

**THE EUROPEAN DEFENCE FUND:
THE RIGHT STEP TOWARDS A MORE EFFICIENT AND COMPETITIVE
UNION IN THE SECURITY AND DEFENCE ARENA?**

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Introduction

In recent years, the European Union (EU) has had to deal with increasingly challenging security threats, ranging from growing armed conflicts in the European neighbourhood, Russia's increasingly aggressive posture, a worsening situation in the Middle East and North Africa and Trump's intimations of renewed US isolationism; there are also 'hybrid' threats such as the rise of terrorism and violent extremism, potential cyber-attacks against vital EU infrastructure and disinformation campaigns aimed at destabilising member countries political environments.

The European Defence Fund (EDF) is part of the set of initiatives implemented by the European Union (EU) - in line with the objectives outlined in the 2016 Global Strategy - aimed at strengthening cooperation and coordination of its security and defence policies and thus responding to the growing threats mentioned above.

The European Defence Fund

Announced by President Juncker in September 2016 and subsequently approved by the European Council in December 2016, the European Defence Fund was launched by the European Commission in June 2017, marking a historic step for Europe. The EDF aims at coordinating, integrating and amplifying national investments in defence research, prototype development and the acquisition of defence technologies and materials. The European Defence Fund is an ambitious instrument, which should contribute to the creation of a European Union capable of better protecting and defending its citizens.

The Fund is also complementary to two other initiatives of the European action on security and defence: the implementation plan for the global strategy in the field of security and defence, which sets a new level of ambition for the Union, and the execution of the joint EU-NATO declaration signed by the President of the European Council, the President of the Commission and the NATO Secretary-General.

A better defence, a European defence?

According to the Commission's figures, important economic reasons should prompt the EU Member States to step up cooperation on defence spending. The lack of cooperation between the Member States in the defence and security sector is estimated to cost between €25 and €100 billion each year. 80% of procurement and more than 90% of research and technology is national in scope; pooling procurement could save up to 30% of annual defence spending.

The fragmented approach to defence also leads to unnecessary duplication and affects the deployability of military capabilities. The EU now has 178 different weapon systems, compared to 30 in the US, and 17 different types of tanks, compared to just one in the US. As a further example, if we look at military helicopter development programmes, there are currently more types of helicopters under development in Europe than governments capable of buying them.

It is precisely in the attempt to avoid this duplication and waste that the rationale for the Fund can be found. The Fund will help co-finance transnational defence projects (involving at least three member states) that can foster economies of scale at the EU level, and ultimately support the competitiveness of European companies in this field. The reference to competitiveness is particularly relevant as it is exactly this aspect that represents the main legal basis for the EDF (specifically Article 173 of the Treaty on the Functioning of the European Union).

Opportunities for integration and risks of exclusion

During the approval process of the regulation for the establishment of the fund, some critical issues emerged concerning three fundamental aspects: the subjects eligible to access the fund, the activities that are entitled to funding, and the nature of the support to small and medium-sized enterprises (SMEs).

These issues refer to the broader question of whether the fund, in its future shape and operation, will be able to represent a decisive integration opportunity for European defence firms or whether, instead, it will end up putting in place a series of obstacles to the inclusion not only of some member states but also of non-member states allied of the Union and relevant private players in the sector.

With regards to the definition of the criteria for admitting an initiative to funding, the current regulation has aimed at surpassing the logic of bilateral collaborations, supporting the need for consortia to be composed of at least three companies, based in at least three different member states. However, the risk that big players will be favoured to the detriment of smaller private or state entities substantially monopolising the fund remains real and could prove to be a significant cause of exclusion for the less dynamic sectors of production within the defence industry.

Concerning the second aspect, the critical issue emerges when looking into the possibility of European companies controlled by non-European entities to participate in the programmes' financing. On this point, a compromise has been reached: companies based in the EU and controlled by companies or government of a non-member country will be able to benefit from the fund, at the condition that the authorities of the state in which they are based provide the necessary guarantees to the Commission regarding the company governance structure, the results of the investments and the management of sensitive information.

However, even taking these provisions into account, an issue of inclusiveness remains unresolved. In the subsequent stages of the fund's implementation, steps will need to be taken to ensure that players important not only for the European defence but also for the economic environments of single member countries are not unfairly excluded. We are thinking, for instance, of the major foreign-controlled industrial companies present in Italy, such as Avio Aero, part of the US company GeAviation, or Piaggio Aerospace, controlled by the Emirates fund Mubadala.

Similarly, there is the problem of an open approach to the participation of third countries or companies based in their territory. Currently, these entities will be able to participate in the fund's programmes, but with certain restrictions, and with their activities not being directly eligible for EU funding.

Finally, as far as SMEs are concerned, the participation of small and medium-sized enterprises in projects is encouraged, with an increase in the share of funding, but here too the danger of centralising resources in the hands of large competitors persists.

A historic challenge

As we have seen, although the writing of the regulation was indeed a step in the right direction in order to ensure the fund's inclusiveness and thus foster business competitiveness, in the subsequent phases leading to the finalisation and then application of this initiative, some implementation aspects of the fund's projects will need to be closely monitored.

For example, the future DG Defence, in conjunction with the relevant national authorities, will have to endeavour to maintain a balance between the Union's defence interests and the real development of the competitiveness of the European defence sector, without arbitrarily restricting competition.

EU institutions will also need to ensure that the Fund does not become a mere form of generic financial support for the defence sector, incapable of producing real benefits for the Union, its companies and member countries.

In conclusion, the implications of the exclusion of third countries and companies based in non-EU countries on transatlantic relations will have to be carefully evaluated. In a similar way, also concerning the United Kingdom and other possible future strategic partners, changes in the current regulation might be considered.

The stakes are high and the Union, its institutions, member states and all interested stakeholders will have to play a smart game to ensure that the European Defence Fund becomes and then remains a tool for a cooperative and inclusive approach. An instrument truly capable of creating a thriving European defence with a solid technological and industrial base.

Drawing on the lessons of the European Defence Industrial Development Plan (EDIDP), a forerunner of the EDF and currently in its implementation phase, the hope is that the EDF will come to represent the right step towards a more efficient and competitive European Union in the security and defence arena. A tool that will allow the EU to finally laying the ground to become a more autonomous actor on the international stage.

Needless to say, this will be a 'historic' challenge, one that has only just begun.