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ASD POSITION PAPER

CONSIDERATIONS ON THE FUTURE ROADMAP FOR A COMPREHENSIVE EU-WIDE SECURITY OF SUPPLY REGIME

About ASD

ASD represents the Aeronautics, Space, Security and Defence industries in Europe. Based in Brussels, the organisation’s membership today comprises 15 major European aerospace and defence companies and 27 member associations in 20 countries (Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey and the UK). These industries reach a turnover of 197.3 billion euros, invest 20 billion euros in R&D, employ 778,000 people and count over 3000 companies, 80,000 suppliers, many of which are SMEs.

Rue Montoyer, 10, B-1000 Brussels, Belgium
Telephone: +32 2 775 81-10, Fax: +32 2 775 81-12
E-mail: info@asd-europe.org — www.asd-europe.org
INTRODUCTION

In its Conclusions of December 2013, the European Council called on the European Commission “to develop with Member States and in cooperation within the High Representative and the European Defence Agency a roadmap for a comprehensive EU-wide security of supply regime, which takes into account of the globalized nature of critical supply chains.”

In June 2014, the European Commission announced in its report “A new Deal for European Defence” (COM (2014) 387 its intention to finalise for the European Council of June such a Security of Supply roadmap. More specifically, it would 1) take stock of areas which would be covered by such a regime and existing security of supply instruments, 2) extensively consult Member States, 3) identify possible actions in areas of a) supply between Member States, b) supply of Member States from third countries, and c) control of industrial and technological assets in the EU, which are all key elements for a comprehensive security of supply regime.

In its Position Paper on the Commission’s report (December 2014), ASD highlighted the importance of security of supply for the well-functioning of the internal market for defence and welcomed the Commission’s announcement to develop a roadmap. More specifically, it called upon the Commission “to propose in this Security of Supply roadmap concrete and courageous steps which can make a real difference”.

The present Paper puts forward some proposals for actions which could “make a real difference” for security of supply in the EU, and which should therefore be included in the roadmap. We hope the services and decision-makers preparing the European Council of June 2015 will find this a useful input to their work.

ANALYSIS AND RECOMMENDATIONS

The Letter of Intent Framework Agreement between FR, DE, UK, IT, ES and SW defines security of supply as “a guarantee of supply of goods and services sufficient for a Member State to discharge its defence and security commitments in accordance with its foreign and security policy requirements”. According to the European Commission’s guidance note on Security of Supply, “this includes the ability of Member States to use their armed forces with appropriate national control and, if necessary, without third party constraints”.

Depending on their national defence industrial base, geography and political situation, Member States have different security of supply needs and different approaches to cope with these needs. At the same time, no European Member States can afford today to maintain full scope capabilities with equipment sourced on a purely national basis. All depend, in different areas and to different degrees, on deliveries from abroad and support from their partners.

The challenge is to manage these dependencies and limit the security risks that they imply. An EU-wide security of supply regime should therefore mobilise EU policies and instruments to enhance security of supply of Member States individually and collectively. Its ultimate purpose should be to ensure the same level of security of supply for all armed forces in the EU, no matter in which Member State their suppliers are established.
Security of supply is a broad concept that covers a wide range of industrial, technological, legal and political aspects. Given the nature of the document, and the limited time for its preparation, we do not expect the security of supply roadmap to go into the details of each of these aspects. It should rather identify the areas which are relevant for security of supply and develop options for future action in these areas. This could then serve the European Council as a basis for further guidance on who should do what and how to establish an EU-wide security of supply regime.

From industry's perspective, two strategic objectives should guide the work towards an EU-wide security of supply regime and therefore appear prominently in the roadmap:

1) Maintain key industrial and technological capabilities in Europe, and
2) Develop security of supply as part of the internal market for defence.

1) Maintaining Key Industrial & Technological Capabilities In Europe

There is no security of supply in Europe without a European Defence Industrial and Technological Base (EDTIB). Defence industries develop and produce the equipment and provide the services which European armed forces need to fulfil their missions. Any EU-wide security of supply regime must therefore consider the EDTIB as the starting point.

Not all defence equipment used in the EU must be made in the EU. However, for strategic reasons, it is essential to maintain a solid EDTIB as a supply base for European armed forces: The European defence industry assures security of supply and freedom of action by ensuring that design capabilities and rights are owned on-shore. It also provides a vital component of operational advantage to militaries by enabling in-depth understanding of defence systems and their underlying technologies. This means that European governments can make full autonomous use of those defence systems. They can also choose to modify or export them without having to rely on or be hampered by other countries. European military operational capability and defence industrial know-how are therefore intrinsically linked. European autonomy and national sovereignty are therefore only possible on the basis of a sound EDTIB.

As European defence industrial capability declines, so too will Europe’s security of supply and the military operational capability that depends on it. Once defence industrial know-how is lost, it is difficult and expensive to resurrect.

Replacing on-shore European design, development and production with imports will not sustain the European industry, even if these imports include some local manufacturing or sub-system development work. Indeed, although these create short-term employment, they actually disguise the critical loss of know-how that is occurring.

- It is crucial for any European security of supply regime to maintain in Europe the know-how for design, development and production of key defence capabilities. This should be included as a key strategic objective in the security of supply roadmap and be confirmed by the European Council in its Conclusions.

This know-how can only be maintained if the EDTIB as a whole is competitive and sustainable. From our perspective, three initiatives are particularly important to achieve this objective and ensure security of supply in the long-term.
Industrial strategy

It is no longer possible for Member States to individually sustain the full range of defence industrial capabilities. Therefore, it is vital to reach a common understanding of the capabilities which should be maintained collectively to ensure strategic autonomy for Europe as a whole. Member States should therefore agree on a defence industrial strategy which identifies technology gaps and priorities and how to address them (nationally or in cooperation, be it through NATO, EDA or ad-hoc clusters of like-minded States). The EU should support and complement this strategy through related policies and instruments.

- The security of supply roadmap should propose as an action the preparation of a defence industrial strategy and related technology roadmaps. On that basis, the European Council should task Member States, EDA and the European Commission to prepare for the next review a proposal for such a strategy.

Research

Defence R&T is crucial for developing military capabilities of the future. After years of budgets cuts, a rapid and substantial increase in investment in defence research is necessary to ensure the long-term sustainability of the European defence industry. This investment should focus on Key Enabling Technologies (KET) and foster cooperative projects for those key technologies that will underpin the operational capabilities which are essential to sustain Europe’s strategic autonomy and act as precursors to collaborative equipment programs.

- The roadmap should include defence R&T as a priority for Europe’s long-term security of supply and suggest a common minimum level of R&T spending for all Member States, including a specific focus on Key Enabling Technologies for defence. At the European Council, Member States should commit themselves to devote at least 10% of their defence investment budgets to R&T, and at least 20% of their national R&T budgets to collaborative R&T projects. They should combine this with a firm commitment to fulfil the NATO target of spending 2% of their GDP on defence.

Procurement

Research is not an end in itself. In order to generate new capabilities and strengthen the EDTIB, investments in R&T must lead to concrete procurement projects. With a view to security of supply in particular, Member States should favor the development of European solutions for those capabilities which underpin Europe’s strategic autonomy.

- The roadmap should highlight the link between R&T, procurement and strategic autonomy. The European Council should call on Member States to favor the development of European solutions for key strategic capabilities.
2) Develop Security of Supply as Part of the Internal Market For Defence

The ability of defence companies to satisfy the security of supply needs of their customers depends not only on their industrial capabilities. If the customer is the Ministry of Defence of another Member State (or a third country), companies need the authorisation of their national authorities to transfer (or export) the equipment. This is the case for the initial purchase, but also for all follow-on supplies which occur until the end of the life cycle of a product.

The situation becomes even more complex when the supply chain of the prime contractor is organised internationally. Transfer and export licences are then needed not only for the delivery of the final product to the customer, but also for the delivery of components and sub-systems from sub-suppliers to the system integrator.

By introducing a system of general and global licences, Directive 2009/43/EC aimed to facilitate intra-EU transfers of defence supplies. However, it is generally recognized that the implementation of the directive is not yet effective.

The envisaged security of supply regime must therefore address not just industrial or contractual, but also regulatory and political issues. It should aim in particular at fostering the free circulation of defence supplies and services in the internal market, since this is the basis for security of supply between Member States.

- It is crucial for any European security of supply regime to ensure the free circulation of defence supplies and services between Member States. This should be included as a key strategic objective in the security of supply roadmap, and the European Council should confirm it as a principle in its Conclusions.

Free circulation of defence supplies for armed forces

We fully recognize Member States' sole responsibility for the authorization of defence exports. Whereas Member States may have diverging policies on exports to third countries, it should be easier for them to come to converging policies on transfers inside the EU destined to the armed forces of other Member States.

We believe that the future security of supply regime should include a system of free circulation for cross-border defence supplies to Member States' armed forces, covering all follow-on deliveries for defence equipment purchased in another Member State. The selling Member State would keep the full control over the authorization of the initial sale, and at the same time commit itself to deliver what is necessary to support the equipment once it is in service in the purchasing Member State. This would send a strong political signal of solidarity between Member States and make a real difference in terms of EU-wide security of supply.

- The security of supply roadmap should propose the establishment of a system of free circulation of defence goods and services for the end-use by Member States' armed forces. The European Council should task the European Commission and Member States to develop such a system based on a harmonized and generalised use of the exemptions provided in Directive 2009/43 and of General Transfer Licenses for follow-on deliveries. It should also call on Member States to commit themselves not to block such transfers, except if this is considered necessary for the protection of their essential security interests.

Considerations on the future roadmap for a comprehensive EU-wide security of supply regime
• The European Council should also task the European Commission and Member States to explore options for closer cooperation between Member States which mutually recognize their national export control standards as equivalent. This would allow Member States with high export control standards to establish minimal fast track licencing procedures for transfers amongst them, while incentivizing less rigorous Member States to raise their standards in order to join the core group later.

Prioritisation and allocation

To become effective and reliable also in times of crisis, any system of free circulation of defence goods and services would have to be supported by a system of prioritisation and mutual support between Member States to manage possible shortages and bottlenecks. To cope with this, the EDA has developed a legally non-binding and voluntary Framework Agreement for security of supply between subscribing Member States. From our perspective, an EU-wide Security of Supply regime would have to strengthen this Agreement and develop it further, taking into account existing security of supply arrangements between Member States or with NATO allies.¹

In this context, we suggest exploring the possibility of developing an intra-EU equivalent of the US ACSA agreements, which should – in contrast to the American model – not be limited to basic logistical support but also encompass defence equipment.²

• The security of supply roadmap should propose as an objective to develop the EDA Framework Agreement into a European Defence Priorities and Allocation System. The European Council should task the European Commission, EDA and Member States to prepare for the next review proposals for such a system. The latter must ensure that any additional costs resulting from government agreements to re-prioritise supplies should not fall on industry.

Supply chain management

Security of supply for armed forces cannot be ensured only at the level of prime contractors. The latter are in fact both suppliers of defence systems and receivers of sub-systems and components which they integrate into the final product. A comprehensive security of supply regime must therefore cover the whole of the supply chain and ensure that also subcontractors (can) fulfil their security of supply obligations throughout the life cycle of a system.

¹ See the Implementing Arrangement on Security of Supply between the Ministries of Defence of the six Lol Member States (FR, DE, ES, IT, SW, UK), and the Bilateral Memorandums of Understanding on Security of Supply between the U.S. and IT, FIN, UK, SW and NL.
² The U.S. has more than 70 bilateral Acquisition and Cross-Servicing Agreements (ACSA) with NATO members, other allied countries and organisations like NAMSA or SHAPE. ACSA establish a mechanism to provide logistical supplies during training, exercises and military operations in exchange for reimbursement either in cash, replacement in kind, or equivalent value exchange. The agreement does not cover weapon systems or military technology.
Moreover, an EU-wide regime needs to ensure security of supply also in cross-border supply chains. This necessitates not only improving the implementation of the Transfers directive 2009/43, but also resolving broader issues of liability and reliability.

- The security of supply roadmap should include cross-border supply chains as a specific area for action. The European Council should task the future Advisory Group on cross-border supply chains to identify supply chain-specific security of supply challenges in the EU and present for the next review recommendations for ways to address them.

**Control of industrial and technological assets**

In its Communication of July 2013, the European Commission highlighted the control of industrial and technological assets as a key element of long-term security of supply. In the implementation roadmap of June 2014, it announced to issue a Green Paper and to identify possible actions in this area. Industry still awaits the Green Paper, but remains cautious with regard to the added value of this initiative.

- As for the control of assets, the security of supply roadmap should avoid any initiatives which could undermine existing national control systems or put into question Member States' prerogatives in this field.

**International dimension**

According to the European Council Conclusions of December 2013, the envisaged EU-wide Security of Supply regime should take into account "the globalized nature of critical supply chains". In its roadmap of June 2014, the European Commission also announced its intention to identify as part of the security of supply roadmap possible actions on "supply of Member States from third countries".

The international dimension of security of supply is crucial, since defence supply chains today often include suppliers established outside the EU. In technology areas which are crucial for Europe's strategic autonomy, dependence from third countries should be reduced through targeted R&T investment. However, we do not expect it to disappear completely. The security implications of this dependence must therefore be managed, but we believe that this should be done bilaterally or through NATO rather than through the EU.

- The security of supply roadmap should mention supplies from third countries as a relevant area. However, we do not consider this as an area for action at the EU level. Deliveries of military equipment and access to defence technology from third countries should remain Member States' sole responsibility. By contrast, the Commission should continue its efforts to ensure access to critical raw material.
CONCLUSIONS

European Industry welcomes and fully supports the idea of a comprehensive EU-wide security of supply regime. We recognize that the establishment of such a regime is a complex and time-consuming exercise. However, addressing security of supply at the level of Heads of State and Government is an opportunity to take strategic decisions which can bring things forward. This opportunity should not be missed.

This Position Paper is not conceived as a blueprint for the envisaged EU-wide regime, nor does it pretend to address or resolve all pertinent questions. It offers some initial thoughts on key elements that such a regime should cover from an industrial point of view and puts forward some ideas for actions. We believe that these actions can make a difference and should therefore be included in the roadmap and approved at the European Council. On that basis, it would then be for Member States, the European Commission and EDA to develop detailed proposals.

With respect to the follow-on work, we wish to provide two specific recommendations which seem particularly important:

1. Since a comprehensive EU-wide security of supply regime will cover a wide range of different areas, many departments and services will contribute. In order to ensure coherence of efforts and maintain political momentum, it seems advisable to entrust, at the EU top level, a special representative or advisor for security of supply to coordinate the different work strands and report directly to the President of the European Commission and the High-Representative.

2. Since there will be no security of supply in Europe without the EDTIB, industry has a key role to play in the establishment of a comprehensive EU-wide security of supply regime. Up until now, involvement of industry in the process has been extremely limited. It is crucial for the success of the regime to change this. Industry should be involved in all relevant work strands, regular and close consultation through ASD should be the rule.

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Jan Pie
Secretary General