



The European Defence Action Plan - FAQs

Brussels, 30 November 2016

Frequently asked questions

1. Why is the European Defence Action Plan (EDAP) needed? What is the geopolitical backdrop?

The European Union faces an unprecedented set of security challenges within and beyond its borders. Our wider region has become more unstable and insecure, affecting our citizens' lives.

From his [political guidelines](#) in June 2014 to the [State of the Union speech from 14 September 2016](#), President Juncker has been promoting the vision of a stronger Europe which protects its citizens. This requires more cooperation to increase efficiency in public defence spending, and a strong and innovative industrial base.

At the [Bratislava Summit](#) in September 2016, the leaders of 27 Member States concluded: *"We need the EU not only to guarantee peace and democracy but also the security of our people."* In a challenging geopolitical environment, they agreed on the need to strengthen EU cooperation on external security and defence. Concretely, the December 2016 European Council should *"decide on a concrete implementation plan on security and defence and on how to make better use of the options in the Treaties, especially as regards capabilities."*

Countering common security and defence challenges effectively goes beyond the resources of individual Member States. There needs to be a coherent EU response. This response is emerging through the EU Global Strategy on Foreign and Security Policy (presented by High Representative/Vice-President Federica Mogherini in June 2016) and its Implementation plan, welcomed by the Council on 14 November, as well as work on the joint declaration by the President of the European Commission, Jean-Claude Juncker, the President of the European Council, Donald Tusk, and the Secretary General of NATO, Jens Stoltenberg (signed in Warsaw on 8 July 2016).

The European Defence Action Plan is the third element of this wider defence and security package. It is the Commission's contribution to Member States' efforts in the areas where they decide to cooperate more effectively in the interest of national and collective European security.

2. How does the Action Plan fit in with the Implementation of the Global Strategy for Security and Defence Policy and the implementation of the Joint EU NATO Declaration?

In the current political and security environment, both the European Union and NATO are confronted with unprecedented challenges from the South and the East. Our citizens expect us to address these challenges to enhance their security.

A stronger European Union and a stronger NATO are mutually reinforcing. The European Defence Action Plan will allow Member States which are NATO allies to deliver better and in a more efficient way on their NATO commitments. Together, we can better provide security in Europe and beyond. Our strategic partnership is more important than ever and we are stepping it up, because we share common values and interests.

The [Joint Declaration](#) signed by the President of the Commission, the President of the European Council and the Secretary-General of NATO in Warsaw in July 2016 represents an important milestone. Work to implement the Declaration is currently ongoing in the spirit of transparency, inclusiveness, reciprocity and with full respect of the decision-making autonomy of the two organisations and the specific character of the security and defence policy of all members.

For the European Union, implementing the Joint Declaration is not a stand-alone exercise: it goes hand in hand with the [Implementation Plan of the EU Global Strategy in the area of Security and Defence](#) and the adoption of the European Defence Action Plan. These initiatives ensure mutual reinforcement, complementarity and coherence in areas of the two organisations' respective competences.

The [EU Global Strategy](#) identified some broad priorities on capabilities and called for investments in areas such as space, border- and maritime surveillance and cyber-defence. The concrete military

capability priorities that will be established as part of the implementation of the Strategy will provide guidance for the measures proposed by the EDAP.

The core objective of the EDAP is to support Member States' efforts in the development of strategic defence capabilities, from the research phase to the development of the prototype and the product. It will strengthen the competitiveness of the European defence industry.

3. What is the EU's added value? Are there economic arguments for pooling some of Member States' defence spending?

The EU's added value is to develop incentives and mobilise EU policies to make defence cooperation common practice rather than the exception. This is the only way to maximise the output of defence expenditure: on the supply side, defence cooperation will consolidate the defence industry in enlarging the home market; on the demand side, defence cooperation will generate more interoperability.

There is a strong business case for spending money more efficiently.

Collectively, the EU is the world's second largest military spender, behind the US. However, because of fragmentation of efforts, Europeans are still very much dependent on the strategic enablers provided by the US for military operations. The decrease of national defence budgets in Europe over the last decade will have a major impact on Europe's ability to act, while other global actors (China, Russia and Saudi Arabia) have been upgrading their defence sectors on an unprecedented scale. In 2015, the US invested more than twice as much as the total spending of EU Member States on defence. China has increased its defence budget by 150% over the past decade. By contrast, over the last decade EU Member States have decreased defence spending by nearly 12% in real terms.

This decrease in national spending in defence has not been compensated by more European cooperation. Europe suffers from inefficiency in spending due to duplications, a lack of interoperability, technological gaps and insufficient economies of scale for industry and production. Around 80% of defence procurement is run on a purely national basis, leading to a costly duplication of military capabilities. The lack of cooperation between Member States in the field of defence and security is estimated to cost annually between EUR 25 billion and EUR 100 billion.

More Europe in defence will have a positive spill-over effect on the European economy. The European defence industry generates a total turnover of EUR 100 billion per year and 1.4 million highly skilled people directly or indirectly employed in Europe. Each euro invested in defence generates a return of 1,6 – in particular in skilled employment – research and technology and exports.

4. Is EDAP the first step towards the creation of an EU army?

The European Defence Action Plan is not about creating an EU army or duplicating military planning and command structures that currently exist at national level and in NATO. The Commission has no say in the way national armed forces are organised. The EDAP is about creating the conditions for more defence cooperation to maximise the output and the efficiency of defence spending, and about fostering a strong, competitive and innovative defence industrial base. Member States will remain in the driving seat when deciding on which technologies and assets to invest in, and will retain ownership of the defence capabilities.

5. Why is public funding for the defence sector needed?

Defence is a specific sector where governments are the only end-customers. Governments specify the requirements and act as contracting authorities, regulators (including via export policies) and, often, as supporters of exports. In addition, defence system development takes place with a long term perspective and implies high risks, as operational needs may change over the course of product development. This means defence companies do not normally invest in R&D, unless they have a government's commitment to procure the products they are developing. Therefore, public spending and investment is essential for the defence sector. The same applies in the US, where R&D is entirely funded by the US government.

6. How would the European Defence Fund work?

The proposed Fund would include two "windows" which are complementary but different in their legal structure and budget sourcing.



Definition of capability priorities at EU level (Member States, European Defence Agency, etc.)



- A **"research window"** would fund collaborative research in innovative and strategic defence technologies. Typical examples of such technologies may include electronics, metamaterials, encrypted software or robotics. Synergies should be encouraged so that these defence technologies also boost innovation for the wider civil economy, just as civilian research can also be used to support defence industry. The Commission has already proposed EUR 25 million for defence research (under the so-called "Preparatory Action" envelope) as part of the [2017 EU budget](#). The Commission expects that these activities could amount to EUR 90 million until 2020. Under the post-2020 EU multiannual financial framework and subject to Member States' and the European Parliament agreement with EDAP, the Commission intends to propose a dedicated defence research programme with an estimated amount of EUR 500 million per year.
- A **"capability window"** would support Member States' joint spending in commonly agreed defence capabilities in priority areas. The capability window will support Member States in the research and development phase (up to the industrial prototypes) and in the procurement phase. The capability window would act as a financial tool allowing for more efficient and collective use of public spending in defence. This window will serve for participating Member States to develop certain assets together to reduce their costs. The capability priorities would be agreed by the Member States, who would own the equipment and decide on its use. For example, Member States may jointly invest in drone technology or bulk buy helicopters to reduce costs. The capability window should be open to all Member States and flexible enough to allow different groups of Member States to participate in different individual projects. An **umbrella structure** would set out the common framework for supporting Member States, as well as provide the operational back-office for the development of specific projects through common rules and applicable legal and financial tools for operating the projects. The capability window would be financed through the pooling of national contributions and, where possible, supported by the EU budget. As an order of magnitude, this window should be able to mobilise about EUR 5 billion per year from national contributions. The Commission will launch a scoping study in 2017 to refine this estimate.

A **Coordination Board**, bringing together Member States, the High Representative/Vice-President of the Commission, the European Defence Agency, the European Commission, as well as industry, would ensure consistency between the research and the capability "windows" in light of broader priorities set in the defence field.

7. Why do you propose a reference figure of EUR 5 billion for the European Defence Fund's capability window?

For two reasons:

- Firstly, this is the approximate figure required to fill the gap between the level of investment in European collaborative equipment and the collective benchmark agreed by Defence Ministers in the framework of the European Defence Agency in 2007. Over 2010-2014, Member States spent on average 20% in European collaborative equipment procurement against a benchmark of 35%.
- Secondly, this is the average amount of money currently managed by OCCAR (an organisation

which supports Member States in the management of cooperative defence equipment programmes) to develop the next major European collaborative equipment programme in the field of helicopters, radars, strategic airlifts, armoured vehicles, surveillance drones, air tankers and space-based imagery systems.

Considering that duplication in defence across Member States amounts for at least EUR 25 billion each year, 1/5 of this amount under the capabilities window of the European Defence Fund will generate much better output.

8. How does the European Defence Fund (EDF) add value to what Member States already do?

Member States can cooperate in the framework of the European Defence Agency, led by the HR/VP (also Head of the European Defence Agency), which is an intergovernmental agency. Rather than duplicating those efforts, the EDF will support them and add value by mobilising in a systematic manner EU policies (Stability and Growth Pact), funding instruments (EIB, EU budget) and expertise (financial engineering) to boost defence cooperation on the priorities identified by the Member States.

Currently the funding of major defence capabilities is a challenge for even the biggest Member States. The Commission proposes to support industrial cooperation in defence research and the joint funding of defence capabilities. By mobilising EU instruments and policies, within the limits of the Treaties, the EU can complement, leverage and consolidate collaborative efforts by Member States in responding to security challenges.

In addition to fostering the collaborative approach which is vital for research and innovation, the Fund offers a comprehensive plan which encompasses both the Research and Technology phase and the Development phase.

The capability window specifically will offer the following additional advantages:

- a framework to pool and synchronise national contributions to a dedicated project, thus allowing for more efficient and collective use of public spending in defence;
- the possibility of a contribution from the EU budget to develop the defence capability priorities identified by the Member States, who will subsequently own the assets;
- to the extent debt instruments would be used in this context, the possibility to benefit from certain flexibilities foreseen under the Stability and Growth Pact (see below).

9. Will the European Defence Fund be financed through European defence bonds?

If needed and agreed, the "umbrella structure" and/or the individual projects developed under the "capability window" may be used to issue project-related debt instruments. Such instruments could either be backed by Member States' specific payment lines for the individual project, or through additional guarantees/paid-in capital, either at the level of the individual project, or at the level of the umbrella structure. In the latter case, the umbrella structure could be endowed with its own capital base.

10. What is the link with the Stability and Growth Pact?

To the extent project-related debt instruments would be developed, national capital contributions to the capability window will be treated as "one-offs" under the Stability and Growth Pact, which means that they will be discounted from the structural fiscal effort expected to be accomplished by Member States. The same treatment will apply to guarantees under the capability window of the European Defence Fund – to the extent that they have an impact on deficit and/or debt.

11. Who will decide on how the EU budget for the research window is spent?

Defence research is excluded from the EU's current research and innovation funding programme Horizon 2020, which has a budget of EUR 77 billion for 2014-2020. The proposed allocation of EUR 25 million under the 2017 EU budget to the defence research Preparatory Action is a first step to test the waters for supporting defence research at EU level. Following the adoption by the European Parliament and Council of the 2017 budget, the Commission will detail the governance and other specifics. The future dedicated European defence research programme for the Multiannual Financial Framework post-2020 will build on this experience and take account of the specificities of the defence sector by closely associating Member States, and industry, in defining research priorities.

It is expected that a Programme Committee, composed of representatives of Member States will play a key role in selecting and identifying the EU added value of projects. The implementation of the programme will be supported by a structured dialogue involving the Commission, Member States and the industry as well as the work of the European Defence Agency. With a budget of EUR 500 million per year, the European Defence Research Programme would place the EU among the top 4 spenders in defence research in Europe. The EU budget in support of defence should not be a substitute for national spending, but rather trigger and accelerate more defence cooperation.

12. How will the Action Plan support SMEs, start-ups and mid-caps in the defence sector?

SMEs, start-ups and mid-caps are the core of the defence sector in most Member States. They often offer dual-use goods or services in a wide range of industries such as energy, telecom and ICT, automotive, material, chemical, aeronautics and space etc. The European Defence Action Plan proposes a wide range of measures to help them modernise, adapt their industrial capacities and grow in the Single Market.

Access to funding is often difficult to obtain for defence projects. The European Investment Bank (EIB) group already provides loans, guarantees and equity products for the expansion of current dual-use activities such as space and radar technology. This can provide some opportunities for certain parts of the defence supply chain, notably for SMEs and mid-caps. The Commission would support Member States if they decided to adapt the current EIB lending criteria to include the defence sector within the limits of the Treaties. This would also open up funding opportunities on EU financial instruments which are based on EIB lending, for example the European Fund for Strategic Investments (EFSI) or the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME). Both programmes could then provide greater support in dual-use and defence-related activities.

The Commission also proposes to promote the use of European Structural and Investment Funds (ESIF) to support investment projects (both innovative products and modernisation of the industrial facilities and infrastructures) in the defence sector with a particular focus on SME participation.

While access to finance is important, so are practical measures to support cross-border market access for SMEs. The Commission will adopt in 2017 recommendations encouraging procurement authorities to facilitate cross-border and SME participation in defence procurement procedures and defence supply chains.

And under the '[Blueprint for Sectoral Co-operation on Skills](#)' the Commission will support cooperation in the defence sector to ensure people have the right skills and technological ability to generate innovation.

13. What is the Commission proposing to ensure that defence companies benefit fully from the Single Market?

The Commission is proposing to improve EU-wide competition for defence procurement contracts and ensure Member States get better value for money from their limited defence budgets. This will also help to tackle fragmentation in the market and ensure higher competitiveness of the defence industry.

To do so, the Commission is proposing measures to improve implementation of the two Defence-related Directives, namely the Procurement Directive (2009/81/EC) and the Transfers Directive (2009/43/EC).

First, the Commission will produce guidance to help Member States effectively and consistently implement the Defence Procurement Directive and balance the basic public procurement principles while respecting the specificities of the defence sector. Initially, recommendations will focus on Government-to-Government Sales while further guidance will follow in key areas including on the use of subcontracting provisions and co-operative procurement.

Second, the Commission has also adopted two recommendations to encourage a harmonised use of the Transfers Directive, by defining a minimum list of less sensitive components for licensing in order to facilitate the transfer of defence-related products throughout the EU. In order to ensure consistent implementation of the two Directives across the EU, the Commission is also closely monitoring the legislation in Member States and requesting clarifications from national authorities where needed. The Commission will furthermore consider taking enforcement action in regards to both Directives with the aim of creating a level-playing field for all players in the Single Market.

14. Are there synergies between the European Defence Action Plan and other EU policies for example in the field of space or cybersecurity?

Defence related technologies have an important spill-over effect on the wider EU economy and can lead to technology transfers to other sectors and new jobs being created (ARPANET, the precursor of the Internet, was commissioned initially funded by the US Department of Defense). At the same time, research and innovation in other areas can often have a dual-use purpose and can be used to support the defence industry.

The Commission is committed to ensuring synergies and coherence between its policies in order to increase its added value and efficient use of taxpayer money, in line with its Budget For Results goals.

In October 2016 the Commission adopted a Space Strategy for Europe which aims at making the most of space for our society and economy, among other things by developing additional space-based services which contribute to Europe's common security and defence objectives. The Commission plans to expand the capabilities of the EU Earth observation programme Copernicus to help improve border control challenges and maritime surveillance. It is also preparing, with the European Defence Agency and the European Space Agency, an initiative to improve the reliability and security of governmental satellite communication services for national and EU authorities.

The Commission will also strengthen EU cyber security policies and take military and defence needs into consideration when developing measures in the aviation and maritime sectors.

15. What happens next?

The European Defence Action Plan represents the Commission's vision on how to deliver on shared objectives and the Bratislava roadmap. The Commission will now present and discuss these proposals, in particular the creation of a European Defence Fund, with all stakeholders. The European Council on 15-16 December will be a key milestone.

Any budgetary estimates beyond 2017 are subject to formal Commission proposals. The Commission will launch a scoping study in 2017 to refine the budget estimates for the "capability window" of the European Defence Fund.

The Commission will set up an Implementation Steering Group with Member States, meeting on a regular basis, to monitor and facilitate progress in the Actions, within their respective competences. A first meeting will take place in the first quarter of 2017. It will also establish a Consultation Forum with the European defence industry to best align the supply and the demand sides.

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Press contacts:

[Lucia CAUDET](#) (+32 2 295 61 82)

[Mirna TALKO](#) (+32 2 298 72 78)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)