AIP Seminar – Friday 25 March 2013 – Lisbon, Portugal

The strategic frame work for the internationalisation of national defence-related companies

Presentation by Peter Scaruppe, Industry and Market Director, European Defence Agency

Introduction

- Good morning Ladies and Gentlemen

- Representing European Defence Agency - **case for Europe.**
- EDA mandate - **support Member States** in preserving and developing a **competent and competitive Defence and Technological Industrial Base.**
- Business case for **investing in European defence** also embrace **wider international industry co-operation** – US.

- Start point - **retain European skills and know-how** to design, produce, maintain and support defence capabilities **.**
- Defence industrial base **no longer sustainable nationally.**
- Acting **alone** makes **no economic sense.**

- **Need consolidation** of **demand and supply** to **maximize delivery** of better defence capabilities.
- Choice of **prospering collectively or declining individually.**
- Agency **advocates pooling and sharing.**

- **Industry stakeholder** in the Pooling & Sharing process.
- Pooling & Sharing decisions **significant implications for businesses** and the wider industrial landscape.
- Need to **utilise** defence **expertise and knowledge** imbedded in the defence industry.

- Pooling and Sharing effectiveness needs to be supported by **better alignment** of European military requirements.
- **Enabler** to more integrated European industrial base.
- **The more competitive** European companies - **less dependent** on non-European sources.
- Essential to our **future freedom** of action.

- Portugal has a **history of collaboration.**
- **Anglo-Portuguese Treaty** of 1373 signed between King Edward III of England and King Ferdinand and Queen Eleanor of Portugal.
- Established treaty of "perpetual friendships, **unions [and] alliances**" between the two seafaring nations - still **in place** today.
- **Oldest active treaty** in the world.

EDTIB Strategy

- Defence Ministers, **2007** - Europe's industrial base needed to be **more integrated, less duplicative, and more interdependent** - endorsed by EDTIB strategy.

- Preserving Europe's **KICs** – future Air, Land and Naval Systems and Ammunition.
- Sectoral reports - **capability erosion, loss of skills and know-how** - **action plans and priorities** to combat future reductions.
- **Causes** well known: downward pressure on budgets, inefficiencies over use of funds, lack of R&T and future programmes.

- **Maritime** world more inclined to **multinational cooperation** – more scope for P & S.
- For example, nine European Navies (including PT Navy) use the Oto Melara 76mm/62 lightweight gun.

- Portugal - one of the seven EDA cMS in the ad-hoc cat. B project - Future Tactical Unmanned Aerial Systems (FUAS).
- Project main aim - fulfill cMS' identified requirements, in the field of tactical ISR for Navy and Army.

- An important area - **Centres of Excellence** - important part of retaining skills and know-how – with appropriate regional distribution.
- EDA actively engaging - just presented exploratory study to Member States this week
- Primary aim - identify and understand clusters of defence industrial innovation, general role and potential in EDTIB.
- The Portuguese association for the aerospace industry - **PEMAS** highlighted in the report as a defence related CofE – founded in 2006, combines 18 large companies, eight SMEs and four research industries.

- Facilitating access to Commission tools eg **Regional Structural Funds.**
- EDA undertaking study to find two suitable pilot projects to attract Regional Structural Funds.

- **End/reduce Europeans competing** with each other in producing the military equipment. Increased specialisation at all levels of the supply chain.
- Undertaking a **joint workshop** with the **Commission** on **Smart Specialisation** on 28 January 2013 at EDA premises.

- Focus remains on the large industrial concerns; EADS, BAe Systems, Finmeccanica etc. must pay particular **attention to the supply chain** and multiple **SMEs** - form the foundation for Europe's industrial competence.
- CofE study showed **increased influence of SMEs** in the defence supply chain.
- SMEs more innovative role therefore, protecting skillset - vitally important.
- EDA produced SME guidelines in 2009; National Defence Industry Association best practice guide in 2012.
- Member States make sure SMEs issues addressed by national policies.

- Strong European Defence Industrial and Technological Base underpinned by an open, transparent and globally competitive **European Defence Equipment Market.**
- Today facing progressively **changing dynamics.**
- Move from protected national defence markets to **more open and competitive** European market.
- More emphasis on **best value for money** - fiscal austerity.

- EDA has made **remarkable progress** in openness, transparency and competition in **EDEM** over past six years.
- **Regime** on Defence Procurement **established November 2005.**
- **25 Member States** (excluding Demark and Romania) and Norway **subscribed.**
- **Code of Conduct on Defence Procurements** to advertise defence contract opportunities. EBB - 750 defence contracts advertised on the EDA's website.
- **500 contracts** - total volume of more than **6,1 billion Euros** awarded under **competition.**
- Over **160 contracts** have been awarded **cross-border.**

- EDA continues to act as an **information point** for defence-related issues.
- **New Defence Procurement Portal** will be a one-stop shop information hub.
- Offers **unique access** to defence related business opportunities in the Europe.
- The Portal will **capture** not just the procurements published in EDA but also **national defence procurement portals and websites.**

- Implementation of the new **Defence and Security Procurement Directive** will have a considerable **impact on the landscape.**
- The Directive lays down **extensive rules** e.g. on **subcontracting** with aim to enhance competition within the supply chains of successful tenders.
- Should **improve market access** for SMEs and economic operators established in smaller countries.

- **Focus on Europe** but understand the realities of defence trade and the importance of imports from, and cooperation with, overseas defence industries –
- Portugal, like many EU Member States, has established strong links with the USA and those are likely to continue - **Mutual openness.**
- Europeans must **cooperate together** but that does not exclude transatlantic links.
- Establishing a balanced technology exchange across the Atlantic is always difficult but if negotiate from a position strength we are more attractive government and industry partners.

Conclusion

- EDTIB Strategy sets out how we should get from where we are **today to** where we want to be in **future**, highlighting **critical enablers to help achieve our objectives.**
- Identifying **key technologies and industrial capabilities** for preservation or development.
- Member States to **consolidate demand; increase investment**; ensure Security of Supply as well as increasing competition and co-operation.

- Need strong companies based on European technologies; **develop more international companies.**

- So what will the **future defence industrial landscape** look like?

- **Europe's strength is in diversity** and that will continue to feature.
- Growing number of international companies which will **reflect the character of each of their host states**; meeting both civil and military markets.
- Will continue to be complemented by **national SMEs with international links.**
- **No single model for European success** other than the need to build on each Member States competences and capabilities allowing a role for all.