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## **No sustainability without a defence and security industry**

This is a joint initiative by several national defence industry associations across Europe, driven by their deep concern that increasing Environmental, Social, and Governance (ESG) standards may through a widely-practiced misleading application further exclude our industries from financial or insurance services. This problematic application of ESG-criteria deprives our member companies of fundamental services necessary to maintain their business operations and jeopardises their societal role to contribute to Europe's security and strategic autonomy.

The defence and security industry is indeed a key pillar of Europe's common security and strategic autonomy. By providing equipment to our armed forces, the industry enables Europe to ensure its own security, rather than depending solely on non-European countries. It is also an economic and technological asset, with an annual turnover of €180 billion and 460 000 highly skilled jobs. Moreover, synergies between the defence industry and civil sectors contribute to a vibrant industrial ecosystem within the EU. Correspondingly, the EU and its member states have recognised the strategic importance of a defence industry and established various supportive initiatives to maintain its technological edge.

### **Security and defence at risk:**

However, this strategic industry and particularly its access to the financial and insurance markets has been weakened and even threatened for several years now. Under pressure from associations, NGOs and a few political currents, financial institutions implement internal guidelines limiting cooperation with defence companies. They also introduce new so called "sustainable" financial products, which expressly exclude equity or debt from defence corporates. This may not only result in the exclusion of their equity from funds, but can extend to the termination of business accounts or other financial services and the refusal of export guarantees by banks despite corresponding licences. Such difficulties are not limited to large system providers, but extend to SMEs and the underlying supply chains.

The integration of ESG criteria into the banking, financial and insurance markets is rapidly advancing. While our industry fully supports Environmental protection, an improper application of the Social and Governance criteria severely affects Europe's

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defence industry. This application typically places the suppliers of Europe's defence forces and security services alongside unlawful business practices such as child labour, activities severely impacting the environment or sectors like tobacco, pornography or gambling which some consider ethically questionable. Using such a misguided interpretation severely affects the competitiveness and financial viability of Europe's security and defence industry.

In fact, this discrimination of Europe's defence industry has even found some political traction and governmental support: Sovereign bonds issued by some EU governments for example exclude defence and national security from their funding scope. The methodology mirrors the approach adopted by the World Bank, which also expressly excludes defence companies from its private business financing activities. In addition, NGOs and some market participants increasingly call for the establishment of a list of by definition ESG-incompatible industries or business activities as part of the EU's Sustainable Finance Taxonomy, which according to their position should include the defence industry.

Altogether, these developments will gravely endanger the ability of Europe's defence industry to ensure its financing, hence its ability to provide European defence forces and law enforcement activities with state-of-the-art equipment and therefore the security of Europe's citizens and society as a whole. They would also directly contradict political decisions taken by many European countries to classify a wide range of their defence technologies as areas of "sovereign" importance and as vital for Europe's common security. It is therefore vital that the defence industry is not deemed generally "non-sustainable" in national frameworks and corresponding EU regulations.

#### No sustainability without security:

We urge EU institutions and national governments to acknowledge how such an interpretation of sustainable finance would adversely affect the European defence industry, one of the most regulated industries. Corporate entities that operate in accordance with all applicable national and EU laws and which manufacture vital products for the common security of Europe's member states and the Union as a whole are an indispensable part of a sustainable society, assuring peace and strong institutions. One of the essential roles of defence is to protect democracy and freedoms in a very unstable global environment (even on the fringes of Europe). The notions of NGOs and "sustainability" are practicable precisely because democracy is assured and protected: There is no sustainability without security.

The defence sector also contributes to a proper implementation of the UN Sustainable Development Goals, particularly SDG 16 'Peace, Justice and Strong Institutions'. An adverse interpretation of ESG with regards to defence thus limits the achievement of these goals.

Therefore, EU initiatives on sustainability or ESG must not categorise the defence and security industry as a by definition “non-sustainable” sector. New regulations and guidelines should on the contrary reinforce the industry’s access to finance and insurance, instead of effectively downgrading its assets. The industry’s contribution to Europe’s security and to Europe’s sustainability must be acknowledged and communicated towards both the general public and financial markets.

Actions to be taken:

The EU’s Sustainable Finance taxonomy must clearly recognise Europe’s defence technological and industrial base (EDTIB) as a legitimate sustainable actor. All European defence companies are firmly rooted in the legal systems of the EU and their respective national member states. They strictly adhere to applicable international laws, while export controls ensure that their customer base remains under tight governmental control.

The European security and defence industry, represented by our associations, is indispensable for a sustainable society. It enables governments to ensure security, the basis for all sustainability, and it contributes positively to a sustainable economy by providing synergies with civil sectors. This contribution must be recognised by national and European institutions and any discrimination of the industry through an exclusion by definition within the EU’s Sustainable Finance Taxonomy or other sustainability/ESG-related initiatives must therefore be rejected.

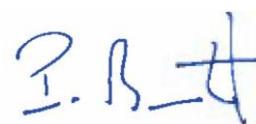
Our industry is ready to take an active and positive part in the work undertaken at the EU level to define sustainable finance and we wish for your support to avoid the exclusion of the defence industry.



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