

# European Defence Fund offers opportunities for Dutch SMEs

The European defence industry is eagerly awaiting this summer's launch of the European Defence Fund (EDF). At the end of last year, the EU Member States and the European Parliament reached an agreement on this fund. It should lift the fragmented defence industries of individual member states to a stronger and more unified level. With a €7.9 billion budget, the EDF offers grants and co-financing for defence research and development projects. It explicitly encourages the participation of SMEs. The European Commission is expected to publish the EDF work programme at the end of the second quarter of this year. Shortly afterwards, the first calls for proposals will be announced. In an [earlier White Paper](#) (written in Dutch), Berenschot already described the EDF as one of the most important developments in the field of security in the European Union in recent years. In this article, we provide insight into the status of the EDF and analyse the opportunities for Dutch SMEs.

## The fund in a nutshell

In 2016, the Juncker Commission announced the arrival of the EDF. The overarching goal of this fund, to increase defence cooperation within the EU, is in line with the greater geopolitical ambitions of the Union and steps towards strategic autonomy. Increased defence cooperation also requires changes to the European defence industrial landscape. The current fragmentation of different systems and technologies within the various EU member states and national armed forces has several adverse effects. It makes the procurement of equipment expensive, hampers interoperability and cooperation, and thereby hinders the EU from taking a stronger role on the world stage. It also complicates economies of scale, which makes the European defence industry less competitive, keeps research and development budgets relatively small and new developments expensive. The EDF's leitmotif is therefore to encourage companies from different member states to jointly develop and buy defence equipment through subsidies, thus strengthening the European defence industry and stimulating innovation.

## What has been done so far?

In preparation for the arrival of the EDF, two pilot programmes were set up in 2017: Preparatory Action on Defence Research (PADR) and the European Defence Industrial Development Programme (EDIDP).<sup>1</sup> PADR focused on joint defence research (budget: €90 million) and the EDIDP focused on co-financing development projects (budget: €500 million). Both programmes can cautiously be labelled a success: a large number of project proposals were submitted, there was joint participation from several member states, and a relatively large involvement of SMEs. However, as most of the research projects have either not yet been completed or have only just started, it remains to be seen to what extent they will be scaled up to industrial production and to what extent the final products will be adopted in national defence policies and procurement programmes.

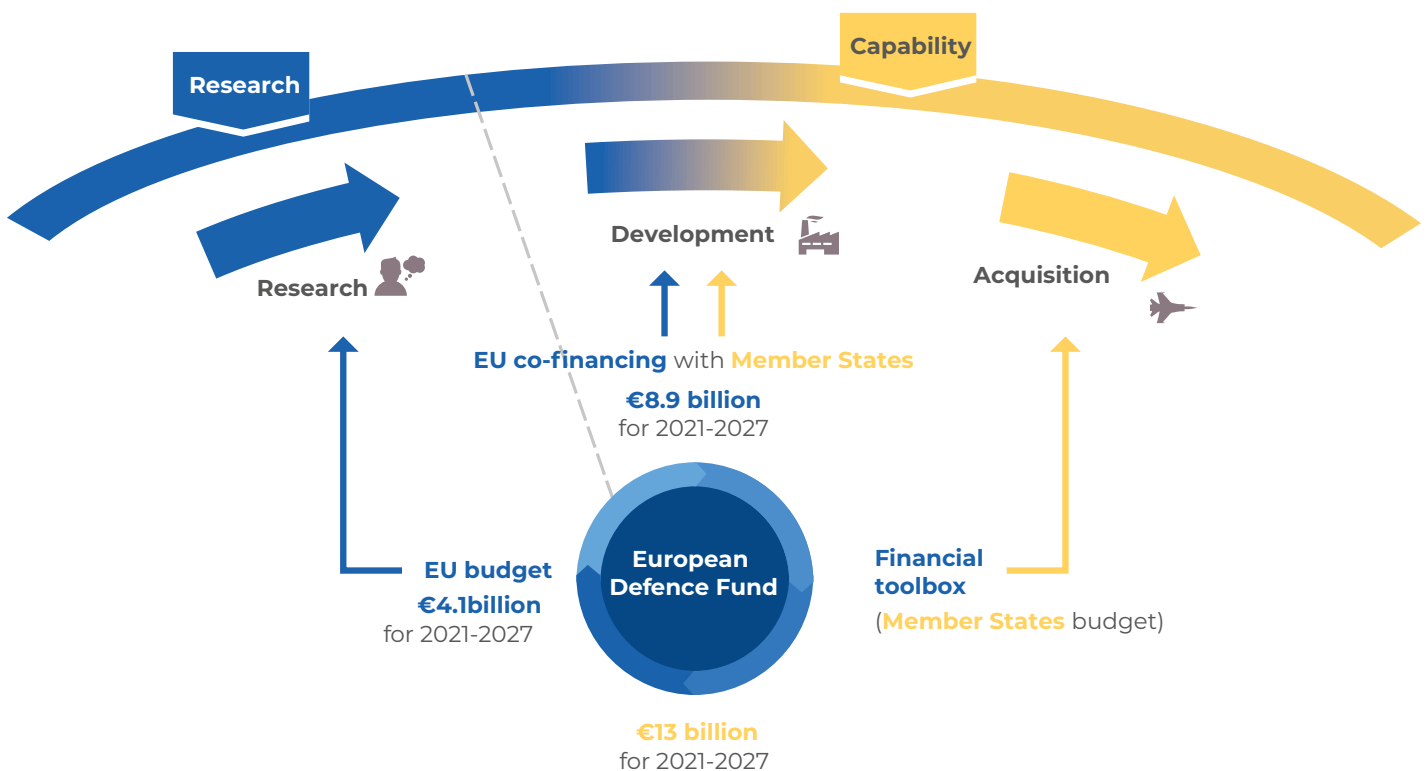


Figure 1. **Funding phases within the European Defence Fund.** Source: 'Factsheet The European Defence Fund, European Commission (2018)'

<sup>1</sup> In this article, we highlight only PADR and EDIDP and not the small-scale Pilot Project (PP) from 2016.

## Funding possibilities in the EDF

Figure 1 shows the funding phases (research, development and acquisition) of the EDF. In summary, the EDF grants subsidies in the research phase, implements co-financing in the development phase and provides the Financial Toolbox when member states want to acquire the final products. There is no budget for this Financial Toolbox; it consists of ready-to-use and standardised tools (such as templates and term sheets) to guide member states in financing the purchase.<sup>2</sup>

### Box 1. European Defence Fund participation requirements

- One proposal should include three enterprises from three different EU/EEA Member States.
- The EDF is for EU companies only; companies in an associated country may not be controlled by third countries/companies.
- Non-EU companies may participate, but do not receive EU funding.

A total of €7.9 billion will be made available for the period 2021-2027. Of this, €2.6 billion is earmarked for research and €5.3 billion for development. The funds are specifically targeted at the defence industry and will be allocated through competitive bidding (see box 1 on participation requirements). The subsidy percentage per project will vary from total funding in the research phase (lower Technology Readiness Level) to a relatively small percentage in the development phase (higher Technology Readiness Level). In short, the further the project moves from the research phase into the development phase, the more important co-financing by the member states becomes.

## Opportunities for Dutch SMEs

The EDF is likely to offer numerous opportunities to Dutch industry. For example, the current Dutch defence industry seems suitable for participation in EDF projects, as it consists mainly of SMEs focusing on very specific technologies. However, the EDF will offer opportunities on a wider scale (see box 2). These opportunities will become clear in detail when the Commission's work programme is published, sometime in the coming months. The subsequent call for proposals will contain the details of the grant schemes such as grant categories, funding rates and other requirements. These are expected in the summer of 2021.

### Box 2. Opportunities for SMEs in sectors beyond the traditional defence industry

The scope of the EDF offers opportunities for both companies that are directly active in the defence industry and for companies with technologies or products that have not yet entered this market. For example, the PADR project ACAMSII, which is working on a camouflage system for soldiers, also involves companies from the textile sector in addition to the Dutch TNO and a French multinational specialised in software for military applications.

Nevertheless, we can already make some predictions based on what we have seen from the EDF predecessors, the frameworks for the EDF and the commitment expressed by the Dutch cabinet. Starting with the predecessors: PADR and EDIDP. In these programmes, the results were positive for the Netherlands. In the PADR programme, the Netherlands was the fifth country in terms of number of participating entities per country, with participation in eight projects and a total of nine participants (see box 3 for an example of Dutch participation in PADR). In the EDIDP, the Netherlands came tenth in terms of the number of participating entities per country, with three project proposals won and four companies and/or knowledge institutions involved and two subcontractors.

### Box 3. Dutch participation in PADR

An example of successful Dutch participation in a European defence project is QUANTAQUEST. Two Dutch companies are involved in the consortium working on this project: LioniX International & QuiX. Together with seven other players, they will work on developing quantum sensors for navigation and timing without the use of global satellite systems. The project has been approved with a grant request of approximately €1.5 million.

<sup>2</sup> Factsheet: 'The European Defence Fund: Questions and Answers', European Commission (2017).

Specific opportunities for SMEs emerge within the EDF frameworks. The European Commission is explicitly targeting SMEs to join consortia that are preparing project proposals for the EDF and has reserved part of the budget for projects that involve cross-border cooperation between SMEs.<sup>3</sup> Committing to larger consortia offers several advantages for SMEs: because participation requires a substantial (time) investment, most projects will generate a permanent, long-term contract in addition to broad networking opportunities through the extensive contact with new partners from the public and private sectors.

Finally, in recent years the Dutch government has actively pushed for a major role for SMEs in the EDF. For example, Minister of Defence Bijleveld has called for a financial ceiling per project submitted in the SME category, so as to ensure that multiple project proposals are eligible for funding.<sup>4</sup>

## What does Berenschot offer?

Our EU team is familiar with the European market and supports and advises organisations on complex issues in a European context. We have proven experience in obtaining European grants for our clients, and have both the expertise and the capacity to successfully set up (European) consortia. This enables us to help your company seize opportunities within the European Defence Fund. Thanks to our network within Dutch SMEs and the Dutch government, we can efficiently identify all relevant stakeholders. Berenschot can identify and set up opportunities for successful public-private partnerships.

Wondering how to set up an effective and strategic cooperation with other stakeholders to make the most of the opportunities of the EDF? Then feel free to contact:

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<sup>3</sup> Brochure: 'Opportunities for SMEs in the European Defence Fund', European Commission (2018).

<sup>4</sup> Letter from the Minister of Defence, Ank Bijleveld, to the House of Representatives concerning the EDF (22-01-2021)