
NEWS FROM THE BRUSSELS' BUBBLE

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Main news items:

- ✓ Strategic Compass and related EU initiatives: a boon for the arms industry
- ✓ EU taxonomy and Ecolabel: arms industry claims weapons are 'sustainable'

In short:

- ✓ EDF updates, Eurodrone controversy
- ✓ Peace Facility subsidizes arms deliveries to Ukraine up to €1 billion
- ✓ EU Ombudsman final decision on EDA maladministration in the Jorge Domecq case
- ✓ Subjective list of interesting links

2020 EU Calendar: main meetings to come

- 11 April** Foreign Affairs Council
- 16-17 May** Foreign Affairs Council (incl. Defence on 17/05)
- By end May** Informal EU summit on Defence capabilities (tbc)
- 23-24 June** EU Summit (usually with Defence-related conclusions), Brussels
- 01-07-2020** Czech Presidency of the EU

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Strategic Compass and related EU initiatives: a boon for the arms industry

A lot happened in February and March on defence at EU level, so let's clarify and identify the key proposals of relevance to ENAAAT mandate:

- **15/02, the EC 'Defence package': blurring civil-military divide, financial incentives and arms exports**

It started with the Commission's Defence package, led by DG DEFIS (EC General Directorate in charge of Industry, defence and space). After several months of delay this package was presented on 15 February and consists of two Communications, i.e. non-binding documents describing implementation measures or proposals: the first one is a 'Roadmap on critical technologies for security and defence' and the second one is about the 'Commission contribution to European Defence'.

Both documents are stepping up the blurring divide between civil and military with so-called "synergies" in a wide range of areas from dual-use, RTD&I (research, technology development and innovation), security, the

defence dimension of space, hybrid threats and cyber, etc. but also between internal and external policies by "cooperating with like-minded partners like the US or NATO" on innovation or on the "climate-security-defence nexus". Another example is military mobility, the aim is to "enhance the mobility of military personnel, materiel and equipment within and beyond the EU".

The **roadmap on critical technologies** is a more technical document about "reducing the EU's strategic dependencies critical technologies and value chains for security and defence". Among its main proposals there is the setting-up of an 'Observatory of critical technologies', supported by an experts group, as well

as an ‘EU Defence Innovation Scheme’ (meant to be a kind of EU DARPA) which would combine a new ‘Innovation Incubator’, to be set up in 2022 by the EC, with the existing EDA ‘Innovation Hub’. Boosting skills and work-force in science, technology, engineering and mathematics is also a priority through an on-going ‘Pact for skills’ to upskill or reskill 500’000 workers in microelectronics, automotive and aerospace & defence by 2030.

The second Communication on the **EC contribution to Defence** encompasses different aspects of support to the arms industry, including exports. It puts many proposals regarding financial incentives, from R&D investments to joint procurements, as well as facilitating access to private and public investments for the arms industry.

Back on the table is the proposal for a **VAT waiver** “to support the joint procurement and joint ownership of defence capabilities that are developed in a collaborative way within the EU”, that is under EDF, PESCO or EDA framework. So far such waiver was possible only for equipment to be used for an EU mission. The proposal is to expand it whatever the use of those capabilities “by Member States for missions and operations in the framework of CSDP or within the context of UN, NATO and national activities.”

The EC also suggest to use the EDF financial toolbox to cover administrative or transaction costs related to joint procurements of R&D services as well as increase related EDF bonuses.

Another proposal of concern is to **facilitate the arms industry access to a wider range of private or public investments**, under the argument of policy coherence. The EC claims that “other horizontal policies, such as initiatives on sustainable finance, remain consistent with the European Union efforts to facilitate the European defence industry’s sufficient access to finance and investment.” It continues by explaining that ‘sustainable defence’ “can contribute to the sustainable economic recovery” and would have “the potential of greatly contributing to the green transition and resulting in positive spill-overs for civilian use.” This is a direct reference to the ‘EU taxonomy’ framework, see the next article below.

The document also addresses “**climate change challenges for defence**” (p.19-20) in order to adapt capacities to the security effect of climate change,

including for conducting operation under more extreme climatic conditions. It also claims the sector could contribute to mitigation through energy efficiency, renewable energy, reducing emissions, the protection of biodiversity, and use strengthened circular economy. The EDF 2021 calls for project proposals included a specific call for these topics, and the EC and EDA will present the first progress report on the implementation of the Climate Change and Defence Roadmap in the first half of 2022, among other measures.

More unexpected is that the Communication includes a **full section on arms exports** (p.10-11). Called ‘Streamlined and more convergent export control practices’, it is mainly calling for facilitating the export of EU-funded weaponry.

The Commission cannot propose any concrete measure as it does not have competence on that matter, and the document still insists on “preserving Member States’ sovereign decisions.” However, it also goes further than previous texts as it contains specific recommendations. The EC calls for “efficient export control measures [that] provide EDF-funded products with adequate and competitive access to international markets.” In particular the Commission recommends an approach in “which they would respectively not restrain each other from exporting to a third country any military equipment and technology developed in cooperation. This could apply to intended exports of equipment or technology incorporating components from another Member State exceeding a certain de minimis threshold.” In other words, the minimum common denominator should apply, while the text hardly mentions the Common Position and “relevant legal obligations”; IHL and human rights protection are largely overlooked.

The section is quite short compared with other topics, precisely because the EC is lacking competence to put proposals. But it is important to note that this issue is part of the “key success factors towards a more competitive and harmonised defence market” listed in introduction, as well as one of the three bullet points in conclusion, as the “main areas to further strengthen the competitiveness of the European Defence Market.” By doing so, the Commission is putting a significant share of responsibility for the success of the Defence Fund on Member States’ shoulders. A way of clearing

oneself, but also perhaps a form of blackmail: the Commission may not be seeking to extend its competences so much as to facilitate arms exports; rather, these recommendations could be a signal to the Member States of what it expects from them in return for preserving their sovereignty on that matter.

➤ **11/03, the Versailles Summit: increase military spending and support the arms industry**

On 11 March, EU leaders gathered in Versailles for an informal Summit to discuss European sovereignty from an economic and industrial perspective. In the context of the war in Ukraine, the role of the arms industry came at the forefront as illustrated in the joint declaration (formal decisions cannot be made at informal Summits): among the key aspects, “*Bolstering our defence capabilities*” moved first, before “*reducing energy dependencies*” and “*building a more robust economic base*”.

The general commitment is to “*resolutely invest more and better in defence capabilities and innovative technologies*”. They list 5 priorities:

- 1) to “*substantially*” increase defence spending, with “*a significant share for investment, focusing on identified strategic shortfalls, and with defence capabilities developed in a collaborative way within the European Union*”
- 2) “*Develop further incentives to stimulate Member States’ collaborative investment in joint projects and joint procurement of defence capabilities*”
- 3) “*Invest further in the capabilities necessary to conduct the full range of missions and operations*”
- 4) “*Foster synergies between civilian, defence and space research and innovation, and invest in critical and emerging technologies and innovation for security and defence*”
- 5) “*Take measures to strengthen and develop our defence industry, including SMEs*”

➤ **21/03, EU Council: Foreign Affairs and Defence ministers adopt the Strategic Compass**

On March 21st ministers of Foreign Affairs and of Defence adopted the EU Strategic Compass during a Council meeting. This text is meant to be a kind of White Book on defence for the EU. It took two years to come to fruition, going through different levels of work and negotiation, from the EU Politico-Military Group (working group level) to the highest level of ambassadors’ meetings (called COREPER), before

To note also among concrete proposals, the update by end of 2022 of the Action Plan on Military Mobility which may cover digitalisation, cyber-resilience and AI in transport infrastructures.

They also highlight “*fast-emerging challenges*” to be faced, in particular hybrid warfare, cyber and disinformation, space and “*accelerating efforts to enhance military mobility throughout the EU*”.

Nothing very surprising so far. What is more notable is the willingness to involve further the European Commission in defence investments, giving it the mandate to identify key shortcomings: the EC is invited to work along with the EDA in order to analyse “*the defence investments gaps by mid-May and to propose any further initiative necessary to strengthen the European defence industrial and technological base.*”

This is odd first because such analysis has been already carried out by the EDA through the CARD process, and many experts consider that the gaps are well-known. The main reason for such a study is rather to be found in the ‘institutional cooking’, and a further step to ‘communitise’ Europe’s defence without saying so. It looks like another compromise adding extra complexity between diverging visions and competing Institutions, rather than bringing clarity an efficiency. Once more, alleged ‘significant steps’ concretely turn into measures to support the arms industry.

Member States also commit to “support partners through all available instruments” (read: including using the EU budget whenever possible), including an increased use of the EPF, also meaning increasing its budget which falls out of parliamentary control.

being presented to EU ministers. No need to say that the outbreak of war in Ukraine led to last-minute negotiations and changes. See in [our statement here](#) the main ENAAT concerns regarding this Compass which will once major largely profit the arms industry. Below a more ‘technical description’ of the main content of the Compass. Its 46 pages, 3 times more than originally planned, are divided in 5 main sections.

The **first chapter** is a **summary of the threat analysis** conducted in 2020 at the start of the process, the details of which remain confidential. The threat analysis should be reviewed at least every 3 years starting in 2022.

This chapter describes the EU as surrounded by threats and challenges, including transnational ones like terrorism and violent extremism, proliferation of weapons of mass destruction, hybrid threats including cyberattacks, disinformation campaigns and elections interferences, emerging and disruptive technologies and of course climate change, environmental degradation and natural disasters. Not a word is said about our own responsibility in the development of most of these threats... From a geographical point of view, unsurprisingly Russia became the number one public enemy, before China. All regions are mentioned in varying degrees of detail. Some 'odd' omissions are noted, such as the situation in Palestine. All areas - land, air, sea and space, are part of the analysis.

Chapters two, three and five are about **operational and other types of capacities to 'act' and 'secure', and with whom to 'partner'**. The most significant proposal is the creation of the EU Rapid Deployment Capacity (RDC), a 5,000-strong standing force that could be deployed *"in non-permissive environments"*. It is supposed to be based on national capabilities and *"substantially changed EU battlegroups"*, which have existed only on paper since 2009 and have never been used. The force would be focused on *"rescue and evacuation operations"* and on the *"initial phase of stabilisation operations"*, but experts doubt that for example an evacuation like the airlift from Afghanistan last year would be possible. The EU high representative Josep Borrell also insisted that *"It is not about creating a European army"*. 5,000 soldiers refers in fact to a maximum deployment capacity, which can be modulated according to needs and desires, not to a permanent force. The capacity should be fully operational by 2025. Scenarios will be developed in 2022 and field exercises should start from 2023.

Member States commit to more flexible decision-making arrangements, but without *"compromising on political and financial solidarity"*. In other words, unanimity remains the rule but with an increased use

of the 'constructive abstention', that Member State should avoid to veto decisions for an EU mission or making use of the future EU RDC. As for financial solidarity, the plan is to expand the share of common costs supported by all Member States, even the ones not taking part to a specific mission or neutral countries. This could include the exercise costs of the future RDC as well the costs of EU missions, and even of ad-hoc missions by a group of Member States under art.44 of the EU treaty, through the European Peace Facility.

The Compass also calls for an **increased use of the Peace Facility**, not only to provide equipments in the framework of EU training missions, but also to **make the delivery of lethal weapons and equipment "in times of crisis" a possible line of action based on the Ukrainian precedent**, that is when it is about *"defend[ing] their territorial integrity and sovereignty and protect[ing] the civilian population from an unprovoked and unjustified aggression"* (p.15). In other words, it is about making the exception a standard option, and subsidise arms exports with public money, since the EPF is funded by national budgets.

As regards **partnerships**, NATO remains certainly the cornerstone of the territorial defence of Europe. In that sense the Russian invasion of Ukraine definitely played in favour of NATO which came again first in the list of partners before the UN, and weakened the position of some influential EU member states such as France looking for emancipating from NATO.

Chapter four, 'invest', is about the **investments needed to reach the expected capacities, and the one of most interest for the arms industry**. Observers note that this chapter has changed the least in negotiations, largely because it essentially strengthens measures already in place and repeats the proposals of the Defence Package and the Versailles Declaration described above. In short, it is about spending more in the military, in particular for investments (that is acquisitions or R&D), and 'if possible' in a collaborative way. No specific level of spending is defined, but an implicit reference to commitments taken under NATO, and by mid-2022 Member States will *"exchange on [their] national objectives on increased and improved defence spending"*. The main proposals of interest to

us, described in more details above, are:
EC-EDA defence gaps analysis by mid-May; revised and ambitious action plan on military mobility by end 2022; EC proposal on a possible VAT waiver by early 2023; proposals for new financing solutions for joint procurement by mid-2023; and possible changes of the EDF bonus system by 2024 (after the interim evaluation).

Member States call in particular for “*significantly enhancing and harnessing*” the EU Defence Fund as well as “*the full potential of synergies with other EU financial instruments such as Horizon Europe, Digital Europe programme, Connecting European facility, the EU Space programme the European Innovation Council and InvestEU*”. A significant increase of the EU Defence Fund is to be expected in the next EU 7-years budget, in order to ‘match ambition’.

Member States also echo the EC Defence package by committing to work towards “*the streamlining and gradual convergence of [their] arms export control practices for defence capabilities jointly developed [...] thus ensuring EDF-funded products will profit from adequate and competitive access to international markets in line with the 2008 Council Common Position*”.

Access to private funding is also retaken from the

➤ **24-25/03, EU Summit: EU leaders endorse defence proposals, Charles Michel re-elected**

The EU Summit was to be dedicated to EU Defence. But considering the previous work achieved and other urgent matters, it merely endorsed the EU Strategic Compass and took political ownership of the follow-up of European defence initiatives, from the Versailles Declaration to the Defence package, and will “*regularly assess*” implementation and progress. To note that the short conclusions on defence (one page) specifically refers to “*facilitate access to private*

Defence Package: Member States commit to take measures by 2023 “*to promote and facilitate the access to private funding for the defence industry, also by making best use of the European Investment Bank*”. They also explicitly call for ‘consistency’ of horizontal EU policies on sustainable finance with the “*EU efforts to facilitate sufficient access to public and private finance and investments for the arms industry*”.

As regards technologies, the Compass mainly repeats the initiatives listed in the EC Roadmap, including the creation of a Defence Innovation Hub. Lastly on PESCO Member States reiterate the need to respect engagements and that no new project will be presented till 2025.

Most of the many commitments made in the Strategic Compass have no concrete follow-up mechanism. It therefore remains to be seen to what extent the “momentum” of the crisis in Ukraine will continue, especially once a solution to the conflict has been found and other challenges come to the fore. Oh, except annual Defence Ministerial meetings to assess progress of EU defence initiatives on capability development, to start already in 2022: once more, support for the arms industry and arms production and export is expected to go forward as planned, if not the other commitments.

funding for the defence industry”, and “*making best use*” of the EIB. This definitely looks like the next battle for the arms industry.

The Summit also re-elected Charles Michel as President of the Council. And the French president Emmanuel Macron announced the venue of another **EU informal summit on defence by end May, with the possible adoption of a new package on defence investments** according to some observers.

Links to relevant documents

[Press Release on the Defence Package](#) (15.02.2022), [Roadmap on critical technologies for security and defence](#) and [Communication on EC contribution to European Defence](#)

[The Versailles Declaration](#), 10-11 March 2022

[‘With war at its doorstep, EU agrees to move on defence’](#), Euractiv, 11.03.2022

[‘Vous voulez une défense européenne? Vous aurez une belle étude’](#), B2pro, 11 March 2022

[Press release on approval of the Strategic Compass](#), 21.03.2022; [EEAS official webpage](#) with related fact-sheets on a wide range of issues; access to [full text in all EU languages](#)

[‘Ukraine war shapes EU’s military strategy as complementary to NATO’](#), Euractiv, 22 March 2022

[EU Summit Conclusions](#), 24-25 March 2022

EU Taxonomy & ecolabel: arms industry claims weapons are ‘sustainable’

EU taxonomy is “a green classification system that translates EU’s climate and environmental objectives into criteria for specific economic activities for investments purposes”. The EU decided to have a common language and a clear definition of what is ‘sustainable’ in order to direct investments towards sustainable projects and activities. The EU taxonomy is mainly an indicator tool to orientate investments and imposes limited obligations: mainly, for companies entering its scope, an obligation to disclose to what extent their activities meet the EU taxonomy criteria, so as to help investors make ‘environmental-friendly’ decisions. This fits into the wider picture of setting financial standards for a more social, ecological and sustainable economy in the context of the [UN 2030 Agenda for sustainable development](#).

So far none of the EU legislative texts related to this issue exclude the arms industry, but the latter complains for long about difficulties to access private funding, in particular to bank export guarantees, as banks would be increasingly reluctant to engage with the armament sector under pressure of ESG (Environmental, Social and Governance) criteria and NGOs’ campaigning. But the truth is that the recent arms industry offensive on this topic is more related to two precise events :

- In March 2021, the Joint Research Centre (the EC science and knowledge service) published a technical report on the EU Ecolabel in which it suggests to exclude companies “involved in production and/or trade of conventional weapons and military products for combat if they derive more than 5% of their revenues from these activities », defined “in accordance with other national labels”
- A group of experts advising the EC on a possible social taxonomy had mentioned in its draft report the possibility that the armament sector could be considered as socially harmful like tobacco. Yet its final report released in February 2022 only mentions the production of certain types of weapons prohibited under International Law as possible socially harmful activities

Again none of those proposals are calling for prohibiting banks and investors to finance the arms

industry. The objective of the arms industry is in fact to ensure it will have a wide access to green investments in the future, not to say a privileged access. Indeed the intense arms industry lobbying is not only about avoiding specific exclusions but also about being labelled as a social- and environment-friendly sector, under the argument that [there can’t be sustainability without security](#). Rapidly over last spring, their complaints were taken on board both at national and EU level : [French MPs](#) and [media](#) were fast in denouncing “[the steamroller of right-thinking NGOs](#)” ; as written above, several EU documents convey the same demands, and on 29 November 2021, days after attending the main arms lobby group (ASD) General Assembly, the French Commissioner Thierry Breton reassured Euro-parliamentarians of the Security and Defence sub-committee : “I have been extremely vocal against the stigmatisation of our defence industries in access to finance. There are some ideas here and there. We make sure that they do not see the light of day. Our strategic autonomy is at stake.” To note that the governance issue, the third pillar of the ESG criteria, is carefully avoided while it is one important obstacle for arms company when approaching banks. Being considered ESG-compliant as a sector would help them circumvent that, both at EU and national level.

Today the arms industry lobbying is taking advantage of the war in Ukraine to push their arguments to the point of indecency : Hans Christoph Atzpodien, who runs BDSV, called “[the EU to recognize the defence industry as a positive contribution to ‘social sustainability’ under the ESG taxonomy](#)”; similarly, Thales boss, Patrice Claine, claims that “[without stability and security, there can be no prosperity, inclusiveness and sustainable development](#)”. And in the Telegraph, the British group Serco does not hesitate to say that the war in Ukraine “[highlights the ethical values of the defence industry](#)”. In parallel, the Swedish bank SEB recently changed its strict policy to allow its funds to invest in the defence sector. and the German Commerzbank said it is willing to invest much more in the sector, after the German government announcement to put €100 billion into defence.

The JRC report on Ecolabel is only a working paper among others for the European Commission, and any concrete proposal still has a long way to go and will need approval from law-makers. It is already very unlikely that the EC will take on board such suggestion, it is even more unlikely that a majority of Member States and MEPs would vote for it. As far as the social taxonomy is concerned, the expert group's report is only advisory, the restrictions are very

limited, and it will take another three years before it comes into being, if ever.

Objectively, the arms industry has no reason to feel threatened. This tends to prove that their objective is rather to further influence the security narrative, to present themselves as the main recourse for all kinds of problems, and to get the widest possible access to the hundreds of billions that will be put on the table in the framework of the UN 2030 Agenda objectives ; That this is at the expense of other sectors does not seem to bother them.

Links to relevant documents:

[‘Arms production to change label in EU taxonomy?’](#), Euractiv, 22.03.2022

[‘Weapons group points to Ukraine in a bid to shape EU’s ESG rules’](#), Bloomberg, 28.02.2022

[‘À Bruxelles, l’intense lobbying de l’industrie de l’armement’](#), Mediapart, 17.03.2022

[JRC technical report, Development of EU Ecolabel criteria for Retail Financial Products](#), European Commission, March 2021

[Final report on Social taxonomy](#), Platform on sustainable finance, February 2022

Short News

➤ EDF updates /Eurodrone controversy

Over 140 proposals were submitted under the first EDF call for proposals which closed on 9 December. 2021 is considered an exception due to delays in the multi-annual financial framework adoption. From 2022 The EC plans back to normal with the following annual template: publication of the annual work programme in March/April, call for proposals in May, closure of calls in December, evaluations in December-June, selection presented in the autumn.

The Eurodrone project, granted €100 million under the EDIDP (precursor programme of the EDF), sparks controversy with the decision to use the American engine Catalyst. It is produced by an Italian company Avio Avero, controlled by General Electric. The EC ‘took note of the decision’ according to [B2pro](#), and reminds the guarantees needed for the participation of a European company controlled by a non-EU one. But management of the project has been delegated to OCCAR, meaning that the Commission has lost control on the project and will be able to check the respect of the guarantees only at the end of process. Guarantees should be provided to OCCAR by the country hosting the company, in that case Italy.

[‘US-owned Avio Aero wins race to make ‘Eurodrone’ engines’](#), Defense News, 25.03.2022

➤ The European Peace Facility subsidizes arms deliveries to Ukraine up to €1 billion

On 23 March, [EU Member States took the formal decision](#) to increase military support to Ukraine up to €1 billion through the EU Peace Facility, as announced by the High Representative Josep Borrell on 11 March.

Similar to the first decision, 90% of this budget will fund lethal equipment, while 10% would go to non-lethal goods such as protection equipments or fuel. It is to note that the measure allows for reimbursement of arms deliveries already conducted by Member States. This second decision puts a ceiling to retroactive reimbursements, demonstrating fear for misuse: up to 50% of the budget could be used to reimburse deliveries between January and March, and the rest will be dedicated to deliveries from 11 March 2022.

This decision also includes a reference to the EU Common Position on arms exports, which was overlooked in the first decision. An [EU concept note](#) on the pros and cons of deliveries, and how risks would be mitigated, was leaked by Statewatch.

The European Peace Facility is not part of the EU common budget, but is an ad-hoc envelop funded by EU Member States following calls for contributions. Its initial planned budget was 5 billion over 7 years.

Source: '[La facilité de la paix augmentée à un milliard. Décision entérinée avec un ou deux amendements](#)', N. Gros-Verheyde, B2pro, 24.03.2022

➤ **EU Ombudsman final decision on EDA maladministration in the Jorge Domecq case**

Together with Corporate Europe Observatory, [we had alerted a year ago](#) about the move of the former EDA (European Defence Agency) Chief Executive, Jorge Domecq, as head of public affairs for Airbus Spain and as strategic advisor for Airbus Defence and Space. In parallel the European Ombudsman opened a case on the EDA's decision to allow the move (which had happened in fact even before the EDA could take a decision).

On 28 January the European Ombudsman took her [final decision on the case](#) and the main element are: O'Reilly found two instances of maladministration and made two recommendations and one suggestion to avoid similar issues arising in future:

In future, the EDA should forbid its senior staff from taking up positions after their term of office where a clear conflict of interest arises with the legitimate interests of the EDA. Second, the EDA should set out the criteria for forbidding such moves, in order to give clarity to senior staff.

Furthermore, the Ombudsman suggested that the EDA should ensure that the specific form for those applying for authorisation for intended jobs is drafted in such a way that (former) staff members provide the relevant information to enable the EDA to perform a meaningful assessment from the outset.

On 1st February, the [EDA announced it agreed in essence](#) to implement the recommendations on potentially forbidding staff from taking up certain positions and providing guidelines to staff on how it would apply such a measure. It indicated that it had started to adopt measures to implement the recommendations.

➤ **Subjective list of interesting links**

['Denmark thinks about abandoning opt-out from European defence'](#), Euractiv, 07.03.2022

['France continued to deliver Russia weapons after 2014 embargo'](#), Euractiv, 15.03.2022

['Russian invasion spurs European demand for US drones, missiles'](#), Euractiv, 18.03.2022

['The Brief, How neutral is neutral?'](#), Euractiv, 29.03.2022

['Russian nuclear weapon manufacturers use Swedish technology'](#), Euractiv, 31.03.2022

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