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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: Industrial Policy

Communication from the Commission on "Towards a more competitive and efficient defence and security sector"

-Note from the Presidency

In view of the meeting of the Council (Competitiveness) on 26-27 September 2013, agenda item 5. b) (Industrial Policy - Communication from the Commission on "Towards a more competitive and efficient defence and security sector"), delegations will find attached a note from the Presidency.

Supporting Europe's Defence Industry

Importance of the European defence industry

Europe's defence sector employs 400.000 people and indirectly generates another 960.000 jobs in the EU. It had a turnover of €6 billion in 2012 and generated €3 billion of exports in 2011. The sector is providing the capability to meet our security needs in an increasingly unstable world. It is also making a vital contribution to Europe's economy through generating highly skilled jobs, promoting cutting-edge innovation and creating significant spill-over effects into other critical sectors such as electronics, space and civil aviation, while synergies between civilian and military uses are increasing in new technologies.

However, defence enterprises operate in a very specific market which is highly regulated and have only national governments as customers. In Europe, this market is still characterised by fragmentation leading to unnecessary duplication of capabilities and scarce resources. This leads to loopholes in defence systems or less advanced technologies being used under increased budgetary constraints. Furthermore, Member States' investment in defence R&D, on which the future of the sector depends, is falling (by 14% between 2005-10), increasing the gap with our main competitors in the US and emerging defence markets such as Brazil and India.

It is only through focusing on innovation and cutting-edge technological progress that our industries can stay competitive in the current challenging economic conditions. Because of its high technology and innovation content, and its connections to (and impact on) so many different areas of activity, the defence sector is important to retain if Europe is to remain a world-leading centre for manufacturing and innovation.

Action Plan

The Commission in its Communication¹ proposes an Action Plan to promote the competitiveness and efficiency of the sector which intends to:

- deepen the Internal Market by tackling market distortions and improving security of supply;
- strengthen competitiveness through promoting common standards, certification and networks between Europe's regions with concentrations of defence companies; and
- exploit civil / military synergies, especially in research, to support the development of more-dual-use products and capabilities.

Europe needs to take urgent action to support defence-related SMEs. They are at the heart of Europe's defence industrial base and the Action Plan includes proposals to promote their innovative capacity and business opportunities across borders.

Europe's defence sector is still fragmented and lacks efficiency. By strengthening the Internal Market and promoting competitiveness we can deliver better value for money for hard pressed defence budgets and better equip Europe's defence industry to thrive in an increasingly competitive global market. While defence remains primarily a feature of national sovereignty there is an EU role to play in defence-related policies. The Action Plan sets out how the Commission can support Member States in this area. This Plan will be a key element of the discussions at the European Council in December and it is essential that the views of the Competitiveness Council are reflected in this debate.

Issues for discussion

- *The Action Plan sets out a wide range of proposed measures. What are the most important measures for strengthening the competitiveness of Europe's defence sector?*
- *What actions could the Commission and the Member States take that could best facilitate industrial co-operation between Member States?*

¹ *Towards a more competitive and efficient defence and security sector (COM/2013/542 final)*