

#52

**NATIONAL EXPECTATIONS REGARDING THE
EUROPEAN DEFENCE FUND:
The Finnish Perspective**

By

Niklas HELWIG

LEADING RESEARCHER, THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

and

Tuomas ISO-MARKKU

RESEARCH FELLOW, THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

May 2020

*The views expressed here are solely those of the author.
They do not reflect the views of any organisation.*

Comment

ABSTRACT

The distinguishing features of Finland's defence policy orientation, procurement practices, military partnerships and defence industry inform the country's approach towards the European Defence Fund (EDF). Finland strongly supports a more pronounced role for the European Union (EU) in security and defence matters, generally having a very favourable stance on the new EU defence initiatives, including the EDF. Finland's administration and industry value the EDF's potential to further cross-border networks, fill capability gaps, increase competitiveness and support technological innovation. At the same time, Finland's focus on territorial defence, its tradition of buying off-the-shelf capabilities, its deepening military cooperation with Sweden, the US and other partners, and a national industry largely based on highly-specialized SMEs generate specific expectations and concerns regarding the EDF. For the moment, some doubts and questions remain about how the EDF will be implemented in practise and whether Finland is able to take advantage of the ensuing opportunities. However, overall Finland has a pragmatic and constructive view on the EDF.

Keywords: *European Union, Finland, European Defence Fund, EDF, opt-out, NATO*

FINLAND'S DEFENCE POLICY AND LANDSCAPE

As with all European Union (EU) member states, there are some distinguishing national features, which are important for understanding Finland's approach towards the European Defence Fund (EDF). These are related to Finland's general defence policy orientation, its procurement practices and defence partnerships as well as the characteristics of its defence industry.

Finland is not a NATO member. Finland's defence therefore depends on sustaining a robust national military capacity to deter or repel potential attacks. Maintaining universal male conscription and a sizeable reserve of up to 280,000 soldiers and ensuring the security of supply of critical goods and military equipment are key elements of Finland's defence system, which strongly revolves around territorial defence.

Finland has long favoured a more pronounced role for the EU in security and defence, and it ranks among the closest and most active partners of NATO.¹ The importance, intensity and scope of Finland's defence partnerships have rapidly increased during the last decade – particularly after Russia's actions in Ukraine. This is reflected in Finland's strong support for the EU's new defence initiatives, membership in NATO's select group of Enhanced Opportunities Partners (EOP), and active participation in Nordic Defence Cooperation (NORDEF) and other multilateral formats. Finland has also notably deepened its bilateral defence cooperation with both Sweden and the US. Through these frameworks, Finland aims to strengthen its military capabilities and posture, with defence industrial interests being of lesser importance.

In terms of defence procurement, Finland has a tradition of focusing on off-the-shelf solutions. Off-the-shelf solutions come with the benefit that the technology is proven and interoperable with that of Finland's partners. On the downside, Finland has not developed the organisational culture or processes to engage in R&D projects. This means that Finland will have a disadvantage compared to other member states in uploading its capability development needs to the European level.

¹ See e. g. Matti Pesu (2017), What non-alignment? Finland's security and defence policy stems from partnerships, FIIA Briefing Paper 227, November 2017.

The US is Finland's most important provider of military equipment. A significant part of the most critical defence materiel – including the F-18 Hornet fleet, which Finland is now seeking to replace – originates in the US. Finland's own defence industry consists largely of small and mid-sized enterprises (SMEs), many of which have been successful in developing cutting-edge technology in niche fields, for example data security solutions or communication technology. Because of the involvement of Finnish companies in maintaining and updating military equipment of US origin, defence industrial cooperation between Finland and the US has deepened.² Finnish defence companies also have close ties to and shared interests with companies from the other Nordic countries.

IMPLICATIONS FOR THE EDF

As a strong advocate of enhancing the EU's role in the security and defence field, Finland has been highly supportive of the EU's new defence initiatives, including the EDF. Both the administration and the industry welcome the potential that the EDF has to offer. The fund is seen as a genuine novelty, with the prospect to generate European cross-border networks, fulfil capability gaps, increase the competitiveness of the European defence industry, and support technological innovation.

However, the distinguishing features of Finland's defence policy and landscape translate into some specific expectations and concerns regarding the EDF. These are related to how the EDF will be implemented in practice and whether Finland will be able to take advantage of the opportunities that the fund provides.

Finland expects the working programmes of the EDF to reflect both shared European capability gaps as well as the needs of its national defence. Importantly, the EDF should fund projects that benefit the EU as a whole and can be used throughout Europe, not only in a particular region, such as the Southern neighbourhood. This reflects Finnish fears that the fund will be too strongly driven by the interests of the EU's largest member states.

As far as the European capability needs are concerned, Finland sees the European Defence Agency's (EDA) Capability Development Plan (CDP) as providing the central guidelines. Finland's national capability priorities, for their part, include Command, Control,

² Ministry for Foreign Affairs of Finland (2015), Review on Finland's defence cooperation.

Communication and Computer (C4); Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR); Engagement; and Protection. Having these priorities covered by the EDF would also benefit the Finnish defence industry, as it has developed expertise in these areas.

Finland would also like to see the EDF focus on new technologies, such as artificial intelligence, autonomous manned or unmanned capabilities, and hypersonic weapons. Finding the right balance between capability-driven research and riskier research into (potentially) disruptive technologies will therefore be crucial. While Finland recognizes the importance of both, Finnish officials are interested in the potential that the EDF could offer for the latter. In addition, the Commission should ensure coherence between the EDF and the Horizon Europe programme (the EU support programme for Research & Development), which funds research with a dual-use purpose.

A very important point for Finland is that all EDF projects will be very carefully evaluated to ensure that those companies that receive funding are at the forefront of technological development. Finland also insists that the Fund should not lead to any market distortions and emphasises the importance of involving SMEs, which are expected to profit from an open and competitive market environment. This has implications for the project selection. Rather than funding flagship capability projects clustered around major industry players, the EDF should focus on thematic priorities. These concerns are clearly motivated by the nature of Finland's own defence industry, with many highly-specialized SMEs. There seems to be an implicit fear that in the context of the EDF, small Finnish companies could be overlooked or disadvantaged despite their technical expertise.

A PRAGMATIC AND CONSTRUCTIVE APPROACH

Despite the above-mentioned concerns, Finland's approach towards the EDF is by and large both pragmatic and constructive. Finland's positions on the participation of non-EU countries, governance issues or the EDF budget illustrate this pragmatism.

Finland – which cooperates closely with the US, Norway and the UK – would like to find a solution that allows Norway as an associated country to enjoy the same benefits and opportunities as EU member states and opens possibilities for third-countries to participate. However, with regard to the US and the UK, Finland understands the rationale

behind the rules on third-country participation put forward in the initial EDF regulation. After all, the EDF is primarily an EU instrument and utilises money from the EU budget. In Finland's view, the biggest, yet inevitable, disincentive for third-countries concern Intellectual Property Rights, as those will not be transferable outside the EU or associated countries.

Finland's close partnership with the US will continue regardless of the EDF. Thus, Finland hopes that the US would see the EDF and the issue of third-country participation in more pragmatic and constructive terms as well – especially as the EDF's financial incentives remain modest from the perspective of the US industry.

Finland does not have any strong preferences on the governance of the EDF. From the Finnish perspective, the competence of the Commission is based on its power in the EU internal market and in implementing the EU budget, of which the EDF is a part. On the other hand, the EDA-led CDP can serve as a useful basis for the Commission to develop its proposals for the EDF working programmes.

Finally, with regard to the overall budget of the EDF, Finland does not push for any concrete figure. Because the EU budget has not funded defence efforts previously, the EDF is seen as a positive development and an interesting opening regardless of the final sum allocated to the fund. When the Finnish Council presidency tabled its proposal for the next Multiannual Financial Framework (MFF) in December 2019, it suggested cutting the Commission's initial EDF budget by half. However, the proposed cut should not be misunderstood as a sign of Finland's lack of interest in the EDF. It had less to do with the EDF as such than with the unprecedented complexity of finding a compromise in the budget negotiations. ■

#52

Comment

NATIONAL EXPECTATIONS REGARDING THE EUROPEAN DEFENCE FUND: The Finnish Perspective

BY

Niklas HELWIG / LEADING RESEARCHER, THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

AND

Tuomas ISO-MARKKU / RESEARCH FELLOW, THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

May 2020

The views expressed here are solely those of the author. They do not reflect the views of any organisation.

ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

CONTACT [Pilots]:

Jean-Pierre Maulny, Édouard Simon, Olivier de France, Sylvie Matelly

ares@iris-france.org

+33 (0)1 53 27 60 60

www.iris-france.org/ares

#AresGroup