

A large number of white drones are flying in a cloudy sky. The drones are of various sizes and are scattered across the frame, with some in the foreground and others in the background. The sky is filled with soft, white clouds, and the overall scene suggests a large-scale drone operation or a swarm of drones.

Keeping up with the emerging European Defence Union: synchronising third country participation

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Summary

Years of underspending combined with off-the-shelf weapons deliveries to support the Ukrainian armed forces has confronted EU countries with a threefold challenge: to replenish stockpiles; replace obsolete Soviet-era equipment; and reinforce the innovation of new capabilities. As a matter of urgency, member states have dramatically increased their defence spending, while the EU institutions have proposed a raft of new policy instruments to invest, develop and procure in a joined-up manner. There is now a serious opportunity for member states to meet old and new pledges by overhauling the EU's defence industrial and innovation regime. But they shouldn't do so in splendid isolation. The direct involvement of third countries will be necessary to coordinate priorities, foster the transfer of technology and materials, screen for investments by strategic rivals, and monitor the end-use of military capabilities developed across value chains. EU rules and conditions for third country participation in defence industrial and technological cooperation should be developed in such way so as not to signal to the US, Canada, Norway, Japan and other allies and like-minded countries that their companies are no longer welcome on the EU's emerging single defence market. To suggest otherwise would neither be good for the future competitiveness of the European industry nor for the protection of the EU's security interests.

Eurovision for the military?

The UK will be hosting the 2023 Eurovision song contest. This is not due to Britain having suddenly developed the best vision for Europe. It is rather because security reasons prevent the contest from being held in the winning country, Ukraine, and that the UK was the runner-up in this year's event. The decision by the European Broadcasting Union was welcomed by its Ukrainian member, who expressed gratitude to the UK for showing solidarity with Ukraine.¹ Many Ukrainians will have endorsed this message because Britain has – in absolute terms – been the single biggest European military supporter of Ukraine since the start of the 'big war' on February 24th.²

The Ukrainian armed forces attribute about 30 % to 40 % of Russian tank losses to the NLAW system,³ a shoulder-mounted rocket launcher called the 'Next Generation Light Anti-tank Weapon', more than 5,000 of which have been sent by the UK to Ukraine.⁴ In the propaganda warfare surrounding the conflict, this weapon has become one of the symbols of Ukraine's resistance to the Russian invasion.

Yet, the success of the NLAW is neither uniquely British nor the result of new orders. In a break with its doctrine of not exporting arms to countries in active conflict, Sweden, whose defence champion Saab co-designs the NLAW, has sent at least twice as many anti-tank weapons to Ukraine, albeit older types.⁵ Moreover, the NLAW is assembled by the UK subsidiary of French group Thales. The NLAW's success is thus rather an example of how the war could boost the European defence industry as a whole.

EU defence integration remains a big challenge

The war has exposed Europe's general lack of preparedness as countries scrambled to find various rocket launch systems, artillery, fighter jets and even tanks from national stockpiles to help deter the Russian advance. Six months into the war, those stockpiles were running low, thereby exposing a threefold challenge to the EU's defence industry: to replenish stockpiles; replace obsolete Soviet-era equipment that is being flushed out by the war in Ukraine; and reinforce the innovation of new capabilities.⁶ That is a tall order; one whose dimensions are unevenly prioritized in the EU's policy reaction; one which the European Union cannot hope to meet without working together with politically like-minded and technologically advanced third countries.

1 European Broadcasting Union, 'EBC and BBC agree to host 2023 Eurovision Song Contest in the United Kingdom', 25 July 2022, available at <https://eurovision.tv/mediacentre/release/ebu-uapbc-and-bbc-agree-host-2023-eurovision-song-contest-united-kingdom>.

2 Institute for the World Economy, 'Ukraine Support Tracker', available at <https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/> (last visited 11 August 2022).

3 H. Kass, 'One shot one kill' NLAW missiles may have killed hundreds of Russian tanks in Ukraine', BusinessInsider, 11 July 2022.

4 D. Brown and T. Ahmedzade, 'What weapons are being given to Ukraine by the UK?', BBC News, 30 June 2022.

5 Government Offices of Sweden, 'Government approves additional military support to Ukraine', 25 May 2022, available at <https://www.government.se/press-releases/2022/05/government-approves-additional-military-support-to-ukraine/>.

6 European Commission, 'EU steps up action to strengthen EU defence capabilities, industrial and technological base: towards an EU framework for Joint defence procurement', Press release IP/22/3143, 18 May 2022.

Defence has in the past been regarded as the *chasse gardée* of individual member states, not to be lightly surrendered to supranational institutions. The EU has been trying to develop its capacity for ‘strategic autonomy’ and independent military action since the push provided by Franco-British Saint-Malo declaration of 1998.⁷ In practice, the emphasis has been on branding the EU’s Common Security and Defence Policy (CSDP) by undertaking almost 40 overseas operations in two decades, mainly in the European periphery and in Africa. But these CSDP operations remain essentially mandated, funded, staffed and stocked by member states, conducted under the political authority of the Foreign Affairs Council, where unanimity reigns supreme.

It took Russia’s first invasion of Ukraine in 2014, the prospect of Brexit, and the unpredictability injected in US foreign policy by President Trump for the EU to lift the pooling and sharing of defence capabilities up to another level. Years of austerity had hollowed out member states’ armies and necessitated transnational solutions to problems that surpassed the ability of each to address individually.

On the back of pledges made at NATO to increase defence spending to 2 % of their GDP and to earmark 20 % of that sum for investment in defence capabilities, EU countries found a new *élan*⁸ to work through the supranational institutions to monitor the implementation of commitments on defence spending and capability development of *all* member states by way of a coordinated annual review on defence (CARD). In 2017, the European Council formally launched Permanent Structured Cooperation (PESCO) for the development and deployment of defence capabilities. Monitored by the European External Action Service (EEAS) and the European Defence Agency (EDA), and increasingly spurred by the Commission’s newly created Directorate General for Defence Industry and Space (DG DEFIS), which manages a European Defence Fund (EDF) to stimulate the development of military capabilities, PESCO is a force that generates a ‘positive integration’ dynamic by de-fragmenting the defence market in the European Union.⁹

But it’s only been five years since these initiatives were developed and progress has been slow. The EU’s defence industry is still a mix of large international contractors and nationally-focused companies, as well as hundreds of SMEs. There is greater fragmentation in the land and naval defence sectors compared with aerospace, where there have been more attempts at multinational cooperation, driven in part by high R&D and acquisition costs. But even there, despite past successes with the ‘Tornado’ and the ‘Eurofighter’, the record is patchy. European countries are currently pursuing two separate next-generation combat aircraft projects which target similar requirements: ‘Tempest’, led by the UK with Sweden and Italy, and the ‘Future Combat Air System’ (FCAS), involving France, Germany and Spain (see below).

The poor record on cooperation is borne out by spending. In 2020, just 11 % of EU defence budgets were spent on collaborative projects, well below the 35 % target set by the European Defence Agency.¹⁰ The picture is the same in research and technology: in 2020 just 6 % was spent in collaboration with other member states, the lowest level since data collection began in 2005, and well short of their 20 % target.¹¹ Between them, the EU’s militaries continued to operate 16 different main battle tanks compared to just one for the US, even if the statistics included Soviet-era models which should now gradually be left out. Yet, the cost of fragmentation in the European defence market remains high in most domains. Hence the need to invest, research, develop, procure and export in a more joined-up fashion; to focus on coordination, cooperation and regulation.

7 Franco–British St. Malo Declaration, 4 December 1998, available at https://www.cvce.eu/content/publication/2008/3/31/f3cd16fb-fc37-4d52-936f-c8e9bc80f24f/publishable_en.pdf.

8 See S. Blockmans, ‘The EU’s Modular Approach to Defence Integration: An inclusive, ambitious and legally binding PESCO?’, 55 [Common Market Law Review](#) (2018), No. 6, 1785-1826.

9 See S. Blockmans and D. Macchiarini Crosson, ‘PESCO: A force for positive integration in EU defence’, 26 [European Foreign Affairs Review](#) (2021), Special Issue, 87-110.

10 EDA Defence Data 2019-2020, 6 December 2021, available at <https://eda.europa.eu/publications-and-data/latest-publications/eda-defence-data-2019-2020>.

11 EEAS Press Team, ‘We need to increase European defence capabilities, working better together’, HR/VP Blog, 22 May 2022.

With member states pledging major increases in defence spending to meet the challenges posed by a severely worsened security situation on and beyond the continent, there now exists a real opportunity for them to support the overhaul of the EU's defence industrial and innovation regime. In the first half of 2022, the EU institutions have accelerated the development of plans for greater collaboration on military programmes and the streamlining of weapons manufacturing. Member states are expected to follow through in supporting these proposals. Even Germany, which is still regarded as a big political stumbling block to greater cooperation,¹² has abandoned decades of aversion to military engagement. But the question is whether member states will implement the plans at scale and in cooperation with third countries.

Spending more together?

The war has galvanised efforts to make good on earlier commitments to bolster the EU's standing as a military power.¹³ So far, the EU has mobilised an unprecedented EUR 2,5 billion in 'lethal aid' to the Ukrainian armed forces. This has changed perceptions about the European Union, a Nobel Peace Prize laureate, forever. The decision to reimburse member states' arms deliveries through the inaptly named 'European Peace Facility',¹⁴ an off-budget funding mechanism for actions with military and defence implications under the CSDP, is indeed a game changer – not just for the EU's identity but also in the scale and ambition of the emerging 'European Defence Union'.¹⁵ Yet, as mentioned above, the arms exports have been off-the-shelf deliveries and an opportunity to replace obsolete systems. Six months into the war, stockpiles are running low.

Faced with the security challenges posed by Russia, member states have outlined plans to make a combined investment of more than EUR 200 billion in additional defence spending. Most eye-catching has been Chancellor Scholz's pledge, made three days after Putin ordered his troops into Ukraine, of an additional EUR 100 billion to modernise the ailing Bundeswehr. As a sign of the times, the main opposition parties joined forces with the government to lift the constitutional brake on the additional debt incurred to upgrade the military. The special Armed Forces Fund will sharply increase the country's defence spending to more than 2 % of its GDP. Yet, big chunks of the new investment fund will go towards US and Israeli arms manufacturers. Even if a sizeable share has been earmarked for the European aviation group Airbus to further develop its Eurofighter model to make it suitable for conducting electronic warfare, it is still unclear how much of the fund's total amount would be channelled through the EU and how that might contribute to (presumably German-led) PESCO project implementation.¹⁶

Meanwhile, other member states are striking up their own bilateral agreements with NATO allies (e.g. the recent agreement between Sweden-UK for increased procurement of the NLAW system)¹⁷ and other like-minded third countries (cf. Poland-South Korea to buy fighter aircraft, tanks and other military equipment)¹⁸ in a bid to bolster their defences against a possible Russian attack.

12 See G. Chazan and R. Minder, 'Germany and east European allies struggle to seal deals over Ukraine-bound weapons', *Financial Times*, 28 July 2022.

13 S. Blockmans (ed.), *A Transformational Moment? The EU's Response to Russia's War in Ukraine*, [CEPS IdeasLab Special Report](#), 30 May 2022.

14 European Council, 'European Peace Facility', available at <https://www.consilium.europa.eu/en/policies/european-peace-facility/> (last visited 11 August 2022).

15 S. Blockmans and G. Faleg, *More Union in European Defence*, [Report of the CEPS Task Force on European Security and Defence Chaired by Javier Solana](#), March 2015.

16 P. Hille and N. Werkhäuser, 'How will the German military spend €100 billion?', *Deutsche Welle*, 3 June 2022.

17 P. Aquilina, 'Sweden and UK double down on NLAW procurement', *Shephard*, 30 June 2022.

18 C. Davies and S. Jung-a, 'Ukraine war offers South Korea's Hanwha opportunity to break into Nato defence market', *Financial Times*, 11 July 2022.

Yet, as pointed out by the Commission¹⁹ and European industry executives,²⁰ without more coordination these increased investments risk deepening the fragmentation of the European defence sector along national lines, limiting the potential for cooperation throughout the life cycle of the equipment, hampering the interoperability and ability to act of member states' armed forces, stifling innovation in the EU, creating additional dependencies on external equipment in the future, thus weakening Europe's defence industry and the strategic autonomy of the EU as a whole.

Finding that the lack of cooperation in sending equipment to Ukraine has already resulted in critical defence capability shortfalls and that the choices made concerning short-term acquisitions would have a negative impact on EU defence and technology market prospects for decades, the Commission and the HRVP in May broke a taboo by proposing a plan for a joint arms procurement programme: a mechanism which would encourage member states to jointly spend in order to refill stockpiles and modernise them, thus decreasing fragmentation and duplication in the EU defence market.²¹

The plan was a first push to implement the EU's Strategic Compass, ²²which was formally approved by the Foreign Affairs Council exactly one month after the start of Russia's full-scale invasion of Ukraine. The Compass, which proposes creating a rapid deployment force as well as increasing funding, was based on the first-ever common threats assessment between the EU27. It was partially rewritten in the wake of Russia's invasion thus revealing a lack of strategic foresight on the part of the bloc, leaving one to wonder whether it might contain other shortcomings.²³

As a roadmap towards a European Defence Union, the Strategic Compass contains detailed lists of commitments to 'invest', 'secure', 'act', and 'partner'. Yet, the gradual recognition of the different kinds of war being fought by Russia (largely mechanised and putting generals in the line of fire) and Ukraine (new NATO command and control standards, superior communication and drones) has exposed the need for the EU to reassess the right mix of capabilities for future warfare on the continent and beyond.

Responding to the request by heads of state or government at their summit in Versailles, the Commission and HRVP drew up a Joint Communication on the Defence Investment Gaps Analysis and Way Forward.²⁴ This Joint Communication encourages member states to fill capability gaps by replenishing stockpiles, replacing 'legacy' systems, and reinforcing current capabilities, in particular in air and missile defence.

19 European Commission, 'Defence industry: EU to reinforce the European defence industry through common procurement with a €500 million instrument', Press release IP/22/4491, 19 July 2022.

20 Insights gleaned from discussions in CEPS Forum on the New Industrial Strategy for Europe, Industrial Policy Task Force 2.0, June 2022.

21 European Commission and High Representative, Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Defence Investment Gaps Analysis and Way Forward', JOIN(2022) 24 final, Brussels, 18 May 2022.

22 Council of the EU, 'A Strategic Compass for Security and Defence - For a European Union that protects its citizens, values and interests and contributes to international peace and security', doc. 7371/22, 21 March 2022.

23 See S. Blockmans, D. Macchiarini Crosson and Z. Paikin, 'The EU's Strategic Compass: A guide to reverse strategic shrinkage?', [CEPS Policy Insight](#) No. 14, 31 March 2022.

24 European Commission and High Representative, Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Defence Investment Gaps Analysis and Way Forward', JOIN(2022) 24 final, Brussels, 18 May 2022.

To this end, a Defence Joint Procurement Task Force has been established to collect information on member state requirements and coordinate short-term procurement. Moreover, taking its 'task' (sic) from the European Council,²⁵ the Commission was quick to adopt a proposal for a temporary (2022-2024) 'European Defence Industry Reinforcement through common Procurement Act' (EDIRPA).²⁶ The expectation was that the Council of Ministers and the European Parliament would swiftly adopt the regulation in order to be able, already by the end of 2022, to support member states in addressing their most urgent and critical defence product needs in a cooperative manner.

It is hard to overstate the importance of this particular initiative. Never before has the EU coordinated joint defence spending. To get around the legal obstacle that prevents the Union from using its common budget for military expenditures (cf. Article 41.2 TEU), the new EUR 500 million instrument will focus on investments with industrial ambition (legal basis: Article 173 TFEU) and finance joint purchases (either new defence procurement projects or the extension of those launched since the start of the war) directly from the general budget of the EU. In order to be eligible for this kind of support, actions will have to involve consortia composed of at least three member states that boost the competitiveness of the European Defence Technological and Industrial Base (EDTIB).

In addition, the Commission intends to propose before the end of the year a European Defence Investment Programme (EDIP) regulation, which should guide future joint development and procurement projects of high common interest to the security of the member states and the EU institutions. Defence capabilities developed and procured in a collaborative way within the EU would, for instance, benefit from a VAT exemption. In a similar vein, the Commission's winter 2022 defence package suggested revisiting the EDF bonus structure and involving the European Investment Bank (EIB) in providing additional capital for capabilities development.²⁷

The latter goes to show that, in the development and acquisition cycle of defence equipment, the newly proposed instruments will have to be implemented in coherence with the EUR 8 billion European Defence Fund, for which DG DEFIS published its first call for proposals in 2021. Likewise, the EDIRPA will also have to complement the European Peace Facility.

Complementarities could also be found in coordination with the EIB to enhance dual-use research and innovation, which is somewhat under-prioritized in the above-mentioned Joint Communication of May 2022 and at the same time advanced through the Bank's Strategic European Security Initiative (SESI). A greater involvement by the EIB in financing non-core defence R&D, infrastructure, and technology could be particularly relevant for cooperative (min. two member states) projects, including through PESCO.

Because the EU does not operate within a defence technological and industrial vacuum, it will also be of fundamental importance to further reflect on EU-NATO cooperation in this sphere. Most significantly, the EU and NATO must ensure that the EDF and the EDA's Hub for European Defence Innovation (HEDI) are complementary to NATO's Innovation Fund and Defence Innovation Accelerator (DIANA) and synchronised to tap into the potential of these portfolios. That said, even if the political constellations within and between the two Brussels-based organizations were ever to be fully aligned, then a complete merging of efforts would still be undesirable. After all, some duplication of effort is necessary to fully exploit the beneficial effects of competition and allow parallel initiatives to learn from each other.

While it is laudable that the Commission and the High Representative are taking an EU-wide perspective to defence technological and industrial spending and investment, the policy approach has thus far been far too EU-centric.

25 European Commission, 'Defence industry: EU to reinforce the European defence industry through common procurement with a €500 million instrument', Press release IP/22/4491, 19 July 2022.

26 European Commission, 'Proposal for a Regulation of the European Parliament and of the Council on establishing the European defence industry Reinforcement through common Procurement Act', COM(2022) 349 final, 19 July 2022.

27 European Commission, 'Commission unveils significant actions to contribute to European Defence, boost innovation and address strategic dependencies', Press release IP/22/924, 15 February 2022.

Facilitating third country participation

Following a logic espoused by the quest for European strategic autonomy in an increasingly volatile geopolitical environment, the recently launched EU policy initiatives seem to minimize the continuing relevance of US defence technological and industrial interests and know-how, along with that of close partners such as Norway, Japan, Canada and the United Kingdom. Besides the value added that EDIP foreign comparative testing could bring to ensure that the procured systems are best-in-class, the direct involvement and engagement of third countries will be necessary to coordinate priorities,²⁸ foster the transfer of technology and materials, screen for investments by strategic rivals, and monitor the end-use of military capabilities developed across global value chains and sold to unreliable countries whose policies fail to fulfil the criteria set out in the EU's Common Position on Arms Exports.²⁹

Historically, third country participation in EU military endeavours has been confined to CSDP operations. Norway, Canada, Georgia and South Korea, for example, have cooperated with the EU's peace support operations in this framework, with or without concluding a regulatory agreement to that effect. The intergovernmental mode of governance of CSDP has largely facilitated such contributions, which have invariably been welcomed by the EU.

Opening the door to participation of non-EU countries in defence industrial cooperation has been more contentious. Since the launch of the EU's 2016 defence winter package,³⁰ questions have arisen, in particular, concerning the protection of vital national security interests, intellectual property rights, work-sharing arrangements and access to funding from the EU's general budget.

These issues were the subject of two years of negotiations between the EU and the US, culminating in November 2020 in an EU Council Decision establishing the general conditions under which third states could exceptionally be invited to participate in individual PESCO projects.³¹ According to the procedure laid out by the Decision, if unanimity is reached among a PESCO project's participating member states that they wish to invite a third country applicant to partake, they will notify the Council. The Council may, in turn, decide by consensus that the third country under consideration may participate in PESCO if it shares the EU's treaty-enshrined values and maintain good neighbourly relations with EU member states, provides a substantial value-added to the success of the projects which it has requested to participate in, and reinforces the EDTIB without leading to dependencies. If provided for by specific projects, such a third country must also have an administrative arrangement in force with the EDA.³² The Council Decision then foresees that the third state agrees to the specific project arrangements with the participant member states.

28 See K. Brudzińska, M. Zaborowski and A. Kudzko, 'Third Country Participation in EU Defence Integration: How it works and how it is viewed by EU member states', GLOBSEC Policy Institute, October 2020.

29 Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment, OJ 2008, L 335/99.

30 See J. Solana and S. Blockmans, 'The EU's Winter Package for Security and Defence', [CEPS Commentary](#), 16 December 2016.

31 Council Decision (CFSP) 2020/1639 of 5 November 2020 establishing the general conditions under which third States could exceptionally be invited to participate in individual PESCO projects, OJ 2020, L 371/3.

32 See, e.g., Norway's longstanding administrative arrangement with the EDA, signed on 7 March 2006, available at <https://eda.europa.eu/docs/default-source/documents/aa---eda---mod-norway-07-03-06.pdf>.

Third country participation in each project is subject to an annual review mechanism. It is possible for EU participating member states to suspend a third country if it no longer meets the aforementioned political and substantive conditions or fails to fulfil its specific project arrangement obligations, again by unanimity in the Council. Furthermore, if a third country is denied participation but a non-EU entity still wishes to take part in a specific project, then it may request do so by 2025, contingent upon unanimous Council authorization. While project arrangements are necessary for both the eventual involvement of the Commission as well as third country participation, the Council in June 2020 asked member states to accelerate, where absent, their adoption.³³ In the first instance of third country participation, the Foreign Affairs Council in May 2021 authorised the Netherlands (as project coordinator) to extend an invitation to Canada, Norway, and the United States to partake in the ‘Military Mobility’ project in an effort to facilitate the movement of NATO troops and materiel across the continent and enhance EU- NATO cooperation. Subsequent press reports have confirmed that Turkey has formally requested to participate in this project as well,³⁴ with Ankara extracting political commitments from Finland and Sweden to advocate for it inside the EU Council in return for lifting objections over their admission to NATO.³⁵

As for third country benefits derived from the EU’s general budget, the EDF Regulation of April 2021 stipulates that, apart from non-EU countries that are members of the European Economic Area (EEA), only entities established in the EU or associated countries – and that are not subject to control by third countries or third-country entities – are eligible for EDF grant schemes.³⁶ In cases of derogation from this rule, “there shall be no unauthorised access by a non-associated third country or non-associated third-country entity to classified information regarding action supported by the Fund”. While the restrictions are understandable from an EU/EEA taxpayer’s perspective, the Regulation makes access to EDF difficult for non-EU companies or their EU subsidiaries or European partners linked with them through their shareholding structure.³⁷ A provision stipulating that the ownership of the intellectual property arising from, and the results of, EDF support have to remain within the EU or the associated country has been particularly contentious in discussions with the US.³⁸ While, in June 2020, the Commission’s list of projects funded through the preparatory action on defence research and the European defence industrial development programme (precursors of the EDF) included four which involved EU-based subsidiaries controlled by entities from the US, Canada and Japan,³⁹ the July 2022 results from the first call for proposals under the EDF revealed that among the 700 entities (43 % of which SMEs) selected for the 61 awarded projects, 35 hailed from Norway, the only non-EU country contributing to the EU general budget and benefiting from returns through the EDF.⁴⁰

This ‘pay to play’ logic flowing from EEA membership does not automatically apply to the European Peace Facility, the *off*-budget instrument that supports military and defence actions in the pursuit of CSDP objectives. The situation would likely change if the EPF were to be brought *on*-budget, as some have argued in order to enhance democratic oversight and budgetary scrutiny by the European Parliament.⁴¹ Setting the EPF on a similar regulatory footing as the EDF would presumably grant it “EEA relevance”.

33 Council Recommendation of 15 June 2020 assessing the progress made by the participating Member States to fulfil commitments undertaken in the framework of permanent structured cooperation (PESCO), OJ 2020, C 204/ 1.

34 See, e.g., A. Brzozowski, ‘Turkey’s participation request in EU military project apprehended as “Trojan horse”’, Euractiv, 17 May 2021.

35 A. Mehta, ‘Turkey lifts hold on Sweden, Finland joining NATO, following wide-ranging concessions’, Breaking Defense, 28 June 2022.

36 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 (Text with EEA relevance), OJ 2021, L 170/149.

37 See M. Terlikowski, ‘European Defence Fund: Between Economy and Politics’, Bulletin PISM No. 43, 12 March 2020.

38 See T. Nagy (ed.), ‘One Step Closer: Towards Deeper and Wider EU Defence Partnerships’, GLOBSEC Policy Institute, February 2021.

39 European Commission, ‘European Defence Fund: €205 million to boost the EU’s strategic autonomy and industrial competitiveness’, Press release IP/20/1053, 15 June 2020.

40 European Commission, ‘Defence Industry: EU takes steps to invest almost €1.2 billion to support 61 defence industrial cooperation projects’, Press release IP/22/4595, 20 July 2022.

41 See, e.g., C. Moser and S. Blockmans, ‘The Extent of the European Parliament’s Competence in Common Security and Defence Policy’, In-Depth Analysis requested by the SEDE sub-committee, [European Parliament](#), Directorate General for External Policies of the Union, doc. PE 702.559, June 2022.

For now, the EPF is outside the general budget, yet it functions in parallel to the EU's multiannual financial framework (MFF 2021-2027). This allowed member states to determine an overall amount the EPF would be able to spend for a seven-year period, while also agreeing on annual ceilings. By linking the EPF to the MFF negotiations, member states decided on EPF financial allocations as part of a broader debate on how much they wished to spend on EU external action overall, and what share activities in the military or defence sphere should occupy within this framework.

Past practice with the Athena Mechanism (together with the African Peace Facility the precursor of the EPF) already suggested that arrangements for third country participation could be found.⁴² Indeed, the EU would be a thief of its own wallet were it to prohibit voluntary contributions from like-minded countries, especially those with which it has concluded agreements. Under the Council Decision's financial rules for Athena, non-EU countries (e.g. EEA, Albania, North Macedonia, Montenegro, Chile, Mexico) were indeed allowed to participate in the mechanism, albeit without having a vote in its decision-making.

The European Peace Facility follows the same logic but does offer third countries a say in making sure that their voluntary contributions are spent in an agreed manner. Article 30 of the EPF Council Decision stipulates that 'third parties' contributions are subject to prior approval from the Council's Political and Security Committee (PSC).⁴³ The EPF's own Facility Committee may then authorise the administrative management of the financial contribution, which can be earmarked for specific actions or operations. The precise purpose of the voluntary contribution is set out in the administrative arrangement with the third party in question. The respective administrator of the Facility Committee is held to ensure that the management of voluntary contributions complies with the relevant administrative arrangements. S/he is obliged to provide each contributor, directly or through the operation commander where applicable, with the relevant information relating to the management of the voluntary contribution as agreed in the applicable administrative arrangement. As such, a third country can keep tabs on what happens with its money.

This system creates opportunities, for instance, for the UK to re-engage with EU military activities.⁴⁴ In an explanatory memorandum from June 2018,⁴⁵ the UK had in fact already stated that it was considering contributing to the EPF as a non-member state, either to the Facility as a whole or to specific components of it. This was part of the envisaged 'special security partnership' with the EU that was eventually sunk by the government of Boris Johnson in the pursuit of a narrow-minded chauvinist agenda.

Consolidating the EU defence market, with a little help from our friends

Overall, it remains unclear whether the rush of new policy announcements will considerably change the lamentable state of cooperation between member states in the EU's defence industrial sector. After all, similar pledges have been made before, without moving the needle much forward. This time, however, the reality of a hot war on the continent is expected to force the issue. What's more, past pledges were made during times of austerity; now they are being made in times of drastic increases in defence budgets. That is a powerful engine for change.

Of course, plans may yet be hampered by some persistent realities. For instance, a portion of the recently announced budget increases will have to be spent on boosting the salaries of the armed forces and replenishing stockpiles of weapons that have been depleted in the effort to help Ukraine, before investing in new hardware can be considered.

42 Council Decision (CFSP) 2015/528 of 27 March 2015 establishing a mechanism to administer the financing of the common costs of European Union operations having military or defence implications (Athena) and repealing Decision 2011/871/CFSP, OJ 2015, L 84/ 39.

43 Council Decision (CFSP) 2021/509 of 22 March 2021 establishing a European Peace Facility, and repealing Decision (CFSP) 2015/528, OJ 2021, L 102/14.

44 See S. Blockmans, 'Why the Ukraine Crisis Should Push the UK and the EU into a Tighter Embrace on Security Policy', [CEPS Policy Insight](#) No. 3, February 2022.

45 DfID, 'Explanatory Memorandum on a Proposal for a Council Decision 9736/18', 27 June 2018, available at https://webarchive.nationalarchives.gov.uk/ukgwa/20220322085221/https://europeanmemoranda.cabinetoffice.gov.uk/files/2018/06/Signed_EM_973618_on_EPF.pdf.

Also, the conduits to deliver on the Commission's plans will need to be created. This is a complicated process and it will take time before such initiatives lead to actual contracts for industry. In the past, divisions over IP ownership and workshare between companies have bedevilled large pan-European programmes. The reference made above to the development of a Franco-German-Spanish 'FCAS' sixth-generation fighter jet is a case study in how difficult it is to bridge industrial divisions. Battles between Airbus and Dassault over technology sharing and who should lead critical parts of the programme have beset the project since its launch.⁴⁶ That does not mean, however, that the FCAS project should be seen as a cautionary tale about how EU cooperation cannot work. After all, it is an example of one of the most highly technological, political and expensive projects being developed. When thinking about overall procurement in Europe, there are multiple examples of high-volume products that could be jointly developed and acquired rather than at a national level. What the FCAS example does signal is that EU regulatory solutions will need to be found to facilitate high-end transnational projects, also beyond the boundaries of the European Union.

This also applies to access to finance. Executives had begun to worry that the sector was in danger of becoming viewed as uninvestable by funds keen to show off their environmental, social and governance (ESG) credentials.⁴⁷ But the war has changed the mood music for some investors. Debates about a rethink of exclusion criteria for defence companies are taking place across Europe. In some cases, public and private banks have performed a U-turn, adjusting their guidelines on arms and weapons transactions and allowing their funds and managers to invest in the defence sector. From an investor perspective, this is good news, even if foreign direct investment (FDI) remains contingent on national security screening and meeting EU legal standards.

In this context, an important investment obstacle remains access for start-ups to private equity.⁴⁸ Tough EU regulatory requirements and red tape do not make it attractive for venture capitalist firms to invest in EU defence innovation companies. Such hurdles reduce the chances to help R&D across the development threshold to procurement and operationalisation. As noted by the Joint Communication, member state protectionism remains a stumbling block and venture capital has not been sufficiently encouraged to enter the EDTIB. A revised financing methodology should include fast-track contractual pathways and early contracts with defence innovators through the Defence Innovation Scheme. This can bring civilian companies and defence-related start-ups into the fold and dispel the risk that they latch onto a chain of subcontractors linked to one of the large prime integrators or leave the EU market altogether.

Cooperation between NATO and the EU is critical in this domain, as indeed for any other of the planned policy initiatives to work. NATO officials like to say that while increased European defence spending is a good thing, it will not achieve its goals if the EU does not force its member states to streamline procurement and swap inefficient national goals for pan-European ones. The EU's Strategic Compass and Finland and Sweden's recent move to join NATO has boosted hopes of more collaboration. If the two Nordic countries become full members, just four EU states — Austria, Cyprus, Ireland and Malta — will remain outside the US-led military alliance. An enlarged membership of EU countries within NATO will also raise expectations, especially of those non-EU members who continue to spend roughly 80 % of NATO's total. They will increasingly demand complementariness and access to capabilities researched, designed, developed and procured in the emerging European Defence Union.

Though the Strategic Compass will not directly shape third country participation, at least in terms of the establishment of new rules and instruments, it will exert considerable indirect influence in creating the context against which existing norms will be implemented and evaluated. If partnerships with like-minded countries and organisations are as dear to the EU as the Strategic Compass document leads one to believe, then the onus is on the Commission and the co-legislators to introduce the regulatory and procedural changes needed to facilitate third country participation to yield concrete outputs that strengthen Europe's defence and technological base as a whole.

46 S. Pfeifer and S. White, 'Divisions risk undermining windfall for Europe's defence industry', *Financial Times*, 30 March 2022.

47 Insights gleaned from discussions in CEPS Forum on the New Industrial Strategy for Europe, Industrial Policy Task Force 2.0, June 2022.

48 See N. Nelson, 'Getting NATO Innovation Right', *CEPA Commentary*, June 2021.

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