The worsening security environment and increasing pressure of the United States under Trump ask for a great jump forward in European defence cooperation. The EU Global Strategy of June 2016 provides direction, but what will really count is its implementation. The European Commission is willing to invest in defence research and military capabilities, but this raises questions about the responsibilities of the EU institutions and the member states who own and deploy military forces. At the same time, EU funding might attract capitals to collaborate more. It can help to increase commitment of member states to solving European shortfalls.

Introduction

In 2016 the European Union adapted its strategic framework to a more connected, contested and complex world. The EU Global Strategy for Foreign and Security Policy (EUGS) sets the overall course for Europe, bringing together all available means and tools for the Union to act as a global actor. Immediately after its publication, work started to implement the strategy in various domains. In the area of security and defence, the EUGS is taken a step further by the Implementation Plan on Security and Defence (IPSD) – depicting new ambition levels for the Common Security and Defence Policy (CSDP) and the consequences for delivering the required capabilities. As a complementary document, the Commission’s European Defence Action Plan (EDAP) is opening new avenues for underpinning military capabilities through future Union financing of research and acquisition.

The year 2017 will be decisive for turning theory into practice. The current momentum should be maintained. The EUGS and its two implementation plans in the area of security and defence are therefore in need of immediate follow-up: firstly, in terms of setting up new relationships between the key actors involved – member states, the European Defence Agency (EDA) and the European Commission; secondly, by realising increased commitment by member states to deliver military capabilities and to solve European shortfalls; thirdly, by using all available financial incentives while at the same time involving European defence industries, as they are key to delivering equipment and services for better European military capabilities. This Policy Brief addresses these three topics, followed by a list of recommendations.
Defence in the Union and union in defence

European defence has become a priority matter for the EU due to the changing security situation and the increasing pressure of the Trump administration on Europe to invest more in its armed forces. The EU Global Strategy and the IPSD call for European strategic autonomy in order to operate autonomously when and where necessary and to cooperate with international and regional partners wherever possible. This ambitious goal asks for a step change in European defence cooperation for which Permanent Structured Cooperation (Pesco) might be the best answer, in particular to strengthen European military capabilities at the high end of the spectrum which is a prerequisite for autonomous action.1 Brexit makes this challenge even more daunting. Improving European defence requires that all key actors are brought together in one framework, that is of the European Union. With the EDAP defence has been brought into the Union. How to bring more union in the defence efforts of the three key actors: the member states, the EDA and the Commission?

The already daunting list of acronyms and institutional spaghetti of the CSDP is going to be even more impenetrable by the time the IPSD and EDAP are implemented (see box 1 for an overview of policy initiatives). The governance of the CSDP seems to be understood by only a select few, but is at the same time key to reaching the goal of a more credible European defence. Developing the right set of capabilities will be a long-term effort and requires permanent connectivity between all actors. The implementation of the IPSD and EDAP is about finding the right balance between the European Commission, on the one hand, and the member states and EDA on the other. Hopeful eyes are directed at the incentives and spending power the Commission has to offer. Will the Commission’s involvement finally give the push to CSDP that it has lacked since the eighteen years of its existence? At the same time, it is eventually the member states that are going to own and operate the capabilities. Their input and role is crucial, which should be reflected by a prominent say in the process.

Three principles could constitute a useful guide to arrange the new CSDP. In brief, these principles are the following:

- keep it simple, use as many of the institutions and governance instruments already in place as possible;
- keep it transparent for the benefit of legitimacy towards the European Parliament, the national parliaments and for public support;
- keep the balance between institutions, with the member states in the driving seat, while the Commission provides the necessary amount of fuel to get the engine running.

These three principles will be further developed below and then translated into some suggestions on what the governance structure could look like.

Keep it simple

The EDAP, which proposes a European Defence Fund (EDF), brings together processes that are normally either governed by the Commission or by the member states. The two windows of the EDF, one on defence-related research and one on capabilities, pose a conundrum. The ‘keep it simple’ principle is a considerable challenge, particularly since one of the advantages of the EDAP is to provide that indispensable link between European research & technology, financed by the Union budget, and cutting-edge capabilities, to be developed by the member states. Moreover, the Action Plan wants to contribute to defence innovation more broadly and maintain an innovative European Defence and Technological Industrial Base (EDTIB). This is a goal that transcends individual member states and can in the short term also run counter to their national industrial interests. It would therefore stand to reason to have a mixed governance of the two windows.

---

1 See: Anne Bakker, Margriet Drent, Dick Zandee, European defence core groups – The why, what and how of permanent structured cooperation, Clingendael-Egmont Policy Brief, November 2016.
Box 1 Defence in the Union

Following the publication of the EU Global Strategy in June 2016, a multitude of initiatives were launched to give a fresh impetus to European security and defence.

Implementation Plan on Security and Defence
Published on 14 November 2016 by High Representative Federica Mogherini, the Implementation Plan on Security and Defence (IPSD) sets out a new level of ambition for security and defence and provides a five-pronged approach to translate this commitment into concrete action.* Among these initiatives is the proposal for a Coordinated Annual Review on Defence (CARD). CARD provides a more systematic approach – on a voluntary basis – to measure member states’ progress in addressing capability shortfalls, deepening defence cooperation and synchronising defence planning – based on an assessment made by the European Defence Agency (EDA). The review will take place during biannual meetings at ministerial level and more regular meetings at working level.

Further proposals included in the IPSD are, among others, the introduction of a Planning & Conduct Capability for non-executive CSDP missions and a revision of the EU Battlegroups and the Athena mechanism. Options for launching Permanent Structured Cooperation (Pesco), on an inclusive and modular basis, are also included.

European Defence Action Plan
The European Defence Action Plan (EDAP) of the European Commission was released on 30 November 2016. EDAP is complementary to the IPSD. It marks a step change in the Commission’s growing involvement in European defence, as it opens the door for spending money from the EU budget on defence through the launching of the European Defence Fund (EDF). This fund consists of two separate but interlinked ‘windows’:

- **A research window** through which the Commission supports collaborative defence research. Between 2017 and 2020, €90 million will be made available to this end under the Preparatory Action (PA). The lessons learned from the PA will be taken into account for the research window. The Commission proposes to spend €500 million annually under the 2021-2027 Multi-annual Financial Framework.

- **A capability window** which brings together member states’ investments in collaborative capability development, with an estimated total worth of €5 billion annually. The capability window consists of an ‘umbrella structure’ open to all member states and specific projects in which several member states jointly procure capabilities. To get member states to pool their resources under this window, the Commission offers several financial incentives. For example, contributions to the EDF will be discounted from the structural fiscal efforts which member states have to make under the Stability and Growth Pact.

To ensure a clear link between the two windows, the Commission proposes to introduce a Coordination Board (consisting of the Commission, the High Representative, the member states, the EDA and, when required, industry). In addition to the fund, the EDAP also contains proposals to foster investments in defence supply chains – including by adapting the lending criteria of the European Investment Bank - and to reinforce the single market for defence.

- Setting capability development priorities; deepening defence cooperation; adjusting structures, tools and (financial) instruments; increasing financial flexibility and solidarity; and actively taking CSDP partnerships forward.
The EDAP foresees such a mixed governance model (see figure 1). The ‘research window’, which is linked to the next Research Framework Programme 2021-2027, is governed through the usual comitology procedures. The ‘capability window’ is designated by the EDAP to be governed by an ‘umbrella structure’ of which the specificities are still very unclear. A second level of projects to develop joint capabilities – in which participating member states decide on the financial and operational decision-making – abides by the rules agreed at the umbrella structure. The two interlinked and interdependent windows are overseen by a so-called ‘Coordination Board’ in which the member states, the High Representative/Vice President, the EDA, the Commission and industry (“if appropriate”) are represented.

The umbrella structure and the capabilities projects that are created within the ‘capability window’ of the European Defence Fund all seem to be duplicating what is already up and running within the EDA. The suggestion of a ‘back office’ function of an umbrella structure is puzzling, because that is exactly what EDA has been doing up until business cases are brought to the procurement phase. After that, developing procurement programmes and further development and production are mostly managed by OCCAR. There is however room for shaping the governance. In the EDAP text on the Fund, the Commission indicates that it is looking to further develop the modalities and governance of the capability window together with the HR and the member states. The Council conclusions of 6 March 2017 state that the EDF’s capability window is “to be commonly agreed by the Member States”. The conclusions also say that the

---

2 According to the EDAP the umbrella structure “would set out the common framework […] as well as provide the operational back-office […] . It could also help smooth Member States’ budgetary requirements and overcome the lack of synchronisation of national budget cycles.”

3 Council conclusions on progress in implementing the EU Global Strategy in the area of Security and Defence, Council of the EU Press Release 110/17, 06/03/2017.
Commission is going to present further proposals on this in the first semester 2017, probably ahead of the European Council at the end of June.

‘Keep it simple’ would here mean that the existing EDA structures are used for the functions of the ‘umbrella structure’ and that the Coordination Board is held back-to-back with the EDA Steering Board. Twice a year, the HR/VP chairs the EDA Steering Board consisting of Ministers of Defence and a representative of the Commission (without voting rights). The Coordination Board could be held right after the Steering Board meeting, chaired by the relevant Commissioner or by the HR/VP, and Ministers of Defence. In that way, there will be no unnecessary duplication of structures, coherence in purpose and there should be no reason why financing options from the EU budget to the ‘capability window’ within the EDA cannot be explored and implemented (see figure 2). Such back-to-back meetings would also help to ensure consistency between R&T projects and capability activities conducted under the EDA umbrella and those under the EDF.

**Keep it transparent**
The implementation of the EU Global Strategy does not even remotely resemble the creation of a European army. Nevertheless, currently on the table are a possible two-speed Europe on defence (Pesco), an EU defence research budget of 3.5 billion, strengthening the planning and conducting of operations, and a defence review system for assessing member states’ commitment to improving European capabilities. If the IPSD and EDAP come to full fruition, they constitute major steps. As public support for the EU is on shaky ground, these major steps for European defence should be discussed beyond the narrow policy circles and the few specialists. The European Parliament will become more involved in defence within the EU as its legislative and budgetary
functions in the spending of the EU budget will comprise the EDF’s ‘research window’. More effort has to be made also to inform and enthuse national parliaments of how the text of the EUGS will relate to a more capable Europe in the protection of citizens as well as contributing to a more credible NATO. In general, communicating to wider audiences on the need to step up European defence efforts is essential to generate more public support for a Europe that protects its citizens.

Keeping it simple also comes very close to keeping it transparent. Making use of the full potential of the already existing EDA to implement the EDF, but also the Co-ordinated Annual Review on Defence and Pesco – when it is launched – avoids further clogging the CSDP structures. Moreover, through the national Ministers’ position at the EDA Steering Board, national parliaments are kept informed and should be able to exercise their legislative duties.

**Keep the balance**

The main purpose of both the IPSD and the EDAP is for the EU to be able to live up to its ambitions of its security and defence policies. Key to that is improving the EU’s military capabilities. This requires well-functioning cooperation between the member states, the Commission, the HR, industry and the EDA, but it should be stressed here that the member states have a central position. After all, these capabilities are acquired, owned and operated by the member states. Both the IPSD and EDAP thus hinge on the ability and willingness of member states to set the necessary requirements, develop, acquire and field them and to do so in a coordinated way. Therefore, a capability-driven implementation of the IPSD and EDAP is a member states-driven implementation.

The higher level of ambition that the IPSD took from the EUGS should lead to a revised and augmented Capability Development Plan (CDP). The HR and the EDA set the collective priorities for capability requirements and identify which shortfalls should be solved. The CDP outlines the EU’s capability needs in the short, mid and long term and is a crucial input into both the ‘research and technology’ and the ‘capability window’. But member states will be key in both harmonised demand, for technology programmes and certainly for procurement. Thus, Defence Ministries need a permanent link to the Commission – at R&T or industrial policy level, but also at defence planning and procurement levels.

The available budget for defence-related research should be put to use as much as possible for the improvement of the concrete ability of the EU to counter security threats. This would demand an interlinkage between the various institutions, with the EDA as the linchpin where member states’ collective efforts are coordinated.

It should be noted that the role of the EDA in the implementation of the EDF – as described above – will require additional staff and financial resources. Member states can no longer argue to keep the EDA at its existing budget and staff levels if they argue at the same time that the Agency has to pay a prominent role as the programme office for coordinating and managing EDF projects.

**Ensuring commitment**

Besides setting up new relations between the key actors, an increased commitment by member states is needed to deliver military capabilities and solve European shortfalls. The enduring problem of improving European military capabilities is the lack of commitment by member states to common solutions. EDA has been successful in harvesting ‘low hanging fruit’ in areas like helicopter and air transport training. When it comes to investment in programmes to collaboratively develop and procure equipment, the Agency’s portfolio is rather empty. Most existing multinational acquisition programmes (A400M, NH-90, etc.) started more than two decades ago. The pooling & sharing of air-to-air refuelling aircraft (by the Netherlands, Belgium, Luxembourg, Germany and Norway) is one of the few results in the EDA context. The overwhelming majority of armament procurement, however, is still conducted nationally (approximately 80%). So, the question remains: how can the commitment
of member states be improved to solve European military shortfalls together?

Pesco provides the best solution as it would entail a binding commitment by participating member states based on Article 42 of the Lisbon Treaty. In addition it would give EDA the role of assessing results and report to the Council on an annual basis. The Co-ordinated Annual Review on Defence (CARD) has to apply to all member states. As stated in the 14 November 2016 Council Conclusions, the objective of CARD “would be to develop, on a voluntary basis, a more structured way to deliver identified capabilities based on greater transparency, political visibility and commitment from Member States”.

On 6 March 2017 the Council provided further guidance on CARD. It underlined “that CARD should provide an overarching assessment on capability-related issues contributing to political guidance by the Council” and that it should help member states to deliver critical capabilities based on the priorities agreed in the Capability Development Plan. Furthermore, the CARD should offer the member states “a forum for coordinating and discussing their national defence planning – including in terms of defence plans (...)” Defence Ministers should discuss the matter once every two years. The EDA “should play a key role in CARD to provide the overarching objective assessment and supporting analysis in the form of a written report to Defence Ministers, while making use of existing tools and acting also as CARD secretariat.” Once more, the Council referred to the “voluntary basis” of CARD. The High Representative/Head of the EDA has been invited “to develop more detailed proposals on the scope, methods and content of CARD by the end of 2017.”

Naturally, the well-known phrase ‘on a voluntary basis’ can provide an escape route for member states not willing to adhere to the three principles of transparency, political visibility and commitment. Therefore, it will be crucial to design a flexible system which will allow for different speeds among member states when implementing CARD. Otherwise, CARD will reflect the lowest common denominator and is unlikely to result in a step change from the current situation. Consideration should therefore be given to a flexible system which bridges the gap between the more and the less ambitious member states. CARD should lead to maximum transparency, political visibility and commitment, but also allow for a step-by-step implementation by member states. On the other hand, the system should be connected to measures stimulating countries to accept all CARD steps at once. Incentives, such as financial support from the European Defence Fund or other means, should be primarily available for those member states.

For CARD to work in practice, the review has to encompass both the political level and the level of planning experts. A process which is too technical runs the danger of becoming bureaucratic and non-productive. On the other hand, without the facts on defence performance on the table, Defence Ministers are most likely to continue their discussions on words rather than on deeds. So, Ministers need data, presented in a readable and summarised manner, which show member states’ efforts – ongoing and planned for the future – to improve their military capabilities and identify how these efforts contribute to solving European military shortfalls.

The EDA in its role as CARD Secretariat will have to assemble these data. More detailed versions can be reviewed at the level of Policy Directors and/or Capability Directors. As already agreed by the Council Defence Ministers would discuss the written report containing the assessment and supporting analysis once every two years in the EDA Ministerial Steering Board.

The role of EDA would be to act as the custodian of the data of all member states. Therefore, making the data available to the Agency should be obligatory. These data will

---

4 Council Conclusions in Implementing the EU Global Strategy in the area of Security and Defence, 14149/16, Brussels, 14 November 2016.

5 Council Conclusions, 06/03/2017.

6 The logic behind the once every two years instead of once a year is that the NATO Defence Planning Capability Review is once every two years as well.
provide the basis for EDA's report and EDA's assessment should include the performance of the member states. It would be logical that those EU member states that are also NATO members would accept such an assessment role from the outset. They are also subject to the biannual Defence Planning Capability Review of the Alliance, in which their performance for implementing goals and targets in the context of the NATO Defence Planning Process is assessed. A comparable review could be conducted in the EU for assessing the performance of European capability objectives. In case of overlapping requirements between the EU and NATO, the contents of the CARD and the biannual NATO Review should be harmonised through direct contact between the staff of both organisations. EDA's task to act as the custodian of the data and possibly an assessment role will require additional staff and resources.

Defence plans, certainly for the longer term, can be a sensitive matter. Performance assessment can become tricky business when it would end in ‘naming and shaming’. These are important reasons for member states to be reluctant to engage in a far-reaching defence review system. On the other hand, member states’ Ministers of Defence can also use the assessment of their performance in the context of the EU in a positive sense, i.e. to convince their national colleague Ministers, members of parliament and public opinion of the need to improve the capabilities of the armed forces. Very similar to the way some member states are using the biannual NATO Defence Planning Capability Review for that purpose. In that sense transparency, political visibility and (the assessment of) commitment will help rather than obstruct member states in their efforts to improve military capabilities needed in a 21st century environment.

Financing European defence and industry

With the European Commission’s proposal for a European Defence Fund an important new step has been announced in supporting European military capability development. However, this ‘game-changer’ is raising questions on governance (see above) and, more particularly, on how to ensure that both the ‘research’ and ‘capability windows’ are driven by the military requirements for the CSDP. In a wider sense one could argue that the following elements are key factors for the success of the EDF:

1. **Connectivity to the Capability Development Plan (CDP).** The selection of investment areas has to be based on the list of capability priorities which will result from the review of the CDP to be conducted in 2017 with the input of the EU MS (approved by the EUMC) on the near-term operational needs for the new level of ambition for CSDP military operations. Thus, for every project to be financed by EDF funding there should be a clear reference to which CDP priority it is connected.

2. **Sizeable funding.** The Commission’s proposal to spend € 500 million annually on defence research in the context of the Multinational Financial Framework 2021-2027 is indeed a step change, adding approximately 25 percent to the Defence R&T of all EU member states together. It will be important to secure this level of EDF funding when the member states decide on the financial volume and categorisation of the upcoming MFF – also in view of the loss of the UK contribution to the future MFF. For that purpose Ministries of Defence should involve themselves closely in national governmental deliberations on the MFF negotiations.

3. **Follow-up in procurement.** The capability-driven approach also entails that the results of the ‘research window’ projects are turned into business cases for further collaborative development and the procurement of equipment. This will apply in particular to projects at a mature research level (demonstrators, test-beds, etc.). In the case of dual-use capabilities, the continued participation of the Commission (or of executive Agencies involved in civilian security activities such as Frontex) has to be ensured in order to maximise efficient use of the Union
budget and financing by member states, as well as to guarantee civil-military interoperability and standardisation.

4. **Member states’ involvement.** The previous three points argue for close involvement by member states throughout the process of preparing and executing the EDF to bring about collaborative capability development and procurement programmes. Regular updates or reviews of the CDP should continue to steer the capability-driven approach. The CARD system has to be used for monitoring and assessing results.

Naturally, stepping up Defence R&T investment should also serve the purpose of maintaining or acquiring key technologies and industrial capacities. Strengthening the EDTIB has to be realised hand-in-hand with improving the armed forces. The capability-driven approach, based on CDP priorities, requires the close involvement of member states throughout the process in order to invest in modern capability needs, first and foremost solving European military shortfalls. The involvement of industry representatives in EDF structures has to be ad hoc, tailored to projects for which their contribution will be required from the early stages to the delivery of the end product.

Small and Medium-Sized Enterprises constitute the backbone of technological innovation. Their involvement in EDF projects will be crucial. One can assume that the standard Commission tendering procedures will apply to the ‘research window’. However, more publicity and the marketing of the projects might be required in order to reach the wide range of SMEs, who have limited expertise and often lack adequate human resources to constantly scan the tenders’ landscape. For the ‘capability window’ it will be more difficult for SMEs, in particular as Directive 09/81 does not apply to collaborative defence procurement. The challenge will be to open up the defence equipment market further in order to offer SMEs a fair chance to participate in follow-on procurement programmes.

Conclusions and recommendations

1. The European Defence Fund will make the European Commission an important actor in strengthening military capabilities, offering a sizeable financial contribution to defence research which will push capability development. It requires a new arrangement between the member states,
the European Defence Agency and the Commission. This should be based on three principles: keep it simple, keep it transparent, keep it balanced.

2. **Keep it simple** implies that already existing institutions should be used instead of creating additional ones. While governance for the EDF’s ‘research window’ has to be based on comitology, the EDA structures should be used for the ‘capability window’. In other words: a mixed governance model consisting of the EDF Coordination Board and the EDA Ministerial Steering Board which should meet back-to-back.

3. **Keep it transparent** is crucial to generate more public support for the efforts to improve European military capabilities. The involvement of the European Parliament through comitology for the ‘research window’ will increase transparency. National parliaments will have to play their role as well.

4. **Keep the balance** implies that the roles and responsibilities of the key actors are clear and mutually supportive. Military capabilities remain the responsibility of the member states, which means that they have to be in the driving seat with regard to both demand, based on the priorities stemming from the Capability Development Plan, and acquisition.

5. The voluntary basis of the Co-ordinated Annual Review on Defence (CARD) clashes with its objectives of increasing transparency, political visibility and commitment. The way out should be a flexible CARD allowing member states to adopt a step-by-step implementation.

6. EDA has to act as the custodian of the member states’ data on defence plans and their efforts to solve European shortfalls. The written report should contain an easily readable and concise assessment of the member states’ data, to be discussed once every two years by Defence Ministers in the EDA Steering Board.

7. CARD should avoid the risk of ‘naming and shaming’ member states. On the contrary, it should help Ministers of Defence to generate more support inside government, in national parliaments and from the wider public to strengthen European military capabilities through collaborative solutions.

8. For the EDF to succeed: (i) research and capability projects have to be connected to CDP prioritised shortfalls; (ii) the financial volume has to be sizeable as proposed; (iii) follow-up to proven technologies in procurement programmes will be key; and (iv) member states have to be involved throughout the whole process.

9. The EDF should not be industry-driven, but industry has to be closely involved in capability-driven research and acquisition by member states. The strength of Small and Medium-Sized Enterprises as technology innovators should be fully exploited, which also requires further steps in opening up the European Defence Equipment Market.

10. Financial incentives – such as a VAT exemption, European funds or loans from the European Investment Bank – should be used to encourage and reward member states willing to commit themselves to solving European military shortfalls in their defence plans and by seeking collaborative solutions.
About the authors

**Margriet Drent** is Senior Research Fellow at the Clingendael Institute and the coordinator of the security cluster within the research department. She specialises in European security and defence with a specific focus on EU Common Security and Defence Policy.

**Dick Zandee** is Senior Research Fellow at the Clingendael Institute. His research focuses on security and defence issues, including policies, defence capability development, research and technology, armaments cooperation and defence industrial aspects.

*The authors would like to thank Anne Bakker for her contributions to this Policy Brief.*