



# HOUSE OF LORDS

European Union Committee

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Lord Callanan  
Minister of State  
Department for Exiting the European Union  
House of Lords  
London, SW1A 0PW

20 April 2018

Dear Lord Callanan,

In preparation for Phase II of the Brexit negotiations, the EU External Affairs Sub-Committee considered the European Commission's 'Slides on Security, Defence and Foreign Policy'.<sup>1</sup> Following up on our report, *Brexit: trade in goods*,<sup>2</sup> published in March 2017, we sought views from industry on the elements pertaining to the European Defence Fund and Galileo/access to public regulated services.

We received a response from the Royal Aeronautical Society (RAeS) which we wish to draw to your attention. The letter is enclosed. In particular, we highlight that the RAeS emphasises the value that the negotiation of a bespoke arrangement for post-Brexit participation in the European Defence Agency would bring to the UK, and the importance of the European Defence Fund and EU R&D funding (including Horizon 2020) to the UK defence industry. We also draw to your attention RAeS's assessment that the Government should seek to ensure full UK participation in the Galileo programme after Brexit, including UK participation in Copernicus.

I am copying this letter to the Sir William Cash MP, Chair of the House of Commons European Scrutiny Committee, Lynn Gardner, Clerk of the House of Commons European Scrutiny Committee, Les Saunders and Richard Cleary at the Department for Exiting the EU, and James Ward, Assistant Parliamentary Clerk at the Ministry of Defence.

Baroness Verma  
Chair of the EU External Affairs Sub-Committee

<sup>1</sup> [https://ec.europa.eu/commission/sites/beta-political/files/security\\_defence\\_and\\_foreign\\_policy.pdf](https://ec.europa.eu/commission/sites/beta-political/files/security_defence_and_foreign_policy.pdf)

<sup>2</sup> <https://publications.parliament.uk/pa/ld201617/ldselect/ldcom/129/129.pdf>

The Baroness Verma  
Chairman  
EU External Affairs Sub-Committee  
House of Lords  
London SW1A 0PW

16 March 2018

Dear Baroness Verma

**Re: European Commission ‘Slides on Security, Defence and Foreign Policy**

Thank you for the opportunity to provide views on the positions set out by the European Commission in preparation for the beginning of Phase Two negotiations on Brexit, specifically with regard to The European Defence Fund and Galileo/access to public regulated services.

**1. The European Defence Fund (EDF)**

***Introduction***

The main axis of European defence industrial and technological relations remains a government-to-government relationship centred on specific projects; however, the European Defence Agency (EDA) performs a useful role in stimulating cooperation on research and technology, the acquisition of military equipment and enabling joint training.

EDA funds and the European Defence Fund (EDF) currently represent a useful, but not decisive contribution, to UK future defence capabilities; nevertheless, the EDF should be expected to be the avenue for future European Commission investment in defence capability.

The UK Government makes clear that it is “open to future UK collaboration in European Defence Agency projects and initiatives”<sup>1</sup> and would “consider options and models for participation in the European Defence Fund...”<sup>2</sup>.

***The Transition Period (Slide 34)***

In a situation where the UK is expected to continue to pay its contributions to the EU budget throughout transition, the UK should expect to retain continued full participation in and full-security access to EDA and EDF programmes until the end of transition.

***Future Relationship (Slide 35)***

The UK should seek to secure a bespoke relationship with the EDA that is more inclusive than the current Administrative Arrangements afforded to third countries, and proposed as a long-term solution by the European Commission.

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<sup>1</sup> [Department for Exiting the European Union \(2017\) Foreign policy, defence and development: a future partnership paper. HMG, London](#)

<sup>2</sup> *ibid.*

An Administrative Arrangement would allow the UK to contribute to EDA/EDF projects and attend relevant meetings but would not allow the UK to preserve any voting or veto rights and severely limit its ability to participate in the decision-making process. The UK should ideally maintain influence over the choice of research and defence and procurement projects and be able to deter the Commission from pursuing projects it does not support.

In return for a sufficient financial contribution, the UK could participate in the defence research and capability windows of the EDF. Given the UK is leaving the EU at a time when EU defence research and development co-operation is becoming more ambitious, expansive and exclusive, the UK must achieve the best outcome possible – especially as a focus on research and technology acquisition as an aspect of Ministry of Defence R&D funding has declined significantly over the last decade and the UK has been more deficient in this area than some of our European partners.

Once the EDF is in full force, after 2020, the common EU budget fund for defence R&D should rise to approximately €500M per annum. While this amount is relatively modest, it will facilitate the pooling of resources, reduce duplication costs and increase co-operation among Member States in areas that remain crucial to the generation of future European defence capabilities. The EU's goal is to leverage approximately €5B per annum in co-ordinated spending on arms and equipment. The UK defence industry would not wish to miss out on accessing these funds, financial inducements for more efficient and cost-effective multi-national equipment programmes and a potential opening of traditionally protected military procurement markets. In addition, maximum influence within the EDA and on the direction of the EDF would benefit future operations and interoperability.

The UK has in the past been obstructive towards to the EDA budget, and it would be understandable if the European Commission was hesitant about agreeing to any relationship beyond an Administrative Arrangement; however, considering the UK's potential military, diplomatic and financial contribution, as well as the broad range of threats and challenges we share, such a relationship should also be mutually beneficial.

In the absence of a bespoke arrangement, UK-based defence companies could attempt to access EDF research funding by opening subsidiaries in EU Member States. For companies to preserve their ability to tender for EDF resources the UK should be expected to continue to pay into the EU's wider research programmes.

The UK is one of the largest beneficiaries from Horizon 2020 funding and the UK has suggested that it would be willing to pay for access to EU R&D research programmes after Brexit. The EU has an interest in retaining the UK's contribution to R&D funds more broadly, and the Commission has expressed a desire to preserve defence co-operation. Given the size and technical know-how of the UK defence industry, a severing of ties would be a loss for both sides.

Without a bespoke agreement, the EU could be encouraged to develop a new approach for non-Member countries interested in a defence and capability partnership, incorporating a wider group of interested countries, including the likes of Norway and Switzerland, but permit maximum level of involvement, including participation in operations, military capability development and EDF activities (on the assumption that they would make financial contributions). This approach would also support a multilateral, cooperative approach to dealing with shared threats.

Finally, if UK participation in the European Defence Fund (EDF) cannot be secured, the Commission should be encouraged to build greater flexibility into the fund by permitting the involvement of UK companies in joint initiatives with EU-based companies, and for joint EDF/UK funding of European-wide projects.

## **2. Galileo/access to public regulated services (PRS)**

### ***Introduction***

The UK Government has on several occasions expressed a desire to continue to “participate fully” in the Galileo programme, in the context of both defence<sup>i</sup> and science & innovation<sup>ii</sup> and is additionally motivated by the stated policy of the Ministry of Defence to use the Galileo Public Regulated Service (PRS)<sup>iii</sup>.

The phrase “participate fully” is intended to cover the whole range of rights and obligations associated with participation in the Galileo (and EGNOS) programme, namely participation at committees and expert groups and UK industry access to related EU and ESA contracts, for delivery of both space and ground systems and equipment, and other essential services.

This Government position has been discussed with and is strongly supported by UK Industry, which has successfully won a larger-than-GDP share of Galileo work in open competition with industry across all EU Member States.

Since the outset of the programme, UK industry (SSTL) partnered with German industry (OHB) has delivered all 22 Galileo spacecraft and is currently working on delivery of the next batch of eight following contract award in July 2017<sup>iv</sup>. UK industry also continues to play a significant role in delivery of ground control and monitoring systems, and is involved in the definition and delivery of the cryptographic arrangements for Galileo PRS.

### ***The Transition Period (Slide 37)***

The Commission suggests that the UK be excluded from Galileo programme committees and expert groups, with invitations on an exceptional and case-by-case basis when needed and without voting rights and also suggests that UK will have only limited access to PRS, while otherwise participating in Galileo/EGNOS.

In a situation in which UK is expected to continue to pay its EU contributions throughout the transition period, one would expect continued full programme participation and full PRS access to continue until the end of the transition period, as well as full access of UK industry to Galileo-related contracts. “Access” alone will not meet the requirements of MOD and UK industry – we need the right to help define, develop and operate PRS if we want to have real sovereignty and to avoid dependency on other EU countries for critical facilities, and to be able to sell related systems and services globally.

### ***The Future Relationship (Slide 38)***

The Commission expects to set up a number of agreements delineating the future extent of UK access to the Galileo PRS, including:

- a. A Security of Information Agreement to allow exchange of classified information with the UK
- b. A Satellite Navigation Cooperation Agreement setting out general modalities of cooperation on Galileo/EGNOS
- c. An Agreement on Access to PRS, providing the UK access to the Public Regulated Service, in line with the PRS Decision 1104/2011/EU and the PRS Common Minimum Standards.

While the agreements listed by the Commission are essential for a future relationship with the UK, it is the scope and content that will determine whether the UK objective to fully participate in the Galileo programme has been fulfilled.

In particular, Commission agreements with the UK need to address UK rights and obligations related to its continued full participation in the programme and full access of UK industry to future contracts.

To ensure continued full access to and involvement in PRS, the agreement should ensure that the UK is recognised as a “competent PRS authority” as foreseen in PRS Decision 1104/2011/EU.

Furthermore, the European Commission Draft Withdrawal Agreement<sup>v</sup> (dated 28 February 2018) appears to assign the UK a status regarding PRS similar to that of Norway, Israel, USA and other allies, allowing access to PRS but not allowing participation in system definition, nor delivery of any of the required cryptographic equipment. This position is considered highly unsatisfactory when viewed from the perspective of both the Ministry of Defence and UK industry.

### ***EU Preparedness (Slide 39)***

Concerning ***Infrastructure***, it is understood that even before an agreement has been reached regarding future UK (full) participation in the Galileo programme, the Commission has announced its decision to relocate one of the two Galileo Security Monitoring Centres from the UK to Spain (the other one remaining in France), a country not at the same “level” as the UK or France regarding security, and thereby preventing the UK from playing its current supervisory and advisory role on related security matters. Even if a Galileo Security Monitoring Centre is set up in Spain, there is no reason why a Galileo Security Monitoring Centre could not also be in the UK.

No comments concerning ***Security issues and ELI classified information***.

The ***contractual issues affecting the participation of UK entities in the Galileo programme*** are of particular and serious concern as UK industry, since UK’s invocation of Article 50, has failed to win a number of Galileo contracts, particularly those related to security for the following reasons:

- a) ESA/EU Member States have been lobbying against the award by ESA of EU space programme-related contracts (Galileo, Copernicus) to UK industry.
- b) The EU has invoked new rules obliging companies bidding for Galileo programme contracts to cover the cost of moving activities to another EU Member State should their country leave the EU.

UK industry representatives have informed UK Government that this situation tilts the Galileo playing field against UK industry and appears to contradict the principle of the Joint Statement of 8 December 2017 that “nothing is agreed until everything is agreed”.

UK Government has complained to Brussels about this situation but without success. In the past two months the EU has made its contractual clauses even stronger in this regard.

It is understood that UK Government and the European Commission have recently exchanged letters regarding the immediate reduced UK public and private sector access to Galileo PRS policy forums – we understand that the Commission letter has now been transmitted to the EU Member States as a working document of the Council of the EU. UK Government officials (off the record) and UK industry representatives share the view that the strengthening of the EU stance at this point

in time is likely to have been motivated by commercial considerations – by driving UK industry out of Galileo PRS now, even if the UK is eventually allowed to “participate fully” in the future, the previous UK industry roles will have been handed over to companies in other EU states.

UK companies already undertaking Galileo security-related contracts (including PRS) are now being required to cease work within the next month or two. At least one UK company has 250 highly qualified security engineers likely to be impacted.

In the meantime, some UK companies may choose to set up subsidiaries in EU states so as to be eligible for future EU space programme contracts, potentially impacting UK Government’s flagship plan for continued growth in the UK space industry.

### ***Implications for CFSP/CSDP (Slide 31)***

The Society wishes to draw attention to the fact that in the slides presented, there is no mention of Copernicus, the EU earth observation programme foreseen to play a highly significant role in CFSP/CSDP.

The statements made concerning the future UK participation in Galileo and PRS apply equally to UK’s future participation in Copernicus, to counter the Commission’s views expressed in Slide 31, and to ensure that the UK can influence and participate fully in the programme in the future, both as users and contributors.

### ***Conclusion***

The UK has played a significant role in the definition and deployment of the Galileo and PRS system, and Government has expressed the wish to participate fully in the programme in the future.

The UK space sector has played a major role in the development of the main EU space programmes by providing highly skilled personnel and technology. Participation provides important commercial opportunities to UK industry. Space is inherently collaborative and while relevant EU legislation makes express provision for non-EU countries to participate in Galileo and Copernicus, the framework for future UK participation must be properly elaborated.

The Society urges the Committee to encourage the Government to negotiate strongly to secure and protect British defence and industrial interests and to ensure full future UK participation in the Galileo programme, particularly regarding PRS, and not overlooking UK participation in Copernicus.

Yours sincerely,



Simon Whalley  
Head of External Affairs

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<sup>i</sup> [https://ec.europa.eu/commission/sites/beta-political/files/security\\_defence\\_and\\_foreign\\_policy.pdf](https://ec.europa.eu/commission/sites/beta-political/files/security_defence_and_foreign_policy.pdf) paras. 52 and 76

<sup>ii</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/642542/Science\\_and\\_innovation\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642542/Science_and_innovation_paper.pdf) paras. 24 and 25

<sup>iii</sup> National Security Strategy and Strategic Defence and Security Review 2015 para 4.153 <https://goo.gl/S6DYz5>

<sup>iv</sup> <https://spaceflightnow.com/2017/06/28/german-british-consortium-wins-deal-to-build-eight-more-galileo-satellites/>

<sup>v</sup> [https://ec.europa.eu/commission/publications/draft-withdrawal-agreement-withdrawal-united-kingdom-great-britain-and-northern-ireland-european-union-and-european-atomic-energy-community\\_en](https://ec.europa.eu/commission/publications/draft-withdrawal-agreement-withdrawal-united-kingdom-great-britain-and-northern-ireland-european-union-and-european-atomic-energy-community_en)