

Strengthening European defense: Assessing the European Defense Fund's Role and Robustness

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Abstract:

The European Defense Fund (EDF) represents a pivotal shift in European security strategy, aiming at bolstering Europe's strategic autonomy and developing an industrial policy for the European defense market. This paper examines the EDF's emergence within the context of increasing geopolitical uncertainties and economic fragmentation in the defense sector, and evaluates its effectiveness in addressing critical issues such as strategic dependence on foreign actors, market fragmentation, and the underinvestment in defense R&D. While the EDF demonstrates significant progress towards a common European defense market, critical challenges remain. These include the need for long-term strategic coherence, balancing market liberalization with industrial competitiveness, and establishing a common European identity in defense industries. Despite obstacles, the momentum towards a cohesive European defense market continues to grow, fueled by geopolitical shifts and the imperative for strategic autonomy. This study contributes to understanding the complexities and implications of European defense integration in an evolving global landscape.

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Introduction

Since the failure of the European Defence Community in the 1950s, European integration has witnessed a guarded attitude in the field of security and defense, historically dampened by Member states' resistance to any relinquishment of national sovereignty¹. With the everchanging circumstances of the past decade, the need for a common European strategy able to bridge the gap in the manufacturing and development of defense-related research and technology, became necessary not only by a geopolitical standpoint but also to face the challenges presented by a fragmented economic sector. The new logic answers to the idea that economic dependence on foreign actors for the development of strategic goods and services is risky and requires to be kept in check². A response to these imperatives therefore required the allocation of financial resources to accelerate European collaborative strategic defense initiatives developed domestically and in partnership with other EU Member states.

The establishment of the European Defence Fund (EDF) in 2021 demonstrates a shift away from market liberalization in defense and straight to industrial policy, where it directly uses financial resources from the EU budget to encourage defence research and capability development³. Through an understanding of its institutional context, this analysis wishes to assess the robustness of the solution offered by the European Defence Fund to the specific problematics of the European market for defense.

The European Context

While the Treaty on the Functioning of the European Union (TFEU) does not mention defense as one of the competences, EU institutions have progressively included security and defense markets under their influence defining them as critical sectors for the development of the Single Market. The significant fragmentation indicated by the duplication of resources and the variety of weapons acquired by Member states⁴ is a prominent characteristic of the European defense market and an eloquent signal of its wastefulness. The security challenges of the early 2010s, such as the crisis and war in Ukraine, the terrorist attacks in Europe of 2015–2017, and the migration crisis, reinforced the urgency for a common response at European level.

¹ Håkansson, C. (2021, April 5). The European Commission's new role in EU security and defence cooperation: the case of the European Defence Fund. *European Security*, 30(4), 589-608.

² Pohl, H. J., Buchanan Ponczek, C., & Wigell, M. (2023). Strategic Capitalism: Implementing Economic Security Through Industrial Policy. In A. Gili, & D. Tentori, *The Comeback of Industrial Policy: The Next Geopolitical Great Game* (pp. 187-211). Milan: Istituto per gli Studi di Politica Internazionale.

³ Fiott, D. (2024). From Liberalisation to Industrial Policy: Towards a Geoeconomic Turn in the European Defence Market? *Journal of Common Market Studies*, 1-16.

⁴ Duke, S. W. (2019). The Competing Logics of EU Security and Defence. *Survival*, 61(2), 123-142.

The need to reduce fragmentation has been initially tackled through the development of a series of programs starting from the Junker Commission. Through the establishment of the Preparatory Action on Defence Research (PADR) between 2017 and 2019, and the European Defence Industrial Development Program (EDIDP) in 2019 and 2020, the foundations for the future European Defence Fund (EDF) were laid⁵. With the April 2019's approval by the European Parliament, the European Commission's basic agreement on the EDF presented the fund as an opportune stimulus for advanced defense research and innovation, particularly in the areas of disruptive technologies and defense budget optimization. The increasing threat of China, the growing industrial competition with the United States, and the greater rivalry over critical raw materials, accelerated the development of a shared EU response that materialized with the inclusion of the EDF into the Multiannual Financial Framework (2021–2027).

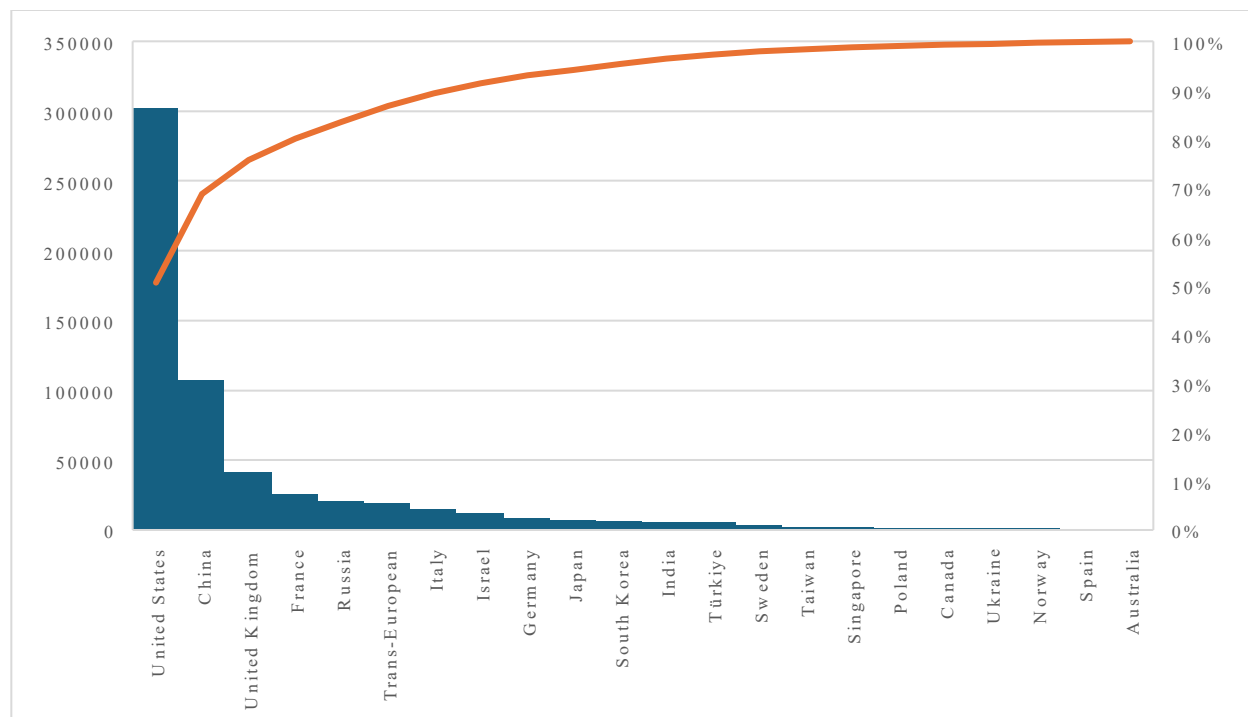
The problem

The shift from liberalization to the implementation of industrial policy in the defense market has been motivated by several risk factors uncovered by the progressively more cautious international scenario. The global trend of securing critical materials and the relaunch of the concept of economic security has raised questions regarding European strategic dependence of its transatlantic ally. The need for a solution has been further stressed by the 2016 inauguration of Donald Trump as President of the United States, and his open critics on NATO, the central pivot of European security. Up until then, the reduced defense budgets and the systemic underinvestment of security R&D resulted in a shortage of products and supplies, which motivated further reliance on existing foreign off-the-shelf solutions, such as products already developed in the US, or the development of domestic solutions, contributing to the fragmentation of the European sector. The following graph demonstrates the preponderance of US and China-based firms, and how the possibility to coordinate the work of European countries would greatly improve the European stance. The response to US geoeconomics shifts and the risk of US decoupling from European security demonstrated the need to develop an industrial plan that was not dependent on foreign actors⁶.

⁵ European Commission. (2021, June 30). *The European Defence Fund*. Retrieved May 2024, from https://defence-industry-space.ec.europa.eu/document/download/69aa3194-4361-48a5-807b-1a2635b91fe8_en?filename=DEFIS%20_%20EDF%20Factsheet%20_%2030%20June%202021.pdf

⁶ Fiott, D. (2024). From Liberalisation to Industrial Policy: Towards a Geoeconomic Turn in the European Defence Market? *Journal of Common Market Studies*, 1-16.

Table 1. Top 100 arms-producing and military services companies in the world in 2022 per revenue, by country of provenience



My own elaboration from the data gathered by the Stockholm International Peace Research Institute (SIPRI)'s databases.
Retrieved from SIPRI, and available at: <https://www.sipri.org/databases/armsindustry>

The over-reliance on imports of critical raw materials and semiconductors represents another major shortcoming of the European defense sector: for example, semiconductors are a critical component of military weapons systems, and a shortage of foreign supply may cause disruptions in the European defense industry. Such shortcomings have been tackled by other legislative inputs by the EU institutions, such as the European Chips Act and the EU Critical Raw Materials Act. Instead, the manufacturing and development of defense-related research and technology have been separately developed by the European Defense Fund.

The European solution

The European Defense Fund (EDF) was officially included in the Multiannual Financial Framework (2021-2027) as a vital catalyst for strengthening the European Union's defense by giving Europe strategic autonomy. The financial support is directed toward promoting research and development for innovative military technology developed and manufactured in the EU and by EU Members states, rather than arms purchases produced elsewhere⁷.

⁷ Csernaton, R., & Martins, B. O. (2019, March). The European Defence Fund: Key Issues and Controversies.

The significant financial resources provided by the EDF, amounting at €8 billion, is divided into €5.3 billion for collaborative capability development projects complementing national contributions and €2.7 billion for collaborative defence research to address emerging and future challenges and threats⁸. The European Defense Fund is also portrayed by EU leaders as a vital tool for fostering more technical innovation and cooperation in the European defense industry: along these lines, a requirement is set regarding the involvement of at least three Member States, which is expected to provide incentives for initiatives involving several small and medium-sized enterprises from different countries. The EDF is implemented through an annual work program structured into 17 thematic categories that remain stable throughout the 2021-2027 Multiannual Financial Framework; for each of its 17 thematic categories, the annual work programs will lead to calls for proposals for collaborative research or development projects⁹.

The European Defence Fund not only demonstrates a transformed role of the European Commission in European security cooperation, but also a step in the direction of a cohesive industrial policy in European defense. As the Commission distances itself from its traditional role on defense, the overarching goals of making the defense industry more competitive and coordinated are sustained by the creation of a common strategy. Based on these inputs, the EDF is divided into two "windows": one for research and the other for capability, which includes the phases of acquisition and development. While development initiatives will be co-financed by the EU and its member states, research window projects will receive the entirety of their funding from the EU budget. This is meant to reduce market fragmentation by enabling the latter to purchase equipment from fewer producers than there are now¹⁰. With a funding commitment of EUR 1.5 billion annually beyond 2021, the EDF therefore contributes to "making cooperation the norm" on EU defense R&D in addition to addressing the decline in defense R&D investment in EDA nations.

Robustness of the solution

While the EDF has provided to be a foundation for the development of a common European market for defense, the Fund presents a number of critical issues, which can be summarized into three categories. Firstly, such a policy initiative requires longer-term strategy, especially given the time-continuity demanded by research and development programs, whose duration is inevitably affected by the specific complexity of the objectives pursued and the results actually achieved.

⁸ European Commission. (2021, June 30). *The European Defence Fund*. Retrieved May 2024, from https://defence-industry-space.ec.europa.eu/document/download/69aa3194-4361-48a5-807b-1a2635b91fe8_en?filename=DEFIS%20_%20EDF%20Factsheet%20_%2030%20June%202021.pdf

⁹ Ravazzolo, G., & Nones, M. (2024). I programmi di investimento UE nella difesa. In M. Nones, A. Marrone, & G. Ravazzolo, *Lo stato del processo di integrazione del mercato europeo della difesa*. Rome: Istituto Affari Internazionali.

¹⁰ Giumelli, F., & Marx, M. (2023, December). The European Defence Fund precursor programmes and the state of the European market for defence. *Defence Studies*, 23(4), 589-607.

A second issue is strictly linked with the market liberalization approach that has not truly been dropped by the Commission and has been borrowed from its long experience in the civil field and especially for consumer goods. If the objective is to strengthen the European technological and industrial base in the defense sector, this approach should be accompanied by a more careful assessment of the impact of the choices on the industrial fabric, favoring the increase of business competitiveness, rather than that of competition in absolute terms¹¹. This may mean that leader companies in the field of high technologies should be strengthened, rather than risking weakening them by favoring the creation of potential competition.

Finally, the recognition of the European identity of European companies by international groups, particularly American ones, still represents a key issue. The difficulty in assessing whether technological and industrial capabilities and their related management are based in the EU is strictly linked with the knowledge of information, including sensitive information, about the governance of the industrial group to which they belong. The problem is made even more complicated by the diversity of national legal frameworks for foreign investment control and the possible exercise of "special powers" by member states aimed at protecting their national interests. A truly common framework for the development of a European defense market would entail developing a solution for the recognition of the EU identity.

Conclusions and trends

Despite a gradual market integration framework provided by the EDF, European countries continue to use exceptions to Article 346 of the TFEU to ignore EU rules and favor domestic firms in tenders (80-90% of the budget for new equipment is still spent on a national basis)¹². The shortcomings of the already-existing program and the glooming course of recent international events, represented by Russia's invasion of Ukraine in February 2022 and the worsening of global competition with China, have progressively highlighted the impending necessity to establish a truly European defense industry.

The European Commission has doubled down on its effort in the defense sector through its most recent European Defence Industrial Strategy (EDIS), proposed on March 5th, 2024, as a direct consequence of the inability of previous programs to meet the immediate security needs of EU member states¹³. Leveraging on the political momentum, the integration to the existing programs

¹¹ Ravazzolo, G., & Nones, M. (2024). I programmi di investimento UE nella difesa. In M. Nones, A. Marrone, & G. Ravazzolo, *Lo stato del processo di integrazione del mercato europeo della difesa*. Rome: Istituto Affari Internazionali.

¹² Béraud Sudreau, L. (2020). Integrated Markets? Europe's Defence Industry after 20 years. In D. Fiott, *The CSDP in 2020: The EU's Legacy and Ambition in Security and Defence* (pp. 59-73). Paris: EUISS.

¹³ Luisari, T. (2024, April 30). *The New European Defence Industrial Strategy: A Political Matter*. Retrieved May 2024, from Istituto Affari Internazionali: <https://www.iai.it/en/pubblicazioni/new-european-defence-industrial-strategy-political-matter>

reveals the possibility to fill the gaps left by the EDF. For example, European nations still buy more from non-EU vendors than from EU vendors: around seventy percent of the overall purchases in the 2022–2023 period come from non-EU nations, with sixty-three percent coming just from the United States¹⁴. The call for a strengthened framework around European defense has been further stressed at various levels of European and national administration. On April 25th, 2024, during his speech at the Sorbonne University in Paris, French President Emmanuel Macron has outlined his plan for the construction of a truly European defense strategy based on capabilities, nuclear deterrence and the possibility to deploy armed forces, in his words:

*“But we need to provide substance as to what this credible European defence is, which is the very condition for rebuilding a common security framework. Europe must know how to defend what it holds so dear, with its allies, every time they are ready to do so alongside us, and alone if necessary.”*¹⁵

These continuous efforts in the direction of developing a common European defense market reflect an interest that has only grown in the past decade, and the development of a common security framework needs to be at the center of the legislative agenda of the next European legislation to be elected in June.

¹⁴ Maulny, J. P. (2023). The Impact of the War in Ukraine on the European Defence Market. *IRIS Policy Paper*.

¹⁵ Macron, E. (2024, April 25). *Europe speech*. Retrieved from Elysee.fr: <https://www.elysee.fr/en/emmanuel-macron/2024/04/24/europe-speech>

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