

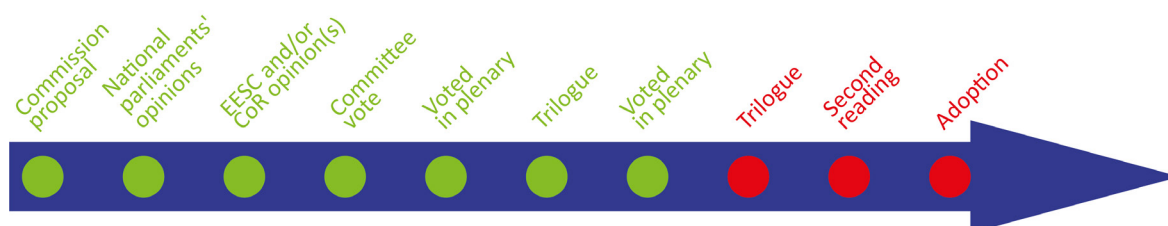
# European Defence Fund

## Multiannual financial framework 2021-2027

### OVERVIEW

In June 2018, the European Commission presented a legislative proposal on a European Defence Fund, including a budget allocation of €13 billion in current prices for the 2021-2027 period. The proposal aims to streamline and simplify the current legislation by integrating the Preparatory Action on Defence Research (research window) and the European Defence Industrial Development Programme (as one part of the capability window) into a single fund. The main aims of the fund are to foster the competitiveness and innovativeness of European defence and to contribute to the EU's strategic autonomy. In this regard, the fund would support collaborative industrial projects; co-finance the costs of prototype development; encourage the participation of small and medium-sized enterprises; and promote projects in the framework of permanent structured cooperation. Synergies are expected with other EU initiatives in the field of cybersecurity, maritime transport, border management, Horizon Europe, the space programme and the European Peace Facility. In April 2019, after several trilogue meetings, Parliament and Council reached a partial agreement on the programme, covering the content, but not, among other things, budgetary issues. Parliament adopted its position at first reading in April. Further discussions on the outstanding issues can be expected once Council reaches agreement on the overall multiannual budget.

<b>Proposal for a regulation establishing the European Defence Fund</b>		
<i>Committee responsible:</i>	Industry, Research and Energy (ITRE)	COM(2018) 476
<i>Rapporteur:</i>	Zdzisław Krasnodębski (ECR, Poland)	13.6.2018
<i>Shadow rapporteurs:</i>	Françoise Grossetête (EPP, France) Edouard Martin (S&D, France) Dominique Riquet (ALDE, France) Neoklis Sylikiotis (GUE/NGL, Cyprus) Reinhard Bütikofer (Greens/EFA, Germany) Fabio Massimo Castaldo (EFDD, Italy) Christelle Lechevalier (ENF, France)	2018/0254(COD)  Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Resumption of trilogue negotiations	



## Introduction

According to the Commission, the EU's geopolitical context has changed dramatically in the past decade. The situation in its neighbouring regions is deemed unstable and the Union is facing a complex and challenging environment in which new threats, such as cyber-attacks, are emerging, and conventional challenges are also re-emerging. Citizens and their political leaders would agree that the EU should take more collective responsibility for its own security. This is in line with the 25 March 2017 [Rome Declaration](#) in which 27 Member States (without the UK) and the European Parliament stated that the Union would strengthen its common security and defence, and foster a more competitive and integrated defence industry.

In addition, the Commission has criticised the fact that European defence is plagued by significant market inefficiencies linked to untapped economies of scale (fragmentation of national markets) and duplication of resources. Member States should be open to common action since their own defence budgets, in particular those for research and development (R&D), have suffered significant cuts over the past 10 years.

In this regard, on 13 June 2018, the European Commission, presented a [proposal](#) for a regulation establishing a European Defence Fund. The European Defence Fund is intended to foster the competitiveness and innovativeness of the European defence technological and industrial base, while also contributing to the EU's strategic autonomy. It aims to trigger cooperative programmes that would not happen without an EU contribution and, by supporting research and development activities, to provide the necessary incentives to boost cooperation at each stage of the industrial cycle.

The new proposal envisages a financial envelope of €13 billion in current prices<sup>1</sup> or €11.5 billion in 2018 prices for the 2021-2027 period. The fund would provide €4.1 billion (€3.6 billion in 2018 prices) in direct financing for competitive and collaborative research projects, as well as €8.9 billion (€7.8 billion in 2018 prices) to complement Member States' investment by co-financing prototype development and the ensuing certification and testing requirements.

## Context

Every seven years, the European Union decides on its long-term budget. On 2 May 2018, the European Commission proposed the [multiannual financial framework](#) (MFF) for the 2021-2027 period. Ahead of the adoption of the proposal for the long-term budget, the European Commission had presented [various options](#) (together with their financial implications) for a framework that would deliver the EU's policy priorities efficiently after 2020. The 2021-2027 MFF will be the first for the European Union of 27 Member States, taking into account the budgetary consequences of the expected [withdrawal](#) of the United Kingdom from the EU.

## Existing situation

According to the European Commission, the lack of cooperation between Member States weakens the ability of the EU defence industry to sustain the industrial and technological capabilities necessary to preserve the EU's strategic autonomy and meet its current and future security needs. The sector is largely fragmented across national borders, with substantial duplications and resulting inefficiencies in terms of failure to capture economies of scale and learning. Despite the combination of increasing costs, and stagnating or shrinking defence budgets, planning, research and development spending and the procurement and maintenance of equipment remains largely a matter for individual Member States, with limited cooperation between them. The existing situation is not sustainable, as the development of a major next generation defence system is increasingly beyond the reach of individual Member States.<sup>2</sup>

To tackle these shortcomings, the Commission has taken a number of initiatives in support of greater defence cooperation. On 7 June 2017, as part of the implementation of the [European](#)

[defence action plan](#) (EDAP), the Commission adopted a [communication](#) launching the European Defence Fund.<sup>3</sup> It consisted of two 'windows': one for research and another for capability. A two-step approach was proposed regarding the implementation of the windows, involving:

- 1 an initial test period under the 2014-2020 multiannual financial framework during which a [Preparatory Action on Defence Research \(PADR\)](#) supports the collaborative defence research window, while the proposed [European Defence Industrial Development Programme \(EDIDP\)](#), under the capability window, co-finances collaborative development projects,<sup>4</sup> and
- 2 a dedicated fund under the 2021-2027 multiannual 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.

The 13 June 2018 proposal now delivers on the commitment made in June 2017, but with a more substantial budget.

## Parliament's starting position

In its 21 November 2013 [resolution](#), the European Parliament stressed that progress was needed on consolidating the [European Defence Technological and Industrial Base \(EDTIB\)](#) and that an EU industrial defence policy should have the aim of optimising capabilities by strengthening Europe's defence industry and by promoting research and technology cooperation.

In its [resolution](#) of 21 May 2015, Parliament urged the European Council to take concrete measures towards overcoming the fragmentation of the European defence market and to provide specific guidelines for the European defence market.

On 22 November 2016, Parliament adopted a [resolution](#) on a European defence union in which it noted that the European defence action plan (EDAP) should be a strategic tool to foster cooperation in defence, in particular through an EU-funded defence research programme and through measures to strengthen industrial cooperation across the entire value chain. It also considered that initial elements of the EDAP should be launched immediately, and called on the Commission to support a strong industrial base.

In its 16 March 2017 [resolution](#) on the constitutional, legal and institutional implications of a common security and defence policy: possibilities offered by the Lisbon Treaty, Parliament welcomed the EDAP and called on the Commission and the Member States to clarify thoroughly the governance, financing and objectives of the new European Defence Fund, notably the capability and research 'windows'.

On 3 July 2018, Parliament, acting as co-legislator, [adopted](#) the European Defence Industrial Development Programme. For further information, please see the [EPRS 'EU Legislation in progress' briefing](#) on the subject.

## Preparation of the proposal

The Commission carried out a public consultation on the European Defence Fund from 13 January to 9 March 2018, as part of a wider consultation exercise on all policy areas related to the EU budget for 2021 to 2027.<sup>5</sup> Various stakeholders commented on the initiative, including industry, research institutions, citizens and non-governmental organisations (NGOs). Some of the latter criticised the initiative from an ethical perspective.

The stakeholders most directly affected, mainly from industry, supported the initiative. They made suggestions on the structure of the fund and funding arrangements. The main points were that:

- the focus should be on long-/mid-term research and development priorities (technology push and disruptive innovation) with a view to the long-term competitiveness of the sector and the need to provide breakthrough capabilities;
- the structure of the fund should reflect a holistic capability-driven approach covering the whole technology cycle and on the basis of a single regulation;
- the rules on intellectual property rights needed to be adapted to defence;
- funding rates needed to take into account the specific characteristics of the sector;
- research institutions requested higher financial contributions for research up to 100 % which would also cover indirect costs relating to infrastructure.

In a [Cost of non-Europe report](#), EPRS identifies closer defence cooperation at European level as being conducive to higher synergies between national capabilities. The development of common European capabilities and the establishment of a fully functioning single market for defence would help overcome inefficiencies in the currently fragmented defence market. If Member States were to operate in a more integrated manner, they could either spend less than their current collective defence budget of €206 billion (2016) or, by using resources more effectively, reach higher objectives while spending the same amount. A more integrated EU security and defence policy would generate efficiency gains of at least €26 billion annually.

The Commission proposal is accompanied by an impact assessment. The report assessed three options as regards the structure of the fund and delivery mechanisms:<sup>6</sup>

Option 1 – to maintain the two current separate testing programmes from the 2014-2020 multiannual financial framework, but increasing spending levels more than six-fold;

Option 2 – to introduce additional flexibility and simplification measures. A single fund would enable integrated planning for both research and development with harmonised participation rules.

Option 3 – to introduce more stringent requirements, i.e. replace an approach based on incentives and bonuses with a more prescriptive one aimed at addressing the identified problems in a more intrusive way in order to achieve results faster.

The Commission states that Option 2 would be the best way of ensuring that the proposal takes into account the concerns of stakeholders. The specific characteristics of the sector would be acknowledged, including dependence on a single buyer and the stringent limitations to the commercial exploitation of results from defence-oriented research and development. Under Option 2, flexibility would also be introduced, improving the way indirect costs are covered and providing grants in the form of lump sums.

An EPRS [initial appraisal](#) analysed the Commission's impact assessment.

## The changes the proposal would bring

The Commission proposal aims in part to streamline and simplify the current legislation. In this regard, the Preparatory Action on Defence Research (research window) and the European Defence Industrial Development Programme (as one part of the capability window – see also note 4) would be aligned and integrated within one single fund.

Furthermore, the European Defence Fund aims to place the EU among the top four defence research and technology investors in Europe by acting as a catalyst for more innovation and competition in industry and science. In addition, the fund would pool resources, meaning that Member States would get better value for their investment and develop additional technologies and equipment.

The main features of the European Defence Fund are:

- financing priority projects agreed by Member States within the framework of common security and defence policy and other regional and international organisations such as NATO;
- providing exclusive finance for collaborative projects involving at least three participants from three Member States;
- co-funding joint prototypes, providing Member States commit to buying the final product;
- promoting the cross-border activities of small and medium-sized enterprises (SMEs), e.g. through higher financing and participation rates;
- targeting innovation, with 5 % of the funds dedicated to disruptive technology and innovative equipment;
- allowing the possibility to promote projects within the framework of permanent structured cooperation (PESCO) by providing an additional co-financing bonus of 10 % – the 'PESCO bonus'.

The Commission would seek to generate synergies with other EU initiatives in the field of civil research and development, such as cybersecurity, border control, coast guards, maritime transport and space. In particular synergies should be sought with:

- the specific programme implementing [Horizon Europe](#), with a focus on civil applications resulting from defence research and development;
- the Union [space programme](#), and in particular its [Governmental Satellite Communication \(GOVSATCOM\)](#), [Space Surveillance and Tracking Support \(SST\)](#) and [Copernicus](#) components;
- EU initiatives in the field of cybersecurity, such as those announced in the [joint communication on cybersecurity](#);
- the actions identified under the coordinated civil–military [maritime security](#) research agenda and with maritime transport; and
- other relevant EU programmes in the field of [security](#), such as the [Internal Security Fund](#) and the [Integrated Border Management](#) Fund.

The plan is to implement the European Defence Fund in close coordination with the activities of the High Representative for Foreign Affairs and Security Policy in the area of defence, including the Financial Toolbox, which aims to facilitate joint development and acquisition of defence capabilities.

The fund would also take into account defence activities implemented through the [European Peace Facility](#), an off-budget instrument proposed outside the multiannual financial framework.

The Commission points out that the fund's actions would be used to address market failures or sub-optimal investment situations, without duplicating or crowding out private financing.

Regarding the legal basis of the European Defence Fund, the Commission chose Articles 173, 182, 183 and 188 of the Treaty on the Functioning of the European Union (TFEU).

## Advisory committees

The European Economic and Social Committee (EESC) appointed Aurel Laurențiu Plosceanu (Employers – Group I, Romania) to draft an opinion. The opinion was [adopted](#) on 12 December 2018. The EESC supports the Commission proposal and the objective of strategic autonomy, compromising the development of key technologies in critical areas as well as strategic capabilities. It also believes that a more harmonised and streamlined European defence policy could bring efficiency gains by increasing the market share of the European defence industrial and technological base and by better distributing the equipment between states, regions and companies.

The European Committee of Regions decided not to issue an opinion, but reiterated its key messages [adopted](#) in March 2018. The Committee supports the fund and its budget, as the EU needs

a strong defence capability to shield itself from traditional and new threats. The opinion points out that competitiveness and the avoidance of duplication are key. The fund must tap into this potential for growth and be sure to favour consortiums integrating SMEs and cross-border cooperation. The opinion demands stricter criteria to ensure that EU funding supports EU companies controlled by EU owners, and considers that the [European Network of Defence-related Regions](#) should contribute to the EU defence strategy by promoting the fund and its calls for proposals widely.

## National parliaments

The deadline for the submission of [reasoned opinions](#) on ground of subsidiarity was 24 September 2018. No reasoned opinion was submitted.

## Stakeholders' views<sup>7</sup>

The European Association of Research and Technology Organisations, EARTO, [welcomed](#) the Commission proposal. Since defence research falls within the scope of Horizon Europe, EARTO suggested strengthening the corresponding specific provisions for defence research in the Commission proposal, such as objectives, rules for participation, and delivery mechanisms.

The European Network Against Arms Trade, ENAAT, [criticised](#) the Commission proposal. ENAAT believes that rather than contributing to more innovation or jobs, the fund would lead to a further militarisation of the EU. The Commission is criticised for its one-sided 'pro-industry approach', whereas anti-militarist civil society organisations' arguments have not been sufficiently taken into account in the Commission proposal.

## Legislative process

In the European Parliament, the file has been assigned to the Committee on Industry, Research and Energy (ITRE), which appointed Zdzisław Krasnodębski (ECR, Poland) as rapporteur. The Committees on Foreign Affairs (AFET), Budgets (BUDG) and Internal Market and Consumer Protection (IMCO) provided opinions.

The ITRE committee [draft report](#) was published on 18 July 2018 and presented in committee on 3 September. The deadline for tabling amendments was 12 September and in total 457 [amendments](#) were submitted. The exchange of views on the amendments took place on 8 October, and the ITRE committee adopted its report on 21 November 2018.

The [report](#), among other things, called on the Commission to ensure that administrative procedures are kept as simple as possible and incur a minimum amount of additional expenditure. It also called for ensuring the coherence of the work programmes throughout the life-cycle management of defence products and technologies. Furthermore, Parliament called for strengthened ownership of intellectual property arising from common actions, in relation to participating third countries in particular.

The European Defence Fund must take into account the action plan on military mobility as part of the next Connecting Europe Facility, European Peace Facility, and support, inter alia, common foreign and security/defence policy missions and efforts to counter hybrid threats, and help to coordinate capability planning, development, procurement and operations.

Regarding ethical issues, Parliament suggested that actions implemented under the fund must comply with relevant national, Union and international law, including the Charter of Fundamental Rights of the European Union. These actions must also comply with ethical principles reflected in relevant national, Union and international law.

Actions for the development of products and technologies, the use, development or production of which is prohibited by applicable international law, will not be eligible for funding. In particular, the programme will not fund incendiary weapons, including white phosphorus, depleted uranium ammunitions, lethal autonomous weapons without meaningful human control over the critical

functions of selecting and attacking individual targets, small arms and light weapons mainly developed for export purposes. Also not eligible for funding are: (i) a serious violation of international humanitarian law; (ii) a serious violation of international human rights law; (iii) an act constituting an offence under international conventions or protocols relating to terrorism; (iv) an act constituting an offence under international conventions or protocols relating to transnational organised crime.

On 12 December 2018, the plenary [adopted](#) its position and provided the mandate to enter into informal negotiations (trilogues) with the Council. Several trilogue meetings took place from January 2019, and the co-legislators were able to achieve a partial agreement. On 1 March 2019, Council [published](#) the agreed text.

The ITRE committee endorsed the agreement on 25 March 2019, and the plenary voted to adopt it in its position at first reading, on 17 April 2019. The main features, besides those mentioned above, include:

- Support to the entire industrial development lifecycle of defence products, from research (up to 100 %), to prototype development (up to 20 %), to certification (up to 80 %).
- There will be no unauthorised access by a non-associated third country or other non-associated third country entity to classified information relating to the carrying out of the action, and potential negative effects over security of supply of inputs critical to the action shall be avoided.
- Small and medium-sized enterprises and mid-caps are given incentives to participate, as they will have higher financing rates, and projects by consortia which include SMEs will be favoured.
- Projects will be defined according to defence priorities agreed by Member States under the Union's common foreign and security/defence policy, but other priorities, such as those defined by NATO, can also be taken into account.
- Only collaborative projects involving at least three participants from at least three Member States or associated countries are eligible.
- Additional flexibility will be provided in order to respond to unforeseen circumstances and new developments. In these cases the Commission may, within the annual budgetary procedure, depart from the amounts planned by a maximum of 20 % (instead of 10 %).

Budgetary issues were left out of the partial agreement at this stage. Parliament advocates the same budget as the Commission proposed. The total amount of the budget is €11.5 billion in 2018 prices or €13 billion in current prices, of which €4.1 billion is planned for research actions and €8.9 billion for development actions. This sum will be discussed during the negotiations on the EU's 2021-2027 long-term budget.

Provisions related to the participation of third countries in the European Defence Fund were also left outside the scope of the negotiations at this stage.

Parliament and Council will resume discussions on the file after the European elections and the installation of the new European Commission in autumn 2019.

## EP SUPPORTING ANALYSIS

Ballester B., [The cost of non-Europe in common security and defence policy](#), EPRS, European Parliament, 15 November 2013.

[The Development of a European Defence Technological and Industrial Base \(EDTIB\)](#), Policy Department for External Policies, European Parliament, June 2013.

[Enhancing support for European security and defence research: Challenges and prospects](#), Policy Department for External Policies, European Parliament, April 2015.

[The future of EU defence research](#), Policy Department for External Policies, European Parliament, March 2016.

Kononenko V., [Establishing the European Defence Fund](#), EPRS, European Parliament, October 2018.

Reillon V., [Preparatory action on defence research](#), EPRS, European Parliament, October 2016.

Scheinert C., [European defence industrial development programme \(EDIDP\)](#), EPRS, European Parliament, June 2018.

## OTHER SOURCES

[European Defence Fund 2021–2027](#), European Parliament, Legislative Observatory (OEL).

## ENDNOTES

- <sup>1</sup> Current prices make no adjustments for inflation, whereas constant prices adjust for the effects of inflation, as they are expressed in the price terms of a base period (normally a year – 2018 in this briefing).
- <sup>2</sup> According to the Commission, in 2015 only 16 % of defence equipment was procured through European collaborative procurement, far below the collective benchmark of 35 % agreed in the framework of the European Defence Agency (EDA). The estimated share of European collaboration in the earlier stage of defence research was of only 7.2 % against the benchmark of 20 %. See the Commission [proposal](#) (pp. 1-2 in the English PDF version). The Commission also points out that the lack of cooperation between Member States in the field of security and defence is estimated to cost between €25 billion and €100 billion per year. Currently, around 80 % of defence procurement is run on a national basis, leading to a costly duplication of military capabilities. See Commission [fact sheet](#), p. 2.
- <sup>3</sup> The idea of the European Defence Fund is based in part on the [political guidelines](#) of Commission President Jean-Claude Juncker, who identified European defence policy as one of 10 key political priorities for the European Union.
- <sup>4</sup> However, the second aspect of the capability window, the actual acquisition of military equipment and technologies by Member States, is not covered by this proposal.
- <sup>5</sup> For a summary of the stakeholder consultation results, see the Commission [proposal](#) (pp. 7-8 in the English PDF version).
- <sup>6</sup> For a summary of the impact assessment, see the Commission [proposal](#) (pp. 8-10 in the English PDF version).
- <sup>7</sup> This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

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