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## **DRAFT REPORT**

on the impact of developments in European defence markets on the security  
and defence capabilities in Europe  
(2015/2037(INI))

Committee on Foreign Affairs

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### **on the impact of developments in European defence markets on the security and defence capabilities in Europe (2015/2037(INI))**

*The European Parliament,*

- having regard to Title V of the Treaty on European Union (TEU),
- having regard to European Council conclusions of 19-20 December 2013 on the Common Security and Defence Policy,
- having regard to the Council conclusions of 18 November 2014 on Common Security and Defence Policy,
- having regard to the Commission communication of 24 July 2013 entitled ‘Towards a more competitive and efficient defence and security sector’ (COM(2013)0542), and the related Implementation Roadmap of 24 June 2014 (COM(2014)0387),
- having regard to Directive 2009/43/EC of the European Parliament and of the Council of 6 May 2009 simplifying terms and conditions of transfers of defence-related products within the Community<sup>1</sup>,
- having regard to Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC<sup>2</sup>,
- having regard to Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment,
- having regard to the Policy Framework for Systematic and Long-Term Defence Cooperation, adopted by the Council on 18 November 2014,
- having regard to the updated Framework Arrangement for Security of Supply between subscribing Member States, adopted by the European Defence Agency Steering Board in November 2013, and the associated Code of Conduct on Prioritisation, adopted by the EDA Steering Board in May 2014,
- having regard to its resolutions of 21 November 2013 on the European Defence Technological and Industrial Base<sup>3</sup> and of 14 December 2011 on the impact of the

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<sup>1</sup> OJ L 146, 10.6.2009, p. 1.

<sup>2</sup> OJ L 216, 20.8.2009, p. 76.

<sup>3</sup> Texts adopted, P7\_TA(2013)0514.

financial crisis on the defence sector in the EU Member States<sup>1</sup>,

- having regard to Rules 52 and 54 of its Rules of Procedure,
  - having regard to the report of the Committee on Foreign Affairs and to the opinion of the Committee on the Internal Market and Consumer Protection (A8-0000/2015),
- A. whereas new European defence market legislation was introduced under the 2009 Defence Package and all 28 Member States have transposed the new rules into their national legal orders; whereas the crux of this new legislation is the introduction of a regulatory framework based on transparency, non-discrimination and competition which addresses the specificities of the defence sector;
- B. whereas Member States have agreed on the need to develop a European market for defence equipment and services; whereas the European Council has even called for the establishment of an EU-wide security of supply regime; whereas adequate capabilities and supply of equipment and the strategic autonomy of the EU are of crucial importance for the security of the Union and that of its neighbourhood;
- C. whereas the lack of consolidation in European defence markets means that external dependencies in the European defence sector are increasing at a dangerous rate, at a time of multiple and direct threats to European security which are unprecedented since the end of the Cold War;

***Developments in defence markets put European autonomy at risk***

1. Remains concerned by the widespread and largely uncoordinated cuts to the defence budget in most Member States; is of the view that this lack of coordination puts the Union at risk by relinquishing strategic assets and capabilities and by forfeiting the opportunities that the coordination of defence policies and the pooling and sharing of defence assets could bring as regards the fulfilment of the EU's strategic autonomy, its security of supply and the defence of its citizens and interests;
2. Is gravely concerned over the surge in armed conflict, hybrid war, instability and widespread human rights violations in the EU's immediate neighbourhood and the threat of terrorism inside the EU; believes that the current security threats are common to the EU as a whole and should be addressed in a united and coordinated fashion, pooling and sharing civilian and military resources; believes, in this regard, that it is imperative not to waste resources and that it is essential to better use tax payers' money and make progress on the establishment of a European defence equipment market and to develop a European Defence Technological and Industrial Base (EDTIB);
3. Is worried, therefore, by the slow-paced and inconsistent implementation by the Member States of the 2009 Defence Package directives and highlights the importance of the monitoring role that the Commission should exercise; recognises that the introduction of new legislation is a lengthy process, but warns that incorrect and diffuse application risks generating bad standards of practice, in so doing jeopardising the accomplishment of the objectives set forth in the directives and, thus, compromising the

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<sup>1</sup> OJ C 168 E, 14.6.2013, p. 9.

establishment of the European market for defence equipment and weakening the development of an EDTIB;

4. Warns of worrying developments in the European defence market that are increasing external dependencies in the European defence sector at a time of an increasingly challenging security environment; warns, in particular, of the combination of Member States' declining defence budgets, persisting market fragmentation despite new internal market rules, the growing dependence of the defence industry on extra-EU exports and increased foreign investment in Europe's defence sector, yielding control of strategic national and European defence industries, assets and technologies;
5. Notes that while the December 2013 European Council failed to provide an adequate response to this situation, it nevertheless outlined a number of lines of action and committed to reviewing progress in June 2015; stresses that despite the limited ambition and further worsening of the security environment both internally and to the east and south of the EU, no real progress has been made in addressing the current security challenges and threats;
6. Urges the European Council to draw the necessary lessons and take concrete measures towards overcoming the defragmentation of the European defence market in order to guarantee the availability of the defence capabilities needed to ensure European security and fulfil the objectives of the CSDP;

***Declining European demand due to budget cuts: need for further cooperation***

7. Believes that the years of underfunded defence budgets in Europe must be offset by increased cooperation among Member States, including through the articulation of defence budget policies and the coordination of strategic choices concerning the acquisition of military and dual-use equipment; reiterates its call for demand consolidation across the EU, this being the only means of reaching critical mass in order to sustain a competitive and independent EDTIB; stresses that maintaining a strong and autonomous EDTIB is a key element for Europe's ability to protect its citizens, interests and values, in line with the objectives of the Treaty and to fulfil its responsibilities as a global security provider, as highlighted by the Vice-President of the Commission / High-Representative of the Union for Foreign Affairs and Security Policy (VP/HR);
8. Recalls the need for greater convergence between national defence planning processes and welcomes, in this context, the adoption of the Policy Framework for Systematic and Long-Term Defence Cooperation; finds regrettable, however, its non-binding nature and the fact that it has not introduced a clear and structured process;
9. Demands that cooperation and the pooling and sharing of initiatives be given priority and that incentives – in particular tax incentives – be created to this end; welcomes the work of the European Defence Agency (EDA) on a pooled procurement mechanism and expects it to contain measures to incentivise the cooperative acquisition of and support for defence equipment;
10. Recalls that under Horizon 2020, COSME and the European Structural and Investment Funds, defence industries, and in particular SMEs, can apply for EU funding for dual-

use and other projects; calls on the Commission and the Member States to assist companies, particularly SMEs, in adequately seizing European funding opportunities for defence-related projects;

***Growing external dependencies: need for a common approach***

11. Warns that European defence companies are increasingly compensating for their reduced turnover in Europe through extra-EU exports at the cost of engaging in ruinous competition, transferring sensitive technologies and intellectual property rights to their future competitors and moving production outside the EU, thus compromising Europe's security of supply and increasing the risks of violating the Common Position on Arms Exports and fostering armed violence and conflict in other regions; believes that exposing the EU to the risk of the EDTIB being dependent on customers in third powers with different strategic interests constitutes a serious strategic mistake;
12. Believes that EU export control policies should be substantially revamped with a view to developing a more integrated EU regime and a level playing field, making sure that overarching foreign and security policy objectives have priority over short-term financial, economic and commercial interests; notes that the Council has failed to ensure the uniform application of the common position on the control of exports of military equipment; is disconcerted that even in cases of flagrant non-compliance by a buyer country with several of the eight criteria, including those on the preservation of regional peace, security and stability, and on the behaviour of the buyer country with regard to the international community and its respect for international law, the common position is almost entirely absent from the political decision-making sphere and public discourse;
13. Urges Member States to comply with the principles of the common position and to report fully and regularly on the state of their defence equipment exports to third countries; calls on the Council and the VP/HR to identify the reasons for Member States' incomplete compliance with the reporting obligation and to implement a new mechanism that may fill that gap; recalls that adherence to the common position is fundamental to the fulfilment of EU principles and values, particularly in the field of international human rights law and international humanitarian law and its responsibilities as regards global security;
14. Notes the Commission communication on the review of export control policy of dual-use items and stresses, in this context, the necessity to ensure control modalities that do not hinder the free flow of goods and technology within the internal market and prevent diverging interpretations of EU rules;
15. Notes that while the growing importance of dual-use technologies offers benefits in terms of synergies between the defence sector and commercial production, it also makes it dependent on civilian supply chains, which often base their production outside Europe; warns also of the growing internationalisation of industrial supply chains and the effects that changes in ownership in the defence sector may have on the security of supply in the EU and also the heightened risks for European and national security;
16. Welcomes the work of the EDA and the Commission on an EU-wide security of supply (SoS) regime, as mandated by the European Council, and looks forward to a roadmap with specific steps to be presented for endorsement in June 2015;

17. Takes the view that the SoS regime should comprise an effective EU-wide monitoring system in order to identify existing and potential vulnerabilities in terms of foreign control of strategic assets and supply from third countries; urges the Commission to map existing structures and strategic capabilities in the possession of the Member States, with a view to assessing its role in ensuring the security of the EU and that of its neighbourhood and beyond, within the framework of the Common Foreign and Security Policy (CFSP) and the CSDP, including as regards the maritime, space and cyber dimensions thereof;
18. Considers mutual assurances of SoS between the Member States to be a fundamental element in the construction of an integrated European defence market; welcomes the EDA's updated framework arrangement on SoS as an instrument which strengthens mutual confidence, but notes that it does not create any legal obligations; takes the view that the EU-wide SoS regime needs to be based on legislation, and in particular on the full implementation of the directive on intra-EU transfers in order to remove barriers to the movement of defence products inside the EU;
19. Instructs its President to forward this resolution to the President of the European Council, the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy, the Council, the Commission, the parliaments of the Member States, the NATO Parliamentary Assembly and the Secretary-General of NATO.