R&D

The rapid pace of innovation is evident across various sectors, including defence, which prompts nations to invest significantly in order to stay technologically competitive on a global scale. In today's landscape, the burden of maintaining a technological edge should not rest solely on individual countries. Instead, collaborative research and development (R&D) efforts among allied nations can prove advantageous for all parties involved. Recognising this opportunity, enhanced transatlantic defence cooperation on R&D is crucial, and EDIS should actively consider and outline ambitious plans to establish a collaborative framework, particularly with the United States.

Several existing transatlantic frameworks, managed by the US, exemplify successful collaboration. For instance, the US Government's Foreign Comparative Testing (FCT) program allocates R&D funds to test foreign allies' items and technologies that meet high Technology Readiness Levels (TRLs), addressing defence requirements efficiently and economically. Since its inception in 1980, the FCT program has fostered a mutually beneficial exchange, facilitating the procurement of over \$5 billion in foreign items. This program not only saves on R&D and procurement costs but also reduces risks in major acquisition programs, expediting the deployment of critical equipment for the readiness and safety of US forces.

Another illustrative example is the US Army's xTech Programme, established in 2018. This initiative engages businesses, both within and outside the US, in prize competitions, fostering collaboration with Army and Department of Defense (DoD) experts to develop solutions for current challenges. By offering cash prizes and potential follow-on contracts, the xTech Programme accelerates the integration of transformative technology solutions into the Army. Participants receive valuable feedback, mentorship and access to support infrastructure, enhancing their alignment with real users and buyers within the US Army. The program's international reach is evident in events such as the 'third annual international prize competition' held in June 2023, where winners from Israel, Belgium, Canada, Norway, and Spain showcased advancements in additive manufacturing, advanced composite materials and advanced manufacturing.

In light of these successful models, it becomes evident that international collaboration in defence R&D is not only feasible but also advantageous. The Joint Declaration on EU-NATO Cooperation, signed on January 10, 2023, reinforces this idea, emphasising the commitment to advancing the NATO-EU partnership. The joint declaration encourages the involvement of NATO Allies not in the EU and vice versa, promoting a spirit of mutual openness and cooperation. In this evolving landscape, fostering such partnerships is essential for addressing shared challenges and ensuring global security.

Demand coordination: promoting joint procurement

To further promote joint procurement, it is crucial to enhance the flexibility and inclusivity of the EDTIB. Policymakers should consider a comprehensive and flexible policy toolbox that allows EU

Member States and their armed forces to freely choose from various procurement solutions, such as EDIRPA (European defence industry reinforcement through common procurement act), OCCAR procurement (Organisation Conjointe de Coopération en matière d'Armement / Organisation for Joint Armament Co-operation), NATO Support Procurement Agency procurement or US Foreign Military Sales. This approach can provide the necessary flexibility to adapt to unique project requirements, boosting capability, enhancing equipment effectiveness and promoting cross-border industrial cooperation. Given the urgency and geopolitical circumstances, joint procurement should be seen as an avenue for utilising economies of scale, increased bargaining power and rapid delivery – all to the benefit of the armed forces and closing their capability gaps. There will need to be a balance between boosting the EDTIB and ensuring that the European armed forces are sufficiently supplied in a timely manner with the equipment they require.

Interoperability and interchangeability

EDIS should prioritise increasing interoperability and interchangeability. The war in Ukraine has once again demonstrated just how critical these two aspects are. The EU could take an active role in further incentivising and promoting interchangeability and interoperability of equipment along agreed upon standards. Economic, social and political considerations still prompt EU governments to procure defence equipment in such a manner that it leads to wide-ranging fragmentation both in capability requirements and actual hardware.

In this context, NATO already offers a comprehensive set of standards (eg STANAGS). While these are currently not being fully implemented by the allied forces, the EU, with a growing number of its Members now also being NATO signatories, could take a more active role in their promotion. Other platforms, such as the NATO Support and Procurement Agency (NSPA) also facilitates multinational procurement, leading to increased interoperability and material standardisation.

The development and adherence of common standards will be especially relevant as new platforms embrace novel technologies for which there are often no standards or certification processes. Therefore, any future defence-related proposal by the European Commission should recognise the need of a 'by default joint approach' through NATO and its robust standardisation framework. Indeed, implementation of NATO standards should be a priority for EU-NATO cooperation.

Fostering the agility and competitiveness of supply

An agile and competitive supplier base in the EU must also leverage collaboration with like-minded countries and stakeholders, including US security and defence companies. After years of underinvestment, European Defence Industry is today not capable of meeting the short-term needs that a result of the current geopolitical context. While over reliance on certain third countries should be avoided, partnering with allies on strategically critical technologies or resources should be advanced. No ally can achieve its security and defence goals by itself, only together can true resilience in the supply chain be guaranteed.

Given these circumstances, it will be crucial for the EU to work with trusted partners in order to strengthen the EDTIB. Strengthening transatlantic partnerships and promoting international and multinational industrial cooperation will facilitate the development and adoption of leading-edge technologies. The ability of the EU to face the current geopolitical challenges will highly depend on its capacity to adeptly develop and incorporate emerging and disruptive technologies from within the EU and its allies.

EDIS should foster international collaboration that encourages a common approach on managing and anticipating factors affecting the resilience of supply chains in the security, defence and space sectors. Sharing best practices between companies and governments, as well as progress on a framework for joint intra-EU procurement, could incentivise international companies located in like-minded countries to integrate/adopt European technologies and components. This collaboration among trusted partners would ensure that the EU achieves its long-term objective of strengthening the EDTIB whilst meeting the shorter-term needs imposed by the current geopolitical challenges.

Considering legislative initiatives from the United States, such as the Buy America Act, CEFIOUS or US Foreign Military Sales (FMS), the European Commission should consider all aspects of these proposals in a holistic manner and in consultation with the US Government and industry. This will allow policymakers to get a complete picture of its benefits, draw-backs and potential fit for EU application.

For example, in the case of Buy America and a potential application of this concept in the EU, there needs to be recognition of the existence of waivers for like-minded third-country companies. The US Reciprocal Defence Procurement (RDP) Agreements¹ lists countries with which the US DoD has these agreements with that make them 'qualifying countries'. As a result of these agreements, the US DoD has determined it inconsistent with the public interest to apply restrictions of the Buy American statute or the Balance of Payments Program to the acquisition of end products from qualifying countries. As of today, 32 such agreements have been signed with the US' closest allies, including many EU Member States.²

Designing an effective security of supply regime

Ensuring an effective security of supply regime is one of the most crucial yet challenging objectives for the EU. Building from the experience of the last years, with the global pandemic, and more recently the war in Ukraine, the EU must invest in developing the right emergency frameworks and policy measures to improve the resilience of supply chains. Hence, anticipation of potential bottlenecks and disruptions in defence supply chains should be a priority for the upcoming EDIS and ensure that an 'allied approach' is adopted in addressing these challenges.

Working with like-minded partners

Designing and implementing an effective security of supply regime within the EU's Internal Market during crises could leverage many different activities, such as mapping, monitoring, prioritising orders and facilitating intra-EU export. Nevertheless, seeking to implement a system that exclusively relies on companies deemed truly European would lead to heightened costs and eliminate valuable opportunities for industrial collaboration between the EU and its allies.

To strengthen the EDTIB, European industries should be able to have access to best-in-class and readily accessible products and services which may be produced outside the EU by trusted partners. Only by procuring the best available goods will European companies be able to build products that are competitive on the global market. Therefore, EDIS should build on already existing platforms (eg EU-US Trade and Technology Council, the EU-US Security and Defence Dialogue, the EDA-US DoD

¹ <https://www.acq.osd.mil/asda/dpc/cp/ic/reciprocal-procurement-mou.html>

² Australia, Belgium, Canada, Czech Republic, Denmark, Egypt, Estonia, Federal Republic of Germany, Finland, France, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom of Great Britain and Northern Ireland.

Administrative Arrangement, etc) and establish new avenues to advance supply chain resilience especially among like-minded allied countries.

The US for example, has already established numerous Security of Supply Arrangements (SOSAs) with non- EU (Australia, Israel, Japan, Norway, UK) and EU countries (Finland, Italy, Latvia, Spain, Sweden and The Netherlands). Using these SOSAs as inspiration, the EU could work on similar arrangements, which will further help designing an effective cross-border/transatlantic Security of Supply Regime.

Short, medium and long-term goals: improving the defence environment

Strengthening the EDTIB goes beyond just focusing on supply and demands issues, and involves focusing on other relevant aspects like improving the business environment, promoting a positive narrative, investing on skills and talent development while also reinforcing financial support for the sector. As the voice of 27 EU Member States, the EU must give enough attention to ensuring:

1. **A conducive business environment:** Addressing challenges posed by environmental, social and governance guidelines as well as supporting a positive narrative for defence to attract investment. EU policymakers must contribute to creating a better perception of the defence sector by the public.
2. **International cooperation:** Encouraging closer international and multinational industrial cooperation with like-minded allies to ensure cost-effective adoption of leading-edge technologies. In addition, workforce mobility in EDTIB between Member States, as well as within the transatlantic partners through joint educational and training systems, would be crucial to face the current lack of the necessary skilled workforce in the EU.
3. **Financial support:** Demonstrating the value of defence industrial activities and expanding the role of the European Investment Bank to mobilise investment in support of Europe's defence systems and the promotion of state-owned capital funds and National Promotional Banks and Institutions to invest in the sector.

Conclusion

The European Commission has recently made efforts to coordinate demand, strengthen supply chains, foster innovation, talent, and STEM education, support sector competitiveness and integrate defence objectives into broader EU policies. This reflects a holistic approach to shaping EDIS. However, the EU cannot do this on its own. It must implement an inclusive strategy, where the concepts of strategic autonomy and transatlantic collaboration are not mutually exclusive. These two are, in fact, mutually reinforcing pillars that promote the EU's competitiveness and capacity to be a capable security provider. Only by focusing on international collaboration with trusted partners, the EU will be able to meet its short-term needs developing from the current geopolitical challenges, with its long-term goal of strengthening its EDTIB.