

Why Europe needs its defence industry



ASD Paper

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Europe needs capable armed forces

Russia's invasion of Ukraine in February 2022 has radically changed the fundamentals of European security, shattering the post-Cold War assumption that war in Europe is no longer possible, and that military conflicts would be limited to low-intensity crisis management operations. The belief that dialogue, trade and mutual dependence with autocratic states are enough on their own to assure peace and stability has been proven to be wrong. Indeed, the stark reality is that in an increasingly unstable world, soft power alone is not enough to ensure European security. It must be backed by hard power, which means having credible, suitably sized and equipped armed forces, capable of conducting protracted, large-scale high-intensity combat operations.

The primary objective of Europe's armed forces is to deter potential adversaries from ever attacking us. To achieve this objective, they must be able, when necessary, to effectively and decisively overcome any aggressor. This means providing our armed forces with defence systems and equipment that offer maximum protection to soldiers, are state-of-the-art and are held in sufficient numbers to enable them to prevail in all scenarios they could credibly face, whether acting alone or alongside allies.

The Ukraine war has dramatically demonstrated that, even in the 21st century, high-intensity conflicts consume vast quantities of ammunition and missiles, as well as entailing significant equipment losses. Armed forces therefore depend on having assured access to a defence industrial base that can deliver the systems and equipment needed, support them in operation, and/or replace them when lost or worn out, at the rate required and for as long as necessary.

Why do we need an indigenous European defence industry?

Any country has three options for acquiring the defence equipment it needs: 1) establishing a domestic defence industrial capacity for developing and producing the products needed; 2) developing and procuring equipment in cooperation within the EU or with other international partners; 3) importing off-the-shelf equipment from third countries.

Given the complexity and cost of most defence systems and equipment, no European country can afford to sustain a full-spectrum domestic defence industry alone, and although there are some European cooperative programmes, many countries in Europe regularly purchase significant proportions of their defence equipment from non-European sources, most notably the US. Sometimes they do so even when there are viable and readily available European alternatives.

However, there are very good reasons for having a European defence technological and industrial base (EDTIB) capable of developing and producing the full spectrum of state-of-the-art defence capabilities:

- It enables Europe to sustain the highly specialised skills and facilities required to provide our armed forces with the systems and equipment they need to fulfil their missions. The very existence of such assets in Europe enhances the credibility of Europe's armed forces, and thus also bolsters their deterrent effect.
- It maximises security of supply since European suppliers are not subject to the evolving foreign policy considerations of a third state. In times of crisis or disruption of international supply chains, the availability of a suitably large European industrial capacity allows the quick ramp-up of production, without undue dependence of the goodwill, capacity or prioritisation of others.
- It allows European defence ministries to have unambiguous, enduring and unfettered access to, control over, and system-level understanding of the equipment of their armed forces. This enables them to shape the designs precisely to address their specific requirements. It also ensures that Europe has complete freedom to modify or upgrade key systems and incorporate domestically produced weapons, sensors, and other sub-systems, without having to obtain permission from a third country supplier or join a potentially lengthy upgrade queue.
- It provides European armed forces with the freedom to operate their defence systems and equipment as they need and European governments with the freedom to export or transfer such capabilities to partners and allies abroad in line with their interests and values and, where

applicable, the EU Council Common Position 2008/944/CFSP. This is in contrast to foreign-made products, which are often subject to operational and/or export restrictions by the producing country.

The benefits of a strong EDTIB are relevant not only for larger countries that have an extensive and diverse domestic defence industry with big Original Equipment Manufacturers (OEMs), but also for smaller countries with a more limited and/or highly specialised industrial capacity:

- Having internationally competitive European OEMs ensures that smaller countries have multiple procurement options, rather than facing a monopoly supplier situation from a third country.
- A strong EDTIB gives smaller countries the option to join European cooperative development programmes. This enables them to gain a degree of access to sensitive technical and operational aspects of the capability and to technological know-how that would not be available via an off-the-shelf procurement. Such partnering arrangements also provide smaller countries with important security of supply benefits that result from the mutual dependence intrinsic to cooperative programmes and with priority access to additional production lots at the same economic conditions.
- Participation in such programmes also enables the industry of smaller countries to build a knowledge base that facilitates involvement in the development of future defence products in the same class/domain. Conversely, while off-the-shelf procurements from third countries may include some local work in the customer country, this rarely extends to any involvement in design or development work. As such, it may provide a degree of economic “return”, but it is generally not an effective means of maintaining an enduring defence industrial capability.

What kind of defence industry does Europe need?

During peacetime, Europe’s defence industry must strive to remain at the cutting-edge of innovation and ensure technological superiority over potential adversaries. To this end, it must continuously improve existing products and produce new ones, react to evolving technologies and threat scenarios, and challenge potential adversaries by developing new and innovative concepts, disruptive technologies and new applications.

If faced with a conflict, the European defence industry will need to be able to ramp-up production quickly in order to address the need for much higher delivery rates than in peacetime. Demand for maintenance, repair and overhaul of in-service equipment will radically increase as well, along with the need for spare parts. The industry will also need to be able to react at significantly increased pace, in response to the lessons that constantly emerge from the battlefield and to urgent and sometimes unplanned operational needs. This requires a very close and trustful relationship between the defence ministries, armed forces and industry.

How to deliver such an industry in Europe?

Russia's invasion of Ukraine has prompted most European countries to significantly increase their defence budgets and heightened the urgency of addressing long-standing capability gaps. As such, this is a unique opportunity for Europe to bolster its defence industrial base, in particular through expanding cooperative development and procurement, but also by developing further the internal market for defence.

However, in practice many of the major national capability procurements announced since Russia's aggression have been for off-the-shelf solutions from non-European suppliers. In taking such decisions, each country is making a multi-decade commitment to a non-European solution, and if too many countries do the same, it will inevitably make it very difficult to pursue a parallel European cooperative approach. Indeed, European cooperative development programmes are only viable if a critical mass of countries join, bolstering both the development funding and the assured customer base. In some cases, purchasing non-European equipment also risks wasting R&D investments already made in Europe.

The European Union should therefore put in place a comprehensive strategy to support the EDTIB. This should encompass policy instruments and financial incentives that are sufficiently compelling to convince EU Member States that the merits of cooperation and of European choices outweigh the perceived benefits of third country off-the-shelf procurement.

More substantial EU action is needed to foster joint procurement of equipment developed in Europe, but also to support industry in developing the next generation of defence technologies. To this end, the European Defence Fund urgently needs a significant budget boost and a greater focus on the capability areas that matter most to Europe's armed forces and invariably dominate procurement budgets.

Similarly, support is also essential to ensure that European defence industry can ramp up production and sustain an appropriate level of preparedness in peace time. This includes fostering industry's access to finance and investment, including from the private sector. Horizontal initiatives of economic security must contribute to reducing critical dependences and enhancing the resilience of defence supply chains.

More should also be done to incentivise smaller Member states to join cooperative programmes, providing them with greater opportunities to join sensitive strategic programmes at a meaningful level and gain more access to the resulting IP. Finally, recognising that the supply chains of European defence industry stretch beyond the EU, the strategy should aim at fostering defence industrial cooperation with non-EU European countries and relevant international organisations, namely NATO and OCCAR, thereby enabling all of Europe's defence industrial base to contribute more effectively to maintaining our collective security.

Conclusions

In the coming years, European defence industry will face two major challenges: 1) equipping Member States' armed forces appropriately to address the new security environment and 2) enabling Member States to provide continuous military assistance to Ukraine and to support other strategic partners, as required. These challenges necessitate an EDTIB capable of both ensuring technological superiority in a symmetric conflict and producing faster and higher volumes than in the past.

Developing – and maintaining – this industrial capacity will take time, money, and a hitherto unseen level of European cooperation and commitment. What is needed is a strategic shift that goes beyond urgent short-term needs and puts far more value on maintaining adequate defence industrial capacities as a strategic contingency. We believe that this effort is crucial for reinforcing Europe's defence capabilities and strengthening the European pillar of the transatlantic partnership, particularly at a time when the US security focus is increasingly pivoting towards the Asia-Pacific theatre.

[Signed by] Jan Pie, Secretary General of ASD

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**Aerospace, Security and
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ASD represents the Aerospace, Security and Defence Industries in Europe with the objective of promoting and supporting the competitive development of the sector.

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