

JUNE 2024



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Introduction

The European Defence Fund (EDF) needs to review its strategy and programming after only three years of existence. It was created in 2021 under the European Union Global Strategy (EUGS), thanks to the push made by EU Member states at the time. The political will to invest in European security has gained significant momentum thanks largely to the EDF, particularly in strengthening the European Defence and Technology Industrial Basis (EDTIB). The objective is to fund armament and spend in common.

The European Defence Industrial Strategy (EDIS), proposed by the Commission in March 2024, is more precise than the EUGS on defence matters and marks the EU's first-ever defence strategy. The EDIS was created to achieve industrial defence readiness by 2035 and strengthen the European Defence and Technological Industrial Basis (EDTIB) (European Commission 2024b). This strategy will influence the EDF's programming and its presentation in the next Multi-Financial Framework.

The EDF's proposal, rooted in the Juncker administration (2014-2019), is a long-term project initially championed by France, supported by Germany, Italy and Spain, which advocated for a European Security Pact, proposed on 26 August 2016 (Pène, 2021). This project was centred on the need for capacity building in the defence domain, which asked to create a dedicated programme. The EU Member states addressed the defence capacities gap and concerns and try to avoid the fragmentation of the EDTIB by spending together on defence products with a dedicated timeline.

Following the Trump Administration's position on NATO and the Russian invasion of Ukraine in 2014, the EU had to assess its defence industry's capabilities and shortcomings (Feliu, 2016). As a result, the EU is increasingly inclined towards self-reliance in defence matters, even though the EU Member states still have their specific needs on armaments depending on where they operate (Andersson, 2023, 2024).

European states duplicate numerous equipment pieces since there is no centralised military command. The EU Member states rely mostly on domestic industry to maintain their military ordinance and the actual material construction. In comparison, in the US, there is way less fragmentation. However, according to Andersson (2023, 2024), Europe's more diverse equipment catalogue could be an opportunity. After some EU Member states pushed to increase the budget spent on the EDF, the European Commission proposed a new framework for the fund in 2024 due to the need to build a capable defence industry (European Commission, 2024). Indeed, defence without a robust defence industry isn't effective.

This is the biggest rearmament for the European continent since 1950 driven by the EDF which enables the EU Member states to invest unilaterally and multilaterally in defence. This policy paper examines the European Commission's recent proposals to enhance the European defence industry.

These initiatives include a strategic review of the EDF and the introduction of two key components: the strategy EDIS and the program EDIP. The analysis will also delve into the international context in which the Commission operates. Defence matters remain primarily within the sovereignty of EU Member States, giving the Commission limited authority in this area. Therefore, to shed light on the complexities of enhancing the European defence industry, it is essential to understand the challenges and constraints faced by the Commission, as well as the willingness of Member States to advance a cohesive defence strategy.

A needed momentum for the European Defence Fund (EDF)

Eight years after the first mention of the need for an EDF, and only three years after its actual implementation, the EDF is already being revamped and consolidated through a new strategy: the European Defence Industrial Strategy (EDIS) and the European Defence Investment Programme (EDIP). However, it remains under review, with a proposal to increase its original budget by 1.5 billion euros for the period of 2025-27 (European Commission, 2024a).

The first actual mention of an EDF came from Jean-Claude Juncker, the former President of the European Commission, who proposed the creation of an EDF in September 2016 (Marchand, 2016). Initially, the Commission proposed a budget of 13 billion euros for the next Multi-Financial Framework (MFF) (Mazur, 2021). Nonetheless, due to the COVID-19 pandemic, the final fund was reduced to 7.95 billion euros (Mazur, 2021). It was then adopted on 29 April 2021, becoming the EU's first-ever fund exclusively dedicated to defence. The fund's functioning is as follows: the EU Member states co-funded selected projects after passing the call for proposal. As a rule, the projects must include industries from three EU Member states (European Commission, 2021). However, the rules are less strict for disruptive technology, which can only be composed of two entities originating from two EU Member states (European Commission, 2024d).

To avoid fragmentation, projects require participation from three different enterprises across three Member states, with encouragement for Small and Medium Enterprises (SMEs) participation, benefiting from a higher funding rate (European Commission, 2024d). The EDF, divided into three types of funding, allocates 5.3 billion euros for capacity development, funding 20% for prototype proposals, with the remaining being funded by EU Member states. In the same portfolio, "tests and certification" are eligible for up to 80% of funding by the EDF. The second portfolio corresponds to 2.6 billion for research projects, which the EDF could fund up to 100 %. The last portfolio, representing 4 to 8% of the EDF, focuses on disruptive technologies capable of revolutionising the market (European Commission, 2021).

Only three years into the EDF, Estonia, France and Poland advocated for a substantial budget of around 100 billion euros (as stated by T. Breton), because the sector needs investment and that underinvestment means “higher expenditure at a later stage” (Pugnet, 2024f). However, the Commission proposed a more modest funding increase of 1.5 billion euros to make the proposal acceptable to reluctant EU Member states. It must be emphasised that for the first time, the Commission proposed to buy armament for EU Member states (Pugnet, 2024f). The international context (Ukraine war, Trump administration, decrease of US armament production) pressures the EU to rethink its EDTIB. The following question thus emerges: Why is there a necessity to reassess the strategy, especially so soon after the EDF’s inception?

Context - Understanding of the international environment

Currently, all twenty-seven EU Member states are participating in the EDF. However, this has not always been the case, largely due to Denmark’s opt-out following the initial rejection of the Treaty of Maastricht (Publications Office of the European Union, 2006). Denmark remained opted out for almost 30 years until the Referendum of June 2022, spurred by the Ukrainian invasion (Schaart, 2022). In addition, since Brexit, the cooperation in the field of defence between the EU and the UK has become blurrier. No aspects of defence have been ratified within the UK-Withdrawal agreement (European Atomic Energy Community, European Union, & United Kingdom, 2019).

The Commission’s proposals to include Ukraine within the EDF demonstrate how seriously the EU is taking its defence responsibilities (European Commission, 2024b). Even more surprisingly, the Commission proposes to develop advanced technology and purchase military ordinance, such as camouflage (European Union, 2023), for its EU Member states (Pugnet, 2024a; European Union, 2023). In this scenario, the Commission will act as the arbiter, designating the selected project at the end of the call for proposal and serving as the buyer instead of Member states (Pugnet, 2024). This raises questions about the impartiality of the Commission, as it will orient the market and the competition. Nevertheless, could this be the ambitious approach needed to resolve EDTIB’s fragmentation?

The Commission’s proposal

Since ratifying the Treaty of Lisbon (2007), the EU has demonstrated commitment to strengthening the EDTIB, resulting in several initiatives (Mölling et al., 2013). A first example can be found in Article 46 TEU, which allowed the establishment of the Permanent Structured Cooperation (PESCO). Nevertheless, PESCO has been called a “sleeping beauty” since it has been unused for years (Nováky, 2018). PESCO became operational recently thanks to the Initiative Européenne d’Intervention (IEI/E2I) (Tobelem, 2024).

Another example is Article 23 of the TEU, which initially established the Common Foreign Security Policy (CFSP). Indeed, even if the Strategic Compass provided some guidelines for the EU's external action, it does not provide precise operational for the EDTIB (i.e. EUGS/Strategic Compass). However, the 2022 events made clear that a solid strategy for the EDTIB is needed (Commission proposal, 2024).

On 5 March 2024, the Commission proposed the Strategy, EDIS and a Programme, EDIP, to evaluate the Strategy's effectiveness. The overarching goal is to strengthen and integrate the European Defence sector to address the increasing fragmentation and weaknesses of the EDTIB (European Commission proposal, 2024c). The long-term objective is to enhance the EU's collective capability to respond to conflicts (European Commission, 2024b). As asserted by the Commission, effective defence policies are unachievable without a united defence industry (European Commission, 2024c).

The structure of the new defence framework

In the fact sheet published alongside the EDIP proposal, the Programme is promoted as a toolbox and, notably, a new legal structure for EU Member states to facilitate cooperation across the whole life cycle of defence capabilities (European Commission, 2024c). Closely examining the proposed regulation reveals that the EDIP proposed three objectives:

- “First, EDIP will strengthen the competitiveness, resilience and responsiveness of the European Defence Industry.
- Second, EDIP will enhance the ability of the European Defence Industry to ensure the timely production, availability and supply of defence products.
- Third, EDIP will contribute to the recovery, reconstruction and modernisation of the Ukrainian Defence industry” (European Commission, 2024b).

The Commission made this decision based on the principle of subsidiarity, competition competence, and financial provision (European Commission, 2024c).

The first pillar aims to ensure the necessary conditions for competitiveness in the EDTIB. Following the logic of ASAP and EDIRPA, the Commission proposes to take action to speed up the defence industry's adjustment to structural changes.

This includes establishing a legal framework for the Structure for European Armament Programme (SEAP) and the creation of a dedicated fund that will aim at helping the EDTIB to adapt to the new market reality (European Commission, 2024b). While this grants the Commission more autonomy in strengthening the EDTIB to promote coordination and effectiveness among EU Member states, it is expected that the Commission and EU Member states will have difficult debates (Pugnet, 2024g). Some of the proposals were refused by EU Member States during the EDF establishment; however, some of them were proposed by the EDIP. For example, for example such as the proposition that the Commission is ready to buy for EU Member states. Defence matters are a sovereign matter, and each EU Member states, depending on their needs, has a different interest in armament. At the same time, EU Member states want to promote their economy, industry or one of their allies.

The second pillar consists of measures related to the functioning of the Internal Market, directly linked to the fourth pillar, “Invest”, of the Strategic Compass (Council of the European Union, 2022). It involves ensuring the availability of defence goods and services in sufficient quantity, certification, and harmonisation of legislation. It related to delivery time and increasing availability of armament. Consequently, the EDIP contains measures to enhance EU Member states preparedness in a new and unstable geopolitical context. The EDIP also entails measures to perform the identification and monitoring of critical products and industrial capacities in the supply chains of identified defence products (European Commission proposal, 2024b).

The third pillar comprises financial support for purchasing additional quantities and targets directly the depleted stocks due to the aid to Ukraine. The measures to contribute to the recovery, reconstruction and modernisation of the Ukrainian Defence Technological and Industrial Base (UDTIB) and its progressive integration into the EDTIB (European Commission proposal, 2024b; Pugnet, 2024d). This is coherent, as Ukraine is a receiver of European armaments. It is related to enlargement and the Copenhagen criteria to progressively align with the ‘acquis’ (European Commission, 2024c).

Plans for the future

The Russia-Ukraine conflict has been a stark reminder of the need for a strong and integrated European defence (Pugnet, 2024b). The way European states have been sendingn weapons to Ukraine, has confirmed how much the EDTIB is fragmented and how much the EU Member states operate inside their national borders. Indeed, Ukraine, by being the recipient of guns, has to operate with a large panel of guns and weapon types. It shows how much the EDTIB is fragmented and how much EU Member States operate in their own borders.

In 2022 alone, EU Member states spent a total of 240 billion euros on defence expenditure, marking the largest rearmament since 1950. However, only a quarter of this amount was spent collectively (Andersson, 2023, 2024). Currently, EU Member states often procure equipment individually, leading to duplicated efforts and missed opportunities for economies of scale (Ciampi et al., 2024).

The conflict in Ukraine highlights the importance of maintaining superior military capabilities (Ministry for Strategic Industries of Ukraine, 2024). Due to the massive military aid sent to Ukraine, refilling national ammunition stocks has been a priority, as initiatives such as the Collaborative Procurement of Ammunition and the ASAP can attest. Also, the European Commission in the EDIP policy proposal (European Commission, 2024c) highlights the need to support the joint production of drones within the EU, with the option to include Ukraine is on the table within the European Drone Strategy 2.0 (Ciampi et al., 2024). The goal is to produce new types of technologies, which are usually not produced in European territory. The EDIP and EDIS are expected to help the EDTIB become more autonomous and proficient, giving to EU Member states the ability to procure collective armament (Pugnet, 2024d).

This analysis wants to underline the importance of three objectives present within the EDIS. The first is to reinforce intra-EU defence trade. The aim is for defence trade to represent 35% of the EU Defence Market, which is not the case today. The second one is to procure at least 40% of the defence equipment required by European Armed Forces. Finally, to increase intra-EU defence procurement by 50 % by 2030, and 60% by 2035 (European Commission, 2024a).

However, the proposed additional funding seems modest, with only 1.5 billion euros until 2027 (Pugnet, 2024e). This falls short of the Commission's initial proposal of 13 billion euros during the MFF proposal (Mazur, 2021). At that time, the EU Member states decreased the amount proposed by the Commission. The prospective and objective seem ambitious. However, the Commission operates in a sensitive field where defence has long been regarded as a sovereign right.

Conclusions

The EDF has a long history originating from the Junker administration. There have been numerous calls from EU Member states to revamp the EDTIB for years (Mölling et al., 2013; Mazur, 2021). The Trump presidency questions our reliance on the United States at the time, as the EU has relied on the United States since the Second World War (Weber, 2024). The international context and the beginning of the war on our continent prepared the EU to speed up its defence autonomy. Moreover, the fragmentation of the EDTIB slows down the readiness of EU defence capabilities, which is why there is a need for a strategy and a programme. Spending together is indeed the most viable option to reduce fragmentation and ensure more interoperability in the long term.

2022 was a year of increased defence expenditures, with EU Member states buying more individually (also more to the US) than collectively. The aid sent by EU Member states to Ukraine demonstrates their support. Still, it also shows how much defence domains remain stuck in the reflex of EU Member states operating within their national borders, sending ammunition and defence material unilaterally rather than operating on a European strategy.

To prevent differentiation among EU candidates, it may be beneficial to integrate other EU candidates into the scheme, and not only Ukraine. Starting with the ones in frozen conflict with Russia, where the EU typically conducts border observatory missions, could be an option. Usually, the integration of EU candidates operates on the same rules and procedures and has comparable goals in each domain of the *acquis*. Namely, political, economic, and rules of rules (called the Copenhagen criteria). The EU candidates should also follow the same steps towards integration and integrate EU regulations and directives progressively (Council of the European Union, n.d.).

The year 2022 confirmed how much armament in Europe is fragmented and that EU Member states continue to fall into the “failing forward” trap. If an EU Member states buys military equipment on its own, sends it to Ukraine on its own, and tries only to fix a piece of the crisis, the EU will fall into the “failing forward” trap (Jones et al., 2021). Due to European defence fragmentation, Ukraine, the receiver, will then have to deal with numerous operating systems of armament and learn the functioning of each. Ukraine cannot be very quick and operational on the ground. This shows how much resolving the EDTIB cost operationalisation and defence readiness to the EU Member states.

The Commission has proposed a very ambitious plan, allowing it to purchase armament for EU Member states. The Commission stepped up to try to fix the operational fragmentation problem in the EDTIB, which has been known for years. The Commission seems ready to face legitimacy critics for now in order to fix the operational weakness of the EDTIB (Pugnet, 2024a; Pugnet, 2024c). Moreover, Ukraine will be integrated into the EDF and be capable of investing with EU Member states in defence capabilities. Consequently, it will also be capable of having cutting-edge technology, becoming prepared to be operational on the ground.

The coming months will reveal how willing EU Member states are to empower a more politically active Commission to address the root causes of EDTIB weaknesses. However, the Commission plays strategically by proposing a modest increase of 1.5 billion euros (European Commission, 2024b), as some EU Member states are still reluctant to spend more in common.

This proposal is quite timid regarding the need for an operational EDTIB, as pointed out by T. Breton. Even if the EU seems to take gradually more autonomy in the defence sector, EU Member states don't want to break the traditionally civilian-focused posture of the EU. The next Multi-Financial Framework in 2027 will confirm the strategy accepted by EU Member states where funds are limited, or if they agree to step up their cooperation in the domain and break progressively with the civilian tradition to a more military behaviour, capable increasingly to spend jointly and address EDTIB weaknesses. Fragmentation reevaluation should be considered for better defence industrial readiness and the strengthening of the EDTIB in the future.

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