The COVID-19 pandemic represents an unprecedented crisis and has led to a sharp downturn of the world economy. Serving exclusively public customers and operating with long programme cycles, the defence sector has not yet faced the same market meltdown as many other industries. However, defence companies do not operate in isolation. Most of them have also civil activities or belong to wider industrial holdings that operate on commercial markets. Links are particularly strong between defence and civil aeronautics, which is facing worldwide a dramatic drop in demand of commercial aircraft. The crisis on commercial markets therefore also affects the defence business in many ways.

Slowdown
At the same time, COVID-19 has hit defence companies also directly: like all manufacturing industries, they have been impacted by supply chain disruptions, restrictions of the general lockdown, additional health & safety measures and infections of staff. All this has led to production and delivery difficulties, which created severe cash flow problems in particular for lower-tier companies and SMEs. The short-term challenge for companies is, therefore, mainly to protect the continuity of ongoing projects. Avoiding, or at least limiting, the slowdown of these projects is important for both mitigating companies’ financial problems and backing up Member States’ defence capabilities.

Despite these difficulties, many defence companies have actively contributed to the fight against the virus. Not only have they continued supply and support of equipment that armed forces used to assist public authorities (e.g. helicopters, secure communication, UAWs,…), they have also used their facilities for manufacturing protective material and intensive care equipment.

Three reasons to avoid defence cuts
However, the full impact of COVID-19 on defence markets may well come with delay. Mitigating the economic and social consequences of the pandemic will put public budgets under extreme pressure. The political risk is high that this comes along with defence budgets cuts. We see at least three reasons why this should be avoided:

First, there are no indications that the security environment in and around Europe will improve after the COVID-19 crisis, on the contrary. At the same time, our armed forces face severe and urgent capability gaps that will not go away with the COVID-19 crisis. Hence, it would be unwise to reduce the already limited defence spending in Europe again. This is true for Member States, but also for the European Union. The proposed European Defence Fund (EDF) is a crucial catalyst for defence cooperation, which will become even more important in a post-corona financial environment.

Secondly, the COVID-19 pandemic has shown the vulnerability of global supply chains and the risks from over-reliance on third-country suppliers in times of crisis. In strategic sectors like defence, the political lesson from COVID-19 must therefore be to reduce Europe’s dependency on non-European sources for the most critical systems, products and technologies. Investing in the development of much needed defence capabilities would not only help Europe to protect its interest, it would also increase technological sovereignty and decrease unwanted non-EU dependencies.

Thirdly, the EU and its Member States have already announced their intention to invest massively to help the economy recover from the COVID-19 shock. Investments in the development and procurement of modern defence capabilities would sustain industrial activities in hi-tech sectors and, thereby, contribute boosting the economy in general.

Increased investment needed
Any post-crisis recovery plan should, therefore, not come at the expense of the defence sector. On the contrary, European governments should increase the investment part of their defence budgets to strengthen the European defence industrial base. This would stabilise the hi-tech ecosystem of which defence industries are an integral part and reduce Europe’s strategic dependence in future crises.

Althought decisions on defence capabilities and budgets are in the sole responsibility of Member States, the European Union can make an important contribution to supporting the European defence industry. In the short-to mid-term, we consider three points as particularly important:

• Ensure implementation of the Preparatory Action on Defence Research (PADR) and European Defence Industrial Development Programme (EDIDP). It is crucial for industry that all ongoing EU funding programmes continue during this crisis. At the same time, implementation of these programmes should be adapted to current realities, which make cross-border cooperation extremely challenging.

• Get the EDF ready for 2021 and maintain the budget at the level initially proposed by the European Commission (€3bn). Under the next MFF, the EDF will be the centrepiece of the European Union’s support for Europe’s defence industrial base. It should therefore receive the appropriate priority in terms of timing and budget.

• Strengthen PESCO and CARD as key drivers for European defence cooperation. Both instruments have great potential which must be fully exploited. To make a difference, it will be crucial to make PESCO, CARD and the EDF work together effectively. The work programme of the EDF will be an opportunity to put this in practice and should not be missed. 

"Recovery should not come at the expense of defence"