

Strengthening the security and defence industry in Germany and Europe

10 points formulated by the SPD parliamentary group in the Bundestag

We want to strengthen the security and defence industry in Germany and Europe. It is the foundation which enables the Bundeswehr and our partner countries' armed forces to meet the growing security and defence policy demands. The North Atlantic Treaty requires every NATO member to be capable of defence and, in line with the duty to render assistance, to also provide capabilities so that we can keep security pledges made to our partners, e.g. in eastern Europe. As the EU's largest economy, Germany has a responsibility in this context. The establishment of the special fund for the Bundeswehr has marked a groundbreaking change of course, which we want to maintain by ensuring that the defence budget is securely funded at a level of at least 2% of GDP. The security and defence industry is not just any industry; the Federal Government and Parliament are responsible for guaranteeing the competitiveness and resilience of this domestic sector for the sake of national and European security. In doing so, they should be guided not by market mechanisms, but by security interests, values and standards. The industry's special status goes hand in hand with a special responsibility on the part of its companies towards our democratic society, their own staff, and the strategies and guidelines established by Parliament and the government in foreign, security and defence policy. We are conscious of this responsibility and are setting out our position in the following ten points.

1. We are seeking to ensure a **cooperative approach to steering industrial policy** which is focused on the capability requirements defined at NATO level and facilitates rapid, reliable decision-making.
2. We are carrying out **short-term and long-term defence planning** which looks beyond the current electoral term.
3. We are providing **financial planning certainty**, pressing for sufficient funding for overall defence, and ensuring that internal, external and social security are not played off against one another.
4. We are working towards a **non-bureaucratic and cost-efficient procurement system** which strengthens German and European sovereignty and encourages cooperation.
5. **We are regulating arms exports and exports of small arms and dual-use goods strictly**, reliably, and with the aim of achieving our foreign, security and defence policy priorities, establishing partnerships, and strengthening our values and standards.
6. We are encouraging **focused European cooperation on armaments** which reduces costs and boosts interoperability.
7. **Key technologies** must be defined, protected and supported.

8. We are boosting **support for research and innovation** and want to enter into a dialogue with the ecosystem on how dual-use research and innovation support can be developed further in future.
9. We are investing in **strategic public holdings** in order to live up to our responsibility for security and to strengthen the domestic security and defence industry.
10. We are seeking to ensure **attractive employment conditions** in the security and defence industry and, by seizing the opportunities of transformation, we are ensuring that sufficient skilled workers are available as the foundation for industrial success and prosperity.

Creating the necessary framework: steering industrial policy, long-term defence planning, planning certainty

1. Steering industrial policy

For the German security and defence industry to remain a high-performing sector in the long term, while also becoming more resilient in view of the current threat scenarios, we need industrial policy to be steered by the Federal Government. We understand “steering” as meaning, first, consulting on security and defence policy requirements, identifying the resulting needs and the necessary capabilities, then making the appropriate procurements, and finally taking decisions on exports. In strategic terms, the Federal Chancellery should be responsible for steering this area of policy. In operational terms, it must be a matter for the Federal Ministry of Defence, in the same way that it has technical responsibility for arms exports. The steering should be based on the military capability requirements defined within NATO, and on the determination of what sovereign military capabilities Germany and the EU should have. The steering will play a key role in speeding up decisions and processes. This includes faster planning and approval processes, and it will enable the government to intervene if national security interests are undermined by municipal planning law.

2. Long-term defence planning

Differentiated planning horizons in the security and defence industry must be part of the steering of industrial policy. We need short-term planning covering two to five years for urgent capabilities, and long-term planning which is based on innovation cycles. Time is the crucial defining factor for the Bundeswehr’s capability growth in the short and medium term. While the hands of future parliaments and governments must not be tied, these cycles should extend beyond a single electoral cycle, and should be discussed and monitored in Parliament on the same basis. This is the only way to provide planning certainty to the industry, which is crucial for maintaining capabilities, capacity building, scaling and companies’ capacity for innovation.

3. Financial planning certainty

Financial planning certainty is essential. Purchase guarantees and long-term contracts must be used to provide planning certainty and create incentives for companies to invest in their production capacities. These capacities are necessary to develop a level of production for ammunition, wear-and-tear parts and equipment which meets the goal of maintaining a stock of these items, with sufficient reserves to allow production to be ramped up in a crisis. A steady supply of defence equipment must be ensured in peace and in wartime – that is the yardstick for policy-making in relation to the defence industry. The special fund for the Bundeswehr was the right first step. Now the task is to ensure the sustainable, long-term financing of the Bundeswehr, and our security in general. For us, as the SPD parliamentary group in the Bundestag, the first principle in this context is that internal, external and social security must never be played off against one another. Our security requires adequate funding which is secure at all times, and this must not be undermined by the dogma of maintaining a balanced budget. With the aid of a Planning Act, we want to pave the way for medium- to long-term defence planning that goes beyond the electoral cycle. Parliamentary scrutiny will continue to be ensured, as the Budget Committee’s consent is required for items with a value above 25 million euros. Other financing instruments should also be used; this includes financial market products and the potential participation of KfW and the European Investment Bank. The application of the EU’s sustainability criteria must be adjusted to ensure that the security and defence industry is not disadvantaged by the ESG taxonomy. The financing

of our common security and defence industry must, in addition, be part of the EU's next Multiannual Financial Framework from 2028. Ideas which should be examined in this context include EU bonds, a larger defence fund, and specific funding programmes.

Remaining reliable and intensifying coordination: procurement, exports, European armaments cooperation

4. Procurement

A dynamic, functional procurement system, without limiting parliamentary involvement, is needed so that the available financial resources can be used efficiently for the Bundeswehr. Full use should be made of all existing legal options to make the procurement process as rapid and non-bureaucratic as possible. We need a can-do culture in the units involved, with everyone working towards common goals. The SPD-led Federal Government has already set the right developments in motion with the Act Accelerating Procurement for the Bundeswehr; the same is true of the directive on accelerating procurements issued by the SPD-led Ministry of Defence. We also welcome the decision by the Federal Ministry of Finance to provide upfront payments to the security and defence industry under section 56 (1) of the Federal Budget Code in the case of procurement projects, subject to certain conditions, and we are calling for this approach to be used more frequently. As a general principle, procurement should take place in Germany and Europe if possible, available and financially reasonable. The standards which apply within NATO, and which are to be developed further in that framework, are a crucial criterion for the procurement of military equipment. Dependence on intermediate goods produced outside of NATO and the EU must be reduced in the interest of sovereignty. In addition, there should be a focus on solutions available on the market. Dispensing with "gold-plated" solutions automatically means a much lower level of requirement complexity and significant time savings for material deliveries, and experience shows that it also means lower procurement and life-cycle costs. The Federal Government should also consider performance-based contracts in order to sustainably ensure capability use. In its role as an anchor and reference customer, the government should offer security and encourage innovation, for example through purchase guarantees for contractually fixed minimum quantities, a simplified approach to applying Article 346 of the Treaty on the Functioning of the European Union (TFEU), and the possibility of including offset agreements as a contractual condition in the case of procurement outside of Europe. Strengthening the industry as described here must not lead to the industry taking advantage of the strained security situation to pursue an unjustified pricing policy; our aim is a partnership between government and industry on an equal footing. In the case of procurement in third countries, it must be ensured that maintenance licences are purchased at the same time. We want to involve small and medium-sized businesses (SMEs) in defence contracts on a reliable basis, alongside the major global players. This could be incentivised by, for example, the Ministry of Defence providing information about impending procurement projects at an early stage. Particularly during the phase of in-service use, the involvement of SMEs offers a great deal of potential for all involved, including with regard to maintenance and repairs. As a prerequisite for this, rights of use, for example in relation to technical documentation and software, should, in principle, rest with the Federation in future. We want to make it easier for SMEs to come together for a specific order so that they can also bid for large volumes, for example by forming a project partnership or a consortium. SMEs can make an important, lasting contribution to security of supply for the systems used by the military.

5. Arms exports

Arms exports are part of a comprehensive security policy and are not comparable to exports of civil goods and products. Arms exports have to be regulated and, at the same time, used in a targeted manner to build strategic partnerships and assert our values, standards and interests. In this context, arms exports must not be allowed to undermine our democratically legitimised goals in foreign, security and defence policy, stoke regional conflicts or facilitate human rights violations. The global defence market has been changing since Russia's war of aggression against Ukraine, and spaces are emerging which should be used for new strategic partnerships, in the interests of European security (so that they are not left to other, non-democratic forces). The Bundeswehr is the most important anchor and reference customer for the German security and defence industry. However, the Bundeswehr's

purchases are not enough to sustain production capacities, expertise and qualified skilled workers over the long term. Yet these factors are the prerequisite for Germany to be able, through a strong, high-performing industry, to maintain a sufficient deterrent capability to preserve peace and security. In order to strengthen European cooperation, make the defence industry financially viable, gain new partners around the world and bind them more closely to Europe's strategic objectives, we must take a realistic look at the guidelines for arms exports. Accordingly, we are pressing for a modern national Military Equipment Export Control Act that requires recipient countries to accept strict end-use controls and, looking to the future, we are in favour of EU-wide harmonisation of export controls for military equipment – in the interest of European sovereignty. The consolidation of the European defence industry and a rethink of the German export guidelines are two sides of the same coin. Exports to EU countries, NATO members, third countries with NATO-equivalent status, and selected other third countries are, accordingly, not just in Germany's security interests, but also an industrial necessity. Against this backdrop, it is essential that our licensing decisions are predictable, reliable and rapid, and are aligned with the EU Common Position, for the sake of the German and European industry and our European and international partners. We welcome a growing shift towards administration through government-to-government contracts.

6. European armaments cooperation

Strengthening the German security and defence industry goes hand in hand with strengthening the European security and defence industry. Only within the EU and NATO framework are we able to meet our capability requirements, keep our economy competitive and resilient, and thus strengthen our sovereignty. On top of this, there is the technical necessity of common design and the resulting systems interoperability, which must become a condition for European armaments cooperation. Common design also leads to a reduction in the number of different systems, increases the unit quantity of individual systems, and contributes to market consolidation. Germany needs to be capable of participating in European armaments cooperation projects without this causing a disadvantage for other partners. To make European cooperation projects more efficient, they should focus primarily on factors such as availability, expertise and common mission needs. Where expertise and capacities allow, Germany should strive for a leading role in European and international cooperation projects, and enable other partners to do the same in other projects.

Maintaining and increasing competitiveness: key technologies, research, strategic holdings

7. Key technologies

Key technologies are a strategic pillar of national and European sovereignty, with the aim of being independent of third countries in the field of threat prevention and national security. Key technologies, as whole systems, are more than the sum of their parts in our eyes. On the one hand, categorisation as a key technology involves a range of benefits, such as direct (national) procurement under Article 346 TFEU, political support for exports and the strengthening of research and development. On the other hand, it also involves certain safeguard mechanisms to be fulfilled by the companies concerned, or even market restrictions. In the coming years, alongside the points which have already been made regarding the steering of industrial policy (the target structure for key technologies), improved procurement conditions (simplified application of Article 346 TFEU), support for exports and the allocation of adequate funds in the federal budget for research and development in relation to key technologies, the incentives for a categorisation as a key technology must be made much more tangible for the companies involved. However, the companies themselves also have a duty to establish their research and development budgets in a way which enables them to contribute to the industry's innovative capacity and technological leadership. On top of this, companies have a duty to take a responsible approach to key technologies and the individual technologies contained in them. Expertise and skills relating to managing armaments projects and processes in companies that produce key technologies is a vital factor, and maintaining it and developing it further is essential. Looking to the future, we must also work with our European partners to jointly decide who is responsible within the EU for which key technologies, in order to ensure effective and efficient development, production and supplies.

8. Support for research and innovation

Research, development and innovation is an important driving force in developing and securing the Bundeswehr's capabilities. In this context, Germany can draw on a high-performing and dynamic research and innovation ecosystem, which we want to strengthen further. The state, acting as a catalyst, can provide targeted incentives for innovation, including by awarding contracts for capability development, as well as through tendering, upfront payments, and purchase guarantees for contractually fixed minimum quantities. Action must also be taken to make it easier for highly innovative companies, especially SMEs, to obtain patent protection for their developments. Defence research is in a strong position and can respond quickly to the Bundeswehr's needs. At the same time, high-tech transfer in defence research, as in other fields, is often slow. This does not necessarily apply only to the development of weapons systems; it can also apply to IT systems being made available in logistics, reconnaissance systems or backup systems. In principle, civil-military cooperation is, for the most part, possible and necessary in Germany. However, the discussion about the impacts of the shift in German foreign and security policy (the *Zeitenwende*) on the research and innovation system is only in its early stages, and this is a necessary debate. We therefore want to embark on a discussion process together with the research and innovation ecosystem to clarify what the significance of dual-use research and development should be in Germany in future and what the related processes could look like. This discussion process is also needed in view of the risks that ecosystem stakeholders face from hybrid threats, such as disinformation, information extraction and cyberattacks, and it must also consider the freedom of international cooperation. In addition, the further development of peace and conflict research is of equal value in our eyes. The following principles guide our actions: we want the Bundeswehr to have access to the best possible systems and for our industry to thus be internationally competitive. In this spirit, support for research and innovation should be geared to missions and capabilities and should contribute to trialling new technologies. Pre-commercial procurement, for example in the framework of innovation competitions, can also contribute in the field of dual-use research and development. We will uphold the promise of funding certainty made in the pacts for science; resource conflicts must not be allowed to occur in the research system in any circumstances. We want to work with the research system and the innovation ecosystem to define fields of civil-military cooperation in a way which preserves scientific freedom. Those who choose to conduct research solely for civil purposes should not have to fear any disadvantages, and institutions' autonomy must be preserved in this field. Where knowledge can be transferred from basic research to the application stage, this must take place rapidly and efficiently. One forum for this is, for example, the federal Agency for Innovation in Cyber Security, which focuses on the market-readiness of innovations and thus contributes to value creation, prosperity and resilience in Germany.

9. Strategic public holdings

The German security and defence industry, which mainly consists of private-sector organisations, is characterised by close collaboration between major global players and SMEs. To pave the way for success in the face of international competition and to create a level playing field, we want to consider strategic public holdings in relevant companies in the industry. In specific areas, national champions are needed, including so that management and scaling in a crisis can be sustainably financed. To retain key technologies and better control their proliferation, federal holdings (with a blocking minority) in companies in the security and defence industry should be considered in individual cases. These holdings could, for example, be managed via a dedicated unit at KfW. In addition, it is necessary to strengthen the hand of the broad SME sector in partnerships and negotiations with European partners' government-owned companies. Formats such as project partnerships in which the Federation takes a stake could be considered.

10. Securing the supply of skilled labour and seizing transformation opportunities

Looking to the future, strengthening the security and defence industry will lead to more jobs in the sector. We want to seek, in partnership with the trade unions, to ensure that these are good, secure jobs covered by a collective agreement. Comprehensive collective bargaining coverage and workplace co-determination make the industry more attractive. To ensure that we can also recruit people for these jobs, we want to invest in education and training for the relevant occupations and offer targeted opportunities for retraining and continuing education. The companies in the security and defence

industry should also seize the opportunity to train more of their future workforce themselves by offering attractive training opportunities. In addition, as part of the current transformation of our economy, we must highlight pragmatic routes for skilled workers to move from one sector to another. By doing so, we will safeguard jobs, retain staff and skilled workers in their regions where possible, and rapidly and sustainably strengthen this industry. Another prerequisite is that the security vetting required for employment in the security and defence industry must be carried out quickly. In addition to the many skilled workers needed in the security and defence industry, we also need top talent in the field of research, development and innovation who we attract and retain by offering competitive working conditions and well-resourced research and development budgets. To retain these specialised skilled workers, potentially including staff from other EU countries, over the long term, it is essential for companies and organisations to do more to live up to their social responsibility externally and practise a welcoming culture. The aim is for workers to want to remain in the region or in Germany permanently, and thus remain available to companies over the long term. As we focus on capacity development in Germany and Europe, we must ensure that strengthening the security and defence industry also leads, in the interest of workers, to more jobs covered by a collective agreement, workplace co-determination and ultimately prosperity at local level.