



4 Sep 2017

COMMON POSITION ON THE EU DEFENCE FUND

The National Defence Industry Associations of Estonia, Finland, Denmark, Norway and Sweden welcome the Commission's Defence Package. We see that the proposal for Defence Fund may greatly contribute to the technological development of as well as to the competitiveness of the European Defence Industrial Base.

In general, we find this an initiative to support enhanced cooperation with commonalities and common technological specifications. Strong customer interest and commitment to the projects is essential. The Capability Development Plan (CDP) gives a good basis and should be decisive when determining the projects. The capabilities developed must be able to be used and function across the region of the Union as well as in crisis management operations

As representatives of smaller Member States, we want to emphasize the importance of cross-border participation and the role of the SMEs in EDIDP. It is essential that EDIDP is used to promote cross-border market access of SME's. Furthermore, EDIDP should be open for investments in all parts of the supply chain. This Common Position proposes recommendations for how to strengthen the EDTIB across the European Union.

1 Cross-border participation in EDIDP

EU funded projects which would not, in practice, enable companies from all Member States to participate, are not on a sustainable base. Such projects would not strengthen the industrial base, create autonomy or cooperation and would be difficult to justify to the citizens or to the Armed Forces.

A Level Playing Field (LPF) needs to be created for the EDIDP by special measures. As it has been seen, the provisions in the Defence Procurement Directive are insufficient to achieve LPF. Therefore, we recommend the following.

1.1 Create a Code of Conduct for Prime Contractors in EDIDP Projects (Art 9)

There should be a requirement for every prime/consortium leader on how they act with their supply chain. This would be made in a form of a Code of Conduct in every EU (partly)funded project. It would be a means to guarantee a fair treatment of SMEs and cross-border access to market for competitive suppliers. It would also help to achieve an equitable treatment in IPRs and in other contractual agreements within the consortium.

1.2 Add a requirement for geographic balance

There needs to be a geographical balance on industry's participation in the projects. Consortium which covers a wider geographical area, should be awarded with bonus points.

It is important that projects are granted throughout the region on the Union, since MS have different security challenges.

1.3 Emphasize cross-border participation in award criteria

We are very aware of the challenges in joint development programs. Therefore, we can support the proposal that at least three entities from only two Member States may form a consortium. It is important, however, that not all projects are granted to the same Member States and/or companies.

In addition, there should be an emphasis for a wider cross-border participation. If the consortium can demonstrate that its wider regional coverage brings added value, it should be awarded with bonus points.

1.4 Competitiveness and transparency is decisive

Within EDIDP projects the primes must be able to build their supply chain on a competitive and technological basis. There is a lot of niche expertise in the smaller Member States and they could provide added value to the EDIDP projects. There needs to be transparency and measures to secure that.

1.5 Monitor and Report on the level of cross-border engagement

The Commission needs to monitor and report on the level and quality of cross-border participation. Corrective measures need to be taken if needed in due course.

2 The Role of SMEs in EDIDP

SMEs often lack the resources for long-term strategic planning and technological insight. This, on the other hand, is one of the reasons they are so agile and innovative. Therefore, it is essential, that SMEs are granted an access to the projects already in the early R&D phases. Only then can their capabilities be fully utilized. A close linkage between the Prime contractors, end-users and SMEs needs to be developed. SMEs will need special measures to help them gain access to and visibility in the market.

In some cases SMEs can also act as the Prime Contractors in the project. Nationally we have many examples of successful SME led projects. Provisions and evaluation criteria must enable this.

Recommendations:

2.1 Sufficient part of the project must be given to SMEs

Art 13 (3) should state:

*“The work programme shall ensure that **an equitable share** of the overall budget will benefit actions enabling the cross-border participation of SMEs.”*

We do not support a certain percentage of the project costs to be directed to the SMEs. This, in our view, could endanger the building of the most competitive and advanced supply chain. However, it is most likely, that certain projects give more room for SME (and cross-border) participation. Therefore, a percentage may be set on a case by case basis.

3 Give emphasis to common specifications and standardization

At its best the EDIDP could contribute to increased commonalities and interoperability. It is also important to contribute to the development and wider use of standards.

Recommendations:

3.1 Where applicable, open interfaces and standards should be favored.

4 Other Recommendations

In addition to those above we would like to raise a few other comments to the provisions. They are found more in detail in the annex.

4.1 Art 7 on Eligible Entities

The defence industry works globally and supply chains are global. Asia, China in particular, already spends more than Europe (before Brexit) on Defence R&D and spending increases rapidly. Therefore, likeminded western democracies should endeavor to maximize the output of their common spending on defence R&D. Unless the EU nations (ex UK) are prepared to significantly increase their investments in R&D (beyond any realistic level), excluding third party content in projects under the EDF would in the long run erode the European Defence Technological and Industrial Base.

Possible repercussions are that European owned or controlled subsidiaries will be excluded from US programs, and that European industry will not be allowed to team with US primes to pursue opportunities in the US market.

It is therefore important to make certain that the EDIDP remains open to third countries. Hence, third country entities should be eligible for participation with their own investment.

Ownership of companies can fluctuate and be untransparent. More important than the ownership of companies is that they operate inside the Union (or Norway) as registered companies and with actual activities.

4.2 Art 10 on Award Criteria

The first criterion a is stated as “excellence”. It needs to be defined in detail in every project call. Otherwise it cannot be used as an award criteria.

The capabilities developed must be able to be used and function across the region of the Union as well as in crisis management operations. This should be added to the award criteria.

A consortium should be awarded if it can develop common interfaces, systems, procedures or contribute to the development of standards.

Life-cycle costs should be added to the award criteria.

Art 10 (e) creates a technical problem. The proposed wording would mean that the MS should have the money for the procurement guaranteed already in the development phase. Programs are long and developing military capabilities always involve a risk of failure or delay. Therefore, it is unrealistic to suppose, that the MS could commit to the procurement before the results of the program are seen. Also, a certain level of risk investment need to be accepted.

4.3 Art 16 on the Committee

The European Defence Agency should be invited to the Committee as a member or an advisor not as an observer.