



EUROPEAN COMMISSION

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C(2019) 119 final*

Dear President,

The Commission would like to thank the Camera dei Deputati for the Opinion on the proposal for a Regulation of the European Parliament and the Council establishing the European Defence Fund {COM(2017) 476 final}.

The Commission welcomes the favourable Opinion and is pleased that the Camera dei Deputati shares the view that it is important to support the competitiveness and innovative capacity of the European defence industry by stimulating cooperation in defence research and in the development of defence products and technologies in the European Union.

Building on the positive experience with the Preparatory Action on Defence Research, which is already delivering results, and taking into account the adoption of the Regulation establishing the European Defence Industrial Development Programme, the Commission has put forward an ambitious proposal for the European Defence Fund over the next Multiannual Financial Framework (2021-2027). With an overall proposed budget of EUR 13 billion, the Fund would represent a strong answer to the challenges that the European defence industry faces today and will effectively contribute to reducing existing inefficiencies resulting from falling defence research and development investments and significant levels of market fragmentation. It will provide adequate and reliable funding for collaborative defence research and development projects over the 2021-2027 period.

In order for the European Defence Fund to be an effective tool in support of cooperation and enhanced efficiency in the European defence industry, it is necessary that Member States and industry across the European Union work together in order to put forward projects that can be supported by the Fund. In this respect, the Commission welcomes the importance given in the Opinion of the Camera dei Deputati to the need to put the necessary coordination and governance mechanisms at national level in order to enable effective participation and consultations with potential partners.

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The Commission would like to reassure the Camera dei Deputati about the importance given to supporting collaboration. In this regard, the possibility to derogate from the minimum of three legal entities established in at least three different Member States and/or associated countries only aims at few very restricted situations where such a requirement can be counterproductive, such as the procurement by the Commission of studies or of services related to dissemination activities, network activities and awareness raising events or support to disruptive research where one company alone can bring a significant scientific development.

The Commission also shares the importance given to the role of small and medium-sized enterprises and mid-caps. The proposal for a Regulation foresees a strong system incentivising the cross border participation of small and medium-sized enterprises and mid-caps. Further measures can be implemented at the level of the work programme, such as the organisation of calls for proposals specifically targeting small and medium-sized enterprises. In order to also limit the administrative burden for small and medium-sized enterprises and mid-caps, it is useful not to transform the possibility to cover costs under the 25% flat rate system, foreseen in Article 16(1) of the proposal for a Regulation, into a residual option only.

As regards governance, the involvement of Member States is crucial in view of their role in the defence sector. This will be ensured through the comitology rules, as the Commission will be assisted by a Committee of Member States within the meaning of Regulation (EU) No 182/2011¹. The European Defence Agency will be given the status of an observer in the committee and the European External Action Service will also assist in it. To maximise efficiency, the Commission will implement the Fund under direct management. Provided that the relevant provisions of the Regulation, and in particular the eligibility criteria, are fulfilled, fixing the concrete modalities of collaboration between Member States that may be involved in projects supported by the Fund is the responsibility of these Member States.

The Commission proposal to limit to 80% the EU funding rate for development actions beyond the prototype stage is also to be seen as a means of ensuring continued commitment and involvement of Member States for the late development phases of projects where the technology risks are also comparatively lower.

The Commission fully shares the importance given to the monitoring and evaluation of the Fund and would like to reassure the Camera dei Deputati that these activities will be performed in full respect of the provisions of Articles 31 and 32 of the proposal for a Regulation.

As regards the role of the United Kingdom, this question can only be clarified through the results of the negotiations in the framework of Article 50 of the Treaty on the

¹ Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers, OJ L 55, 28.2.2011.

European Union. The Commission proposal cannot pre-empt the results of the negotiations.

The European Defence Action Plan refers to the treatment under the Stability and Growth Pact of 'national capital contributions' as well as the provision of guarantees to a financial structure that would be created under the European Defence Fund's Capability Window for collaborative defence development. In this context, 'national capital contributions' refer to equity participation in the capital of a future financial structure (e.g. a common financing vehicle or fund). As a general rule, the acquisition of equity (including participation in the capital of independent international and supranational bodies) has no effect on deficit, because this is a financial transaction 'below the line'. However, the statistical authorities may conclude after analysing the transaction that it should be recorded as a capital transfer with deficit impact, e.g. if there is evidence that capital will be depleted over time.

Guarantees are contingent liabilities, which have no deficit or debt impact until they are called or if there is evidence from the outset that such a call is very likely.

Discussions between the co-legislators, the European Parliament and the Council, concerning the proposal are now underway and the Commission remains hopeful that an agreement will be reached in the near future.

The Commission looks forward to continuing the political dialogue with the Camera dei Deputati in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Elżbieta Bieńkowska
Member of the Commission*