



**BETWEEN FALSE  
PRETENCES AND REAL  
PROBLEMS, DEFENCE  
INDUSTRIES AND THE  
FIGHT AGAINST CLIMATE  
CHANGE**

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*In this article for Confrontations Europe, **Laurent Zylberberg** shows, that beyond the debates on the non-application of the European taxonomy on the defense sector, Europe must establish a sustainable and sustainable defense industry, whose financing of its needs will not be possible without long-term investors.*

The European Commission, led by Ursula Von Der Leyen, has made the fight against climate change a major focus of its action. This has resulted in the Green Deal which includes both financial acts and political commitments. Among its instruments, the European taxonomy plays an important role in establishing a robust base for a resilient economy, while achieving the goal of carbon neutrality by 2050. It also aims to reduce carbon emissions by 55% by 2030, which is what is covered by the “fit for 55” programme.

The objectives of the European taxonomy are six in number: mitigation of climate change, adaptation to climate change, sustainable use and protection of aquatic and marine resources, transition to a circular economy, pollution control, and the protection and restoration of biodiversity and ecosystems.

It is in the light of these objectives that the taxonomy will sift through the actions of three types of actors:

- First, the Member States when they implement normative measures or labels for financial products.
- Second, financial actors, such as supervisory institutions, must gradually integrate these criteria to present their assets.
- Finally, large enterprises with more than 500 employees have to show their share of turnover, investment and expenditure in accordance with this classification.

The idea is that companies will be able to have a valuation taking into account their involvement in these objectives and thus raise funds directed towards them. As for the financial players, they benefit from an established framework, based on a recognized classification, and will therefore be able to avoid investing in companies that would act contrary to these objectives. A virtuous circle is thus established by favouring companies that contribute to these objectives and by directing financing towards such companies.

The alignment with taxonomy goes through 5 steps. The first is an eligibility analysis, and the second is whether the activities actively contribute to at least one of the six objectives listed above, and then whether the same activities do not impede the achievement of those same objectives. Finally, it is necessary to verify that the social criteria are well respected. Finally, all criteria are consolidated to be validated.

Defence companies have only tenuous links to the objectives we have just described. One could say that they are almost agnostic and therefore would not be concerned by the European taxonomy. However, it is enough to discuss with the actors of this sector so that very quickly, the subject of European taxonomy, and more generally that of ESG criteria, arrive in the discussion and are often presented as the cause of many evils. To understand this mutual misunderstanding, we must first put the defence industry into perspective.

The invasion of Ukraine has brought the importance of defence industries to the forefront. From a vision felt, sometimes as theoretical, the stakes of sovereignty and the risks of conflict have made a dramatic irruption a few hundred kilometers from the heart of Europe. As a result, defence issues have become a societal priority. Beyond even dual productions, it is all the products of the defence industry that acquire a strong, even vital legitimacy for our European countries. Commissioner Thierry Breton's recent announcements on munitions show that even "consumables" in the defence industry are the subject of European priorities. This new priority status is in line with the goals of the European Union as defined in 2019, namely: protecting citizens and freedoms, building a solid and dynamic economic base, building a climate-neutral Europe, green, equitable and social, and finally, promoting Europe's interests and values on the world stage. As we can see, nothing here contradicts a strong and sovereign European defence industry, even if it is not at the heart of it. Whereas in previous years we could simply leave defence industries in a blind spot, the Russian invasion of Ukraine showed that this was no longer sustainable.

In this context, taxonomy issues quickly emerged as crucial for this industry. Indeed, to ensure the maintenance in terms of R&D but also the necessary productive investments, it is necessary to seek external financial actors. In Europe, defence industries have a turnover of around €120 billion[1]. With €30 billion in turnover, France accounts for a quarter of the total[2]. The peculiarity of the economic model of the European defence industries is the relative weakness of the internal market and, correspondingly, the major weight of exports. But while this is true for large groups, it is not the same for SMEs and midcaps, which account for almost half of the turnover of non-exporters (less than 17% of exporters[3]). We must also bear in mind the particular structure of this sector. Major contractors such as Airbus, Arqus, Dassault, MBDA, Naval Group, Nexter, Safran and Thalès account for 80% of the activity of the 2000 companies that make up the heart of the sector[4]. These very many SMEs claim to be regularly confronted with what has been called “banking chill”. This restrictive interpretation of the European taxonomy would be a real handicap even if, according to the banking sector, it would simply be the application of rules of basic financial prudence. This phenomenon is all the more strongly felt as these European SMEs are, for the most part, not listed and are very little known to investment funds. Their only source of financing is therefore bank loans or capital increase from shareholders already present. These SMEs are located in territories with financing needs (liquidity, loans, guarantees, etc.) of such an amount that, in most cases, there is no need for a decision by the national headquarters. This distortion explains, in large part, the difference in perception between the provincially based SME and the large banks on financing problems. The former often refer to local issues managed at regional level, while the latter are mainly addressed by the leaders of the major groups. At the regional level, taxonomy is less taken into account for what it is, a reference table, than for its stated objective, an orientation of investments towards activities enabling the environmental transition. In this perspective, the financing of an SME heavily involved in the defence sector leaves with a handicap in the search for its financing.

Finally, the taxonomy is evolutionary. By definition, the European taxonomy is not a stable body since it is intended to evolve the existing. It is part of a fundamental trend that will give more and more importance to sustainable investment. As a result, current definitions will tend to evolve and financial players try, as far as possible, to anticipate these developments so as not to have to constantly readjust their portfolios. The National Assembly’s “Flash mission” thus cites several examples of financial funds that exclude the defence sector on the basis of moral criteria, of European banks that refuse to engage in these sectors because the effects in terms of awareness are deleterious. ESG labels also multiply these exclusion approaches for readability purposes, without mentioning taxonomy but sometimes playing with the confusion that may exist. We could also mention some green sovereign bonds that exclude defence industries.

We are thus in a paradoxical situation, where the war in Ukraine has highlighted the need for a defence industry capable of mass production of weapons of the latest technology, and at the same time, there are growing difficulties in funding needs. The European taxonomy has only highlighted this paradox, it is a bit like Frankenstein in Mary Shelley's book, which often forgets that it is the name of the Doctor that gave life to the creature, and not, the monster itself.

To try to get out of this constraint, and beyond the current initiatives, Europe could take action in three directions.

- Firstly, the political commitment to a Europe of defence must go beyond the few countries which have an industrial infrastructure in this field. It is the entire chain that starts from financing to industrial production that is impacted by a broader interpretation of the European taxonomy. It also means tackling head-on the establishment of a sustainable and sustainable defence industry. If the defence industry is only a minor player in terms of greenhouse gas emissions, its very purpose must encourage it to take this issue head on. First, like other industries, it is necessary to adapt to constraints and to have energy-efficient production methods. This allows us to promote the sovereign dimension while also being part of a production trajectory similar to other sectors of the industry.
- Secondly, the decarbonization of the defence industries' means of transport must accelerate. It is difficult to envisage the end of combustion-engine vehicles for civil transport without any impact on the military dimension. The logistical issues in the event of conflicts would then be made all the more complex.
- Finally, it is also necessary for national policy makers to give priority and therefore visibility on funding issues in this new framework. In this regard, it would be useful for the debates on the military programming law in France to address the financing issues with this environmental dimension in a European logic, even though this subject is not addressed in the bill.

More generally, the financing of defence industries cannot be envisaged in a robust way if long-term investors remain at the sidelines. Their presence in funding is essential because they are the guarantors of the soundness of economic models and because their presence also makes it possible to answer certain questions concerning taxonomy issues. In addition, defence industries have profitability cycles that are largely in line with long-term investors, particularly with regard to vehicles and critical infrastructure. For this to happen, European policy-makers as well as national leaders must send clear signals about the compatibility between defence industries and the challenges of sustainable development. As Molière said, "If Heaven gives me an opinion, he has to speak a little more clearly, if he wants me to hear it." Dom Juan, Act V, Scene IV.

## FOOTNOTES

[1] <https://www.europarl.europa.eu/factsheets/fr/sheet/65/l-industrie-de-la-defense>

[2] <https://gallica.bnf.fr/ark:/12148/bc6p070mqsbf1.pdf>

[3] <https://www2.assemblee-nationale.fr/static/15/commissions/Defense/Rapport-BITD-170221.pdf>

[4] ibid.

