

Romanian Defense Industry

Workshop Report

12 December 2019

About the Workshop

The escalation of the discussions on the theme of European Security and Defense, caused by President Emmanuel Macron's recent declarations and by the ongoing discussions within PESCO, requires an analysis of the potential that this approach has for Romania, as well as its economic and geostrategic implications.

*The workshop, prompted by the presentation of the new PwC report "**Romanian Defense Industry**", was co-organized in Bucharest, on the 12th of December, by **Aspen Institute Romania (AIR)** and the **Bucharest Office of the German Marshall Fund of the US (GMF)**. The event was attended by around 50 decision-makers and public officials in relevant Ministries, key private sector representatives as well as representatives of academia and non-governmental organizations. Building on the large interest of multiple stakeholders for the format offered by this event the Aspen Institute Romania will continue to explore opportunities to further develop its **Aspen National Defense & Regional Security Program**.*

About Aspen National Defense & Regional Security Program

*Given the long-term challenges that Romania and other countries in Central Eastern Europe face in strengthening their national security by addressing traditional military threats and emerging non-traditional challenges that impend on regional stability, the **Aspen Institute Romania has initiated the National Security & Regional Defense Policy Program, as part of its Public Policy Programs**. The Program stems from the Team Romania initiative, a series of roundtable debates aiming to create relevant content on Romania's geopolitical & security context, as well as recent developments and possible courses of actions that focus on the security dimension, hosted by the Aspen Institute Romania in partnership with the Bucharest Office of the German Marshall Fund of the US.*

*By applying the **Aspen Method**, the program aims at strengthening the strategic culture of the relevant stakeholders in the national security and defense communities, anticipating the transformations in the realm of defense and strengthening governance, leadership and policy formulation. It also seeks to encourage technology transfers and the diffusion of dual-use solutions for the defense industry and the national economy of Romania.*

*The policy program can provide decision-makers valuable insights through a non-biased, multidisciplinary support platform. Initial areas of main interest **focus on hybrid security threats, cyber defense, energy security and the relationship between security, the defense sector and related industry**.*



The **Government officials** which attended the workshop underlined Romania's commitment to remain a reliable NATO partner and confirmed their support for the further development of the Romanian defense industry.

The Romanian acquisition programs will continue, 2019 marking the third consecutive year when nearly 2% of the country's GDP was allocated to Defense. Also, the research and development programs will prove their impact on the longer term.

Ionuț Simion, Country Managing Partner, PwC Romania, presented the **PwC report on the Romanian Defense Industry**. The report looks at the global context, presents an overview of the existing defense industry in the country and the framework for industrial cooperation and offers **policy recommendations in order for Romania to capitalize on existing opportunities**.

In terms of the **global context**, the average world defense expenditure was at 2.1% of GDP and Romania spent 1.9% of GDP, close to the 2% NATO target which should be met in 2019. Defense expenditures can be partially compensated by the economic value added and employment created. Trends such as cyber security and a shift to more mobile and versatile equipment instead of large military systems create both challenges and opportunities.

In the EU, the impact of the defense industry on the economy is significant. In 2018, EU countries spent approximately €238 billion on defense, with top 5 countries accounting for more than 75% of the total EU defense expenditure. The EU developed financial support mechanisms to encourage the defense industry, such as the European Defense Fund and the Industrial Development Program, allocating an additional €13 billion for 2021-2027. When it comes to the Central and Eastern Europe region, Poland is by far the largest defense spender. Its best practices include focusing its defense sector on 6 **defense-related clusters**, 80% of the companies being located in the South-Eastern part of the country in what has been called Poland's Aviation Valley. This has been made possible due to a strong scientific, academic and engineering environment supported by international cooperation and foreign direct investments in the aerospace sector.

While Poland's approach is mostly oriented on investments and R&D, Romania spent close to 69% of its allocated defense budget on personnel. Only 15% for was used for equipment, 1% for infrastructure and another 15% for other expenses such as R&D. In Romania defense companies generate €647 million turnover, which could further increase by developing specialized clusters, for instance a Transylvanian Aerospace Cluster located in Brasov County. Romania could capitalize on its EU and NATO membership, as well as on the strategic position on the South-Eastern Flank. However, **the Romanian defense industry stakeholders need better coordination and a comprehensive legal framework to maximize opportunities for exports and to meet Romanian security and defense needs**.

Industrial cooperation in Romania has, over the recent years, been dominated by **offset**, an industrial or commercial compensation practice required as a condition of purchase, in which potential foreign suppliers present an offer covering obligations to make investments in Romania. These are directed to domestic companies as transfer of technology, knowhow, and licenses and bring clear, long-term economic benefits, accelerating the defense industry development. Offset agencies can have different mandates according to their level of involvement, a key common element being the need of a single party



within the Government that is empowered to negotiate and carry out agreements. In Romania, the offset management authority is the “Office for Offsetting Special Technique Procurements” (ACATS) which operates under the Ministry of Economy under a minimal mandate. Furthermore, compared with Poland, the Romanian offset law is stricter, with specific thresholds and exceptions.

In terms of recommendations, **Romania could improve the role of its defense industry** as a source of economic value by considering **5 focus areas**:

- Review and update the **relevant legislative framework** applicable to the defense industry to better capitalize on the Law on National Defense Industry and on the new Offset Law to be adopted;
- Strengthen and optimize **institutional cooperation** between the main defense stakeholders;
- Develop **integrated strategies** to better define and capitalize on the industrial cooperation to attract new business to Romania, also focusing on boosting investments in research and technology, developing smart defense capabilities and considering partnerships with key players (e.g. US, Poland, Turkey);
- Capitalize on the existing defense clusters in Romania to develop the concept of a specialized “**Defense Valley**” to include aviation, information, technology and cyber matters and possibly an automotive component with the aim of attracting new business;
- Capitalize on **EU defense industry initiatives** (PESCO-Permanent Structured Cooperation and EDF-European Defense Funding Plan) and European Defense Agency’s programs to continue strengthening Romania’s strategic profile as important player in Europe in line with NATO priorities.

George Vișan, Program Coordinator on Black Sea Security, Romanian Energy Center (ROEC) analyzed the geostrategic context in which the Romanian defense industry currently operates and gave a presentation on **trends in European security**. He looked at current divergences in NATO between the US and European members, including on the role of the alliance. Furthermore, there are diverging views in the EU regarding reliance on the US for European security and on European strategic autonomy. Brexit in particular will be a negative bet on the future of the European defense project.

The ROEC presentation was followed by a round table discussion issuing the following **policy recommendations** for the Romanian defense industry:

- Romania needs a **long-term industrial policy in the defense sector**. This is no longer an autarchic sector, so Romania needs to identify which areas represent its main priorities and identify investment opportunities for them;
- While offsets are a good solution in the short-term, for long-term industrial planning **investments into R&D should be prioritized**;
- There is a clear need of **new public acquisition framework**;
- The Ministry of Defense and the Ministry of Economy should come up with an **updated legal and institutional framework for managing the defense industry**, perhaps in the form of a working, full-time inter-ministerial committee;
- Efforts must be made to **connect the Romanian defense industry** with both European and US defense industries; It is important to build defense cooperation with like-minded states in the region (e.g. Poland, Czech Republic) but also outside the EU and NATO (Japan, South Korea).



Roundtable discussions continued on the topic of Romanian industrial policy as well as on Romania's opportunities to further contribute to European defense, focusing on the following aspects:

- The Romanian Parliament has identified a **need to modify the offset law** and a Working Group on the topic has been created; a key question is where the national offset agency should be located and what its mandate should be. Several participants recommended to **place the "Office for Offsetting Special Technique Procurements" (ACATS), operating now under the Ministry of Economy, as a National Offset Agency under the Prime Minister's cabinet;**
- The fact that the US invests in R&D 7 times more than the EU causes a dangerous gap. **Links between the US and EU defense industries must be fostered;**
- Romania needs to **identify and attract companies that could develop dual technologies:** both military and civilian;
- **Romania could position itself as leader for EU and NATO programs with relevance for the Black Sea Region** (in cooperation with the US) and a promoter of an Extended Black Sea Region-tailored Smart Defense approach, including by developing defense industry projects with countries such as Ukraine, Moldova, Georgia and Azerbaijan;
- **PESCO is key to pooling resources within the EU and offering cost-effective solutions.** A common acquisitions policy with Poland would be a good solution;
- For the Romanian defense industry, the newly created **European Defense Fund can provide important financing opportunities.** The Romanian Council of the EU Presidency was involved in negotiating the 2021 – 2027 budget. Collaborative projects involving at least three participants from three member states or associated countries are eligible for support through European Defense Fund projects.

The representatives of multiple stakeholders appreciated the discussions and the contribution of the Aspen Institute Romania and German Marshall Fund of the US to facilitating a non-partisan and thought-provoking debate to explore key national defense and regional security issues. By applying the **Aspen Method**, the two organizations will further pursue in 2020 the mission assumed through the **Aspen National Defense & Regional Security Program**.

