

EDA STEERING BOARD JOINT STATEMENT

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STRENGTHENING THE EDTIB'S ACCESS TO FINANCE AND ITS ABILITY TO CONTRIBUTE TO PEACE, STABILITY, AND SUSTAINABILITY IN EUROPE

We, the defence ministers of the EU,

- A. Recall that security and stability are preconditions for the protection and promotion of the EU's foundational values outlined in Article 2 of the Treaty on European Union (TEU), as Russia's war of aggression against Ukraine has starkly demonstrated;
- B. Stress that the EU's ability to contribute to European and international security depends on the strength, competitiveness, and resilience of the European Defence Technological and Industrial Base (EDTIB);
- C. Recall that the 'The European Green Deal', the European Climate Law (2021/1119), and the EU's objective to become climate neutral by 2050 will continue to require significant adaptive efforts from the European industry, especially the EDTIB;
- D. Recall the EU Strategic Compass, formally approved by the Foreign Affairs Council on 21 March 2022, which states that "(s)trenching the resilience of our supply chains and industries' access to private funding will be necessary" for the EDTIB;
- E. Recall regulation (EU) 2023/1525 of the European Parliament and the Council of 20 July 2023 on supporting ammunition production (ASAP), which notes that the EDTIB needs to access both public and private financing "(i)n order to be competitive, innovative and resilient, as well as to be able to ramp up its production capacities";
- F. Stress that on-going efforts to increase the sustainability of Europe's economy and industry cannot come at the expense the resilience and competitiveness of the EDTIB as well as the overall security of the EU and its citizens;
- G. Accordingly, we endorse the following joint statement.

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A STRONG, COMPETITIVE, AND RESILIENT EDTIB IS ESSENTIAL TO EUROPEAN SECURITY

1. A strong, competitive, and resilient EDTIB is crucial for developing, manufacturing, and operating the capabilities that the EU requires to reach its level of ambition in security and defence as outlined in the Strategic Compass.
2. The EDTIB plays a unique role in supporting the operational effectiveness of Europe's armed forces and in enabling the EU to provide both lethal and non-lethal support to partners such as Ukraine when needed, in accordance with its values and principles and without prejudice to the specific character of the security and defence policy of certain Member States.
3. As Member States possess only a single set of forces, the capabilities that the EDTIB develops and produces are used both for out-of-area operations and territorial defence, both nationally and in frameworks such as the Common Security and Defence Policy (CSDP) and the North Atlantic Treaty Organization (NATO), in accordance with the obligations of certain Member States.
4. Russia's war of aggression against Ukraine has demonstrated that reactive and resilient production capacities and supply lines are key to replenishing Member States' armaments stockpiles and supporting EU's partners engaged in high-intensity operations in self-defence.
5. While the efforts related to enhancing the sustainability of the EDTIB may also contribute to Europe's resilience, these efforts cannot come at the expense of the operational effectiveness of the Member States' Armed Forces.

THE EDTIB IS STRIVING TO BECOME MORE SUSTAINABLE

6. The EDTIB contributes significantly to European societies in terms of jobs, economic growth, and technological innovation.
7. In line with its commitment to the overall political objective of transitioning towards a more sustainable future, the EDTIB is engaged in significant efforts to transition to less energy-intensive and carbon-emitting manufacturing processes, integrating green technologies, and engaging with governments to include environmental and sustainability considerations in the definition of requirements.
8. Due to the increasing importance of Environmental, Social, and Governance (ESG) reporting for companies seeking to attract both public and private finance, the EDTIB has integrated ESG reporting in their annual reporting frameworks to meet the demands of financial markets, demonstrating progress in meeting Key Performance Indicators (KPIs) and improving its ability to fulfil ESG criteria to attract investments.

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9. A more sustainable EDTIB will enhance Europe's resilience and the public image of the defence industry as a leading innovator and an attractive employer, thereby making it easier to attract talent and develop more sustainable next-generation capabilities.
10. The defence industry still needs to overcome administrative and reporting challenges and faces unique obstacles in terms of meeting certain KPIs set out by ESG-frameworks. It is worth noting that the systems and equipment that the EDTIB produces are exported in full respect of the Member States' international commitments, and with the aim of preserving peace, security, and stability.
11. Hence, the defence industry cannot be treated like any other economic sector subject to standard market conditions: it depends on orders from state customers, its products are subject to strict regulatory scrutiny, and yet must meet very high standards of operational effectiveness. Thus, while pursuing ongoing European efforts aimed at enhancing the sustainability of Europe's economy and industry, the unique character of the defence industry needs to be duly taken into account when assessing the EDTIB's ESG-performance.

A RELIABLY FINANCED EDTIB

12. The EDTIB needs reliable and predictable access to both public and private finance to ensure its industrial operations, to foster innovation in the defence sector (making full use of green technologies), to maintain its long-term competitiveness, enhance security of supply and resilience, and guarantee its ability to supply Member States' Armed Forces with cutting-edge technologies and systems.
13. Financial markets' investments into ESG assets have grown significantly, especially in Europe, and their investment decisions are subject to increasingly stringent ESG criteria. ESG indexes and investment exclusion policies are also used by public financial institutions and lenders: the European Investment Bank (EIB) excludes military-related activities from its investment portfolio beyond dual-use items.
14. The fact that many ESG indexes exclude companies with activities in the defence and armaments sector has wide-ranging negative consequences for the defence industry such as limiting the number of potential institutional and private investors, damaging its reputation, and making it harder for the industry to attract talent.
15. This is especially the case with innovative SMEs and start-ups as their financing needs are often short-term and cannot be sufficiently addressed by standard governmental acquisition procedures implying longer lead-times and delayed payments. Decreased access to finance therefore risks severely impacting SMEs' ability to scale up and finance R&D operations, thus pushing them away from the defence market, which is reliant on innovation.

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CONSIDERING THE ABOVE, WE, THE DEFENCE MINISTERS OF THE EU,

16. Emphasise that safety and security are preconditions for a stable and sustainable future, that our security and sustainability objectives can and should be pursued in coherence and in a mutually reinforcing manner, and that investments in defence also support EU's effort of becoming climate neutral by 2050;
17. Call for enhanced coordination between national and EU institutions on ESG matters to mitigate negative effects on the EDTIB and to find alternative ways to enable further investments in defence, by making them more attractive to investors;
18. Call for ensuring that EU level policies facilitate access to both public and private finance for the defence sector and that its unique societal role, way of operating, and missions are duly taken into account when sustainable finance policies, regulations, reporting requirements, and standards are developed and applied to the EDTIB;
19. Call on public and private finance institutions with a view to related investors and other market participants to avoid discriminating against investments in the EDTIB and to adjust their policies accordingly; further call on the EIB to enhance its support for EU defence and security objectives overall, in line with the Strategic Compass and without prejudice to discussions in relevant fora;
20. Instruct the European Defence Agency to continue actively monitoring the impact of ESG on the EDTIB, propose appropriate measures, and report back to the Steering Board.