

# Budgetary aspects of EU defence policy

*This briefing provides an overview of recent developments in EU defence spending and serves as background information for the BUDG Committee's exchange of views with Commissioner Breton of 19 July 2023.*

## Defence spending in context

Over the past decade, an increasingly unstable geopolitical context and the emergence of new threats have highlighted the need to boost the EU's defence industry and secure its strategic autonomy. Although the Treaty limits EU action on defence<sup>1</sup>, in 2016, the first ever **EU Pilot Project** in the field of defence marked a crucial step towards EU defence integration<sup>2</sup> and a first attempt to reduce the fragmentation of EU defence efforts. Under the Pilot Project, grant agreements worth a total of EUR 1.4 million were signed for research activities related to defence.

The Pilot Project paved the way for the launch in 2017 of the Commission's **Preparatory Action on Defence Research** (PADR), worth a total of EUR 90 million (plus a contribution from Norway of EUR 2 million) for the period 2017-2019<sup>3</sup>. Then, for the period 2019-2020, the **European Defence Industrial Development Programme** (EDIDP) provided EUR 500 million in grants to support the development of defence products and bolster the competitiveness of the EU defence industry<sup>4</sup>.

The newly created Heading 5 of the 2021-2027 multiannual financial framework (MFF) and the EUR 8 billion **European Defence Fund** established under it have built on the PADR and EDIDP as a longer-term framework for investment in EU defence.

Russia's invasion of Ukraine on 24 February 2022 represented a watershed moment in the history of EU defence policy, with the Council agreeing for the first time to provide lethal weapons and assistance to the Ukrainian army under the off-budget **European Peace Facility** and Internal Market Commissioner Thierry Breton urging the European defence industry to move into 'war economy mode'<sup>5</sup>. Since then, the Commission has proposed two new instruments, the **European Defence Industry Reinforcement through common Procurement Act** (EDIRPA) and the **Act in Support of Ammunition Production** (ASAP), focusing respectively on enhancing the demand and the supply sides of the EU defence industry with a view to an increasingly integrated European Defence Union.

<sup>1</sup> Article 41(2) of the [Treaty on European Union](#)

<sup>2</sup> European Defence Agency, [First EU Pilot Project](#) in the field of defence research sees grant agreements signed for EUR 1.4 million, 28 October 2016.

<sup>3</sup> European Commission, [Preparatory Action on Defence Research](#) (PADR).

<sup>4</sup> European Commission, [European Defence Industrial Development Programme](#) (EDIDP).

<sup>5</sup> [Press conference](#) by Commissioner Thierry Breton, Act in Support of Ammunition Production (ASAP), 3 May 2023.



## Defence spending 2021-2027

### MFF Heading 5 – Security and Defence

The 2021-2027 multiannual financial framework (MFF) contains a separate heading dedicated to security and defence. Heading 5 is the smallest of the seven MFF headings, representing **1.2 % of the total MFF** (EUR 14.9 billion in current prices); nevertheless, it is the first time that defence has taken up such a prominent position in the structure of the EU budget<sup>6</sup>. Heading 5 is made up of two policy clusters: Security and Defence; in the defence cluster, the European Defence Fund is the key action, with a smaller envelope dedicated to the military mobility initiative.

The total margin originally available under Heading 5 was EUR 681 million; however, under the current MFF ceilings, the **margin of Heading 5 has been fully exhausted** until 2025<sup>7</sup>. In parallel, the Commission has been forced to use the **Flexibility Instrument** – EUR 170 million in 2023 and EUR 300 million in 2024 – to help fund new defence initiatives. In its resolution of 15 December 2022<sup>8</sup>, Parliament highlighted that ‘the necessary spending to enhance defence cooperation and investment cannot be covered within the ceiling of Heading 5’ and called for an increase in the ceiling of Heading 5. Under the recent MFF revision proposal, the Commission has included the Strategic Technologies for Europe Platform (STEP), which proposes to increase the ceilings of heading 5 by EUR 1.5 billion over the period 2024-2027, however in view of covering new objectives to be integrated under the European Defence Fund.

### European Defence Fund

The European Defence Fund (EDF) is the EU’s key instrument for supporting collaborative research and development (R&D) projects in the field of defence, mainly through grants. The EDF builds on its two precursor programmes: the PADR and EDIDP. It has a budget of **EUR 7.953 billion** for the period 2021-2027, of which approximately one third to fund collaborative defence research and two thirds to fund collaborative capability development projects complementing national contributions<sup>9</sup>. The EDF’s general objective is to ‘foster the competitiveness, efficiency and innovation capacity of the European defence technological and industrial base (EDTIB) throughout the Union, which contributes to the Union strategic autonomy’<sup>10</sup>. On 26 June 2023, the Commission announced the results of the 2022 calls for proposals under the EDF, which amounted to EUR 832 million in EU funding in support of 41 joint defence R&D projects in areas such as naval, ground and air combat, and cyber defence<sup>11</sup>.

## Defence instruments under adoption

### European Defence Industry Reinforcement through common Procurement Act (EDIRPA)

On 19 July 2022, the Commission proposed<sup>12</sup> a short-term instrument to incentivise the **common procurement of ammunition** by means of a European Defence Industry Reinforcement through common Procurement Act (EDIRPA). Through the EDIRPA instrument, Member States which pool their demand and

<sup>6</sup> EPRS, [Briefing](#) – Security and defence: Heading 5 of the 2021-2027 MFF, Sidonia Mazur, April 2021.

<sup>7</sup> EPRS, [Briefing](#) – Long-term EU budget for 2021 to 2027: State of play, Karoline Kowald and Marianna Pari, June 2023.

<sup>8</sup> European Parliament [resolution](#) of 15 December 2022 on upscaling the 2021-2027 multiannual financial framework: a resilient EU budget fit for new challenges, Texts adopted, P9\_TA(2022)0450.

<sup>9</sup> European Defence Agency, [European Defence Fund](#) (EDF).

<sup>10</sup> [Regulation \(EU\) 2021/697](#) of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund and repealing Regulation (EU) 2018/1092, OJ L 170, 12.5.2021, p. 149.

<sup>11</sup> European Commission, [Press release](#) – European Defence Fund: EU to invest EUR 832 million in 41 ambitious defence industrial projects, 26 June 2023.

<sup>12</sup> Commission [proposal](#) of 19 July 2022 for a regulation on establishing the European Defence Industry Reinforcement through common Procurement Act, COM(2022)0349.

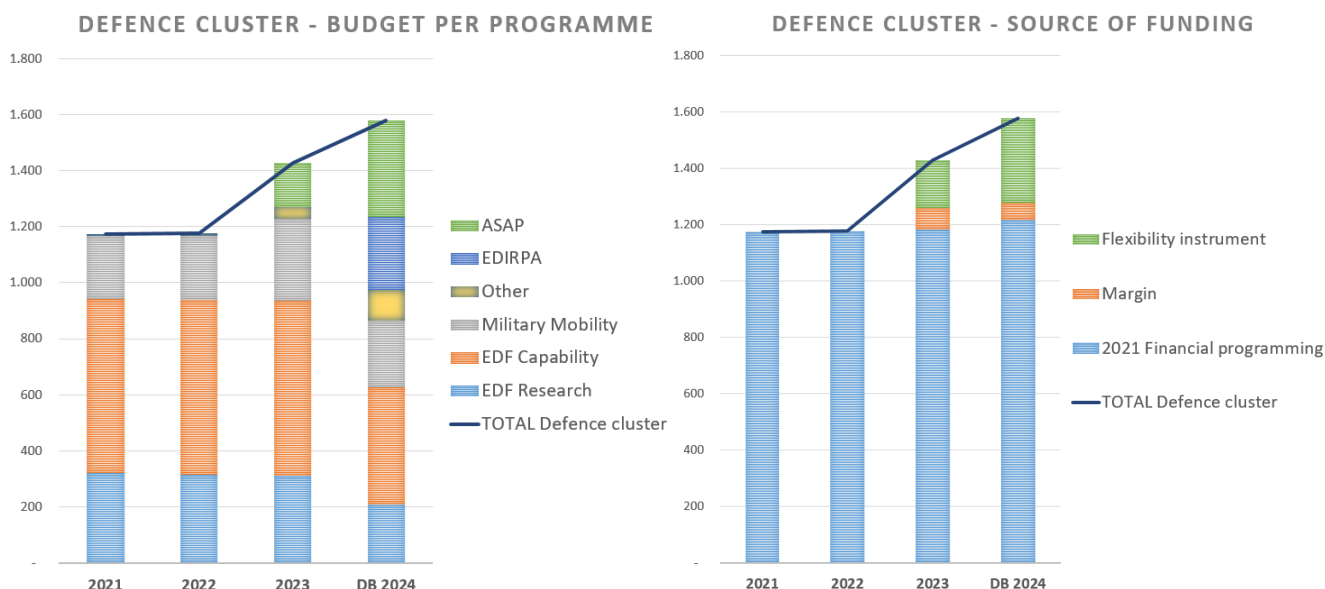
jointly procure defence products in consortia of at least three countries will be partially reimbursed from the EU budget<sup>13</sup>. EDIRPA will implement **Track 2** of the Council's three-track approach (see 'Council initiatives' section below).

The Commission's original proposal envisaged a total budget for EDIRPA of EUR 500 million, funded using the entire unallocated margin of Heading 5 and the remaining part from the Flexibility Instrument. On 27 June 2023 Council, Commission and Parliament negotiators came to a political agreement on a **total budget of EUR 300 million** for the EDIRPA instrument and its extension until 2025, with some funds redeployed for the ASAP instrument<sup>14</sup>. The political agreement must now be formally approved by the European Parliament and the Council, with **adoption in plenary indicated for the September 2023 session**.

### Act in Support of Ammunition Production (ASAP)

In parallel to EDIRPA, on 3 May 2023 the Commission proposed a regulation<sup>15</sup> establishing the Act in Support of Ammunition Production (ASAP) to provide financial support in the form of grants to **help the EU defence industry increase its production capacities** for ammunition and missiles. The new instrument, subject to an urgent procedure under Rule 163<sup>16</sup>, will implement **Track 3** of the Council approach.

Under the proposal, ASAP will have a **total budget of EUR 500 million**. In its statement of estimates for 2024<sup>17</sup>, the Commission states: 'Given the absence of unallocated margins under heading 5, the Commission proposes to finance [ASAP] entirely through redeployments from defence-related activities, namely the EDF and EDIRPA. Consequently, the two new defence initiatives to be adopted by the co-legislators (EDIRPA and ASAP) require a combined use of the Flexibility Instrument of EUR 300 million in 2024, as originally foreseen for EDIRPA'. On 7 July 2023, the European Parliament reached a provisional agreement with the Spanish Council presidency on ASAP, which must now be endorsed and formally adopted by the Council and Parliament. The ASAP Regulation is **expected to enter into force before the end of July 2023**<sup>18</sup>.



Source : Draft Budget 2024 - current prices in EUR million

<sup>13</sup> Council of the EU, [Press release](#) – EU defence industry: Council and European Parliament agree on new rules to boost common procurement, 27 June 2023.

<sup>14</sup> EUR 240 million of the original EUR 500 million proposed were redeployed to the Act in Support of Ammunition Production (ASAP), and the EDIRPA envelope was then topped up with EUR 30 million from the budget margins for 2025. The remaining EUR 10 million are under discussion.

<sup>15</sup> [Commission proposal](#) of 3 May 2023 for a regulation on establishing the Act in Support of Ammunition Production, COM(2023)0237.

<sup>16</sup> European Parliament Legislative Observatory, 2023/0140(COD): [Act in Support of Ammunition Production](#).

<sup>17</sup> [Statement of estimates](#) of the European Commission - Preparation of the 2024 draft budget, June 2023.

<sup>18</sup> Council of the EU, [Press release](#) – ASAP: Council and European Parliament strike a deal on boosting the production of ammunition and missiles in the EU, 7 July 2023.

## MFF mid-term revision – Impact on defence

### Strategic Technologies for Europe Platform (STEP)

On 20 June 2023, the Commission proposed the creation of the Strategic Technologies for Europe Platform (STEP) as part of the revision of the 2021-2027 MFF. The aim of STEP is to promote the EU's long-term competitiveness on critical technologies. In the field of defence, STEP would support EU development and manufacturing in deep and digital technologies for the development of defence and aerospace applications in order to 'boost the innovation capacity of the European defence technological and industrial base, thus contributing to the Union open strategic autonomy'<sup>19</sup>.

For quick and effective deployment on the ground, STEP is envisaged to be implemented through existing programmes, rather than as a standalone instrument. Under the proposal, the **European Defence Fund would receive an additional EUR 1.5 billion**, which the Commission estimates could result in up to EUR 2 billion of investments by European businesses in projects promoting European sovereignty<sup>20</sup>.

### In the pipeline

#### European defence investment programme (EDIP)

As a follow-up to recent initiatives, the Commission had announced an upcoming proposal for a European defence investment programme (EDIP), which would build on the short-term instruments by establishing a **longer-term framework for European defence procurement**<sup>21</sup>. Participants in the framework were to benefit from a VAT waiver. However, the Commission has delayed the issuing of the proposal until further notice<sup>22</sup>.

### Council initiatives

#### Council three-track approach

On 11 March 2022, following a request for assistance from Ukraine<sup>23</sup>, EU Heads of State or Government meeting in Versailles committed to 'bolstering our defence capabilities' in the light of the Russian war of aggression, agreeing, inter alia, to increase defence expenditure, develop defence capabilities in a collaborative way, and strengthen and develop the EU defence industry<sup>24</sup>. In response, the Commission and the High Representative issued a joint communication identifying three types of defence investment gap: financial, industrial and capability<sup>25</sup>. On 20 March 2022, the Council agreed on a three-track approach with a view to providing Ukraine with **1 million rounds of artillery ammunition** in the ensuing 12 months<sup>26</sup>:

- Track 1 – **Urgent delivery** of ammunition and, if requested, missiles by Member States to Ukraine, whether from existing stocks or through the reprioritisation of existing orders (financed through the European Peace Facility);

<sup>19</sup> Commission [communication](#) of 20 June 2023 on the mid-term revision of the Multiannual Financial Framework 2021-2027 (COM(2023)0336).

<sup>20</sup> European Commission, [Press release](#) – EU budget: Commission proposes Strategic Technologies for Europe Platform (STEP) to support European leadership on critical technologies, 20 June 2023.

<sup>21</sup> Commission [joint communication](#), Defence Investment Gaps Analysis and Way Forward, 18 May 2011, JOIN(2022)0024.

<sup>22</sup> EPRS, [Briefing](#) – Reinforcing the European defence industry, Sebastian Clapp, June 2023.

<sup>23</sup> Council of the EU, [Press release](#) – EU joint procurement of ammunition and missiles for Ukraine: Council agrees EUR 1 billion support under the European Peace Facility, 5 May 2023.

<sup>24</sup> Informal meeting of the Heads of State of Government, [Versailles Declaration](#), 11 March 2022.

<sup>25</sup> Commission [joint communication](#), Defence Investment Gaps Analysis and Way Forward, 18 May 2011, JOIN(2022)0024.

<sup>26</sup> Council of the European Union, [Outcome of proceedings](#) – Delivery and joint procurement of ammunition for Ukraine, 20 March 2023.

- Track 2 – **Joint procurement** of ammunition and, if requested, missiles, from the European defence industry and Norway in order to refill stocks while continuing to support Ukraine (financed through the European Peace Facility and EDIRPA);
- Track 3 – **Increased production capacity** in the European defence industry and secure supply chains (financed through ASAP).

### European Peace Facility

The European Peace Facility (EPF)<sup>27</sup> was established by the Council in 2021 to finance external actions with military or defence implications and to provide assistance to partner countries in peace-keeping operations under the common foreign and security policy. It is an **off-budget instrument**<sup>28</sup> funded by Member States through yearly contributions proportionate to their GNI.

Since the outbreak of Russia's war of aggression against Ukraine in February 2022, the Council has mobilised seven tranches of EUR 500 million each for the Ukrainian Armed Forces under the EPF, the first of which representing the first time in history that the EU has provided assistance for lethal weapons. In addition, in response to Ukraine's urgent request for assistance, the Council agreed on the following additional funding under the EPF with a view to the implementation of the three-track approach:

- on 13 April 2023, **EUR 1 billion to partially reimburse Member States for deliveries of ammunition** (and missiles if requested) to Ukraine from their existing stocks or from the reprioritisation of existing orders during the period 9 February to 31 May 2023 (**Track 1**)<sup>29</sup>;
- on 5 May 2023, **EUR 1 billion for the joint procurement of ammunition** (and missiles if requested) from the EU and Norwegian defence industries (**Track 2**)<sup>30</sup>.

Since more than half its initial ceiling of EUR 5 billion for 2021-2027 had been mobilised for Ukraine in 2022 alone, the Council increased the EPF ceiling to EUR 7 billion in December 2022, and then again to EUR 10.5 billion (EUR 12 billion in current prices) in June 2023<sup>31</sup>, in order to enable the EU to continue its support to Ukraine at a critical stage of the conflict, while maintaining engagement in other regions. The total EU contribution for Ukraine to support the delivery of military equipment under the EPF amounts to EUR 5.6 billion to date<sup>32</sup>.

As an off-budget instrument, the EPF is not subject to discharge by the European Parliament; in its resolution of 18 January 2023, Parliament welcomed the increase in the EPF budget and its use to provide support to Ukraine, but called for strengthened parliamentary oversight of EU external action and for Parliament to be involved in the implementation and scrutiny of the EPF<sup>33</sup>.

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<sup>27</sup> [Council Decision \(CFSP\) 2021/509](#) of 22 March 2021 establishing a European Peace Facility, and repealing Decision (CFSP) 2015/528, OJ L 102, 24.3.2021, p. 14.

<sup>28</sup> [Article 41](#) of the Treaty on European Union does not envisage the use of the EU budget to fund expenditure with military or defence implications.

<sup>29</sup> Council of the EU, [Press release](#) – Ammunition for Ukraine: Council agrees EUR 1 billion support under the European Peace Facility, 13 April 2023.

<sup>30</sup> Council of the EU, [Press release](#) – EU joint procurement of ammunition and missiles for Ukraine: Council agrees EUR 1 billion support under the European Peace Facility, 5 May 2023.

<sup>31</sup> Council of the EU, [Press release](#) – European Peace Facility: Council agrees on second top-up of the overall financial ceiling by EUR 3.5 billion, 26 June 2023.

<sup>32</sup> Council of the EU, [Press release](#) – EU joint procurement of ammunition and missiles for Ukraine: Council agrees EUR 1 billion support under the European Peace Facility, 5 May 2023.

<sup>33</sup> European Parliament [resolution](#) of 18 January 2023 on the implementation of the common foreign and security policy – annual report 2022 (Texts adopted, P9\_TA(2023)0009).