1. EU NEWS

- **the proposal of a European Defence Industrial Development Programme: what's that?**

As announced in the previous NBB, the EC presented in June 7 a set of documents about EU defence and funding:

1. 'Communication launching the European Defence Fund'

This Communication presents the European Defence Fund and what it encompasses, from Research funding to the Industrial programme (see graph next page), as well as a proposal of ‘financial toolbox’ providing standardised and predefined tools that EU States could use for the joint development & acquisitions of military capabilities.

This Communication is not a legal document, it presents the intentions of and background for the Defence Fund. The European parliament will probably adopt a report on this Communication, a kind of opinion with no decisive influence.

2. 'Reflection paper on the future of European Defence'

This paper is about “moving toward a Security and Defence Union” by 2025, and presents 3 possible scenarios: (1) deepening the current “cooperation”, (2) a “shared Security and Defence”, (3) a full “common Defence and Security”. No need to say that the EC advocates for the third scenario.

It is rather surprising that the EC produces such kind of Reflection paper while it has no competence on defence policy. The document is supposed to “look beyond current debates and decisions [and] instead consider underlying structural trends, present different scenarios (...) and maps our possible ways forward”, and as such to complement Mogherini’s Global Strategy which is shorter term and focused. However it still leaves an odd feeling of overpassing competences. It will have very little leverage for influence without political will from EU Member States.

3. 'Proposal for a Regulation establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovative capacity of the EU defence industry'

Yes this is the official title... and the most problematic document: a legislative proposal that wants to create a new funding for the arms industry, and which would focus on the last steps of a Research & Development (R&D) process.

Indeed the Preparatory Action (and its successor ERDP if adopted) focuses on the initial phase of research (the 'basic' research, also referred to as R&T, Research and Technology), while this new funding, to start in 2019, is intended to fill the 'gap' between R&T and production: it will focus on the second phase of R&D before the production phase:

- This means activities in the field of prototyping, technical specifications, design, testing, qualification or certification and supporting measures like feasibility studies. It would focus on cutting-edge products and technology.

The planned amounts are quite significant (see graph below), and should be complemented by national contributions:

- For the development of prototypes, the EU would finance up to 20% and national contributions the remaining 80%. The level of co-financing is not specified for the other types of activities, so a 100% EU funding could be possible. The EC claims that it will fund R&D projects only where “there is a commitment by Member States to jointly produce and procure the final product or technology”. And in order to encourage cooperation, projects should include at least 3 companies based in 2 EU countries (so far non-EU countries are excluded, to the possible exception of Norway).

- The draft also proposes that the national contributions should not be taken into account when evaluating if a country respect the 3% deficit threshold under the Stability Pact (“one-off”). However it seems that several EU countries (Germany in particular) are against such measure.

**Where will the money come from?**

The EU budget is fixed until 2020, so the first €500 million will necessarily be taken from other -civilian- envelopes. So far the EC proposes to divert money mainly from 3 sources:

- the ‘Connecting Europe facility’ (covering energy market & security of supply, sustainable development and environment protection); EU satellite navigation programmes like GALILEO; and unallocated margin.

- These diversions will be part of the main controversial points of the proposal. From 2021 nothing is set yet, as a new 7-years budgetary cycle will be renegotiated.

**What about the Intellectual property rights?**

This will be very easy and short: “the Commission shall not own the products or technologies resulting from that action nor shall it have any IPR claim” (art.12). The “beneficiaries”, e.g. the industry, will negotiate the IPR regime among themselves.
What about the export control of EU-funded military goods?
The draft Regulation is very clear about that too: “The Union financial support should not affect Member States' export policies on defence related products” (p.8). It also expects as a result “lower unit costs, benefiting to the Member states and having a positive effect on exports.” (p.19). So yes, Member States will be free to export EU-funded military goods as they wish, for example to their Saudi good friend.

How will the final decision be made?
Now the Parliament and the Member States will have to discuss and vote on this legislative proposal, first separately and then jointly to negotiate a final compromise. At the level of the EP, it will be a shared decision by the ITRE Committee (competent on industry and research) and the AFET committee (competent on Foreign Affairs, although the work will be practically conducted by the Security and Defence subcommittee of AFET). The Committee on Budgets also managed to have a say on all articles that have a direct budgetary impact. This will make a quite complicated process as those committees do not necessary have the same political vision and priorities.

When releasing these documents, the EC called for a quick adoption of the draft Regulation, by end 2017-early 2018. However the level of debate it could raise might delay the process.

The role of ENAAT to encourage and feed a critical debate will be a key element for this. Read further about first indicative plans under the ENAAT News section.

Documents:
- EC Communication launching the European Defence Fund
- draft Regulation setting the EDIDP
- EC Reflection paper on the future of European Defence
- EC press release of June 7

On the same day, June 7, 3 calls for proposals of the Preparatory Action on defence research were launched:
1. The European Defence Research Runway – Part I
   “This action should aim to support strategic technology foresight in the defence domain of individual Member States and of the EU as a whole by performing joint technology foresight activities supported by methodologies such as horizon scanning, technology watch, scientometric tools, expert consultation activities. The action should focus in particular on identifying emerging defence research areas for potential exploration in the next Multi-annual Financial Framework. The action should propose and validate a
methodology and process for strategic technology foresight activities to be carried out cyclically. Such a methodology should take into account similar activities conducted in EDA, NATO and other military and/or civil organisations. (...) The strategic technology foresight should be coupled to a process and method for mapping EU-funded defence research based on scenarios to illustrate potential future conflicts.”

Estimated amount: €0.8 to €1 million for 1 project, deadline for submission 21/09 (projects expected to start +/- 3 months later)

2. Force protection and advanced soldier systems beyond current programmes

“Explore and demonstrate the potential of how technology can further advance and enhance soldier systems beyond current programmes, hence assessing what is the state-of-the-art in one or more of the aforementioned areas. Proposed activities could cover one of the following sub-topics:

- Generic open soldier systems architecture
- Tailor-made blast, ballistic and CBRN protection of military personnel
- Adaptive camouflage”

Estimated EU contribution per project: €1 to €3 million, deadline for submission 21/09 (projects expected to start +/- 3 months later)

3. Technological demonstrator for enhanced situational awareness in a naval environment

“The objective of the technological demonstrator is to mature and bring technologies together, for enhancing situational awareness through unmanned systems working alongside manned systems in various complex and extreme environmental circumstances. On the one hand, the focus be on the integration of RPAS or other UXS into naval systems (ship interface & combat management system). On the other hand, considering various types of unmanned systems – e.g. aerial, surface and/or submersible platforms – the focus shall be on the transfer of relevant military data and fusing of this data with complementary data from space platforms or manned systems.

These two work-strands shall be conducted in a consistent manner, with the high level objective to improve situational awareness and provide a comprehensive picture of an operational situation enabling management of own assets, monitoring movement, and detection of threats in a contested environment that requires protective measures for cyber defence, electronic warfare, GPS-denial and platform/payload survivability. More specifically, proposals should balance R&T efforts in the following two areas:

- Integration in naval systems of close-to-market new or improved existing platforms demonstrator with improved sensors capacity, persistence and autonomy
- Demonstration of integration of data from multiple sources in a single predefined tactical picture”

Only one action will be funded, budget estimated between €32 and 36 million over 3 years (so more than a third of the total budget of the PA). Deadline: 08/10

You can access the calls and detailed documents via the EDA portal here.

EP report on EU arms export control adopted at committee level

the Foreign Affairs committee of the EP adopted on 11 July its ‘own-initiative’ Report on “Arms export and implementation of Common Position 2008/944/CFSP”. ‘Own-initiative’ means that the EP decided to do a Report to react on the EU annual report on arms export control, but it is more like an opinion and its recommendations to the EU Council have no legal value. The consolidated version of the Report after the vote on the amendments is not yet available, so this is what the official PR says:

“The EU’s arms export control should be upgraded by setting up a supervisory body and sanctions mechanism for those member states not following minimum requirements, said MEPs on Tuesday.

Foreign affairs committee MEPs are alarmed at arms races in the world and at military approaches to solve political conflict. They urge the EU member states to improve the implementation of the Common Position, which sets the minimum requirement on arms export control, in order to enhance the security of civilians suffering from conflicts and human rights abuses in third countries.

MEPs criticise member states for violating their common arms export control system and taking conflicting decisions on arms export, though weapons to be exported are essentially alike and reach similar destinations and end-users. They also regret that only 20 member states fully reported on their arms export.

To remedy the situation foreign affairs MEPs advocate:

- setting up of an arms control supervisory body under the auspices of the High Representative;
- creating a mechanism which sanctions those member states which do not comply with the Common Position;
- expanding the list of arms export criteria, by adding the risk of corruption amongst them;
- increasing the transparency on arms export reporting by providing more and timely information on export licences and turning the EU annual report into a searchable online

Foreign affairs MEPs also say that arms export to Saudi Arabia breaches EU’s common position. They repeat European Parliament’s call on the EU foreign policy chief Federica Mogherini to impose an EU arms embargo on Saudi Arabia. (emphasis added)

The final debate and vote in a plenary session of the EP is planned for 12-13 September.
In short

- **European Investment Bank** to invest in military industry? State of play

You may remember that we have issued in June a joint statement for Euro-parliamentarians and then an Open letter to the EU Council with ethical banks and ethical finance organisations; This was in the framework of the extension of the so-called Juncker Plan (officially European Fund for Strategic Investments -EFSI), under which there was a push for the European Investment Bank to drop its limitation not to invest in weapons production-related activities (see previous NBB 2017-2 of 31.05.17 for more details). Now the Commission, the Parliament and the Member States have entered a phase of ‘trilogue’ in order to find a compromise between the different positions. The process is taking more time than officially planned and the discussions will resume again in September. According to internal sources, the MS did try to put back on the table the defence sector issue, but were said by the EP representative (udo Bullman, German S&D) that this would jeopardize the backing from the EP, and thus the idea seem to have been abandoned. However another entry-point would be to have the EFSI be implemented through other bodies (national platforms for exemple) in such case the EIB rules would not apply.

- “Security and defence should be one of main priorities of EU budgets in the future”, says EC

Following the 5 scenarios the EC had presented in its White Paper for the future of Europe (in March 2017, so prior to the specific 'Reflection paper on the future of European Defence' described on page 1), the EC issued on 28 June a paper about the future of EU finances. It considers that in order to “[Respond] to current trends and new challenges (...) the EU budget will need to do more than today. These include management of irregular migration and refugees, including integration, control of external borders, security, cybersecurity, the fight against terrorism and common defence”. Security and Defence become new (major) priorities in all scenarios except scenario 2 ('Doing less together'). For the more ‘ambitious’ scenarios ('4. Radical redesign' or '5. Doing much more together'), security and defence should see at least a joint financing of key capabilities, joint procurement, a counter-terrorism agency and migration management with border control and coast guard with joint equipment, up to a full-scale Common security and defence with common financing and procurement, and EU budget complemented by an extra-budgetary fund. Although not adopted yet, the European Defence Fund and all its components are presented as a done deal as part of scenario 1 ‘Carrying on’.

Mixing the overall future of Europe with the military issue is a convenient way to mix-up completely different debates, where “pro-Europeans” would necessarily agree with an 'EU of Defence' and vice-versa. No room for critical views and complexity...

The White paper and this Reflection paper are all preparatory steps for the presentation and discussion of the next ‘Multi-annual Financial framework’, the EU 7-years budgetary cycle to start in 2021, and during which the funding for military R&D will be either stopped or become long-term.

Documents: access the Report in French / English / German

- Following ENAAT complaint, EU Ombudsman launches inquiry against EC on Group of Personalities

Following our complaint to the Ombudsman on the late and inappropriate answers given by the EC to questions from ENAAT and from MEP Bodil Valero about why the Group of personalities was not properly registered as an expert group, the European Ombudsman has launched an inquiry on “whether the ‘Group of Personalities’ should be considered to be an expert group”. Read more here.