



Ministry
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STUART ANDREW MP
PARLIAMENTARY UNDER-SECRETARY OF STATE AND
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MSU/4/8/1/4/ap

1 August 2018

Dear Lord Boswell,

10084/18 - Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Fund.

Thank you for your letter dated 20 July 2018 on the Explanatory Memorandum (EM), submitted by my predecessor Guto Bebb MP on 27 June 2018, regarding the above document. I acknowledge that you have retained the file under scrutiny.

You asked me to explain further the changes in the Regulation since last year's EM on the launch of the European Defence Fund (10164/17, COM(2017) 295) submitted on 10 July 2017. Last year's EM related to the launch of an initiative called the European Defence Fund, which was composed of two separate elements; the European Defence Industrial Development Programme (EDIDP) and the Preparatory Action on Defence Research (PADR). These were essentially 'pilot' schemes, intended to run between the 2017-20 period, to inform the draft proposed regulation for the EDF that we now have in front of us. If approved, this will cover the next Multi-Annual Financial Framework (MFF) period 2021-27.

In bringing together the PADR and EDIDP into one regulation for the 2021-27 MFF, the more open research eligibility terms have been revised. Multinational research organisations, such as NATO's Centre for Maritime Research would no longer be eligible to participate under the proposed EDF regulation's terms. We judge that this would be to the detriment of the Fund's capacity to deliver innovative and international science and technology projects.

Moreover, there is now a single definition for a non-associated third country and the proposed terms are more restrictive than those applied to the recently agreed EDIDP regulation. Whilst the text does allow participation by derogation for non-associated third country subsidiaries based in the EU, meaning that companies like Fokker, Hagglands and potentially MBDA would be eligible for funding, the conditions under which this is permissible are stricter and more limited than the final version of the EDIDP regulation. Finally, beneficiaries and their subcontractors involved in the action may also cooperate with undertakings established outside the territory of the participating countries, or controlled by third countries, or third country entities. This could include use of their assets, infrastructure, facilities and resources. However, the derogation only applies if this

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is necessary for achieving the objectives of the action. This is an additional test above that of the EDIDP, which could prove difficult to meet in practice and the related costs would not be eligible for funding.

More positively, and unlike the PADR and EDIDP regulations, there is an Associate Country section in the proposed future EDF regulation. However, this is limited to "European Free Trade Association (EFTA) members which are members of the European Economic Area (EEA)." Thus Iceland, Liechtenstein and Norway are now eligible to participate, but the UK is not. It is also more constrained than the third country associate language in the HORIZON Europe regulation which explicitly welcomes third party participation.

Turning to your second point, regarding elements of the EDF with which the Government does not agree, and your linked third point about complementarity between other activities and the EDF, the Government does indeed broadly support the intent of the EDF. The European defence sector is fragmented across national borders with substantial inefficiencies and duplications. We support efforts to address this by increasing collaboration which will also help achieve economies of scale and greater interoperability. Indeed, the UK has a strong history of collaborative defence programmes.

We do have concerns that it could be implemented in a way which is very inward-looking and protectionist, and it has long been our position that this will not promote a competitive European defence industrial and technological base. As I have set out above, the Regulation as currently drafted makes it unattractive for third-parties to participate in programmes under the EDF. We believe this will damage the ability for the programme to deliver the best capabilities at the best value for money for ourselves and European partners. My officials are taking part in a series of 'Friends of Presidency' groups, under the Austrian presidency of the European Council, which is where discussions are taking place on proposed wording changes and where we will make our case for a more open and outward-looking regulation.

Turning finally to your question on the role of the Commission in decision-making, defence is, and will remain, a national competence. The terms of the EDIDP, to which Earl Howe's statement in his letter of 9 October 2017 related, were resolved to our satisfaction in the final agreed text of the Regulation. As for the draft proposed EDF regulation, there will need to be some movement in the current text to return to the negotiated outcome for the EDIDP. The Commission have acknowledged that they are not experts in defence and Member States have been clear that they should retain their national autonomy; therefore we believe this movement is possible. I predict this being a key area of negotiation as the EDF regulation proceeds through the legislative process.

I hope this letter provides the answers you need and I wish you a pleasant summer recess.

I am copying this letter to: Sir William Cash MP, Chair of the House of Commons European Scrutiny Committee; the Clerks of both European Scrutiny Committees; to Les Saunders, Department for Exiting the European Union; and to James Ward, Ministry of Defence Parliamentary Branch.



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