



E u r o p e a n D e f e n c e A g e n c y

EDA Bulletin

Special Issue, February 2007

European Defence Technological And Industrial Base Conference



***Making the EDTIB capability-driven,
competent, competitive and truly European:
a report on the EDA conference
in Brussels on 1 February 2007***

Characteristics of a strong future European Defence Technological and Industrial Base (EDTIB)

(Agreed by the Steering Board on 20 September 2006)

The characteristics described below recognise the basic need for an EDTIB which dependably supplies European Armed Forces' needs even in times of conflict, and which provides for appropriate national sovereignty and EU autonomy. They also take into account the fundamental need for demand side harmonisation across the EDA Member States in order to facilitate the consolidation and restructuring of the supply side.

① CAPABILITY DRIVEN

The EDTIB should be responsive to pMS and EU defence needs and thus be capable of:

- Delivering and sustaining key military capabilities;
- Providing complex system of systems solutions;
- Sustaining and upgrading platforms over the long-term;
- Sustaining the necessary levels of European and national operational sovereignty

② COMPETENT

The EDTIB should be capable of delivering cutting-edge technology on time by:

- Promoting innovation also from other sources including academia;
- Developing and sustaining key technologies (with a particular focus on disruptive technologies);
- Accelerating the fielding of new technologies.

③ COMPETITIVE

In business terms, the EDTIB needs to be:

- Providing cost efficiency;
- Enabling global exports;
- Attracting co-operation with non-European partners;
- Contributing to overall economic growth, not least amongst SMEs.

In order to develop and sustain an EDTIB of such character, Europe needs to work towards:

- More consolidation, work-sharing and interdependencies on a European-wide basis, based on Security of Supply and drastically simplified procedures for Intra-Community Transfer;
- More focus on Centres of Excellence (as an industry driven process) with an acceptable regional distribution;
- More integration into the wider European industrial base (as commercial solutions (i.e. dual use) increasingly become key drivers);
- Less dependence on non-European sources for key defence technologies.

Cover Photo: The keynote speakers (from left) Günter Verheugen, Åke Svensson and Javier Solana in discussions before the opening of the conference.

Introduction



EDA Chief Executive Nick Witney opens the conference.

Contents

Perspectives	2
Introduction	3
Executive Summary	4
Gallery	5
Opening Session	6
Round Table 1	10
<i>A Capable and Competent EDTIB?</i>	
Round Table 2	13
<i>A Competitive EDTIB?</i>	
Round Table 3	16
<i>A Truly EDTIB?</i>	
Conclusions	19
Events	20

This special issue of the EDA Bulletin reports our recent conference on the European Defence Technological and Industrial Base. It was, I think, an important occasion. With the Agency taking the first steps towards opening up the European defence equipment market last summer – and with the Commission taking parallel initiatives – more and more people now tend to ask “so where is this taking us?”. What exactly is the form of European DTIB that we want? And how can we get from here to there?

We had the best possible trio of keynote speakers to address these questions, in the persons of **Javier Solana** (Head of the Agency), **Günter Verheugen** (Vice-President of the Commission) and **Åke Svensson** (President-elect of the Aerospace and Defence Industries Association). Their strategic, and original, contributions were followed up by three panel sessions — with the wide and

interesting range of speakers, and indeed moderators, all doing us proud. The single thing that came across most clearly was the degree of consensus amongst Member States, industry, Commission, even academics, about the problems we face, and the solutions we need to apply. No one disputed that, pre-eminent though Europe remains in many aspects, urgent and consolidated action is required if we are to preserve a globally competitive EDTIB for the future. The influence of market forces needs to be increased, whilst governments need to take complementary action, in their roles of customers, sponsors and regulators.

We all need time to digest what we heard on 1 February — and this bulletin is intended to assist that process. But the challenge for this Agency is then to move promptly forward to distil the key elements of the strategy we are all searching for and to “fix” it, perhaps on the occasion of our next Ministerial Steering Board, here in Brussels in May. We all know that a comprehensive agreed strategy will not sustain Europe’s DTIB in and of itself. The key thing in that regard is the aggregate impact of tens and hundreds of individual spending decisions taken by Ministries of Defence across the capitals of Europe. But if we can all agree where we want to go, and the steps that need to be taken to get there, then we are off to a flying start. ■

Nick Witney,
EDA Chief Executive

Executive Summary

Public and private-sector officials alike warned throughout the conference debate that survival of an autonomous European defence industry was at risk without radical change. Their collective assessment of current trends was bleak—unless there are new proposals to encourage investment and overcome the sector's fragmentation along national lines.

That means creating a genuine market predicated on transparent cross-border competition and underpinned by interdependency on a continental scale that is focused on developing and/or sustaining key technologies and delivering what Europe's armed forces will need in the future, they said.

● As **Javier Solana**, Head of the EDA, told the high-level audience: *"None of us can any longer afford to sustain a healthy and comprehensive DTIB on a national basis. The future health, maybe even survival, of Europe's defence industry requires a European approach, and a European strategy. We must develop greater mutual reliance on diverse centres of excellence, and less dependence on non-European sources for key defence technologies."* He also urged investing more in defence research and development and equipment procurement. Furthermore he advocated alignment of national requirements to help foster consolidating defence orders and thereby realising economies of scale.

● **Günter Verheugen**, European Commission Vice-President for Enterprise and Industry, echoed Solana's concerns. *"The question is: for how long*



can the DTIB survive if Europe continues to postpone reforms which are generally accepted as unavoidable?" he said.

Verheugen told the conference that the Commission is planning a number of initiatives to improve competitiveness, starting with a project to map the EDTIB's capabilities and thus provide decision makers with detailed economic data about the sector. He also outlined an upcoming proposal for a defence procurement directive to complement the EDA's own voluntary Code of Conduct on Defence Procurement. Finally, he said the Commission is looking at a potential regulation to ease intra-EU transfers of defence equipment, whose current administrative burden costs industry circa €3 billion a year.

● On the industry side, **Åke Svensson**, President-designate of the Aerospace and Defence Industries Association of Europe (ASD), said Europe lacked a coherent defence strategic research agenda comparable to that of the EU's strategic research agenda in civil aeronautics.

"We see the need for a "group of wise men" to propose the agenda and conceptualise the framework in which

Europe will be able to define and provide funding for important key technologies and competencies," Svensson said.

Other industry officials called on national governments to pursue common military requirements, pool technologies and funding, hem in the use of offsets and aim for consolidated defence procurement orders. It was even suggested that the Agency considers a new code of conduct for equipment programmes, though reaction to that from certain government officials was cautious.

● EDA Chief Executive **Nick Witney** said the Agency would build on the strong consensus at the conference that action is needed to further refine the 'vision' of the future EDTIB. He said his organisation will work with Member States, the Commission and the defence industry on actions required to make it a reality.

"No one thinks this will be easy. But the consensus on the need for action, and on the direction in which we must move, is increasingly strong -as Javier Solana reminded us- this is not merely a matter of economics, but of the infrastructure of Europe's essential security." ■

Gallery



Report: the Conference Debate

OPENING SESSION

Keynote Speakers

Nick Witney, Chief Executive of the EDA, opening the event, said: *"I am confident that we may get a clearer idea of the way forward based on the debate here today. Rather than linger on a long introduction, I suggest we move straight to the heart of the matter, for we all recognise there are crucial topics we must address."*

Witney then introduced the morning's first keynote speaker, Javier Solana, the EU's High Representative for the Common Foreign and Security Policy, and Head of the EDA.

"The DTIB is a key defence theme for 2007. There are difficult decisions and significant changes that lie ahead and that need to be taken," said Solana.

As defence becomes increasingly a high technology business, he said operational autonomy demands an understanding and control over the

technology embedded in sophisticated systems. Yet the sector is under stress due to falling budgets in Europe.

"Between 2000 and 2005, government funding of US defence research and development grew by over 9% per annum. In Europe, the rate was less than 1.5%. What is to be done?" he asked.

ACTIONS REQUIRED

Javier Solana defined four lines of action:

First, EU nations need to increase spending on research, development and equipment procurement, *"either by increasing overall defence budgets, or by moving money out of running costs into investment within defence budgets, or both."*

Second, governments must pull together the demand side by aligning their national requirements into consolidated orders. *"We must recognise that this is wholly unnatural behaviour for Ministries of Defence. It will not happen by itself. It needs political determination. But it makes operational as well as economic sense,"* he observed.

Third, Solana called for exploiting all resources available in the enlarged Union. Noting that civil industries such as the automotive and IT sec-



The Opening session (from left) Åke Svensson, Günter Verheugen and Nick Witney.

tors have realised benefits from investing in the new economies that joined the Union in 2004, he said *"this aspect and the role of small and medium sized enterprises [SMEs] have yet to be fully exploited in the development of the European DTIB."*

Finally, he called for clarity of policy. *"There is no future for a defence industry which does not provide what the armed forces of the future want to buy. But this means that there is an obligation on ministries of defence to communicate their future requirements to industry. And before they can do that, they need to work out what they are."*

THE COMMISSION VIEW

Solana then handed over the floor to the morning's second keynote speaker, **Günter Verheugen**, Vice-President of the European Commission for Enterprise and Industry, who outlined a bleak future for Europe if it does not raise its political profile to match the strength of its economic role in global affairs.

"If you ask me what the most important challenge is for the EU in the 21st century, it is to fully accept our global responsibility and maintain our capacity for independent decision-making," he told participants.

"We see new economic global structures emerging — new economic and technological superpowers—who are stronger than we are. But under present conditions, with our present objectives, we will not be able to defend our interests because we will not be able to speak with one voice. If you believe we can continue to be an economic giant and political dwarf,

then sooner or later the dwarf will not be able to defend the giant, and we will become an economic dwarf too. A strong defence industrial base is a critical part of it."

Arguing that Europe's defence sector suffers from unnecessary duplication, lack of competition, inability to exploit economies of scale and poor value for money for taxpayers, Verheugen said there are too many disparate armament programmes in the EU: 89 compared to only 27 in the US.

"If we continue like this, our defence industrial base will not be sustainable. The time has come for policymakers to take action to avoid this scenario and build affordable military systems—to create a truly European DTIB that is more than the sum of its separate national components," he said, adding that the Commission has substantially increased spending for dual-use security research within the EU's new Seventh Framework Programme.

Verheugen said his directorate-general is mapping DTIB capabilities across Europe and will unveil a package of measures in the autumn, including a proposal on a directive on defence equipment procurement and a regulation to facilitate intra-EU transfers of defence goods.

Arguing that estimates in 2003 put the administrative cost to industry of intra-EU transfers at € 3.16 billion annually—he said *"I'm pretty sure the figures have not changed much and that we'll have the political justification to improve the situation. It is time to recognize that a transfer from one Member State to another should not be regarded as the same as to third countries."*



"There is no future for a defence industry which does not provide what the armed forces want to buy."

Javier Solana
Head of the EDA



"The most important challenge for the EU in the 21st century, it is to fully accept our global responsibility."

Günter Verheugen
Vice-President of the European Commission
And Commissioner for Enterprise and Industry



“If Europe does not act, others will act in our place.”

Åke Svensson
President-elect of the ASD

WHAT INDUSTRY SEES—AND WANTS

The final keynote address was delivered by **Åke Svensson**, President-elect of the Aerospace and Defence Industries Association of Europe (ASD), who welcomed the EDA's initiative to start the debate on DTIB.

“To make the transition to a European DTIB is a challenge to all stakeholders, including industry,” he said. “We see no defined common European interest in defence R&T, and budgetary constraints at national level. We see national research that is mostly closed off to cross-border participation because it is viewed as an investment in national competitiveness. Finally, we see a lack of conviction that multilateral research managed by the EDA will achieve better value than national. Lateral thinking is needed to break these patterns of thought.”

Svensson put forward several ideas for doing this:

First, he argued that if requirements cannot be harmonized right now, then sourcing on an open European market is a first step in the right direction. *“This will create a ‘pull’ effect. First,*

we should develop a policy framework to encourage collective investment. Software-defined radio, maritime surveillance and UAVs [unmanned air vehicles] are all good candidates for such an approach.”

Second idea: *“We need sound financial conditions. We do business in a global market. We continue to struggle with too-low rates of return in our business, particularly compared to US. The viability of our industrial base warrants careful analysis.”*

Finally, he said a deliberate approach is needed at the European level. *“We see the need for a ‘group of wise men’ to propose an agenda and conceptualize a framework to define the key technologies and competencies and their funding,” he said. “We support the Commission’s initiatives: if Europe does not act, others will act in our place, and we will come to regret that.”*

Svensson also cited EDA's approach, which he considers sound, in encouraging Member States to invest more, more together and more efficiently in defence R&T. The Joint Investment Project formula in the domain of Force Protection is seen as offering promising potential. ■



The Conference brought together more than 300 decision-makers and experts.

Q&A

During question-and-answer time, several important industrial policy issues were raised by participants.

On Technologies Transfers

Pascal Meunier, Senior Vice President, from Thales, asked about intra-EU transfers where he said *"There is always a problem with mutual trust between Member States. The World Customs Organisation is looking at the concept of 'authorised economic operators' (AEOs) in the maritime sector [regarding import/export security-of-cargo rules]. 'Couldn't we do the same for intra-EU defence equipment transfers?'"* Verheugen's response was: *"I would like to see no restrictions at all. The AEO is one idea. Issuing an EU-wide license for a given defence product or sub-system is another one. But the impact would be the same. We will go for the least bureaucratic solution that creates the lowest administrative cost."*

On Competition

Vice-President of Thales, **Edgar Buckley**, wondered how Europe should take into account *"that our competitors' markets—and primarily that of the United States—are not competitive?"* Svensson's responded saying: *"Start with cross-border competition and the circulation of lower-system goods and services. I agree that when you get to higher-level systems, it gets more complicated and there is reluctance to truly compete that. But if we start within Europe by using policies similar to those of US then eventually there will have to be discussion about transatlantic [market] links."*

Verheugen picked up on this saying that it would be very difficult to get a transatlantic market agreement. *"It has not moved forward because there are too many tariffs and barriers between us. We've worked for two years with US to tackle this, but there's not much progress*

at all," he said.

"Look at the facts. The US buys less than \$1 billion in defence goods from us each year. It may be they don't trust us, which is linked to fact that we have not been able to organise our market on a European level. They might be more engaged with us if we could offer them something interesting...and at an affordable price," he observed.

And What about Offsets...?

Finally, on the issue of offsets, several participants weighed in with questions. *"What about offsets in this whole debate? They get in the way of a*

be fighting each other on the European market—and offsets are part of that. We should use them instead to get to the global market place. So I wonder: would our MoDs give up even a bit of their sovereignty [regarding offsets] in favor of a European defence market?"

Verheugen gave his view on the topic: *"I will meet with Germany's Defence Minister soon to discuss what might happen during the EU's Germany Presidency and one of the issues may be what can be done on offsets. I've met a lot of governments individually and, broadly, the reaction is generally positive."*



Javier Solana with Nick Witney after his keynote speech.

transparent market. How will they be handled within a DTIB?" asked **Alexander Nicoll**, Director of Defence Analysis & Publications at London's International Institute for Strategic Studies.

For Svensson, the answer was clear. *"It would be better if we did not have to deal with them. But we have to be realistic: offsets often represent very large investments, and those who make and want a return on that investment. They can be a driver of technology, if you do it right. But if you do it wrong, it could mess up the market mechanism everywhere."*

Audience member **Michael Langer**, Director General, External Relations of Diehl, argued that if Europe wants to be competitive globally *"then we should not*

Verheugen however, took a dim view of offsets in general. *"To be frank, I don't have much sympathy for the practice. I can accept defence-related offsets that stay strictly within the defence sector, but not those that spill into the commercial sector. That I could not accept. We want to limit the practice as much as possible, but I'm not sure whether we can eliminate or control it via legislation,"* he said.

Bringing the first session to a close, Witney noted that offsets *"are a tough question. Everyone agrees that what we have now should be a transitional thing. Even if we have live with them for the next decade, then we should be working toward a time and place when that isn't the case."*



“Don’t forget that we have to meet NATO operational standards.”

General Henri Bentégeat
Chairman of the EU’s Military Committee

ROUND TABLE 1

A Capable and Competent DTIB?

Hilmar Linnenkamp, the EDA Deputy Chief Executive, moderated the first round table and began by asking the chairman of the EU’s Military Committee for his opinion about the prospects for a European DTIB.

“Do we need a DTIB and does it matter for a chief of staff?” asked **General Henri Bentégeat**. “In theory, it doesn’t matter that much. Our equipment programs are driven by acquisition of capabilities, however we get them. What is the best way to promote a European DTIB? In the end, I think it is the European Defence Agency. A first priority should be to open dialogue with military leaders [among EU countries] to help them turn military requirements into options for equipment programs,” he said.

General Bentégeat pointed to the overriding needs of Europe’s armed forces.



EDA Deputy Chief Executive **Hilmar Linnenkamp**, the session moderator.

“Don’t forget that we have to meet NATO operational standards. Our first concern is to achieve a minimum interoperability within NATO and, if possible, with the United States,” he said. “And there is the crucial matter of maintenance, repair and overhaul. We want a European defence industry that can reliably



The panel (from left) General Henri Bentégeat, Edgar Buckley, Hilmar Linnenkamp, Álvaro Azcárraga.



provide in-service support for all the equipment used by armed forces. Industry in Europe must be able to provide the spare parts and munitions we need. We should not rely on non-EU providers for this."

Fellow panellist **Álvaro Azcárraga**, consultant for the Sener Group, gave a cautious assessment of the prospects for a European DTIB. "We should be prudent," he said. "There is value in having common programs but in my opinion, joint defence procurement initiatives are very, very far away in the future. They will not come before we have a united political Europe."

POOL TECHNOLOGIES?

Edgar Buckley, Senior Vice-President of Thales and the panel's final speaker, made an impassioned plea for national governments to begin pooling their defence assets—and needs.

"We all know what our defence technology needs are: they are the same in France and Britain as they are in the United States. Go to the DoD's website and you'll see 200 technology areas. They're the same that we in Europe seek," he said. "But where we

lag behind the US is that we have no overall assessment of our assets. Our technology is splintered between the Member States and we have not pooled technologies to any great extent. We also draw too great a distinction between defence-related and dual-use investments."

In Buckley's view, national defence budgets will be too small in the future to sustain national DTIBs, meaning that programmes will have to increasingly cooperate in one way or another.

"I think technology pooling offers an answer to this problem. There are certain technologies that could be truly shared between countries. Industry knows where the technology gaps are and we could get a common view relatively easily if we were asked to provide it. This would offer a way to avoid duplication and strengthen the European DTIB."

According to Buckley, the EDA's Code of Conduct on defence procurement is a good step forward, though R&D falls outside its scope. "The Member States still want to control their technology or to avoid seeing their investment diluted across the EU. But we are increasingly in a 'share-it or lose-it' situation," he said.

"We should expect smaller Member States to pool their technologies and investment, and to signal to industry that they are willing to see their infrastructure restructured," observed Buckley, adding that the EDA should encourage pooling arrangements "and work with the Commission to ensure that we also get maximum benefit from the EU's support of dual-use research." ■



"Joint defence procurement initiatives are very, very far away in the future."

Álvaro Azcárraga
Sener Group



"We have no overall assessment of our assets."

Edgar Buckley
Senior Vice-President of Thales

Q&A

On Perspectives

Picking up on Azcárraga's view that a European DTIB is a distant goal, **Arturo Alfonso-Meiriño**, Assistant Director of the EDA's Industry & Market Directorate, commented: "You say that, effectively, because we have no united Europe, then we can do nothing [about a European DTIB]. Do you really believe that?"



"I did not say that. I said it is easier to start bilaterally between member states, and to involve industry heavily in that process," replied Azcárraga. "But I do reiterate that we cannot have a common industrial policy for the defence sector until we have a common foreign and defence policy. There is no single seat of power in the EU, and it makes little sense to address something as sensitive and delicate as a DTIB policy before we have a true ESDP."

On SMEs

A question on Small to Medium sized Enterprises followed: "Where do SMEs fit in? How to swing business to those of us who cannot afford to invest in high-tech products?"

Azcárraga counselled patience. "Be consistent, choose what you want to do and specialise and be patient. It takes years to get a good contract," he said.

Buckley opined that *"it's one thing to have a [joint EDA/industry] Code of Conduct for the supply chain, but if we want to make it work, then we have to be more deliberate and reach out to the SMEs telling them how to do business, provide them the contacts, and so on. All this is perfectly doable."*

But General Bentégeat observed that experience in reaching out to SMEs in other countries in Europe is limited. *"The US military has devoted a lot of thought to this, though I'm not sure if they've drawn any hard conclusions yet. But at least they are turning to many companies, big or small, in their attempt to find the key technologies for the future,"* he said. *"We need to fix the rules for the future, too, though we have to be realistic: I'm not sure that a permanent industry-government dialogue [regarding technology pooling] could be easily pulled off."*

On Pooling Doubts

Buckley admitted there would be difficulties with pooling and SMEs, but drew a culinary metaphor to support his argument. *"If we have reached the limits of joint spending at EU level for the time being, then we need to try something else,"* he said. *"If you can't bake a sponge cake—one with the same uniform consistency—then you bake a fruit cake, with chunks of fruit in it. And the chunks are pooled technologies."*

Paul Hollinshead, Director of Science and Technology Policy at the UK's MoD, warned against a waste of resources duplicating each other's work, and suggested a more modest but workable approach to technology pooling.

"It might be more fruitful to attack this on a bilateral or trilateral basis. We could identify a few key issues rather than starting with huge systems or overarching system-of-systems."

Buckley agreed, saying *"It should be tackled domain-by-domain. And if two countries in a key domain decide to partner, then it is very likely that a third country will feel compelled and motivated to join it. It would grow from there."* But first he said governments would have *"to signal their willingness to share technologies and to guarantee access to them for each other. That must be backed with a political agreement."*

...and Survival of the Smallest, Too

Carlos Viegas Filipe, Portugal's National Armaments Director, warned that the goal of a European DTIB is not only for rich countries. *"If we want a strong European DTIB, we have to count on the industry of small countries, too. If you don't put all the ingredients in the pot, then you will support only big industry in big countries. And that message will not fly,"* he said.

Belgium's National Armaments Director, **Admiral Jacques Rosiers** agreed saying *"I feel some frustration about this pooling idea. I find the concept interesting, but it must be extended to smaller countries, too,"* he said. *"They need the DTIB for their SMEs...not just for the military support it offers, but also for the economic support and [positive] public opinion it will generate."* Buckley's response was: *"Fine, but if you as a smaller country join a technology pooling programme—a technology 'club'—then you have to pay. You have to support the technology by paying for it."*

Bringing the round-table debate to a close, Linnenkamp declared *"there will be ample opportunities [in a future European DTIB] for all players and not just the 'usual suspects'. Some of the EDA's initiatives are intended to do exactly that: to get the best talent from the whole of Europe."*



Heinz Schulte, Editor of *Griepfan Briefe*, the session moderator.

Moderator **Heinz Schulte**, editor of the German publication *Griepfan Briefe*, opened the session by declaring that “We’ve heard about pooling and centres of excellence, but what about competition? Is this a word

ROUND TABLE 2

A Competitive DTIB?

we have to introduce into the tangled web of DTIB?”

First panellist to take up the challenge of how to achieve a competitive DTIB for Europe was **Pertti Korhonen**, former Chief Technical Officer of Nokia and now head of Elektrobit, a Finnish company with 2000 employees in 15 countries and a small business line in defence.

“I spent most of my 20-year career in an open, global and fast-moving ultra competitive business environment—that of Nokia’s—where you had to win every day; where there were no safety nets and you had to make your living every-day,” he told the EDA audience.

Pointing on some European contradictions, he added: *“I am not an*



“Europe still has too much money to spend.”

Pertti Korhonen
Chief Executive of Elektrobit



(From left) Corrado Antonini, Heinz Schulte and Pertti Korhonen.



“First of all, we need more homogeneity.”

Evangelos Vasilakos
National Armaments Director
of the Hellenic Ministry of Defence

expert in the defence industry—I’ve only held my current position six months—and I haven’t understood all the problems discussed here today. But I can say that Finland’s military forces are ultra-modern in their thinking and purchasing habits due to financial pressure from government. Europe still has too much money to spend; otherwise financial pressure would have produced the same result as in Finland.”

A SYSTEMIC PROBLEM

Opening up Europe’s defence market is a systemic problem, also said Korhonen “so many interests to protect, so many governments who do not trust their neighbour, so many companies that are afraid of competition.” In Korhonen’s view, the EDA “seems to be prescribing the right medicine, and its analysis seems correct. But there can also be ‘paralysis by analysis.’ What is needed is action.”

He called for transparency of supply and demand, intra-EU licensing/transfers mechanisms and harmonised requirements and standards. The latter, in his view, “is absolutely key. If you allow the member states to keep their own

requirements, an open European DTIB will never happen.”

Fellow panellist **Evangelos Vasilakos**, the Greek National Armaments Director offered a different take on the issue. “The key role of any government should be regulatory vis-à-vis the EDTIB,” he said. “Pure sovereignty exists in few areas today, and industry wants a level-playing field at a European—not national—level. Governments should provide the institutional framework to create that.”

Should competition with US be carried out on the European level or national level? he asked. “First of all, we need more homogeneity in manufacturing of weapons systems. We need big industries at European level, and partnerships on equal terms among national industries. We also need to look very carefully at a dual-use policy: Our security today must not be driven only by defence requirements.”

HARMONISE REQUIREMENTS

The third panelist and Chairman of Fincantieri, **Corrado Antonini**, placed the accent on the defence industry’s meat-and-potatoes issue: programme-related revenue.



The panel (from left) Corrado Antonini, Evangelos Vasilakos, Heinz Schulte and Pertti Korhonen.



"The first and most important thing the sector needs is simply the workload and programmes, and thus visibility for the future," he said. "Europe spends too little, and inefficiently. The problem is not on the supply side but the demand side: since it is fragmented and lacks coordination, the supply side mirrors this."

Antonini claimed the first step to achieve DTIB and trigger restructuring is the harmonisation of military capability requirements. *"This would allow aggregated demand and supply: exactly what has been lacking in the naval sector, for instance,"* he said. Arguing that industry would have to meet the new technology challenges raised by common requirements, he also insisted that *"with industry increasingly encouraged to think innovatively and to provide financial support, industry cannot then be asked to sustain the risks and uncertainties inherent in the demand."*

Turning to the question of whether a European DTIB should strive for Centres of Excellence regardless of their location, he said practical steps in the naval field *"could be based on cooperative use of showcases and laboratories to test cutting-edge and dual-use products. These could be*

measured and calibrated in collaborative laboratories."

In his closing remarks, Antonini stressed one final point: defence company ownership. *"My company is almost 100 percent state-owned. I hope we'll go public one day. And I want to say that ownership [of a defence player] should not matter, provided that the state's presence is not a distortion of competition and as long as the company follows business rules."* ■



"The problem is not on the supply side but on the demand side."

Corrado Antonini
Chairman of Fincantieri

Q&A

On Fragmentation

Roberto Matteucci, one of Iveco's top officials, wondered if Europe was starting from the right point in its diagnosis of the defence sector. *"While it is true that Europe has 23 AFV [armoured fighting vehicle] programmes, they all come from five platform integrators. Why? Because it is obviously efficient to have shared standards and parts across a family of AFVs,"* he said, suggesting that the sector

is not as fragmented as first appearance would seem.

On Market

Bill Giles, Director European Affairs at BAeSystem, Brussels, highlighted the emerging industrial policy decisions that will shape the market. *"I am struck by the fact that very little has been said today about development of the market,"* he said, pointing to the EDA's Code of

Conduct, which came into force on 1 July 2006, and the European Commission interpretative communication on defence procurement issued last December. *"These are very important steps: they mean the market is being tackled from bottom up by EU authorities. Do they not offer a more pragmatic way to a DTIB—that is, by targeting the dual-use side of the market and hoping it will drag defence behind it?"* he said.



“The EDA has the potential to mobilise politicians and industry.”

Peter Ibbeken
Chief Executive Officer
of Diehl BGT Defence

ROUND TABLE 3

A Truly European DTIB?

Moderated by **Daniel Dombey**, the Financial Times’ diplomatic correspondent, this panel sank its teeth into some of the challenging issues policymakers will have to overcome if they wish to achieve a true European DTIB.

Peter Ibbeken, CEO Diehl, began the debate by arguing that the EDA “has the potential to mobilise politicians and industry. A true EDTIB requires a common understanding of Europe’s future core defence capabilities, stronger competition, stronger cooperation among key players, and an increase of R&T beyond a ‘national eyes only’ approach.”

However, he admitted that a major challenge is to include smaller Member States and SMEs, perhaps by combining procurement orders and military requirements so that several countries can benefit from economies of scale.



Daniel Dombey of the Financial Times,
the session moderator.

“This could help create transparency of opportunities for contractors and sub-contractors,” he observed, warning however that “best practice in the sub-supply chain must not mean that a company’s supplier network is fully disclosed to its competitors. Will market forces alone do this? No. A common framework of tendering and contracting regulations is an essential precondition.”

Panellist **François Lureau**, France’s National Armaments Director, said “I have the impression there is a shared recognition of the need for a European DTIB, but we don’t agree on how to achieve it.”

Noting that debate is split between those who pursue the best-value-for-money argument versus those who insist on security first, Lureau said “there is no single answer. We



The panel (from left) **Peter Ibbeken**, **François Lureau**, **Daniel Dombey** and **Tomás Valášek**.

should use market forces as much as we can. However, this sector is special: governments are investing a lot for their security and they want something for it. So, do we take the risk of established a common DTIB?”

THREE CHALLENGES

Lureau said there are three main challenges to overcome.

First, everyone should be involved: large and small companies, large and small Member States *“and even the European Commission, which is heresy to some.”*

Second, he said national governments collectively *“need to master, control and have access to”* all the key technologies related to defence.

Finally, all must recognise there will only be a DTIB *“when our political masters think it is important. Unless we get our act together soon, we might be in big trouble. It requires a lot of political will and management skills, which we would look at the EDA to help provide.”*

As for competition and market forces, Lureau said several ‘useful tools’ now exist, namely the EDA’s Code of Conduct and Code of Best Practice in the Supply Chain. *“We now need to put those words into practice,”* he said. *“We should ensure that big primes are strongly encouraged to run fair and open competitions for second- and third-tier suppliers. And we must work on security of supply. This is a key point: without it, you are wasting your energy talking about any DTIB.”*



TACKLING TRANSFERS

Lureau also agreed that the problem of inter-EU transfers is urgent. *“This must be tackled. It is extremely complex. Even if it is not achievable among the EU-27, it must be a goal for at least a sub-set of member states. Tackling export policy [outside of the EU] is a much wider issue and should be addressed later in order that we can work on intra-EU—and work on it now.”*

But how to address the demand? *“Everything starts here,”* observed Lureau. *“If we all agree on what should be purchased, logic dictates we should get better products for our money. We need to share more in research. And to share in the support of European demonstrator projects. The EDA should foster these, which will help support integration of European industry, particularly since SMEs will be heavily involved.”*

Lureau also mirrored Bentégeat’s concerns about the availability and affordability of maintenance and overhaul services in the future. *“Maintenance is important because it involves so many SMEs. Take the*



“We now need to put words into practice.”

François Lureau
National Armaments Director
of the French MoD



“MoDs support not only integration but also more competition.”

Tomáš Valásek

Acting Director-General of the Defence Policy, International Relations and Legislation Department of the Slovak MoD

A400M [Airbus military transport aircraft] for example: we should have a joint instrument or programme to deal with its maintenance aspects since we'll have this need for the next 20-30 years!”

Final panelist **Tomáš Valásek**, Acting Director-General of Defence Policy, International Relations and Legislation at the Slovak Ministry of Defence, said the whole DTIB debate “boils down to capabilities and the ultimate customer: the military.”

Noting that the cost of basic military equipment has more than tripled since 1999, Valásek said expectations for the Agency have been set high.

“Many MoDs will look to EDA to help alleviate pressure on their budgets by helping bring down the cost of delivering weapons to their armed services. I think they will support not only integration but also more competition—if affordable prices are the result. And this holds as much for small member states as it does for big ones,” he said. ■

Q&A

On Regulation

Asked if the EDA should take over task of coming up with intra-EU rules for transfers of defence equipment in view of the six Letter-of-Intent (LOI) countries' failure to do so after years of effort, Lureau said “whatever leads to the most efficient way to do this is what I want. I don't care who does it. It is true the LOI group has not accomplished much here. But I'm quite sure there is strong willingness among the LOI countries to achieve this.”

Elsewhere, **Denis Verret**, Senior Vice President of French Government Affairs EADS asked the round-table whether a “Phase II” follow-up to EDA's Code of Conduct could

be envisaged for equipment programmes.

“This could commit Member States not to duplicate each other's programmes, while allowing other EDA countries to later join a group programme and could get access to the developed technology,” said the official. “What do the panellist think?”

While Ibbeken thought it would be a good step forward, Lureau sounded a note of caution.

“We are not ready for a Phase II. There is still a lot of work to be done on today's Code of Conduct. Indeed, before moving to any Phase II, we need to get this instrument and others in place and working properly. It's not just a theoretical matter: supply security involves crucial spare parts and ammunition.”

On Public Control

Wrapping up the final round-table debate, Dombey asked: “But who will lose in all this? Are governments ready to lose [technological and budgetary control, etc.]?”

Answering on this issue, Lureau said: “It's a valid point, but it's not impossible. For instance, France is closing its domestic uranium supply company and outsourcing it to Sweden. But that's okay, because we have a security of supply agreement with Sweden. So in that case it boils down to social issues linked to unemployment. But we've made the choice to go for a more logical and efficient solution. It can be done if the political will is there.”

Conference Conclusions

“Not everyone will be involved in everything at the same time.”

Nick Witney



Closing address by EDA Chief Executive Nick Witney.

Witney brought the proceedings to a close, declaring that “We’ve heard a very rich set of ideas today. And I’m confident that out of this rich ‘solution’ we’ll create a good set of ‘crystals.’”

He said it was “evident from the beginning of today’s discussion that we have to come closer together and address the idea of a European DTIB. We either share it or lose. And we need to construct it in a way that all are involved.”

Referring to the participation of various Member States and their industry in a future DTIB, he said that “not everyone will be involved in everything at the same time. There can be ‘variable geometry’ and this is perfectly engineer-able.”

Regarding the demand side of Europe’s defence sector, he distilled the implications of the round-tables’ debate for governments. “We came out of this rather badly. We heard ‘paral-

ysis by analysis’ from industry. We heard ‘lack of synchronised action’. As a collectivity of MoDs, with the EDA in the middle, we heard that we’re not making ourselves as useful as we could,” he told the conference. “In a word, just about everything that could have helpfully been said in this room was actually said.”

Noting that the EDA’s steering board of Defence Ministers will meet in May 2007, Witney declared that “by then we should be able to produce something useful for them to review. So, let’s say this cat is out of the bag and off and running: collectively if there is the political will, then we’ll make progress.”

He then drew the event to a close by thanking the speakers and **Ulf Hammarström**, head of the Agency’s Industry and Market Directorate, and team for their effort in pulling the conference together. ■

EDA Calendar of Forthcoming Events

February 2007

14-15 Joint Investment Programme Management Committee

March 2007

29 National Armaments Directors Steering Board

April 2007

26 Meeting of Capability Directors on Capability Development Plan

May 2007

14 Steering Board in Defence Ministers formation

June 2007

28 Steering Board in Capabilities formation

EDA Bulletin is published by the EDA

Malgorzata Alterman
Head of Media and Communication
Tel: + 32 (0) 2 504 28 10
malgorzata.alterman@eda.europa.eu

European Defence Agency
Rue des Drapiers 17-23
1050 Brussels Belgium
<http://www.eda.europa.eu>

All rights reserved.
Creation/Design EuroFuture.