



## DEFENCE INDUSTRY

With a turnover of EUR 97.3 billion in 2014, 500 000 people directly employed and 1.2 million indirect jobs, the European defence industry is a major industrial sector. It is characterised by economic and technological components which are important factors for Europe's industrial competitiveness. Created in 2004, the European Defence Agency contributes to the development of this industry. The sector is currently facing challenges such as market fragmentation and a decrease in defence spending.

### LEGAL BASIS

EU action in this field must be based on Article 352 of the Treaty on the Functioning of the European Union (TFEU), which provides for cases in which the EU Treaties do not make explicit provision for the action needed to attain one of the Union's objectives. Article 173 TFEU provides a legal basis for EU industrial policy. However, progress towards applying internal market rules on the defence equipment market has been restrained by Article 346(1) TFEU, which states that 'any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material'.

### OBJECTIVES

The defence industry has been important for the EU, because of its technological and economic policy aspects. The competitiveness of the European defence industry is vital to the credibility of the nascent Common Security and Defence Policy (CSDP). It is important that EU Member States cooperate with one another in order to put an end to policies and practices that prevent European defence companies from working together more efficiently.

### ACHIEVEMENTS

The EU defence industry is important for the European economy as a whole. Like all other industrial activities, it is required to deliver increased efficiency in order to provide value for money for its customers and, at the same time, protect its shareholders' interests.



## A. Background issues

### 1. Research and development policy

EU research funding is aimed mainly at civilian objectives. However, some of the technological areas covered — e.g. materials or information and communication technologies (ICTs) — can contribute to the improvement of the defence technological base and the competitiveness of the industry. Where possible, defence industry needs should therefore be reflected in the implementation of EU research policy. At its December 2013 meeting, the European Council invited the Member States to increase investment in cooperative research programmes, also calling on the Commission together with the European Defence Agency (EDA) to develop proposals to further stimulate dual-use research.

### 2. Exports

In 2008, the Council adopted Common Position [2008/944/CFSP \(CP\)](#), which defines common rules governing the control of exports of military technology and equipment, replacing an earlier political agreement, the [EU Code of Conduct on arms exports](#) (1998). With the CP, the EU is the only regional organisation to have established a legally binding arrangement on conventional arms exports. The aim of the CP is to enhance the convergence of EU Member States' arms export control policies, arms exports remaining ultimately a matter of national competence. The EU export control regime itself is governed by Regulation (EC) No 428/2009, which provides for common EU control rules, a common EU list of dual-use items and coordination and cooperation to support consistent implementation and enforcement throughout the EU.

A Green Paper was published on 30 June 2011 by the Commission on the EU dual-use export control system, with the aim of taking stock of the current functioning of the EU export control system and considering possible areas for reform. This opened the way for the adoption of a communication ([COM\(2014\) 0244](#)) which outlines a long-term vision for EU strategic export controls and identifies concrete policy options for the modernisation of the export control system. In September 2016, the Commission adopted a proposal to modernise the existing Regulation (EC) No 428/2009 and strengthen controls on exports of dual-use items.

## B. EU defence industry policy

### 1. Towards a European defence equipment market (EDEM)

In September 2004, the Commission presented a Green Paper on defence procurement ([COM\(2004\) 0608](#)), with the objective of contributing to 'the gradual creation of a European defence equipment market' (EDEM) between Member States, on a more transparent and open basis. The Green Paper forms part of the strategy 'Towards a European Union defence equipment policy', adopted by the Commission at the beginning of 2003. The aim was to achieve more efficient use of resources in the area of defence and to raise the competitiveness of the industry in Europe, as well as to help bring about improvements in military equipment within the context of European security and defence policy.

In 2007, the EU Member States agreed to enhance the development of a 'European Defence Technological and Industrial Base' (EDTIB) with the help of an EDTIB Strategy.



The maintenance and further development of the EDTIB is one of the main objectives of the EU defence industry policy. July 2006 saw the launch of the Intergovernmental Regime to Encourage Competition in the European Defence Equipment Market. This voluntary intergovernmental regime is operated on the basis of a [Code of Conduct on Defence Procurement](#) (November 2005), which is supported by a reporting and monitoring system to help ensure mutual transparency and accountability between Member States. Another important element is the [Code of Best Practice in the Supply Chain](#) (May 2005).

The standardisation of defence equipment is important for integrating national markets. Steps were taken with the launch of a European Defence Standards Reference System (EDSTAR) portal in 2012, replacing its predecessor, the European Handbook for Defence Procurement (EHDP). EDSTAR followed the establishment of a European Defence Standards Information System (EDSIS), which is a portal for wider-ranging European defence materiel standardisation aiming at advertising materiel standards that are to be developed or are to undergo substantive modification.

The Commission adopted, on 24 July 2013, a communication which contains an action plan to enhance the efficiency and competitiveness of the European defence industry ([COM\(2013\) 542](#)). The initiatives cover the following areas: internal market, industrial policy, research and innovation, capabilities, space, energy and international trade. With respect to defence procurement, the communication announces the establishment of a market monitoring mechanism.

## 2. Defence procurement and intra-EU transfers of defence products

Through Directive 2009/43/EC on intra-EU transfers of defence-related products and Directive 2009/81/EC on defence and security procurement, the EU has set up relevant guidelines in order to establish an EU framework in this area.

Directive 2009/81/EC introduced fair and transparent rules for defence procurement, which should make it easier for defence companies to access other Member States' defence markets. It provides for a negotiated procedure with prior publication as the standard procedure, allowing more flexibility, specific rules on security of sensitive information, clauses on the security of supply and specific rules on subcontracting. However, Member States can exempt defence and security contracts if this is necessary for the protection of their essential security interests (Article 346 TFEU).

Directive 2009/43/EC on intra-EU transfers of defence-related products simplifies and harmonises the conditions and procedures for transfers of such products throughout the EU. It creates a uniform and transparent system of three types of licences: general, global and individual. Another key element of the directive is the certification of companies. Companies which are considered as trustworthy will be entitled to undertake transfers under general licences. Individual licensing should become an exception and be limited to clearly justifiable cases.

## 3. A European defence equipment agency

The European Defence Agency (EDA) was established on 12 July 2004. Its main functions are to: develop defence capabilities; promote and enhance European armaments cooperation; strengthen the European defence technological and industrial



base (EDTIB) and create an internationally competitive European defence equipment market (EDEM); and enhance the effectiveness of European defence research and technology (R&T).

#### 4. European Security Research Programme

Despite the efforts to create a common framework for European defence policy, European defence research as a whole has declined sharply since 2006. Conscious of this ominous trend, several of the Union's political bodies have begun to react. The civilian EU programme for research and innovation, Horizon 2020 (2014-2020), has been opened more widely to 'dual-use' projects. One of its challenges (the Secure Societies Challenge) is to foster research for protecting the freedom and security of Europe and its citizens. It aims to bring together all security stakeholders: industry, including SMEs, research organisations and universities, as well as public authorities, non-governmental organisations and public and private organisations in the security domain. The active involvement of end-users is of high importance. The budget allocated to Secure Societies for the period 2014-2020 is EUR 1 700 million, representing 2.2% of Horizon 2020 funds.

With regard to the growing importance of defence research and the recent changes in Europe's security environment, the Commission proposed, in November 2016, a European Defence Fund and other actions to support Member States' more efficient spending in joint defence capabilities, strengthen European citizens' security and foster a competitive and innovative industrial base ([European Defence Action Plan — COM\(2016\) 0950](#)). Under the next EU multiannual financial framework (2021-2027), the Commission intends to propose a dedicated European Defence Research Programme (EDRP) with an estimated budget of EUR 500 million per year.

## ROLE OF THE EUROPEAN PARLIAMENT

Parliament has adopted various resolutions touching on the defence industry. In a [resolution](#) adopted on 10 April 2002<sup>[1]</sup>, Parliament called for the creation of a European Armaments Agency and for standardisation in defence. In a [resolution](#) on the Green Paper on defence procurement<sup>[2]</sup>, Parliament reiterated the view, expressed earlier in its 2002 resolution, that a strong, efficient and viable European armaments industry and an effective procurement policy are vital to the development of the European Security and Defence Policy. The resolution also encouraged the Commission's efforts to contribute to the gradual creation of a European defence equipment market (EDEM) which would be more transparent and open between Member States. Parliament was also able to ensure that its concerns regarding the so-called 'defence package' (i.e. Directives 2009/43/EC and 2009/81/EC) were reflected in the directives' final adopted texts (e.g. strengthening transparency and restriction of the use of offsets).

In its [resolution](#) of 22 November 2012 on the implementation of the CSDP<sup>[3]</sup>, Parliament insisted on the fact that the building-up of European capabilities should also result in the consolidation of the industrial and technological base of Europe's defence industry, and

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[1]OJ C 127 E, 29.5.2003, p. 582.

[2]OJ C 280 E, 18.11.2006, p. 463.

[3]OJ C 419, 16.12.2015, p. 124.



called on Member States to implement fully Directive 2009/81/EC in order to achieve greater interoperability of equipment and combat market fragmentation.

Parliament's [resolution](#) of 21 November 2013<sup>[4]</sup> calls for the reinforcement of European industrial cooperation, and stresses the need to support CSDP missions through European research and development using the Horizon 2020 research programme. It also invites Member States to improve the transparency and increase the openness of their defence markets, while stressing the specific nature of defence procurement.

In two resolutions adopted in [May 2015](#)<sup>[5]</sup> and [April 2016](#)<sup>[6]</sup>, Parliament called for an effective and ambitious European foreign and security policy based on a shared vision of key European interests. It urged Member States to define policy objectives based on commonly shared interests and argued that a White Paper on EU defence should be adopted on the basis of the global strategy. Parliament supported the development of a strong CSDP and defence cooperation among Member States.

In November 2016, Parliament adopted a [resolution](#) on a European Defence Union (EDU)<sup>[7]</sup>, proposing that it be launched as a matter of urgency.

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[4]OJ C 436, 24.11.2016, p. 26.

[5]OJ C 353, 27.9.2016, p. 74.

[6]Texts adopted, [P8\\_TA\(2016\)0120](#).

[7]Texts adopted, [P8\\_TA\(2016\)0435](#).

