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FROM EU STRATEGY TO DEFENCE SERIES

New kid on the block

The European Commission and European defence

The newly launched European Defence Action Plan (EDAP) opens the door to EU spending on defence. This Policy Brief analyses why the EDAP has been launched, what it is and how it will work in practice. It argues that the plan is a step change in the European Commission's growing involvement in defence and a potential game changer in solving the problem of European military shortfalls. European capitals should therefore embrace the new kid on the block and make full use of the potential offered by the EDAP.

Step change

For a long time the European Commission left defence to one side. Military matters were excluded from the Commission's responsibilities with the exception of defence market issues. Spending money from the European Union budget on defence was out of the question. Past attempts to change this situation encountered fierce opposition within the Commission from the legal ayatollahs and from the adherents of the Union as a soft power. Opposition also came from capitals, fearing an 'Europeanisation' of defence and a loss of sovereignty over their armed forces. The European Defence Action Plan, launched by the Commission on 30 November 2016, opens the door to EU spending on defence. Some media stated that 'the EU will buy weapons', detected the construction of 'a European Army' or used other false titles. It left a wrong impression. So, why has the EDAP been launched, what is it and how will the Plan work in practice?

Why EDAP?

Since the start of defence cooperation in the European Union at the turn of the century one major problem has not been solved: how to fill the gap of military shortfalls? Defence budget cuts after the 2008 financial crisis added another blow to the efforts to spend more, and more together. The total amount of money spent on defence procurement by EU member states dropped from € 43 billion (2010) to € 34 billion (2014). Research & technology (R&T) spending fell by 25 percent in the same period. In 2007 EU Ministers of Defence agreed on collective targets to spend 35 percent of their procurement and 20 percent of R&T investment together. In reality percentages fell to 20 percent (procurement) and 8.6 percent (R&T) by 2014.¹

¹ See: *Defence Data*, European Defence Agency (www.eda.europa.eu).

The deteriorating security environment since 2014 has resulted in a new upward curve in defence expenditure. But in the near future most of the extra money will be spent on repairing the additional gaps resulting from the budget cuts in the recent past, in areas like maintenance, training and the acquisition of spare parts. The pace of increasing investment in new technologies for defence application is likely to be slow. The European Defence Action Plan (EDAP) of the European Commission² attempts to speed up such investment by adding substantial sums from the EU budget. This is a step change in the European Commission's growing involvement in defence.

Up until now the Commission has invested in dual-use research & technology (R&T) only, in coordination with the European Defence Agency (EDA). Examples are technologies for protection against the effects of chemical, biological, radiological and nuclear blasts – which can affect both the military and civilians – or in the areas of communications and observation capabilities. However, spending the Union budget on technologies solely based on military requirements remained a taboo. The existing Horizon 2020 research programme restricts European funding to civilian or dual-use R&T only. A forerunner to overcome this existing barrier is the Commission's Preparatory Action (PA) for research related to the EU's Common Security and Defence Policy, launched in 2015. This PA will be carried out in the timeframe 2017-2020 with a budget of € 90 million. It will be a testbed for proving the added value of EU-funded research in the defence sector. Therefore, it is crucial that R&T topics are connected to the priorities of European military capability development – for which the Implementation Plan for Security and Defence is the guiding

document.³ The first PA investment is set to start by mid-2017.

What is EDAP?

EDAP takes Union investment in defence research to the next level. In the Plan the Commission proposes a *European Defence Fund* (EDF). It consists of two parts. The first element is investment in research & development (R&D)⁴ by the Commission under the Multi-annual Financial Framework (MFF) 2021-2027. This *research window* will have a budget of € 500 million annually, adding up to a total of € 3.5 billion over the whole MFF duration. The 'research window' will bring the Commission straight into the top four of defence technology investors in Europe (next to France, Germany and the UK), adding approximately 25 percent to the defence R&T expenditure of all EU member states together. Although specific research topics will have to be chosen later on – based on European capability needs – the Commission has already mentioned a few potential areas: innovative defence technologies such as electronics, metamaterials, encrypted software or robotics.

The second part of the EDF has to be taken up by the member states. In the *capability window* the member states are supposed to turn the results of the R&D projects into collaborative procurement programmes. This 'window' should generate € 5 billion annually, according to the EDAP, in order to guarantee downstream procurement following-up upstream R&D investment. The Commission stands ready to assist, including through exploring all financial options from the EU budget, for example by promoting the co-financing of defence projects through the European Structural and Investment Funds. The Commission will also support

2 *European Defence Action Plan*, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM (2016) 950 final, Brussels, 30.11.2016.

3 The Council welcomed this Plan, delivered by High Representative Federica Mogherini, on 14 November 2015 and decided on a series of actions to put the Plan into practice.

4 The Commission refers to R&D instead of R&T. The difference lies in the application of technology research in pilot projects such as demonstrators, although this could also be considered as the last phase of R&T.

the adaptation of the lending rules of the European Investment Bank to provide loans and other tools for the defence sector. This could be particularly relevant to Small and Medium-sized Enterprises, who often play a central role in defence R&T. Furthermore, the Commission offers an additional incentive: the national financial contributions will be discounted from the structural fiscal effort expected to be accomplished by the member states under the rules of the Stability and Growth Pact.

It comes as no surprise that European defence industries have welcomed the EDAP. In a press statement the Aerospace and Defence Industries Association of Europe (ASD) states that “this programme could become a game changer and an important tool to develop common standards and increase operability.”⁵ The Commission aims to stimulate national governments to spend more together on defence procurement also with a view to maintaining the technological and industrial base in Europe needed to deliver the equipment for the member states’ armed forces. The situation seems a bit like the following: ‘member states, you have failed in more than 15 years of EU defence cooperation; now, we are throwing our weight into the game to stimulate both demand and supply’. The European Commission has become the new catalyst for European defence cooperation.

How will EDAP work?

The European Defence Fund is not there yet. Member states and the European Parliament have to agree on the proposal in the context of the next MFF. Even if they do, it will take years before the fruits can be harvested. Often, R&D projects run over a longer period of time. The downstream follow-up in procurement programmes even takes longer. It is unlikely that the acquisition of new defence equipment resulting from the EDF will take place before the mid-2020s.

The time factor is one element, governance is another. The EDAP proposes a Coordination Board for the ‘windows’ consisting of the Commission, the High Representative, the member states and the EDA (plus industry when appropriate). The Board is supposed to ensure consistency between the research and the capability ‘windows’ in order to support capability development agreed upon by member states. The latter takes place in the context of the EDA through the Capability Development Plan (CDP) which will be reviewed in the next 18 months.⁶ The future selection of R&D topics and, consequently, procurement programmes has to be driven by the capability priorities resulting from the CDP. Those priorities are predictable as the European military capability shortfalls have been known for years: strategic intelligence and reconnaissance, precision munitions and many others. The deteriorating security environment also demands more firepower in order to deal with more demanding threats in the European neighbourhood and beyond.

What next?

The Commission’s EDAP is an important contribution to the implementation of the new EU Global Strategy on Foreign and Security Policy of June 2016. But it is more than just another document. It aims to fill a gap which member states have not been able to close since European defence cooperation was launched in the year 2000, that is to solve the problem of European military shortfalls. It would be another debacle if member states in the Council or the European Parliament would lower the EDAP’s financial envelop in the forthcoming debates of the EU’s 2021-2027 Multi-annual Financial Framework. European capitals should embrace the new kid on the block and make full use of the potential offered by the European Defence Fund. It is important for speeding up capability improvement which is much needed if the member states want to be serious about the EU taking up its responsibilities as a security actor.

5 *European Commission’s Defence Action Plan: A Step Forward for European Defence*, Press Release, Aerospace and Defence Industries Association of Europe.

6 Based on the Implementation Plan for Security and Defence.

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