

Attachment to WG 18 report: Armament R&D funding rationale and proposed European policy

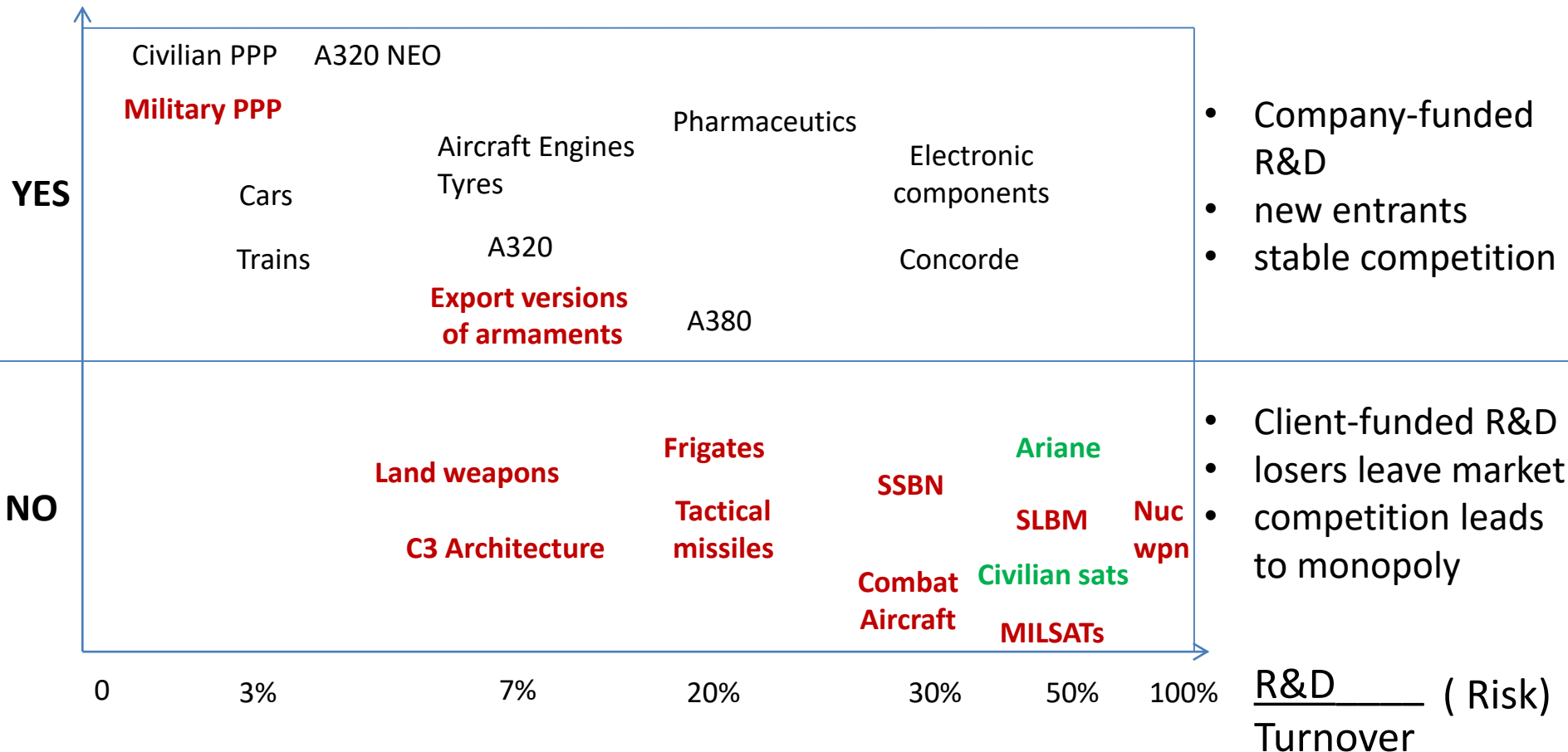
- How products are created
- Armament products: very high R&D risk, and unpredictable market
- Armament competitions create monopolies
- Armament industrial policy and general industrial policy of a state and of Europe
- Past armament industrial policies of states
- Proposed armament industrial policy of Europe

HOW PRODUCTS ARE CREATED

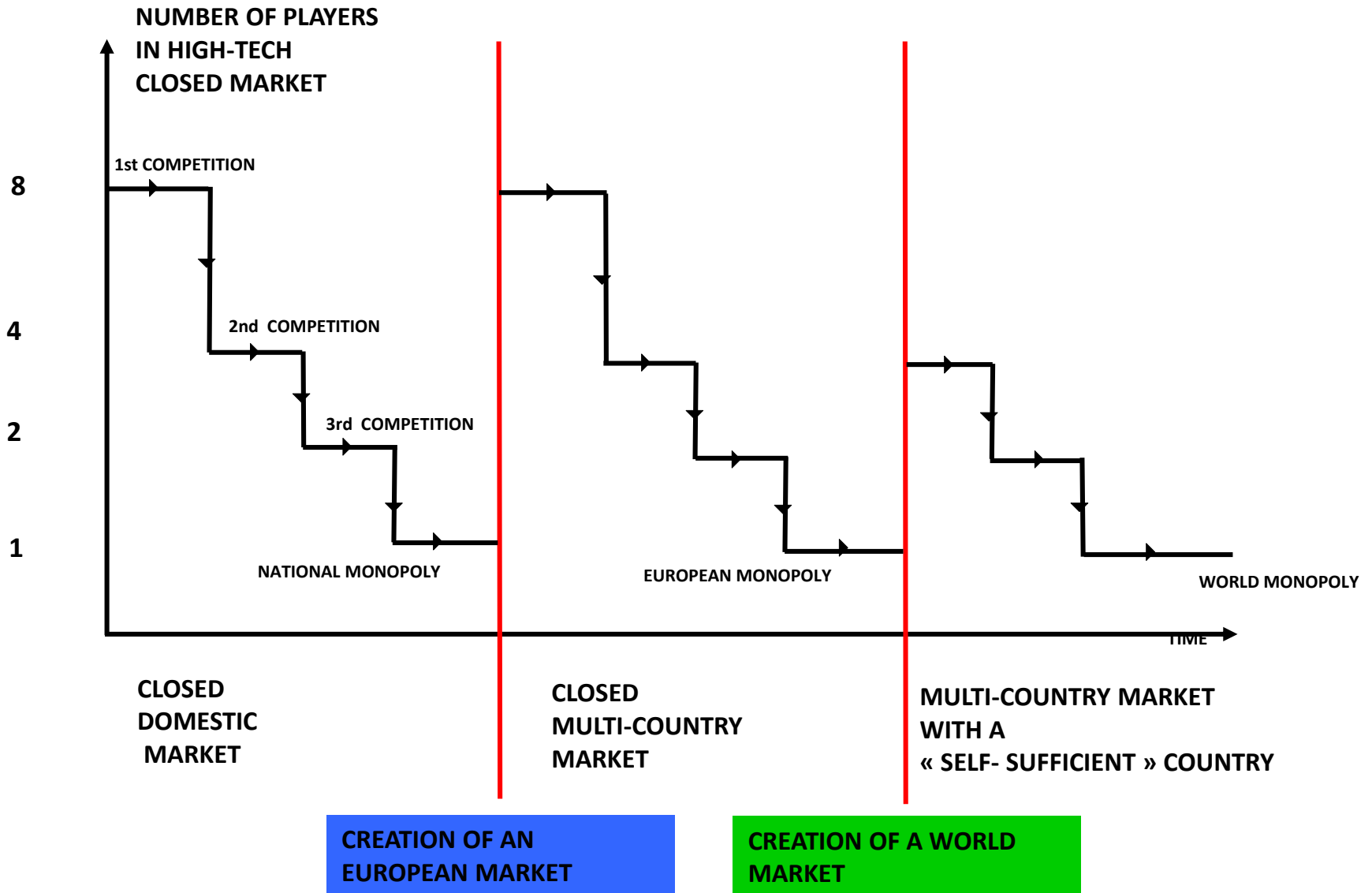
- R&D, not R&T alone, creates **products**
- R&D is **company-funded** when market size and profitability are predictable, and risks mitigated:
 - New entrants, stable competition.
- The military market is unpredictable, and developments are very risky, so R&D is **client-funded**, which means **government-funded**.
 - losers leave market, cannot be replaced, creating monopolies .

R&D investment process in the industry

Market Predictability



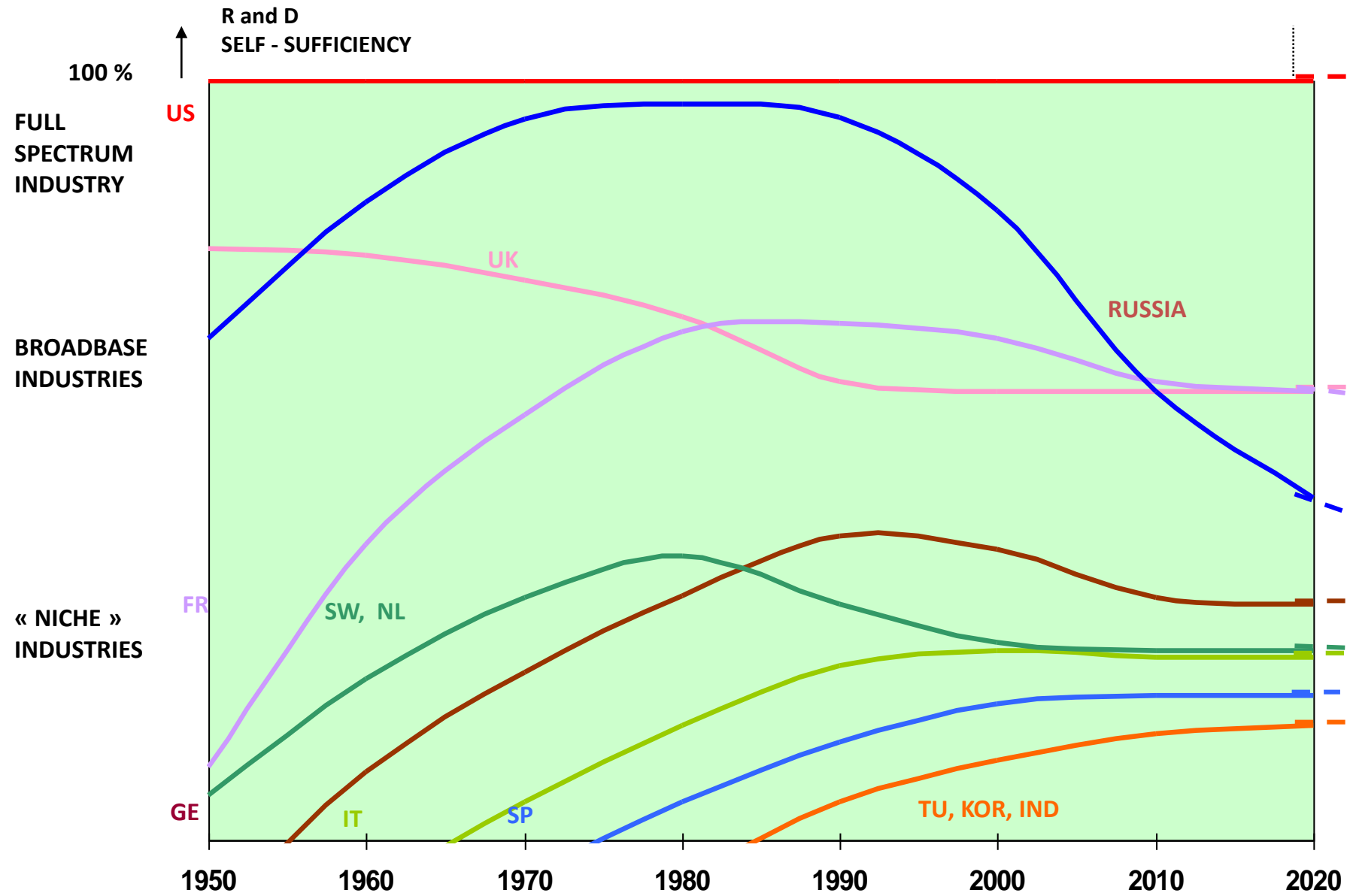
All routes lead to Rome



Motives and tools of industrial policy of a state/of Europe

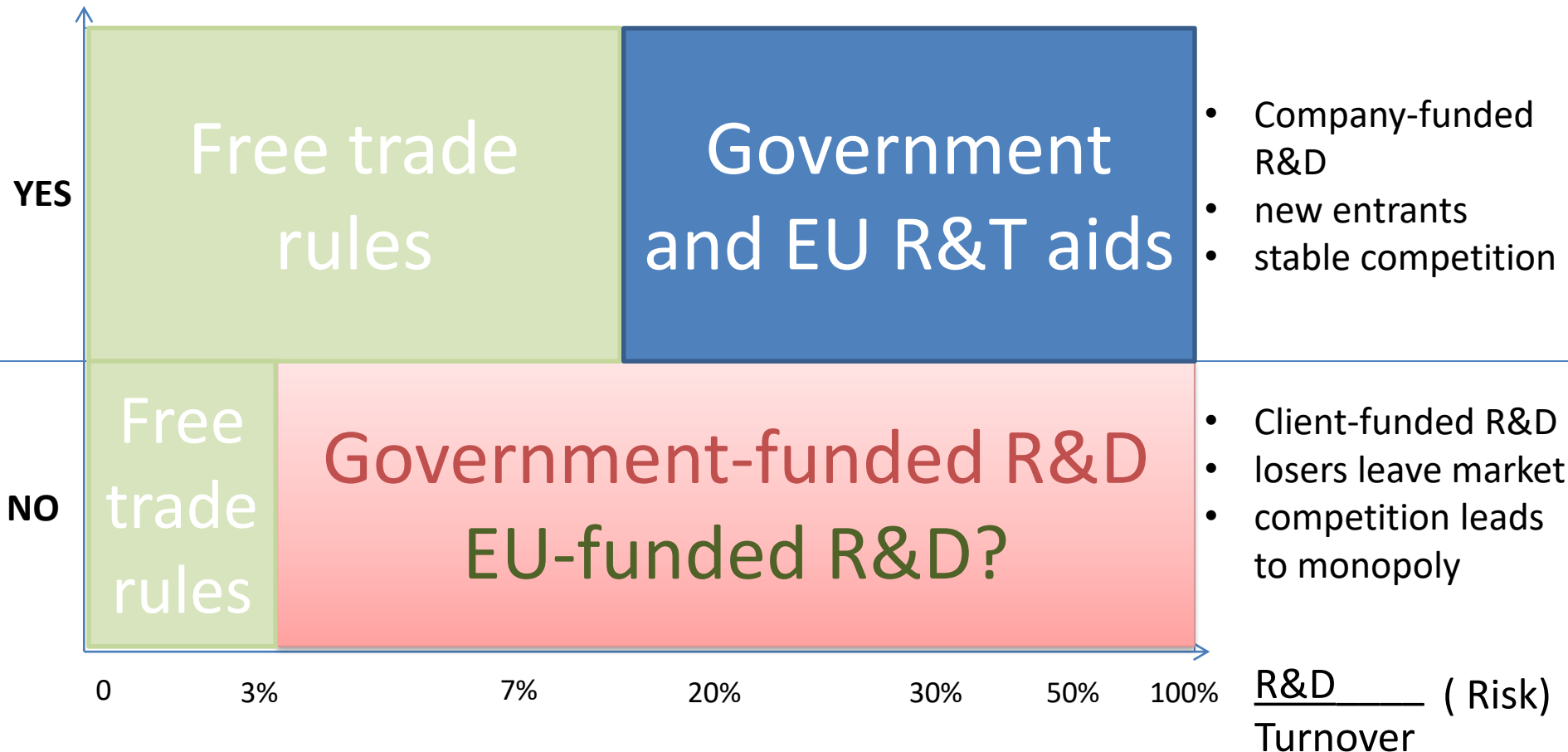
- Military products :
 - National autonomy: R&D financed by defence budget
 - No notion of autonomy: no budget, no R&D
- Civilian products:
 - Technological level: tax incentives, R&T budget
 - Same motive and tools
- All products:
 - Employment: education, incentives for SMEs, export support, loans
 - Same motive and tools

Post-war R&D funding



R&D investment process: Government and EU interventions

Market Predictability



Eurodéfense short term proposals to the Commission:

- Discuss military business models
 - R&T is only an enabler, dual R&T a small part of military R&T, military R&T a small part of military R&D
 - deal now with military R&D.
 - Give access to EIB and other free market tools to defence industries
- Understand US independence and export policies and endeavour to match them.
- Ban offsets on materiel bought from outside Europe, or stop banning them on materiel bought from the European industry

Eurodefense longer term proposal to Parliament, Commission, and Council

- Complement present European free-trade tools with **R&D funding specifically for materiel for military use only** justified by an accepted level of **European autonomy**
- Spend this funding according to the existing business model: no company funding, no dispersion of IPR , necessity of partnerships with monopolies
- This is such a long-term endeavour that it **should be started now**
- Meanwhile, **national funding of R&D is necessary** and should not be targeted by the Commission