

Establishing the European Defence Fund

Impact assessment (SWD(2018) 345) accompanying a Commission proposal for a regulation of the European Parliament and of the Council establishing the European Defence Fund for the period 2021-2027 (COM (2018) 476 final)

This note is one of a series of brief initial appraisals of European Commission impact assessments (IA) accompanying the MFF proposals, tailored to reflect the specificities of the MFF package and the corresponding IAs.¹ It provides an initial analysis of the strengths and weaknesses of the European Commission's [impact assessment](#) accompanying the above-mentioned [proposal](#), submitted on 13 June 2018 and referred to the Committee on Industry, research, and Energy (ITRE).

Political and legal context; objectives

European defence is one of the key priorities for the EU as underlined by the [European defence action plan](#) adopted by the Commission in 2016. For that reason, the Commission has proposed the creation of a special fund to foster the EU's defence capabilities as well as research and development in this sector.

On 7 June 2017, the Commission adopted a [communication](#) launching the European Defence Fund consisting of two legally distinct but complimentary 'windows': one for research, operational between 2017 and 2019 (Preparatory Action on Defence Research, PADR), and one for defence capability, to run between 2019 and 2020 (European Industrial Defence Programme, EDIDP). It was proposed to establish a dedicated fund under the 2021-2027 multi-annual financial framework, 'scaling up the funding for collaborative research in innovative defence products and technologies and for subsequent stages of the development cycle, including the development of prototypes' (IA, p. 3). In the resulting legislative proposal,² which is the subject of the impact assessment covered by this initial appraisal, the two initial funding programmes are merged into one single fund.³

The IA presents the **general** objective of the proposal, namely to foster the competitiveness, efficiency and innovation capacity of the European defence industry by supporting collaborative actions and cross-border cooperation between legal entities throughout the Union, including SMEs. The proposal has two **specific** objectives:

1. to support collaborative research projects that can significantly boost the performance of future capabilities while aiming at maximising innovation and introducing new defence products and technologies, including disruptive ones;
2. to support collaborative capability projects of defence products and technologies consistent with defence capabilities priorities agreed by Member States within the common foreign and defence policy CFSP/CSDP. According to the Commission, the fund will ultimately lead to a greater interoperability between Member States' capabilities.

These objectives seem to derive logically from the problem identified by the Commission's impact assessment (limited cooperation between Member States, high fragmentation of the defence scientific base, few programmes along the entire development cycle). Contrary to the advice of the Commission's better regulation guidelines, the IA report does not devolve these objectives further into **operational** objectives.

Programme structure and priorities; delivery mechanisms of the intended funding

The IA explains that the priorities for the fund will be based on the input from Member States. It is proposed that this process be achieved through the [capability development plan](#).⁴ The Commission will draft annual or multi-annual defence programmes, which will take the form of implementing acts. As far as delivery mechanisms are concerned, the proposed fund would be implemented under single management directly by the Commission. The European Defence Agency will have an observer status to provide its views and expertise and the European External Action Service will be invited to assist (IA, p. 23).

The IA assesses three options which are compared against the baseline (no change) scenario.

Option 1: Continuity. Under this option, the fund retains the same structure as at present (two windows), however with a significantly bigger budget (six times bigger than the baseline, which includes €30 million for PADR and €250 million for EDIDP).

Option 2: Flexibility and simplification. Under this option, the fund structure will be simplified by integrating the two windows in one single fund covering research and capability development. According to the IA, this option will offer further flexibility and simplification for beneficiaries (IA, p. 27).

Option 3: Prescriptive. This option builds on option 2 in terms of the structure of the fund and introduces a different, more direct approach based on obligations and a reinforced EU role. Option 3 includes a set of mandatory requirements and targets at the level of individual projects. The IA explains that this option 'is not yet mature', was not properly discussed with Member States or stakeholders and may be considered 'at a later stage' (IA, p. 32), suggesting that in any case this was not a 'realistic' option at this stage.

The Commission considers option 2 as the preferred option as it is 'expected to be more efficient and effective' in achieving the objectives of the proposed fund (IA, p.37). The comparison of options is presented in a table (IA, p. 36), which shows that option 2 has the highest score on simplification, flexibility, and coherence. However, the IA report does not provide sufficient detail on how this score is attained and what these categories mean in practice. The options (including the preferred one) do not appear to be sufficiently assessed for economic, social, or environmental impacts, apart from a few very general assumptions that more cooperation and more investment in research and development would lead to new jobs and better productivity in the defence sector.

Budgetary or public finance implications

The Commission proposes €13 billion for the fund for the MFF period 2021-2027 (in current prices), of which €4.1 billion are to be allocated to research actions and € 8.9 billion to development actions.

SME test / Competitiveness

The Commission succinctly explains that the proposal will be beneficial for SMEs because cross-border cooperation is expected to improve and European SMEs will have easier access to defence markets within the EU. The IA does not provide much evidence to support this, however (IA, p. 17). The proposal includes various measures to support the participation of SMEs, e.g. a global target specifying that the work programmes should ensure that at least 10 % of the overall budget will benefit the cross-border participation of SMEs. The IA refers to 1 600 SMEs active in the defence sector in Europe and estimates the total number of SMEs in defence supply chains to be between 2 000 and 2 500. The preferred option 2 includes EU funding rate bonuses for cross-border participation of SMEs. There is also an award criterion encouraging the creation of new cross-border cooperation, in particular through the cross-border participation of SMEs. The fund is seen as strengthening the competitiveness of the EU defence industry in terms of the EU's strategic defence autonomy and its competitiveness vis-a-vis global competitors. According to the IA, this will be measured by assessing European technological superiority on the global market and delivery of priority capabilities to European armed forces (IA, p. 42).

Relations with third countries

The IA does not provide any detail regarding possible impact on third countries, nor on the EU's relation with NATO. According to the proposal, the fund should be open to the European Free Trade Association

(EFTA) members which are members of the European Economic Area (EEA), but it does not discuss impacts on these countries.

Simplification and other regulatory implications

Simplification features strongly in the IA as one of the criteria for comparison of the options. Both options 2 and 3 present opportunities for simplification through the merger of the two windows into a single fund. According to the Commission, the introduction of support mechanisms such as grants to consortia of buyers allowing EU support to reach industry through one single procedure (procurement), coordinated by Member States/associated countries, would also be an important measure of simplification. The IA briefly explores the synergies with other MFF programmes such as Horizon Europe (IA, pp. 19-20).

Subsidiarity / proportionality

Article 173 of the Treaty on the Functioning of the European Union (TFEU) constitutes the legal base for this proposal as it concerns actions aimed at encouraging an environment favourable to SMEs and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. Article 182 TFEU on the multiannual framework programme for the EU is also mentioned.

The Commission considers the proposal proportionate to the scale and gravity of the identified problems; however, it is unclear whether these apply to the challenges of the EU defence industry or the specific problems of the functioning of the two existing financing windows. The Commission notes that the proposed initiative is limited to goals that Member States cannot achieve individually and where the EU is considered better placed to act. According to the IA, the EU cannot and should not make up for the low levels of defence investments of Member States, but should instead focus on helping avoiding duplication in defence capabilities. No reasoned opinions from national parliaments were received by the subsidiarity deadline of 24 September 2018.

Quality of data, research and analysis

The IA report mentions that almost all of the analysis required for the impact assessment was carried out internally by the Commission. It also refers to an ex-ante evaluation made in 2017 in preparation for the EDIDP.⁵ It is not clear exactly what analysis and data fed into the Commission's considerations regarding the merger of the two windows within one fund, but one important source the Commission drew upon was a report by the 'Group of Personalities' published in 2016.⁶

Stakeholder consultation

The Commission conducted six online [public consultations](#) for the MFF proposals, clustered by policy areas, rather than carrying out one online public consultation for each accompanying IA, as normally required under the better regulation guidelines. Instead of the usually mandatory 12-week duration, these six public consultations ran for eight weeks, from 10 January to 9 March 2018. The Commission received 48 replies to the questionnaire related to the Defence Fund. This would appear to be a particularly low number of responses in comparison to the scope and financial weight of the proposal, particularly since, by the Commission's own admittance, the consultation concerned the totality of the EU's budget 2021-2027 and only partially concerned the Defence Fund itself. The majority of the responses came from the defence industry. A synopsis report of the stakeholder consultations can be found in Annex 2 of the IA. The input of stakeholders does not seem to be linked to the options, as the questions posed to the stakeholders were of a general nature (e.g. importance of the policy challenges, conceived EU-added value, and experience with current funding possibilities). In addition to the open public consultation, the Commission relied on the feedback gathered in 2016 by consulting the expert report of the 'Group of Personalities' and the 2017 ex-ante evaluation.

Monitoring and evaluation

The IA considers the number of cooperative defence projects should be the main output indicator. The output indicators will be measured half way through the programming period. It is not clear how the objective to increase the interoperability will be measured by such indicators (e.g. number and types of projects). The IA report envisages an interim evaluation to be drawn up at the latest four years after the

start of the implementation, with the Commission carrying out a final evaluation at the end of the implementation period when most projects have been finalised (IA, p. 43). Article 2.1 of the proposal, on the other hand, states that the Commission 'will regularly monitor the implementation and annually report on the progress'.

Commission Regulatory Scrutiny Board

The RSB issued a positive [opinion](#) on the draft IA on 11 April 2018. The IA describes the various revisions that were made according to the recommendations of the RSB (Annex 1). However, the RSB's suggestion to formulate an intermediary option between options 2 and 3 was apparently not taken on board.

Coherence between the Commission's legislative proposal and IA

The Commission's proposal seems to correspond largely to the preferred option 2; however, the monitoring condition and frequency appear to be different to those envisaged by the IA.

Conclusions

One of a number of MFF-related impact assessment reports, this IA provides a comprehensive overview of the problems facing European defence development, as well as the general objectives that the proposed European Defence Fund is meant to address. It would nevertheless have gained by including a more detailed explanation behind the merger of the two financing windows, as well as a more detailed analysis of impacts. Finally, the lack of more specific objectives appears to have weakened the analysis of monitoring mechanisms and it is unclear how stakeholders' views have fed into the analysis.

ENDNOTES

¹ The almost parallel adoption of the spending programmes and the MFF proposals had an impact on the IA process and resulted in simplified IAs, with their format and scope differing from a standard IA as defined by the Commission's Better Regulation Guidelines (see also [Tool 10: Financial Programmes and Instruments](#)).

² See also the Commission [communication](#), COM (2018)321 final.

³ For an analysis of the proposal, see C. Karakas, European Defence Fund (MFF), Legislation in progress, EPRS, (forthcoming).

⁴ The coordinated annual review on defence (CARD), the EU's common security and defence policy (CSDP) and Permanent Structured Cooperation (PESCO) are also mentioned as instruments that could enable Member States identify the priorities and collaborative projects.

⁵ European Commission Staff Working Document SWD (2017) 228.

⁶ European Union Institute for Security Studies (EUISS) and European Commission, Report of the Group of Personalities on the preparatory action for CSDP-related research. European defence research. The case for an EU-funded defence R&T programme, Brussels, 2016.

This briefing, prepared for the Committee on Industry, Energy, and Research (ITRE) analyses whether the principal criteria laid down in the Commission's own Better Regulation Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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