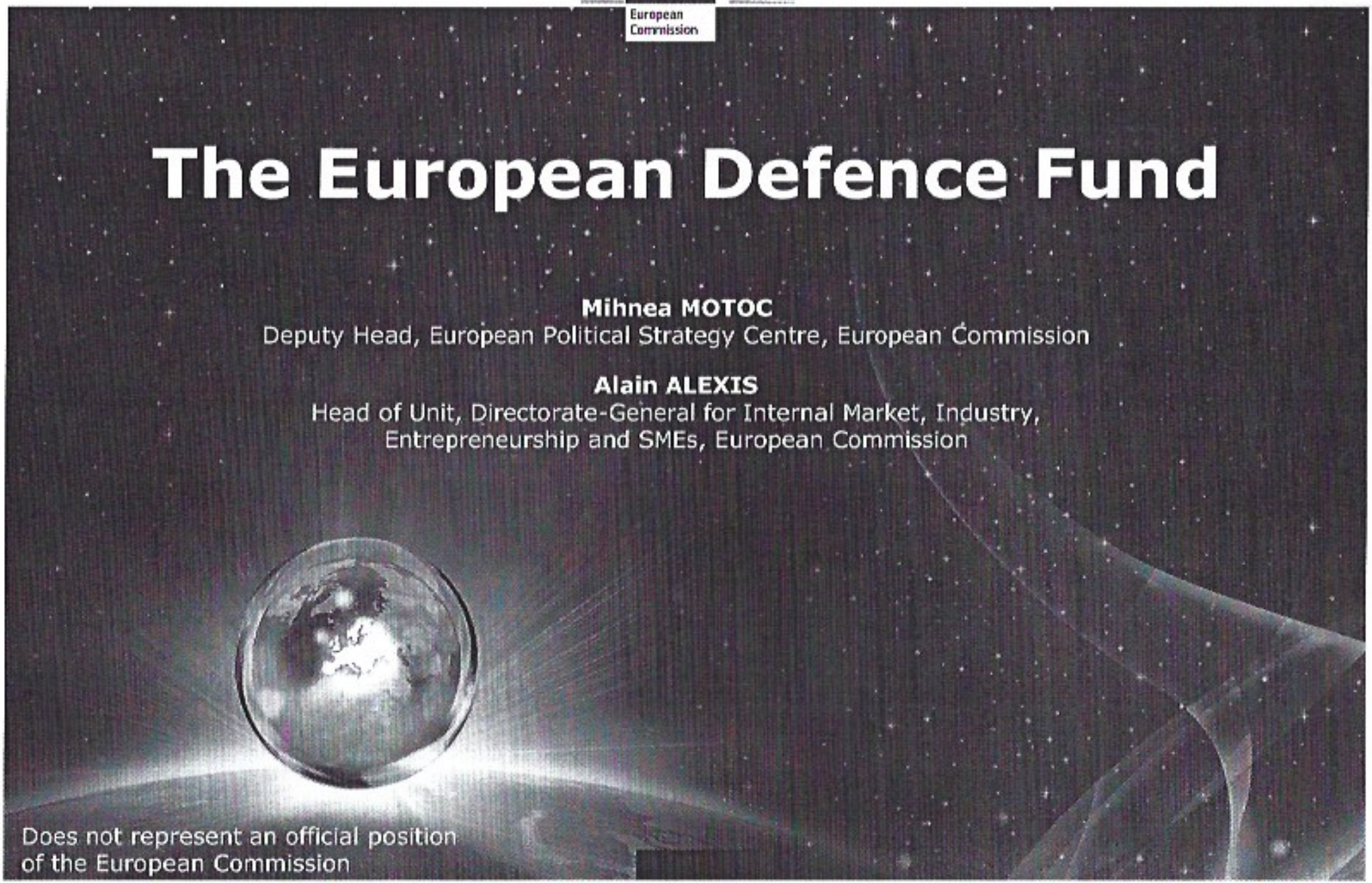
The European Defence Fund

Mihnea MOTOC
Deputy Head, European Political Strategy Centre, European Commission

Alain ALEXIS
Head of Unit, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, European Commission



Does not represent an official position of the European Commission



PART I:
Towards European Defence

European Commission



Growing / complex security concerns / threats

EUROBAROMETER

Public opinion



Limited cooperation

MORE RESPONSIBILITY FOR EUROPE'S OWN SECURITY



Increasing costs + decreasing / stagnating budgets



Fragmentation / duplication

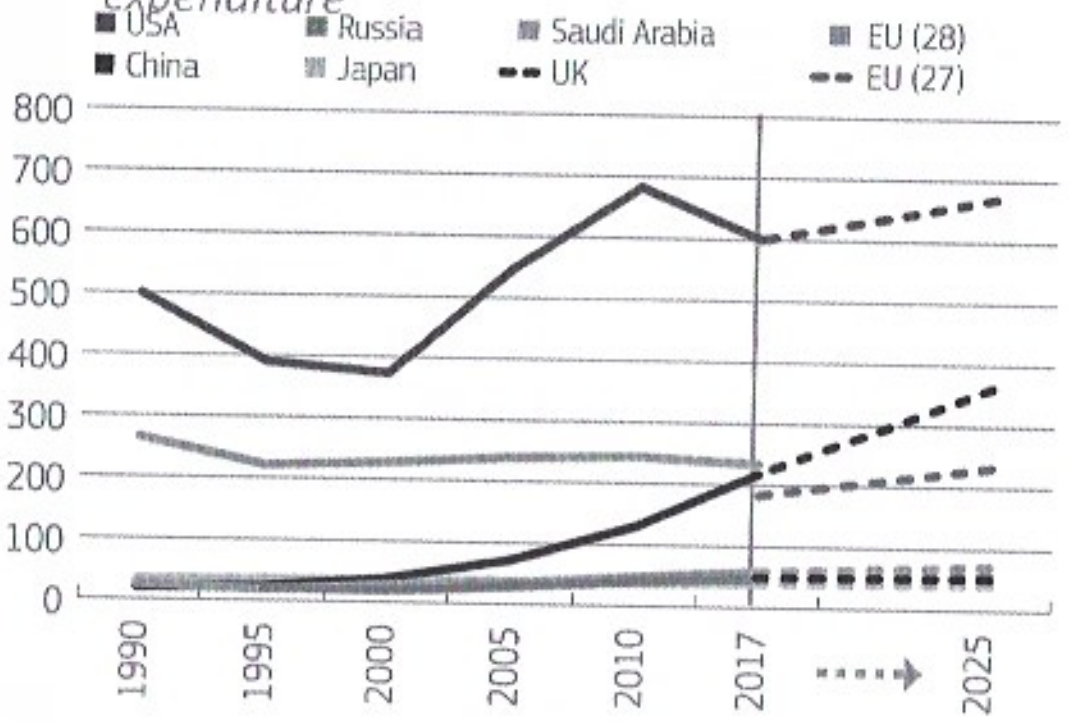


Brexit

European Commission

Amidst global competition...

EU from 2nd to 3rd in overall defence expenditure



Source: Stockholm International Peace Research Institute (2016 data, in billion euro), Jane's, EPSC

Outspent on defence R&D: US 7:1 – China 2:1

*Relative size of annual RDTE budgets, * = estimate*

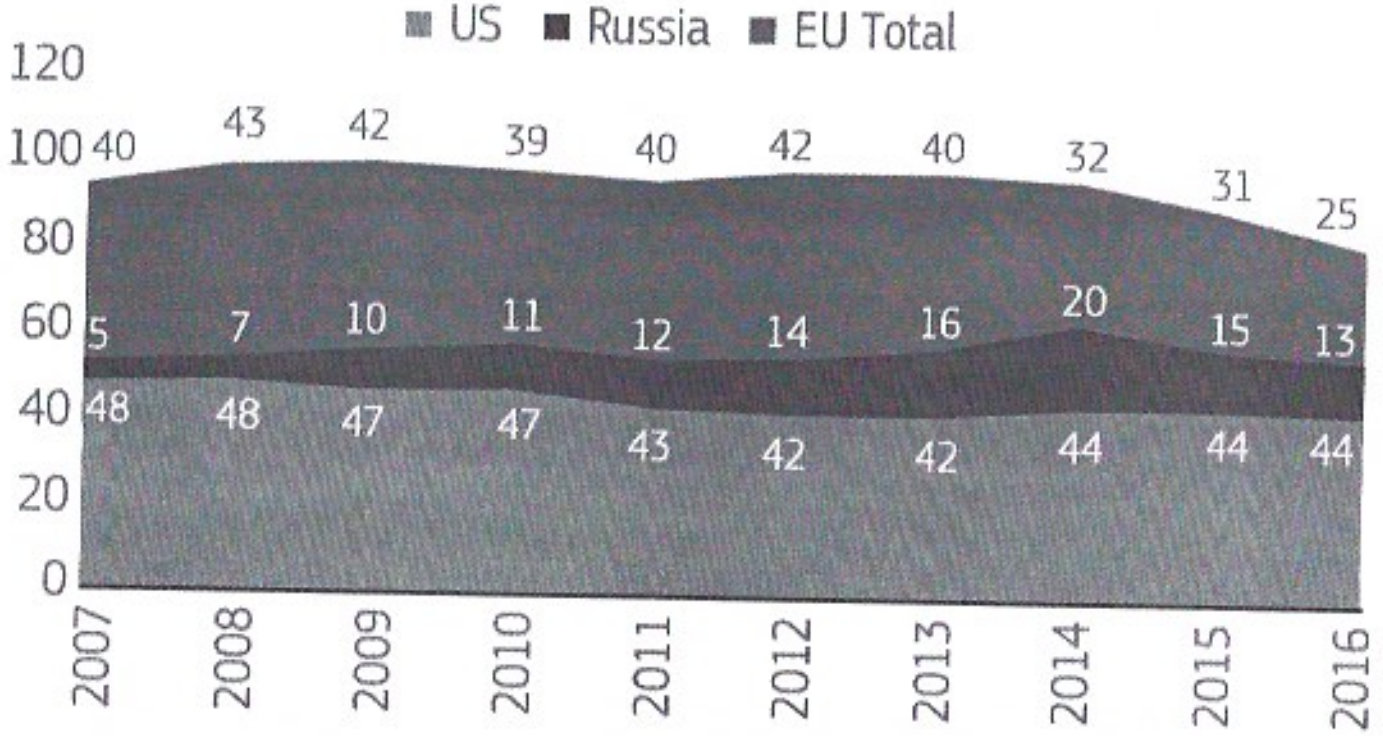


Source: EPSC based on IISS, AAAS, "The Future of European Defence Research" (EP)

European Commission

...with implications on EU defence industry

Number among the global top-100 arms companies



Source: SIPRI, EPSC

European Commission

Key initiatives: Core of European Defence Union

European Defence Fund (EDF)

Lead: Commission

- Financial incentives for Member States to foster defence cooperation
- Covers research to the development phases
- € 590 million up to 2020

Permanent Structured Cooperation (PESCO)

Lead: Member States

- 25 Member States ("capable + willing")
- Aim to jointly develop defence capabilities
- 17 initial projects
- 33 project proposals for second round
- Pending rules on governance and third party participation

Coordinated Annual Review on Defence (CARD)

Lead: EDA

- Systematic monitoring of national defence spending plans
- Helps identify opportunities for new collaborative initiatives
- First report in autumn



Research Window

Capability Window

Research

- EU funding

Preparatory Action on Defence Research (PADR)

Development

- Pooling of national contributions
- EU co-financing

European Defence Industrial Development Programme (EDIDP)

Acquisition

- Practical support by European Commission

European Commission

PADR – State of Play

- **First calls for proposals in 2017:**
  - -> **Wide interest for the calls**
  - -> **grant agreements signed end-2017 / begining-2018**
  - -> **5 projects running, e.g.:**
    - Predictive methodologY for TecHnology Intelligence Analysis (**PYTHIA**) budget: EUR 1 million, involving 8 countries (including Romania)
    - Open Cooperation for European mAritime awareNess (**OCEAN2020**) budget: EUR 35 million, involving 40 participants from 15 Member States
- **Calls for proposals for 2018:**
  - published on 15 March; **evaluations ongoing**
  - Dedicated to critical defence technologies
- **Third round of calls: late 2018/early 2019**

European Commission

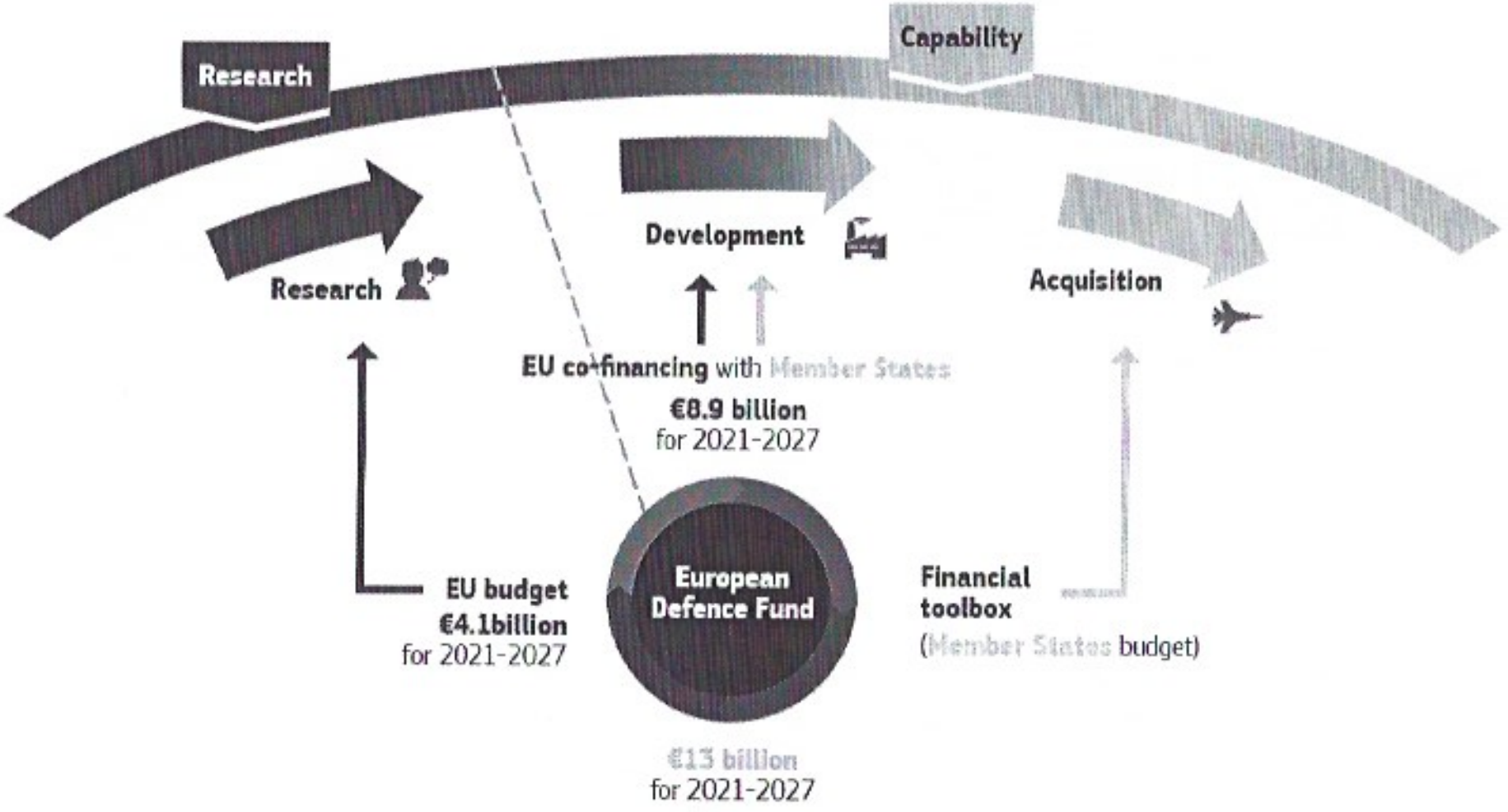
PART II:
The European Defence Fund as a tool to...

ECONOMIC	- Reduce inefficiencies of the current market - Harness synergies and economies of scale
STRATEGIC	- Ensure strategic autonomy of the Union and its Member States
POLITICAL	- Protect the basic interest of the Union and its Member States

European Commission

The European Defence Fund 2021-2027

(Proposal for a Regulation adopted on June 13th 2018 – currently discussed with the co-legislators)



European Commission

How will the budget be spent?

2021-2027:



€8.9 billion
co-finance collaborative capability development projects complementing national contributions

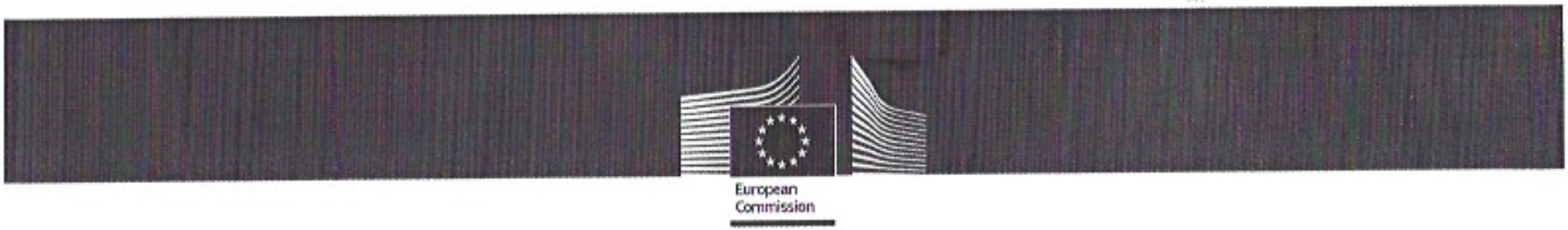
€4.1 billion
funding of collaborative defence research to address emerging and future security threats

EU financing rate:

- **Research:** up to **100%**
- **Prototypes:** up to **20%**
- **Post-prototype:** up to **80%**

Additional incentives:

- Cross-border participation of **SMEs/midcaps** – EU funding rate increasing with the level of cross-border participation of SMEs/midcaps in the projects (higher for SMEs)
- PESCO (if eligible): +10% co-financing bonus



What can be funded?

- **Integrated approach** covering the full cycle of research and development activities
- Actions covering both **new and upgrade** of existing products and technologies in at least one of the following areas:
  - Activities aiming at new knowledge and defence technologies
  - Feasibility studies
  - Prototypes
  - Qualification / Proof of suitability
  - Technologies to reduce life cycle costs
  - Activities aiming at interoperability and resilience
  - Definitions / design studies
  - Testing
  - Certification
- 5% of the overall budget to benefit **disruptive technologies for defence**



Eligibility

- **Cooperation projects** between at least **three legal entities** established in at least **three different Member States/Associated Countries**
- Only **entities established in the Union** or in an Associated Country which are not controlled by third countries/companies
- Exception if conditions relating to the **security interests of the Union** and its Member States are met:
  - No risk in the ability to perform the action
  - Sensitive information is protected
  - No Transfer of IPR (IPR remains in the EU)
- **Cooperation** with companies based outside the Union **possible** (under similar conditions to the ones above), but costs are not eligible.

European Commission

Other important features of the Fund

- **Projects will be defined along priorities set with Member States** aiming at contributing to the security and defence interests of the Union, in line with defence capability priorities agreed by Member States within the framework of the Common Security and Defence Policy.
- The Fund will incentivise the **cross-border participation of SMEs** by providing higher financing rates and favouring projects by consortia which include SMEs.
- **5% of the budget will be set aside for disruptive, high-risk innovation** that will boost Europe's long-term technological leadership and defence autonomy.
- To ensure that EU resources are put to good use, development actions need to be based on **harmonised capability requirements** and **common technical specifications.**
- The Fund will co-finance development of prototypes where **Member States intend to buy the final product**. No capability will be owned by the EU.
- **Drawing on EDIDP and Preparatory Action**, but introducing **simplification** measures (e.g. single and integrated Fund, use of output-based tools such as single lump sum support) and **additional flexibility** (wider array of support instruments, including grants to consortia of buyers – e.g. pre-commercial procurement)



Overall expected impacts

- **Improved economic efficiency** and **capturing size effects** by reducing duplications; **improved competitiveness** and **reduced dependence** on non-EU sources.
- A **more integrated European Defence Technology and Industrial Base** by **reducing fragmentation** of demand and supply along national lines.
- **Enhanced cross-border involvement of SMEs and mid-caps**.
- **Improved defence technology** by enhancing the quality and the variety of technologies developed in the EU; **better use of limited budgetary resources**.
- **Enhanced MS' collaboration in defence R&D projects** by establishing a framework for more efficient collaboration and incentivising common technical requirements.
- Benefit MS as buyers through **lower unit costs of equipment; improving interoperability, filling capability gaps**.
- **Positive wider economic effects**: positive macroeconomic effects, spill-over effects, productivity.
- **Supporting** a large number of jobs across the EU, including a large proportion of **highly skilled jobs**; jobs transferrable towards a wide range of defence or civil activities.



What next for EU defence?

- Need for continuous political will and support of Member States
- Need for industry engagement
- Need for good, strategically relevant projects = transform concepts (EDF, PESCO, CARD) into tangible successes
- Future ambition – European Defence Union: adequate future budget, ambitious PESCO…
- Dedicated funding as outlined in the MFF proposal



USEFUL LINKS

Proposal for a Regulation establishing the European Defence Fund (June 2018): https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-eu-defence-fund-regulation_en.pdf

Impact assessment accompanying the proposal for a Regulation establishing the European Defence Fund (June 2018): https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-eu-defence-fund-swd_en.pdf

Regulation (EU) 2018/1092 of the 18 July 2018 establishing the European Defence Industrial Development Programme: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R1092&from=EN

Ex-ante Evaluation Accompanying the Proposal for Regulation establishing the European Defence Industrial Development Programme: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52017SC0228

Commission's Communication on European Defence Fund (June 2017): http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52017DC0295

Communication from the Commission on European Defence Action Plan (November 2016): http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:950:FIN