

Policy Brief 2022-1

Peace, justice and strong institutions in Europe are solid pillars of sustainable development

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IndustriAll Europe calls for a social taxonomy that takes into account the contribution of the European defence and security industries to peace and security in Europe

The European Commission is currently working on a set of criteria for socially sustainable investments. Next to the 'environmental taxonomy', that has been extensively discussed over the last months, this 'social taxonomy' is set to define clear criteria for activities that contribute positively to society, or that do no significant harm, or that are harmful.

The Platform on Sustainable Finance, an advisory body to the European Commission, has extensively worked on the issue of social taxonomy. In a report published in Summer 2021, the Platform's subgroup working on the social taxonomy specifically referred to 'weapons' as a "harmful sector or activity", and mentioned it next to gambling and tobacco. This classification is set to make sure that the related industries cannot "qualify as socially sustainable, despite for example, good worker-related performance".

In clear contrast to that debate, the President of the European Union, Ursula von der Leyen, specifically referred to the European defence industry in her [2021 State of the Union address](#). She suggested "to consider waiving VAT when buying defence equipment developed and produced in Europe", as this would "increase our interoperability, but also decrease our dependencies of today". She further proposed to improve interoperability and to continue investing in common European platforms, "from fighter jets, to drones and cyber". The [fact sheet](#) 'A Strategic Compass for the EU' clearly states the aim "for the EU to become a provider of security for its citizens...and contribute to international peace and security".

There is a real inconsistency by the European Commission, to, on the one hand, suggest scrapping taxes to support the industry, and to take an active stance on security matters, both internally and globally, and which, on the other hand, considers the same industry to be "socially harmful". This consequently leads to private banks withdrawing their investments in the defence and security industries, or cutting their ties to these same industries altogether.

More and more defence companies find it difficult to obtain the necessary credits, as banks have decided to end their commercial relations with them, often specifically referring to environmental, social and governance (ESG) concerns. In many European countries, SMEs are particularly suffering from this trend.

A coherent and reliable approach is needed to give a clear signal to both the European defence industries and to private banks that finance them. It should not be forgotten that the European defence industry and the conventional arms they produce are a central pillar of the European defence architecture and European sovereignty that is necessary for our independence. As President von der Leyen pointed out, the EU must, without fail, reduce its dependencies in the sector, to make sure that peace and security in Europe can be maintained and is not threatened by global threat situations. This includes the protection of critical infrastructure, including a secure supply chain.

Classification of the European defence and security industries - recommendations

IndustriAll Europe recommends to reconsider the classification of the European defence and security industries as ‘socially harmful’, as we are of the opinion that the industry, if subject to democratic and legal control, is an essential pillar of peace and security in Europe. UN Social Development Goal (SDG) 16, which calls for ‘Peace, Justice, and Strong Institutions’, must apply to the EU as well, but obviously under clearly defined and well reasoned criteria.

We therefore suggest to classify the companies in the European defence and security industries and conventional weapons as ‘doing no significant harm’ if the following points are met:

- ✿ The conventional products that are considered as ‘doing no significant harm’ are produced firstly for the European market and friendly democratic countries.
- ✿ Other exports are prohibited, except under exemptions granted by a public authority in charge of enforcing international treaties and/or EU legislation. Ultimately, the Member States retain the right to decide on the export licences.
- ✿ The company has a clear, water tight and low-threshold compliance system in place, that allows for the timely detection of any case of possible misconduct. For this reason, companies must do all that is in their power to have a maximum level of traceability in order to know exactly where the arms have finished up. Companies must furthermore do all that is in their power to reduce the probability of an illicit transfer.
- ✿ The compliance system must also be extended to suppliers.
- ✿ The company shall protect itself against the risk of any illicit transfer, including the onward sale of the products that have been classified as ‘doing no significant harm’, while ensuring the traceability of products.
- ✿ The company sells its products only under the stipulation that all criteria defined in the social taxonomy must be met.

This must be accompanied by a strict export policy, subject to democratic control on behalf of the countries concerned, with clearly defined rules and enforcement procedures, and in line with the relevant international treaties. The EU should, together with the Member States, develop a system of export control and tracing, and a clearly defined course of action in any case of non-compliance.

The European trade unions with membership in the defence industry agree that no weapon, ammunition and spare parts must end up in a region or a conflict where they ought not to be. The European defence industry must, as a priority, produce for European customers and friendly democratic countries, and not depend on global exports of weapons, ammunition and spare parts.

Exports to countries which do not have national defence and security industries at their command, but legitimate security needs, can be exceptionally permitted in accordance with international rules and national regulatory authorities according to a European legislation to be defined. If the European arms industry adheres to this principle, and if it complies with a clearly defined set of rules agreed upon by the European Union and the Member States, then it must be considered as 'doing no significant harm' in the context of a social taxonomy.

Europe needs strong and consolidated defence and security industries to guarantee peace and security on the continent and in the framework of its alliances. In that sense, the current discussions around a social taxonomy could threaten the existing defence and security industry in Europe and constitute an incentive scheme to adhere to agreed European principles in the defence and security industries and an effective arms control in Europe and beyond an ultimate risk of dependence on Europe vis-à-vis other countries. This could be prejudicable in the medium and long term in a world where the current and future actors could identify Europe as vulnerable. Moreover, this European choice would not respect the sovereignty of each country in its actions to defend its position and its independence.

We need a strong signal from the European Union and from the Member States towards the finance sector. Peace and security in Europe are inalienable requirements for sustainability, and also in the context of a social taxonomy and the financing of the defence industry is indispensable for its continuity. In that sense, private banks should be encouraged to continue their contractual relationships with companies from the defence sector and continue to provide financing for projects that meet the criteria to be defined in the EU 'social taxonomy'.

Irrespective of these short-term necessities, Europe should have a fundamental and democratic debate on the future of the defence and security industries as a part of the European security architecture. IndustriAll Europe suggests the creation of a stakeholder platform, which includes representatives from the European Union, the European governments, industry, trade unions and civil society. The industrial companies have a tendency to be more durable if their production is diversified, when this is technologically possible. The diversification allows the companies moreover to reduce an over large dependency with regard to exports. This stakeholder platform should discuss transition pathways for the European defence sector, including diversification strategies, in order to reduce overly large dependencies

from one sector, as well as an overly large dependence on exports. The stakeholder platform should further prepare political decisions on the criteria for the production of weapons in Europe, as well as that of proliferation.