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# LINKING PESCO AND EDF: Institutional Mechanisms and Political Choices

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Report

## EXECUTIVE SUMMARY

This new ARES report proposes an in-depth analysis of the potential linkages between two of the new EU initiatives in the field of defence capabilities development, namely the Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF). It discusses the rationale of such a linkage and offers a review of the main options on the table.

In a first part, the report questions the conditions under which such a linkage could take place. Whereas there is an unquestionable commonality of several, key objectives (address capabilities shortfalls at European level, enhance EU strategic autonomy and strengthen the European Defence Technological and Industrial Basis (EDTIB)), the case for their linkage is not that obvious for at least two reasons.

- First, PESCO and EDF pertain to two different legal and institutional frameworks: CSDP and intergovernmentalism for PESCO, EU industrial policy and EU Community Method for EDF. So, the linkage between PESCO and EDF cannot be of legal nature. Similarly, the institutional features of both initiatives (their distinct scope of application, for instance) must be respected in any linkage scenario.
- Second, they pursue different specific objectives. EDF, in particular, is expected to serve objectives such as the widening of cross-border cooperation of defence SMEs and mid-caps, while PESCO is not.

Building on this analysis, the report supports the idea that a PESCO-EDF linkage shall be envisioned in both ways. EDF may intervene as a support to PESCO cooperation – it is the *raison d'être* of the PESCO bonus – but it can certainly also trigger some PESCO projects.

The second part of the report is dedicated to the explorations of the main options for linking EDF and PESCO. It defines two maximalist scenarios that it uses as ideal-types to sketch out the features, advantages and disadvantages of the respective direction for PESCO and EDF – integration or disconnection:

- In a first scenario, it explores a full PESCO-EDF integration. In such a scenario, PESCO and EDF would be as integrated as their distinct institutional and legal frameworks enable them to be. Such an integration would be mainly built upon a strong political commitment from Member States and the Commission. It would fully integrate the views of EU militaries and results in a high number of projects which would be common to EDF and PESCO frameworks.

- In a second scenario, it explores the possibility of a total absence of linkage between EDF and PESCO. The report differentiates between two hypotheses ('sub-scenarios'). In the first one, EDF appears as a potential alternative to a PESCO framework which fails to deliver capabilities identified as key at EU level. EDF would appear as another opportunity to develop a EU capability development process that would address those identified needs. In a second sub-scenario, EDF would not build upon any capability-based approach but would rather focus on a narrow definition of EDTIB's competitiveness. Such an hypothesis would appear as a minimalist scenario as it would mean the absence of any strategic relevance of EDF, and ultimately of the Commission.

Finally, the report results in a series of recommendations in order to ensure further coherence between EU defence initiatives, and especially between EDF and PESCO. It notably underlines the importance of developing coordination between national defence capability planning processes and EU defence capability prioritization initiatives.

**Keywords:** *PESCO, EDF, cooperation, integration, coherence, Strategic Compass, defence capability, capability planning*

## INTRODUCTION

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In its conclusions on security and defence in the context of the EU Global Strategy, of June 2019, the Council called “*for a coherent and output-oriented implementation of the security and defence initiatives*”, notably the Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF). PESCO and EDF are the most visible and capability-oriented of the EU’s new defence initiatives. They may appear, at first sight at least, as quite complementary and in the service of a capability-based approach that aims at fulfilling European capability shortfalls and needs. However, the articulation of both initiatives is not as obvious as it may seem. In fact, each framework embodies a different institutional context and logic (i.e., PESCO’s intergovernmentalism vs. EDF’s ‘Community method’) and they largely obey to different objectives.

The aim of this policy paper is: (1) to discuss the rationale of linking EDF and PESCO to meet Europeans’ capability needs and (2) to explore the different options for such a linkage. To do so, the paper first explores the institutional, legal and policy framework of each initiative and it draws conclusions on the nature of the linkages. It then proposes different scenarios which are used as ideal types to sketch the main options available in theory. From these different scenarios, the paper draws recommendations to ensure that Europeans are able to finally address their collective capability shortfalls and needs. This is timely exercise, as a chief goal of the ongoing Strategic Compass process to achieve an appropriate level of EU strategic autonomy in the defence domain.

## SETTING THE SCENE FOR A LINKAGE BETWEEN PESCO AND EDF

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PESCO and EDF refer to two distinct methods of EU defence cooperation: whereas PESCO resorts to a classical intergovernmental governance framework, EDF falls under the framework of the ‘Community method’ which favours integration under supranational guidance. This distinction is fundamental as it implies different legal and political logics, and institutional frameworks, for these initiatives.

### **PESCO and EDF pertain to two different legal and institutional frameworks**

Given the special place for security and defence matters within the legal provisions of the Common Foreign and Security Policy (CFSP is a competency *sui generis* ruled by articles

42 to 46 TEU), the issue of linking EDF and PESCO cannot ignore the differences between both initiatives arising from their distinct legal roots. The main consequence of such different legal bases is probably the different institutional frameworks applying to PESCO and EDF.

Indeed, ***Permanent Structured Cooperation*** pertains to the Common Security and Defence Policy (CSDP) which is part of the CFSP. As such, it benefits from the special institutional and legal regime that CSDP (and CFSP) falls under. The precise legal basis for PESCO is article 42 (6) TEU and Protocol 10 which is specifically dedicated to this peculiar form of cooperation. In application of these provisions, the basic act for the creation of PESCO is a Council decision adopted by a qualified majority vote. The PESCO governance is defined by the Article 46 TEU and detailed by the Decision establishing PESCO<sup>1</sup>. According to the latter, it is composed of two levels. The overarching level is in charge of ensuring a coherent and effective implementation of PESCO. Within existing structures (Foreign Affairs Council/Defence meeting) but gathering in PESCO format (all Member States take part but only the ones participating in PESCO vote), decisions are taken at unanimity (article 46(6) TEU) unless for confirming the participation to PESCO of another Member States and for suspending the participation of a Member State who no longer fulfils the criteria. Project level is the second layer of governance and is detailed by a specific Council decision<sup>2</sup>. The rule remains the use of unanimity for decisions at project levels with minimum information to and oversight by the Council.

On the contrary, the legal basis of the ***European Defence Fund*** are articles 173 and 182 TFEU, which is dedicated to industrial competitiveness, research and innovation and EU industrial policy. The competence of the European Union in the field of industrial policy is rather limited as it is a supporting competence. As a consequence, the Union “*has competence to carry out actions to support, coordinate or supplement the actions of the Member States*”. This limited competence does not entail the ability of the EU to adopt legislative acts. As such, the basic act of the European Defence Fund is a Regulation adopted by the Council and the European Parliament by qualified majority and upon the proposal of the European Commission. The day-to-day governance of EDF is closer from Horizon Europe’s comitology (the EU Framework Programme for Research, Development

<sup>1</sup> [Council Decision \(CFSP\) 2017/2315 establishing permanent structured cooperation \(PESCO\) and determining the list of participating Member States](#), 11 december 2017, Annex III.

<sup>2</sup> [Council Decision \(CFSP\) 2018/909 establishing a common set of governance rules for PESCO projects](#), 25 June 2018.

and Innovation) than from PESCO's *ad hoc* rules and leaves no room to unanimity decisions. The Work Programme Committee, which is composed of representatives of 27 Member States and supports the European Commission in the implementation of the EDF, plays a particularly important role. The so-called "double comitology" system (see below) ensures a certain control of Member States over the European Commission. However, qualified majority remains the rule.

This difference in legal grounds and the different objectives pursued by both initiatives have several consequences for any potential linkage between PESCO and EDF projects.

### ***The linkage between PESCO and EDF can hardly be of legal nature***

The first consequence of this difference in legal basis is the difference of legal regime applicable to both instruments. This point is crucial when considering their articulation.

As PESCO is enshrined in the CSDP provisions, neither the European Commission nor the European Court of Justice (ECJ) have competence to ensure its correct implementation (article 24 (1) TEU). Equally, the recourse to legislative acts (mainly, directives and regulations) is not possible under PESCO. The "*binding*" character of PESCO commitments does not therefore stem from the force of EU law, as it cannot be enforced by the ECJ. In other words, the nature of these commitments is much more political than legal as they cannot be enforced. They are expected to be binding thanks to peer-pressure mechanisms provided for by the PESCO framework, in particular thanks to (1) the annual assessment by PESCO Secretariat of the National Implementation Plans submitted by every Member States and (2) the recurring PESCO Strategic Review. When it comes to its projects, it means that the non-compliance of a Member State with its commitment to support and get involved cannot be legally challenged by the ECJ or the Commission.

On the contrary, due to the legislative nature of the EDF regulation, the enforcement of its provisions is subject to the control of the ECJ. One can consider it "hardens" the binding nature of cooperation because its parameters are enforceable. For instance, when it comes to development actions (i.e. beyond TRL 6), the regulation requires that applying industrial consortia demonstrate "*that the remaining costs of an activity that are not covered by the Union support will be covered by other means of financing such as by Member States' or associated countries' contributions*" (article 23). As a consequence, the co-funding of capability development activities by Member States is subject to a legal control

of the ECJ which is not the case under PESCO. In addition, beyond the sole obligations provided by the specific regulation, defence collaborative projects within the EDF have also to comply with other EU obligations and notably the EU financial regulation (which explicitly aims at protecting the financial interests of the EU).

In a way, a recourse to linking EDF support to a PESCO project could be seen as a “hardening” of cooperation by making some of its aspects enforceable in order to get EU co-funding.

The relation between so different legal regimes is ensured by article 40 TEU. It provides for a mutual imperviousness between CFSP and other EU policies. More precisely, this article states concretely that CFSP “*shall not affect the application of the procedures and the extent of the powers of the institutions laid down by the Treaties*” for the exercise of other EU policies, and conversely. Applied to the issue of linking EDF and PESCO, this imperviousness implies that none of these initiatives may interfere with the governance of each other. For instance, the EDF Work Programme shall only be determined according to rules laid down in the EDF regulation (article 27), i.e. by the Commission after a positive opinion of the Work Programme Committee (which is composed of representatives of the 27 Member States – including Malta and Denmark which are not part of PESCO). Therefore, Member States participating in PESCO cannot decide under PESCO what project(s) shall (or shall not) be supported through the EDF.

**Any potential linkage between EDF and PESCO would have to acknowledge this institutional and legal distinction.**

### *Institutional features of each initiatives must be respected*

A **second consequence** of the discrepancy in the legal bases of EDF and PESCO is the strict respect of each initiative’s institutional features. This is the very point of article 40 TEU and it means that any linkage between PESCO and EDF should comply with the governance of both initiatives.

On the side of PESCO, its governance is *sui generis* and is provided by the Treaties. According to article 46 (6) TEU, decisions and recommendations within the framework of PESCO shall be adopted by unanimity of participating Member States. These rules apply notably to the selection of projects to be developed under PESCO. However, the precise



process of this selection is detailed in article 5 of the PESCO decision. A project is proposed by one or a group of participating Member States with the PESCO Secretariat and in the Council of the EU so that all participating Member States can either support, join or reject it. A proposal shall then be addressed by the project participating Member States to the High Representative for an assessment of the project. This assessment is coordinated by the PESCO Secretariat (composed of the EEAS and EDA) and shall integrate the advice of the EU Military Committee (article 7). The objective of such an evaluation is notably to ensure *“that there is no unnecessary duplication with existing initiatives also in other institutional contexts”*. Following this assessment, the High Representative may recommend participating Member States to adopt this project as a PESCO project. In 2018-2019, 47 projects (now 46)<sup>3</sup> have been approved within PESCO, while 2020 witnessed a pause in the process and a review of the initiative.

On the side of the EDF, the project selection process is framed by the classical ‘comitology’ rules, although they have been ‘slightly’ adapted. A proposed project can be selected in the European Defence Fund as soon as it is part of its Work Programme. According to article 27 of the EDF regulation, the Commission is responsible for the adoption of the Work Programme. But it can only do so once the Work Programme Committee has delivered a positive opinion on it. Contrarily to the “classical” comitology process, the hypothesis of a committee failing to deliver an opinion on the proposal of the Commission does not give it the right to adopt the Work Programme autonomously. Obviously, this gives a specific power to Member States, which is counterbalanced by the qualified majority voting rule and by the Commission’s right of initiative. The same procedure also applies to the award of EDF funding (article 12) to proposed projects. In such a tailored framework, much will depend on the willingness of both the Commission and the member states to find a compromise on the Work Programme and the projects’ selection.

Similarly, PESCO and EDF rules provide for distinct provisions regarding the governance of projects. Whereas EDF provisions frame the governance of industrial consortia, a decision by the Council sets a framework for the governance of PESCO projects with a focus on member state governments<sup>4</sup>.

<sup>3</sup> PESCO project ‘European Union Training Mission Competence Centre (EU TMCC)’ has been closed by its members. See : [Council decision CFSP\(2020\) 1746 amending and updating Decision \(CFSP\) 2018/340 establishing the list of projects to be developed under PESCO](#), 20 november 2020

<sup>4</sup> Council decision (CFSP) 2018/909 of 25 June 2018 establishing a common set of governance rules for PESCO projects



**Any linkage between PESCO and EDF would have to comply with both sets of rules.**

*Various objectives of both initiatives must be served*

A *third consequence* of the different legal grounds of PESCO and the EDF is that they pursue distinct objectives. Even though they are not necessarily contradictory, the differences cannot be disregarded and shall be articulated when linking EDF to PESCO.

This difference in terms of objectives is first reflected by the scope of each initiative. Permanent Structured Cooperation is not only about individual projects between at least 2 Member States. The core of PESCO is the 20 binding commitments the 25 participating Member States made to each other. For instance, the first commitment made under PESCO is to “regularly increase defence budgets in real terms, in order to reach agreed objectives”, which has little to do with the cooperative nature of projects. PESCO projects are also a means to comply with some of these objectives, which is why commitment 17 imposes to “take part in at least one project under the PESCO which develops or provides capabilities identified as strategically relevant by Member States”. In addition, not all projects are about collaborative research nor collaborative development of defence products and technologies and thus are not susceptible to be supported by the European Defence Fund. This is the case, for instance, of the Netherlands-led project on military mobility. This initiative aims at simplifying and standardizing cross-border military transport procedures in Europe and involves 24 out of the 25 participating Member States<sup>5</sup>. None of the actions required to achieve this goal is covered by the European Defence Fund, which supports only research and capability development activities<sup>6</sup>. Moreover, the Council Conclusions adopting the PESCO review of November 2020 strongly focus on PESCO’s operational aspects, i.e. by committing to achieve a Full Spectrum Force Package and strengthen the force generation and command structure for CSDP missions. As a result, it seems that other aspects of PESCO’s focus are gaining importance in parallel with the capability development projects eligible for EDF financial support<sup>7</sup>.

There is an unquestionable commonality of several, key objectives, insofar as both initiatives shall address capabilities shortfalls at European level, shall enhance EU

<sup>5</sup> Ireland is not part of the military mobility project.

<sup>6</sup> However, military mobility shall be financially supported by the Connecting Europe Facility (CEF), which dedicates €1,5 billion to this objective.

<sup>7</sup> Council Conclusions on the PESCO Strategic Review 2020, 13188/20, November 20<sup>th</sup>, 2020.

strategic autonomy and strengthen the European Defence Technological and Industrial Basis (EDTIB). Yet EDF is expected to serve more specific objectives, which are not necessarily aligned with PESCO requirements<sup>8</sup>. This is for instance the case with the objective of widening cross-border cooperation of defence SMEs and mid-caps. Even though this goal reflects the views and interests of several Member States, it will not necessarily be served by a linkage between PESCO and EDF.

**As a consequence, when it comes to linking PESCO and EDF, specific attention shall be put, within the EDF framework, either on integrating the various specific objectives or preserving sufficient room of manoeuvre to fulfil them.**

### **Linking PESCO to EDF, or EDF to PESCO?**

When studying possible linkage between EDF and PESCO, one should define its possible modalities. Such a linkage may be thought in two ways that are not incompatible. In a first modality, EDF can be used to support PESCO cooperative projects. In the second one, it can on its own trigger cooperation within PESCO.

#### ***EDF as a support to PESCO cooperation***

This modality is the one explicitly envisioned by PESCO and EDF reference documents<sup>9</sup>. However, so far, the intensity of the potential linkage has been rather loose and remains mainly to be defined, even though it should be noted that 9 out the 16 projects funded by the EDIDP are related to PESCO projects.

***At the PESCO level***, two of the “more binding commitments” directly refer to EDF. Commitment #3 states that participating Member States should increase “*joint and ‘collaborative’ strategic defence capabilities projects*” and that those projects “*should be supported through the European Defence Fund if required and as appropriate*”. Comparably, Commitment #8 only requires from participating Member States “*an intensive involvement of a future European Defence Fund in multinational procurement with identified EU added value*”. According to these two commitments, EDF is seen as a

<sup>8</sup> For an exhaustive presentation of EDF various objectives: F. Mauro, E. Simon & A-I Xavier, *Review of the Preparatory Action on Defence Research (PADR) and European Defence Industrial Development Programme (EDIDP): lessons for the implementation of the European Defence Fund (EDF)*, study for the European Parliament, to be published.

<sup>9</sup> For a perspective on the complementarity of PESCO and EDF with a view to European strategic autonomy see <https://www.iai.it/sites/default/files/iai2020.pdf>

means to support collaborative projects notably (but not only) under PESCO. In addition, none of these commitments implies any specific linkage between EDF and PESCO but rather they state the commonality of philosophy and objectives among both initiatives.

**At the EDF level**, a more precise linkage is foreseen by its regulation's article 14 which is dedicated to co-financing rates. It stipulates that "*an activity developed in the context of Permanent Structured Cooperation [...] may benefit from a funding rate increased by an additional 10 percentage points*". This provision is expected to act as a significant incentive for Member States to propose PESCO projects, as they could be funded through EDF to a greater (+10%) extent than non-PESCO projects. EDF is therefore used to support PESCO defence cooperation. Given the complete absence of a dedicated PESCO budget or other kinds of financial incentives, such a bonus may be appealing for those member States willing to join the initiatives but compelled by budgetary constraints to select and prioritize their efforts<sup>10</sup>.

It is plausible that when drafting a project proposal for PESCO - focused on capability development - the national defence planners already bear in mind the EDF possibility, so to frame it *ab initio* in a way to maximise sooner or later a potential co-funding from the EDF for the development activities. However, it is too early to say if the financial incentive is sufficient to offset the complexities brought by the specific comitology decision-making process or the multiple conditions for participation.

### ***EDF as a trigger for PESCO projects***

An alternative way is possible too. Indeed, PESCO could build on the results of EDF projects. To put it differently, EDF would act as a trigger for new PESCO projects. This modality finds its roots both in the aim of PESCO and in the nature of supported actions through EDF. First, PESCO is supposed to be mainly a capability development initiative. According to Mauro, "*PESCO can be described as the **process provided for by the TEU to develop the 'autonomous capacity for action' considered vital for CSDP missions***"<sup>11</sup>. This capability development process could then build upon the results obtained within EDF.

<sup>10</sup> A. Marrone, Permanent Structured Cooperation: An Institutional Pathway for European Defence, IAI commentary 17|26, November 2017.

<sup>11</sup> F. Mauro, EU Defence: The White Book implementation process, study for the European Parliament, December 2018.

Under the research funding of the Fund, Research and Technology (R&T) projects are to be supported up to 100% (as opposed to its capability funding where EU financial support is about 20% for prototypes, 80% for testing activities, qualification and certification and 100% for feasibility studies and designing activities). Such a focus aims at offsetting the important decrease in defence R&T investments in Europe that occurred since the beginning of the 2010s. And, as the High-Level Group of Personalities put it, "*R&T activities are the first necessary step to prepare for future capability developments allowing for the maturing of technologies and the reduction of risks. The defence R&T investment made today will underpin the freedom of action available tomorrow, the preservation of operational and technological advantage, the reinforcement of industrial competitiveness and employment opportunities*". As a consequence, results of actions supported by EDF's research funding could very well trigger PESCO projects in order to deliver needed capabilities. Further, it could be argued that one of the criteria to assess the effectiveness of EDF's research funding will be its ability to lead to subsequent projects and procurements. As such, the existence of PESCO projects which would be based on the results of a research project funded by the European Defence Fund should then be seen as a proof of the usefulness of EDF's research funding. As for EDF's development actions, Member States have to provide a letter of support for proposed projects stating, among other things, the willingness to shoulder a certain percentage of the financial envelope. In doing so, it is reasonable for defence planners to think about a PESCO project to move forward with the procurement and achieve a return on investment. Moreover, the EDF regulation requires projects to involve at least three entities from three different Member States. Accordingly, an embryonic European, mini-lateral cooperation is already requested by EDF, which could well be the incubator for a follow-up PESCO project by the same member states – eventually enlarged to others. As a matter of fact, the necessary coordination within the consortium and the relations established at working level pave the way for exploring the possibility of a follow up PESCO project.

It is worth noting that, in theory at least, both modalities – EDF supporting PESCO and PESCO building on EDF - are not mutually exclusive, but rather compatible and complementary. Multiple interactions are favoured at different stages and in various ways.

## DEFINING SCENARIOS FOR THE LINKAGES BETWEEN PESCO AND EDF

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Basically, two main (and maximalist) scenarios can be defined to better model the different modalities and implications of the linkages between the EDF and PESCO:

- The first scenario would see a full integration between PESCO and EDF without any institutional or legislative change being required. This integration would stem from the actors' practices.
- The second scenario postulates a total disconnection between PESCO and EDF and would see the two initiatives pursue separately their respective objectives. On a closer look, such a scenario needs to be broken down into sub-scenarios (depending on whether the EDF would be built upon a capability-based approach or not).

Both scenarios serve as ideal-types to sketch out the features, advantages and disadvantages of the respective direction for PESCO and EDF – integration or disconnection. As such, the degree of their likelihood is not questioned. Similarly, both scenarios assume member states are largely aware of the necessity to provide co-funding for EDF development actions and funding for PESCO. However, this might represent a challenge for some countries under tight budgetary constraints.

### Scenario “A full PESCO-EDF integration”

In this scenario, the respective legal bases of PESCO and EDF will remain diverse. Accordingly, each initiative will maintain its own institutional framework and will serve partially different rationales. However, both EU institutions and Member States will politically commit to a full integration of PESCO and EDF. This clear, robust and constant political commitment will partially shape both the output and the *modus operandi* of the two initiatives.

Concerning outputs, the key point will be about projects: several PESCO ones will be eligible for EDF funding or co-funding and will regularly access these economic resources over the course of the Multiannual Financial Framework. Of course, not every PESCO project will be eligible for EDF as they are not limited to collaborative research and collaborative development of defence products and technologies, i.e. those focusing on training, infrastructures, military mobility, special forces, etc. However, the bulk of PESCO

capability development activities will benefit from EDF. Looking at the initiatives already launched, beyond EUROMALE and ESSOR funded by EDIDP, this will be the case for example for the EU Beyond Line of Sight (BLOS) Land Battlefield Missile System (3 participating MS), Integrated Unmanned Ground System (11 participants), European Patrol Corvette (5), Timely Warning And Interception With Space-Based Theater Surveillance (6), and several others. Such an integration will happen also because PESCO capability development projects will be designed from the beginning as able to meet the EDF criteria. The table below summarizes the percentage of EDIDP funding already allocated to PESCO-related projects. In this scenario, such a favourable balance to capability development efforts directly related to PESCO will continue.

PESCO-related projects			Non-PESCO...	
GEODE 44	EUDAAS 21,2	ESC2 20	SEA Defence 14,3	
	REACT 11,58	DECIS... 7,5	PAN... 6,81	LOTUS 8,78
IMUGS 30,6				ECYSAP 10,92
				DRO... ...

*Repartition of 2019 EDIDP funds between PESCO and non-PESCO related projects (in million euros)*

Ultimately, integration between PESCO and EDF will deepen and have broader consequences. For example, a PESCO project can develop shared doctrines, concept of operations and even requirements regarding certain capabilities, such as the Future Combat Air System (FCAS), Main Battle Tank (MBT) or specific unmanned platforms, and another, related EDF project – maybe co-funded by some of the member states participating in the PESCO endeavour - can develop technologies, demonstrators and even

prototypes to meet such requirements. Such synergy would be complicated by the issue of Intellectual Property Rights (IPRs), as well as by the different membership of the consortium from the supply side. Yet these difficulties are already part of a reality where large industries, mid-caps, SMEs and research centre from different MS compete and at the same time cooperate at variable geometry in both EU and non-EU formats.

Regarding the *modus operandi*, the whole EDF process, from the definition of the Work Programme to the drafting of specific calls, up to selection criteria and project results' evaluation, will take into high consideration the military point of view, which is very likely to be capability-driven. The latter will be formulated by the competent EU bodies, including the EDA, the EUMC and the EUMS. Member States will be able to channel their inputs through these bodies in a proper institutional way: the Chiefs of Defence are represented in the EUMC, while the Defence Ministers can discuss PESCO and EDF within the EDA Steering Board and the Foreign Affairs Council (in PESCO format) also in relation with the Capability Development Plan (CDP) and the Coordinated Annual Review of Defence (CARD).

This military involvement would greatly benefit from some adjustments to EDF procedures aimed to formally increase EDA/EUMC/EUMS roles, but it can take place also within the current institutional setting. Even though DG Defence Industry and Space (DEFIS) has recruited military Seconded National Experts and that MoDs are generally represented in the Work Programme Committee, it will be key for DG DEFIS to pay high attention to EU military interlocutors as they represent an aggregated military view, and/or for the High Representative/Vice-President to fully exert his double-hat authority to bring closer EDA and Commissioners with competences on EU security such as the one supervising DEFIS. Such a *modus operandi* will likely influence also the projects output, by shaping them to better fill the European capability shortfalls identified by Member States.

In this scenario, the more substantial involvement of European militaries and EDA will ensure also greater coherence with the NATO Defence Planning Process (NDPP). In fact, as 21 EU member states (including 20 PESCO participants) are also part of the Atlantic Alliance, they are familiar with NATO defence planning guidelines and able to find synergies with the related EU process. Moreover, EDA is already working with NATO bodies in charge of NDPP, including Allied Command Transformation, thus adding a further institutional channel of dialogue and coordination. Unfortunately, even in this



scenario it is likely that political obstacles from some Member States will continue to hamper the coordination and cooperation between NATO and EU bodies.

As the EDF will lean more towards satisfying the MS military requirements, it will be less keen to finance disruptive technologies with minor direct relevance for the European armed forces. As a consequence, the budget that will be effectively dedicated to disruptive innovation will be closer to the minimum rate set by article 4 of the EDF regulation<sup>12</sup>. Moreover, the focus will be on mid- rather than long-term, as well as on actionable results rather than on risky breakthrough technologies.

Furthermore, it will pay less attention to dual use technologies. As there already other EU funds targeting Information Communication Technology (ICT) and broadly speaking civilian technologies, the Action Plan on Synergies<sup>13</sup> will be implemented in a way where the EDF will focus on those military capabilities which need a European support to be developed by interested member states – and hopefully make the difference for European defence. In this scenario, the results of PADR as well as of EDF research funding will substantially feed activities funded by the capability windows, with a view to output directly marketable for European militaries – starting with those involved in the related PESCO projects.

The fact that defence industry and space are coupled within the same Directorate General, DEFIS, will help to maintain a certain connection between the two domains. A connection already exists from operational, technological and industrial points of view, and will normally be exploited in order to get better results for instance from both EDF and EU space investments<sup>14</sup>. In turn, the fact that DG DEFIS falls under the Commissioner for Internal Market will help to maintain a linkage with the broader civilian sector, notably when implementing the Action Plan on Synergies<sup>15</sup>. However, these connections will not alter the strong military focus adopted by EDF in this scenario. Building on the technological roadmaps initiated in 2021 by the Commission, the EDF will maintain such a constant focus while other instruments will concentrate on civilian and space capabilities in a complementary manner.

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<sup>12</sup> Article 4 (4): “At least 4 % and up to 8 % of the financial envelope referred to in paragraph 1 shall be allocated to calls for proposals or awards of funding supporting disruptive technologies for defence”.

<sup>13</sup> European Commission, [Action Plan on synergies between civil, defence and space industries](#), Communication COM(2021)70, 22 February 2021.

<sup>14</sup> Idem.

<sup>15</sup> Idem.

The *modus operandi* will also limit the importance of open market competition. As Member States will discuss capability development projects within PESCO, and/or on a mini-lateral basis, in several cases they will somehow involve the respective industrial counterparts from the early phases. As a result, strong industrial consortia are likely to be formed by mirroring the relevant elements agreed by the Member States participating in a certain PESCO project, and they will enjoy a strong advantage versus possible competitors. The EUROMALE is a case in point. Once it received the PESCO endorsement, then it was chosen by EDIDP as flagship project without any open call. Space and/or missile capabilities can easily follow a similar path, given the limited number of countries and industries with a major role in these fields.

Competition will obviously continue to take place in several domains, also because Member States may take diverging paths on major future platforms – such as FCAS and MBT – and on a number of medium or small ones, particularly in the land and maritime sector. Yet, as a whole, the envelope of EDF projects will see a lower degree of market competition in this scenario than in the other because of the strong politico-military rationale of PESCO projects accessing EU funding.

When assessing against each initiative's objectives, one could expect that such an integration between PESCO and the EDF would normally contribute to the development of capabilities identified as needed at EU level. To achieve that objective in this scenario will mainly depend on the ability of PESCO to deliver “useful capabilities”. There is indeed a risk that Member States use PESCO and, in this scenario, the EDF to fund either capabilities of little strategic interest (lowest common denominator) or capabilities which have little interest for the EU as a whole (capture of the EU value). This ability has little connection with the degree of coordination between PESCO and the EDF and very much with the existence (or not) of a true European defence planning process, which is still lacking<sup>16</sup> and with its link with PESCO. Probably, the more EU initiatives – High-Impact Capability Goals, CDP and its related outputs, CARD and most probably the Strategic Compass – form a coherent whole and are taken into account, the more PESCO is likely to deliver capabilities identified as key at EU level. In addition, the more EUMC, EUMS and EDA are involved, the more is facilitated the emergence of a European point of view above

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<sup>16</sup> For an exhaustive presentation of the current defence capabilities prioritization process(es), please refer to: F. Mauro, *op. cit.*

the common lowest denominator. Since PESCO is by nature an intergovernmental framework, the balance between national and European interests will remain *in fieri*.

In any case, the deep integration between PESCO and EDF would at least limit potential contradictions or redundancies. Beyond the capability objective, the EDF is intended to deliver results such as supporting the competitiveness of the EDTIB and the Europeanisation of defence value chains. A deep interlinkage between PESCO and the EDF would fully acknowledge that the main driver of defence industry's competitiveness is its link with a European defence planning process. Once again, this objective will be achieved if and only if the developed projects are valued by armed forces and will be marketable. The Europeanisation of value chains directly concerns the competitiveness of defence SMEs and mid-caps. The deep interconnection between PESCO and the EDF can offer some opportunities but also present some risks on this matter. Indeed, such an interconnection is expected to produce a certain replication of the geographical footprint of a PESCO project for its EDF counterpart. This is a direct consequence of the anticipation of EDF requirements at the PESCO project setting up level. The Europeanisation of value chains would very much depend on the initial geographical perimeter of PESCO projects and could limit any further opening up at EDF level. The current status of fragmentation of supply chains along national basis will not be solved by a PESCO-EDF integration but is likely to be mitigated and overcome among small groups of member states more willing and able to integrate specific sectors of their respective EDTIB around certain flagship projects.

### **Scenario “no PESCO-EDF integration”**

In such a scenario, the distinct legal bases and objectives of each initiative appear to be central for their implementation. Not only would institutional frameworks be kept apart but the commitment to ensure a certain degree of consistency between the various defence initiatives would remain a long-term objective with no direct consequences.

Such a scenario would not necessarily entail that none of the PESCO projects would be funded by the European Defence Fund. However, the funding of a PESCO project by the EDF would result from its alignment with a priority identified in the EDF work programme. The extent to which such an alignment would occur could vary a lot.

In addition, it appears that there is no unique scenario for the absence of linkage between PESCO and EDF. At least two cases (two sub-scenarios) need to be investigated:

- In the first sub-scenario, the EDF would still be based on defence capability priorities agreed at EU level but it would not be linked to the PESCO process. This could be a useful option in the case PESCO fails to reach its ambitions.
- According to the second sub-scenario, the EDF would not follow any capability-based approach and would serve a narrow understanding of competitiveness of the EDTIB.

### ***Sub-scenario 1. The EDF as an alternative to a failing PESCO***

According to a first sub-scenario, the absence of integration and interlinkages between the European Defence Fund and the Permanent Structured Cooperation would not result in a total disconnection between the EDF and a capability-based approach. However, the source of this capability-based approach would not stem from PESCO projects. Such a scenario would somehow enable to tackle a limitation identified above: the absence of a true EU defence planning process which is the only way to ensure that projects developed under PESCO will deliver useful capabilities for the whole Union. Indeed, as far as the project-selection process is solely based on a bottom-up approach and not at all on a top-down approach or a EU defence planning logic, PESCO is only worth what Member States agree to put in it.

This sub-scenario would certainly make sense in case PESCO fails to deliver capabilities identified as key and primary at EU level. In that case, the EDF work programme would be crucial to achieve capability objectives of common EU interest. According to such a scenario, the absence of mandatory reference to PESCO projects (or to the CDP) in the EDF regulation may appear as an opportunity to tackle the weaknesses and flaws of these initiatives.

In such a scenario, disconnecting PESCO and the EDF would enable to integrate a dose of top-down approach in the selection of capabilities projects, notably thanks to the role of the European Commission in the elaboration of the Work Programme. The qualified Majority Voting rule which is applied by the Work Programme Committee gives a key responsibility to the Commission in the definition of the Work Programme. This top-down approach would not be fully satisfactory as the Commission has not the possibility nor the

competencies or the legitimacy to develop a fully-fledged defence planning process. However, the pivotal role of the Commission in the governance of the EDF, and notably of the Work Programme Committee, could force this Committee and the whole Fund to take into account elements reflecting a more common European interest.

Connections with PESCO projects would exist but would be limited and opportunistic. Such a scenario would most certainly provoke tensions at political level between the European Commission, Member States, and other EU institutions (in particular, the European External Action Service (EEAS) and the Council) but also between Member States. The objective of coherence among defence initiatives would be set aside and would remain a long-term rhetorical commitment. In such a scenario, the recourse to competition to select proposals would most certainly remain the rule while direct award would be limited to exceptional cases (for instance in cases where EDF projects would be interconnected with PESCO projects).

From an output-based point of view, the objective of delivering capabilities identified as key and critical at EU level would really much depend on two factors. On the one hand, the capability of the Commission to prioritise those capabilities. On the other, its ability and political drive to negotiate with the Work Programme Committee and to manage eventual frustrations among Member States that would want to earmark EDF funding for PESCO projects. The Europeanisation of defence value chains (and the inclusion of SMEs and mid-caps) would also depend on the ability of the EDF to support structuring capability projects. So, it remains largely uncertain whether it is achievable or not. Identically, the support to competitiveness will vary with the significance of the projects finally funded by the EDF and so would very much depend on power relations within the Work Programme Committee. More importantly, development projects will depend on a substantial co-funding by member states, which would become more difficult to achieve without their buy-in of the EDF priorities - with all the related, negative consequences on the marketability of EDF output.

In the end, such a scenario risks triggering questions and/or oppositions on the role of the European Commission in the capability development field. This may create a strong opposition to the hypothesis of renewing the EDF in the post-2027 Multiannual Financial Framework. However, the significance of these criticisms will very much vary with the ability of the EDF to deliver concrete results. In any case, the more the Commission will

be involved in the EDF the more a scrutiny from the European Parliament (EP) will grow, in line with the EP budgetary responsibilities on the Multiannual Financial Framework and in the context of Union's democratic accountability.

### ***Sub-scenario 2. The EDF as a mere support to defence industry competitiveness***

According to a second sub-scenario, the focus of the EDF work programme would mainly, if not solely, be on the support to competitiveness of European defence industry. However, one of the main drivers of such competitiveness stems from its link with a defence planning process, as it ensures a link with the needs of the 'end user': European militaries. In such a scenario, competitiveness would then be understood in a very generic meaning and the EDF would be focused on more Horizon Europe-like projects. Such a scenario would hardly reinforce the competitiveness of the EDTIB as a whole, as it is directly related to its ability to meet militaries' needs. Indeed, market perspectives would become more uncertain. Another implication of this very generic definition of competitiveness is the lack of acknowledgment of one of the defence industry's specificities. This would represent a setback compared to the current situation where the specificities of the defence industries and markets have, so far, constantly been acknowledged by the European Union in its policies.

In such a scenario, the question of the multi-annual character of the EDF Work Programme would be a peripheral issue, as it is precisely the implementation of a capability-based approach which could require a certain continuity over time. Equally, in such a scenario, recourse to competition would be systematically favoured for the award of EDF funds and direct awards would be very limited or even never used. Indeed, direct awards can only be justified "*in exceptional circumstances*". Obviously, such circumstances would stem from a purely capability-based approach where a group of Member States committed to develop a capability which is critical for the EU and an industrial consortium already exist. In a scenario where the focus of the EDF Work Programme is put only or mainly on competitiveness in a very general meaning, then the political drive necessary for the adoption of such direct awards would need to be extremely firm.

As such, this scenario would mean nothing but the abandonment of any ambition of the European Commission in military and strategic terms and, reciprocally, the loss of interest of national MoDs for the European Defence Fund. Some specific features of the Fund have

been designed to ensure that a capability-based approach would be embedded in the EDF. This is especially true when it comes to the funding of development actions. Indeed, such a funding is conditional on criteria such as the obtainment of a letter of support from Member States regarding the co-funding and/or their intention to procure the developed solution. The intrinsically delicate political balance between Member States within the EDF governance (notably, its double-comitology system) could facilitate an attenuated version of this scenario.

As a consequence, the funding of several development actions through the EDF would, in practice, be limited. Activities such as the development of demonstrator, the qualification and certification of defence products would remain marginal, given the current additional eligibility criteria on support from Member States.

The scope of application of the EDF when it comes to development actions would then mainly focus on four hypotheses:

- *“activities aiming to create, underpin and improve knowledge, products and technologies, including disruptive technologies, which can achieve significant effects in the area of defence;*
- *activities aiming to increase interoperability and resilience, including secured production and exchange of data, to master critical defence technologies, to strengthen the security of supply or to enable the effective exploitation of results for defence products and technologies;*
- *studies, such as feasibility studies to explore the feasibility of new or improved technologies, products, processes, services and solutions;*
- *the development of technologies or assets increasing efficiency across the life cycle of defence products and technologies”* (article 11 (3) (a), (b) (c) and (i))

The funding of disruptive technologies applied to defence would certainly grow in importance. Such a scenario would be mostly favourable to smaller-scale projects and most probably to smaller industrial (SMEs and mid-caps) and research actors. However, by being mostly disconnected from a kind of defence planning process, its concrete impact in terms of delivering capabilities identified as priority at EU level would remain at best uncertain and most probably marginal. In addition, in absence of large scale, structuring projects, the impact of the EDF on the Europeanisation of defence value chains would



certainly remain marginal, meaning that one of the main drivers for the Europeanisation of defence value-chains would not be affected by the EDF. The inclusion of technologies developed through the EDF in PESCO projects would remain on an *ad hoc* basis and probably limited.

Eventually, a ripple effect could concern PESCO itself and its attractiveness for EU Member States. So far indeed, it is certain that the perspective of a higher EU co-funding has been a powerful argument for Member States to lodge projects under the PESCO umbrella. The fact that more than 75% of 2019 EDIDP funds have been attributed to PESCO projects is certainly an illustration of such an incentive effect. In absence of an adequate factoring of PESCO projects in EDF work programme, PESCO would lose its financial added value and thus part of its appeal.

## **CONCLUSION: FROM DESIRABLE TO ACHIEVABLE, THE PATH TOWARDS FURTHER COHERENCE**

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In the end, the most desirable scenario should most certainly be the one enabling to maximise the various objectives assigned to EDF and PESCO, or at least offering the most latitude to serve all objectives.

Arguably, the most favourable scenario would be the one in which the integration of PESCO and EDF enable Europeans to develop and deliver capabilities they identified as key at EU level. Indeed, under such a scenario, a balance could be more easily found between the different objectives and would ensure a certain degree of efficiency to the European capability development process. However, not all the conditions are met yet in order to get there.

At least three main changes would be needed to deliver such a scenario.

First, the implementation of a true military capability development planning process or, at least, a consistent and realistic prioritization of capabilities to be developed within the EU framework is needed. For now, neither the CDP nor the Headline Goal process enable to clearly establish such a prioritization<sup>17</sup>. Both should be improved together with the CARD, through a commitment of national Ministries of Defence via the EU Military

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<sup>17</sup> For an exhaustive description of the flaws of the current EU defence planning initiatives, see: F. Mauro, *op. cit.*

Committee and the EDA where they are represented. Both their design (their granularity) and their implementation at national levels (their effectiveness) need to evolve. **If not embedded in national defence capabilities planning processes, EU defence capability initiatives are likely to remain largely ineffective.** The Strategic Compass exercise could play a crucial role and act as a kick start if not as a backbone for this embedment.

Second, stricter or more rigorous review from the PESCO Secretariat of the projects proposed by Member States would improve the consistency of these efforts with the list of prioritized capabilities. In addition, the conditions of application of the “PESCO bonus” shall be clarified. These Criteria shall be objective, transparent, and made available *ex ante*.

Third, an improved couple CDP-CARD should be the reference point for both PESCO and EDF, in order to provide the much-needed top-down indication on the capability development planning process. This point only makes sense if the current granularity of the CDP is improved.

Such a set of measures would ensure a higher efficiency and effectiveness of the EU capability development initiatives and would reinforce their legitimacy, and eventually their accuracy. It would most certainly ease the articulation and linkages between the EDF and PESCO. In this context, the potential criticisms on the opportunity of funding a particular PESCO project would disappear. In addition, such a scenario would leave some way to achieve other objectives, such as the Europeanisation of defence value chains.

In the absence of such measures, the best scenario is not clearly at hand. Each scenario entails some risks:

- The scenario of a full integration entails the risk of devoting the limited available resources to capability projects with little (if not none) strategic value, with a fragmentation of efforts in order to satisfy different preferences. Such a situation would be dangerous for the very existence of the Fund which could be then called into question, and generally speaking for the effectiveness and credibility of EU defence initiatives.

- The sub-scenario of a disconnection where the EDF seeks to keep a capability-based approach entails the risk of creating disproportionate political tensions between the European Commission and Member States, and to result in a blockage of the situation. This could lead to a marginalisation of the EDF in case it proves inefficient to deliver useful capabilities. In such a sub-scenario, PESCO would also be weakened by the absence of the economic incentive represented by the EDF extra bonus to its capability development projects.
- The sub-scenario of an EDF disconnected from any capability-based approach entails a very high risk that Europeans keep on not delivering the capabilities they need while poorly delivering on the competitiveness side given the specificities of the defence markets. In this sub-scenario, PESCO would be weakened too by the disconnection with EDF.

In conclusion, it is of the utmost importance that the Strategic Compass results in a true prioritization of threats, ambitions and, as a consequence, of guidelines for capabilities to be developed by member states. Indeed, this process is meant, among other things, to connect, rationalize and provide momentum to existing EU defence initiatives including PESCO and EDF, but also CDP and CARD and the HICGs. The pieces of the European defence puzzle are already in place, whether they will be connected in a strategic way depends on the will of EU institutions and, more importantly, national governments. ■

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**Report**

## **LINKING PESCO AND EDF: INSTITUTIONAL MECHANISMS AND POLITICAL CHOICES**

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*The views expressed here are solely those of the author. They do not reflect the views of any organisation.*

### **ARES GROUP**

*The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.*

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