

POSITION PAPER – THE EUROPEAN DEFENCE INDUSTRIAL STRATEGY

With this position paper, Denmark aims to contribute constructively to the consultation process in relation to the European Defence Industrial Strategy (EDIS).

Denmark strongly supports the Commission's ambition to facilitate the development of a stronger European defence technological and industrial base (EDTIB). It is important to bring the European defence industry forward while delivering on the political ambitions regarding a Europe that takes more responsibility for its own security, including a focus on security of supply. Strengthening the EDTIB is a matter of urgency as well as of strategic importance. Both in terms of being able to continue our support to Ukraine here and now and securing Europe's security and defence posture going into the future.

The European Union has an important role to play in developing and bolstering the defence industrial capacity and defence readiness of its member states. Europe must do more to ensure its own security. The European Union has already proven valuable in this regard. Hence, it is important that EDIS capitalises on the momentum created by instruments such as the EDF, EDIRPA and ASAP, the work done by the Defence Joint Procurement Task Force as well as the joint procurement of 155 mm artillery ammunition. It is essential that we continue European collaboration and combined efforts. While defence industrial capacity constitutes national security-critical infrastructure and is a national responsibility, including procurement practices and requirements for industrial co-operation, it is also a collective commitment. EDIS will be an important contribution in strengthening European collaboration and combined efforts going forward.

The main contribution of EDIS will be to establish the framework required to foster European cooperation aimed at collectively achieving a strong and competitive European base of knowledge, technology and industrial capacity. The benefit of EDIS will also be in piecing together a coherent framework, by utilizing existing tools and instruments.

Going forward with the consultation process, Denmark sets out the following initial recommendations for EDIS.

1. A competitive European defence industry to support SME's and incentivising open value chains

Competition is key in boosting the development of innovative solutions. A key Danish priority is to have an open, free and competitive internal market for defence equipment and services in the EU. We encourage the Commission to take the necessary steps to ensure that intergovernmental cooperation does not preclude competition at the industry level. These two elements should not be mutually exclusive.

This complements our recommendation on focusing on supporting small and medium-sized enterprises (SMEs) and incentivising open value chains. There is a number of barriers making the European defence market more difficult to access for SMEs including the protection of national manufacturers and lack of open competition. This is especially the case for SMEs from smaller member states with more modest defence budgets and industrial bases. These structural challenges must be addressed with due regard to member states' right to act in accordance with their own national security interests.

Denmark believes that SMEs, including those from the civil market, will play an important role in the development of new defence solutions capable of countering the threats of tomorrow. To this end, it is crucial that EDIS ensures a framework that incentivises open and dynamic supply chains, a more flexible regulative approach in order to facilitate the merger of defence and civilian technologies, and the removal of entry barriers for SMEs across the EU.

2. Security of supply

EDIS must establish the framework to support the advancement of European defence industry related knowledge, technology and industrial capacities and reduce the risk of disruptions in supply. This is a difficult balance. EDIS must harmonise competing interests between bolstering industrial output to meet the current spike in demand on e.g. ammunition on one hand, and on the other hand subsequently ensuring an appropriate level of enduring industrial capacity and responsiveness, i.e. securing the ramp up of productions capacity in the long-term. All the while not risking an unnecessary consolidation of the European defence industry and a further decrease in investments in defence innovation, research and technology. Moreover, focus on security of supply throughout the supply chain is important, including critical components. Lessons learned from the implementation of the 3-track ammunition initiative for Ukraine will be critical in this context, and could serve as one way to identify new initiatives to implement in order to ensure a speedier production ramp-up, including of ammunition, and delivery hereof to Ukraine.

3. Continuing joint efforts in procurement

Denmark supports EDIS as a framework for fostering and incentivising further collaboration and efforts in relation to joint procurement, including by reducing current barriers. Increased collaboration in this sphere can create economies of scale and send strong demand signals to the European defence industry allowing industry adequate time to respond to the expected long-term demand cycle as European nations increase defence spending. Simultaneously, a stronger focus on joint procurement can lead to increased interoperability between Member States' armed forces.

4. Strengthening the efficiency and innovation capacity of the EU defence industry

Denmark sees a need to focus more on the potential for research and innovation and thus supports the development of a coordinated and effective collaboration on technological development. It is important to maintain this focus at both the national and EU level in a time of increased focus on off-the-shelf-products. This applies to the traditional defence industry and the spin-in segment of civilian high-tech companies whose commercial technology can potentially improve products and services from the traditional defence sector. Denmark finds it important to work on increasing the political and strategic understanding of how emerging disruptive technologies affect our existing security structures.

5. Fostering a cooperative environment

It is important that EDIS is implemented and functions in cooperation with relevant representatives across EU authorities, industry, research institutions and within the financial sector. We

must continue to build an expansive, competitive EU defence industrial ecosystem emphasising cross-border cooperation.

Likewise, it is important that EDIS take the need for increased cooperation into account, as well as dialogue and knowledge sharing with NATO and other likeminded partners. This to ensure that it is possible to draw on the supply chains of likeminded partners – both inside and outside of the EU. Additionally, ensuring coherence and avoiding unnecessary duplication of efforts. Hence, it is important that EDIS establish a framework to increase synergies between EU and NATO, to include their respective complementary strengths taking NATO-standardisation and EU's financial and regulatory competencies into account. This should be pursued with regards to both existing relevant entities such as NATO's Support and Procurement Agency (NSPA) and defence technology and innovation initiatives such as NATO's Defence Innovation Accelerator for the North Atlantic (DIANA) and the NATO Innovation Fund (NIF), as well as any future avenues.

6. Appropriate framework conditions for the defence industry

Denmark finds it important that EDIS focuses on ensuring the appropriate framework conditions for the European defence industry. Denmark supports the ambition to identify new ways of strengthening European defence cooperation, including the framework of EDF and the ongoing review of the EU's Common Position on control of exports of military technology and equipment. The defence industry is highly regulated for important reasons. However, it is important that regulation is proportional and do not impede the innovative force of SMEs. When designing and administrating EU funds and programmes, formal requirements on SMEs should be kept proportional and at a minimum in order to not discourage the SMEs from taking part at the EU level.

At the same time, it is also important that EDIS respects national sovereignty in this area.

7. Securing coherence and synergies with existing EU instruments

From a Danish point of view, the capacity to ensure synergies between existing EU tools, instruments and work strands will be a clear benefit. Drawing on the revised CDP priorities, industry networks in EDA, relevant PESCO projects, as well as the recently launched instruments EDIRPA and ASAP, it will be important to secure coherence across tools, structures, initiatives and regulation.

8. A European Investment Programme (EDIP)

Lastly, Denmark supports the Commissions ambition in putting forward a European Investment Programme (EDIP). Simultaneously, it is important that EDIP will become effective and deliver concrete results. Therefore, Denmark believes the EDIP should be put forward when it is deemed ready to deliver such results. Moreover, Denmark strongly urges the Commission to notify member states as early as possible, whether EDIP will be put forward in the same package as EDIS.

A European Investment programme should build on an evaluation of ASAP and EDIRPA to ensure an efficient programme that delivers on common European challenges. Potential EU-

funding for EDIP can and should be found via redeployments within the current EU-budget in respect of MFF-ceilings agreed upon by the EU Heads of State or Government in 2020.