Developing European defence capabilities

Bringing order into disorder

Dick Zandee

Clingendael
Netherlands Institute of International Relations

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About the authors

Dick Zandee is Senior Research Fellow at the Clingendael Institute. His research focuses on security and defence issues, including policies, defence capability development, research and technology, armaments cooperation and defence industrial aspects.

The Clingendael Institute
P.O. Box 93080
2509 AB The Hague
The Netherlands

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Email: info@clingendael.org
Website: www.clingendael.org

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Introduction

Multinational defence cooperation is nothing new. For decades the military have been used to operate side-by-side with their colleagues from other countries in Bosnia, Afghanistan and elsewhere. Equally, collaborative equipment procurement programmes have existed in the past. Several of them – for example the NH-90 helicopter and the A400M transport aircraft – are still underway. All these programmes are based on intergovernmental cooperation between the participating countries. The funds are provided by the capitals of the programme partners. However, this traditional intergovernmental set-up is no longer the only option.

Last year the European Commission launched a different approach by proposing a European Defence Fund for allocating money from the EU budget to the defence sector. This is a step change as defence investment has been excluded from EU funding in the past. However, EU financing of defence research and the development of equipment – to be owned and operated by the armed forces of the member states – raises issues in terms of governance. Who will decide on 'how much to spend on what'? So far, member states themselves have taken those decisions. Now, the Commission – a communitarian actor – will be directly involved. How does one ensure that the money is spent on European military capability needs?

Capability development is a complicated process, connecting military demand to industrial supply. With the communitarian players entering the stage, it becomes even more complex. How should the institutional set-up be constructed in order to create an effective decision-making process for improving European military capabilities? How can industry be connected to capability development governance, including small and medium-sized enterprises? To add to the complexities: later this year permanent structured cooperation (Pesco) will be launched in the area of security and defence. Capability development will be an important goal of Pesco, but how should it be connected to the wider European capability development structures?

This report will address these questions by analysing how the various institutions involved in European capability development can be brought together in a governance framework, without changing existing intergovernmental and communitarian responsibilities as defined in the EU Treaties. The report ends with conclusions and recommendations on how the EU governance for military capability development can be optimally organised.

The complexity of actors

At first glance buying a fighter aircraft, a frigate or an armoured vehicle looks like a simple matter: define what you want, order it and one day industry will deliver the product for operational use by the armed forces. In reality, the cycle from demand to supply is more complicated. Many interests are at stake – political, military, economic, industrial – and many actors are involved, both inside and outside government. Although the capability development process at first glance looks linear, in fact the various phases often overlap and key players, from the armed forces' staff to defence industries influence each other throughout the capability development process (see box).

> ### The capability development process
>
> Capability development involves much more than investment in military equipment. Doctrine, training, logistics and other factors also determine the delivery of military capabilities. For the purpose of this report capability development is understood as the process starting with the equipment drawing board and ending with the production lines of defence industries. This capability development 'chain', connecting demand to supply, has four distinctive phases: defining requirements – research & technology – development – procurement/ production. The four phases of this linear process are closely interconnected and may even overlap. For example, a demonstrator can be the product of the research phase and, if successfully tested, it will also be the starting moment of the development and production phases. Another example: member states can change their requirements during the development phase by adjusting the technical specifications. It often leads to increasing costs, to delays in production schemes and to different types of the same equipment – which endangers interoperability and standardisation.
> Naturally, when buying equipment 'off the shelf' the procurement phase follows immediately after the requirements setting.

To a very large extent capability development is still a national matter. Less than 8% of European defence research and technology investment is spent on collaborative projects, while just below 20% of equipment procurement programmes are multinational.[1]

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1   *EDA Defence Data 2014*. Unfortunately, the EDA has not provided defence data covering more recent years.

Defence planning and armaments procurement organisations[2] vary from country to country. In most cases the key actors are the military staff defining the requirements and the armament directorates or agencies which are responsible for procurement programme management, including interaction with industry. There is political oversight by national parliaments in most countries and, naturally, decision-making by governments. In case of collaborative programmes the list of actors becomes even more extensive as at least three different international organisations are involved: NATO, OCCAR and EDA.

Multinational programmes

A variety of organisations are used for collaborative capability development programmes. NATO can lead panels or working groups for defining requirements, but the organisation itself does not run procurement programmes. Those are carried out in ad hoc organisations, which use the NATO label but in terms of participation are limited to the procuring countries. Examples are the NATO Eurofighter and Tornado Management Agency (NETMA) and the NATO Helicopter Management Agency (NAHEMA) for the NH-90 helicopter programme.[3]

In the late 1990s several European countries created a permanent organisation for the management of collaborative armament programmes: OCCAR, the French acronym for *Organisation Conjointe de Coopération en matière d'ARmement*. OCCAR was established by means of a legally-binding Convention which entered into force in 2001. Belgium, France, Germany, Italy, Spain and the United Kingdom are members. Seven other states (Finland, Lithuania, Luxembourg, the Netherlands, Poland, Sweden and Turkey) are non-member programme participating states. The A400M transport aircraft, the Tiger Combat Helicopter, the Fremm frigate and the Boxer armoured vehicle are examples of collaborative procurement programmes managed by OCCAR.

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2   Some countries refer to 'equipment procurement' (or 'materiel procurement'), others to 'armaments procurement' or 'weapons procurement'. In this report both 'equipment procurement' and 'armaments procurement' are used. There is no difference between the two terms.

3   The NATO Support and Procurement Agency (NSPA) in Luxembourg provides logistics, operational and systems support and services to the Allies, the NATO Military Authorities and partner nations. NSPA's focus is on logistical support and services. Its right to procure military equipment, spare parts or other goods VAT free offers the nations an attractive 'house' for multinational acquistions. However, NSPA itself is not managing the development and procurement phases of multinational armaments programmes.

The European Defence Agency (EDA) – contrary to OCCAR, an EU institution – was created in 2004. Its principal task is European military capability development encompassing the whole process from demand to delivery. In practice EDA has concentrated its work on the definition of common requirements, promoting and managing collaborative R&T programmes, and defining business cases for collaborative armament programmes. The execution of the next phases – development and procurement – is not carried out by EDA. In other words EDA operates *upstream* with OCCAR as its natural partner working *downstream*. In 2011 EDA and OCCAR concluded a cooperation agreement – formally called an Administrative Arrangement – to connect the two organisations within the whole capability development chain. In the longer term it would make sense to merge the two organisations into one, encompassing all phases of the capability development chain. For the moment they continue to exist side by side.[4]

Figure 1   EDA-OCCAR and the four phases

EDA		OCCAR	
Requirements Definition	Research & Technology	Development	Procurement / Production

The defence industry is another key player for developing military capabilities. It has distinct characteristics compared to the other actors in the capability development chain. Firstly, it is a non-governmental player. Most of the defence companies in Europe are privately owned and operate on a commercial basis. Secondly, the defence industry is an economic actor. It provides jobs and income for hundres of thousands of European citizens. Defence companies are also important as contributors to technological development. Thirdly, the defence industry has a distinct layered structure. Large defence companies, constructing platforms – aircraft, ships and vehicles – form the prime contractors. In the defence industrial jargon they are known as the original equipment manufacturers (OEMs), such as Dassault (France), Kraus Maffei Wegmann (Germany) and Leonardo (Italy). Below this level there is a wide set of other companies

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4   OCCAR is a non-EU Treaty-based organisation. Merging the EDA and OCCAR would therefore give rise to juridical problems. As the UK is a (Treaty) member of OCCAR, Brexit will result in further complications for an EDA-OCCAR merger. Furthermore, Turkey is an OCCAR non-member programme participating state. This was already a complicating factor during the negotiations on the EDA-OCCAR Administrative Arrangement due to objections by the EU member state Cyprus on the potential involvement of Turkey in EDA-OCCAR interaction.
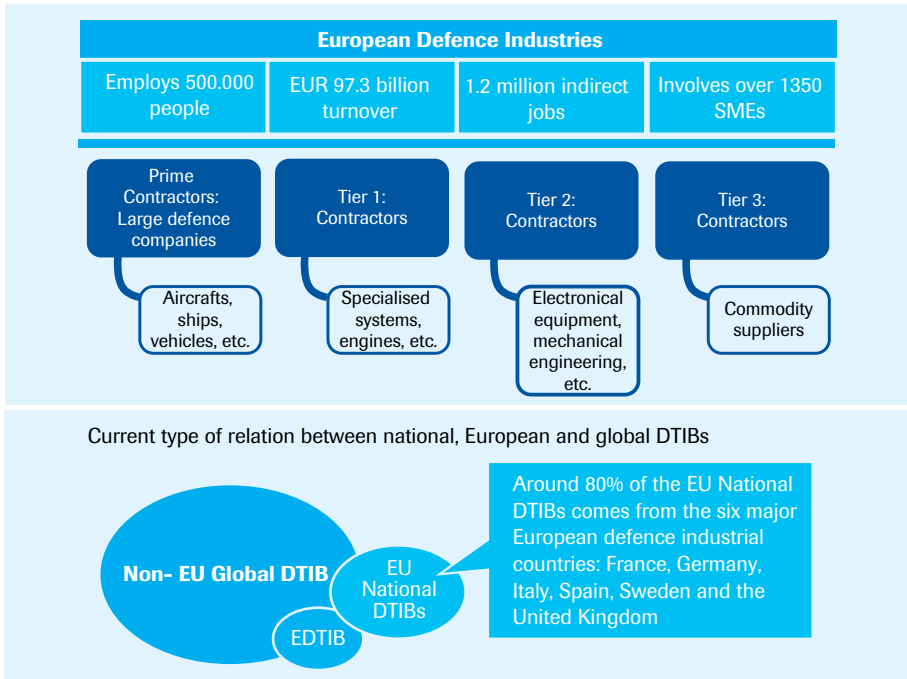
delivering systems (e.g. engines), subsystems or components. Small and medium-sized enterprises (SMEs) constitute an essential part of the European defence industrial and technological base (EDTIB) below the level of OEMs. Yet, they are often excluded from competing across national borders as prime companies rely on national supply chain companies. Thus, a fourth characteristic is the absence of a level playing field in the European defence industrial landscape.

The interests that come into play for defence industries are different in comparison to the defence ministries. Keeping production lines open and safeguarding jobs is such an interest that is not necessarily in line with military demand as capability priorities might be different. Maintaining technological knowledge and related skills in the workforce is important, but the key question should be 'what knowledge and skills?'. Guidance is given by the EDA's Strategic Research Agendas (SRA) for the different technology areas. With the Overarching Strategic Research Agenda (OSRA) the Agency is providing a landscape of the technology building blocks forming the European Research Architecture, thereby allowing for a structured prioritisation scheme for EU initiatives and programmes for defence research.

Some argue that defence equipment procurement is completely industry-driven. In reality defence industries in Europe are constantly in close contact with government representatives, which makes it difficult to judge who is in the driving seat at what stage. Demand and supply influence each other in two directions. Nevertheless, the question remains who is leading in the initial phases of technological development and, ultimately, in the production of military hardware? Is capability development really based on 'what we need'? Surely the defence industry has to be closely associated with the capability development chain from the start, but it should not dominate the selection process on 'how much EU funding are we going to allocate to what'.

Figure 2   Key data on the EDTIB

European Defence Industries			
Employs 500.000 people	EUR 97.3 billion turnover	1.2 million indirect jobs	Involves over 1350 SMEs
Prime Contractors: Large defence companies	Tier 1: Contractors	Tier 2: Contractors	Tier 3: Contractors
Aircrafts, ships, vehicles, etc.	Specialised systems, engines, etc.	Electronical equipment, mechanical engineering, etc.	Commodity suppliers

Current type of relation between national, European and global DTIBs

Non– EU Global DTIB

EU National DTIBs

EDTIB

Around 80% of the EU National DTIBs comes from the six major European defence industrial countries: France, Germany, Italy, Spain, Sweden and the United Kingdom
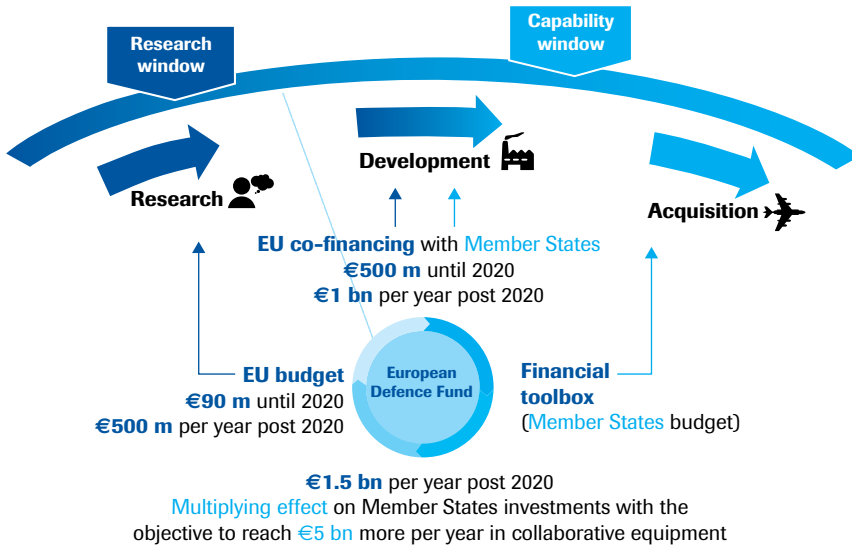
The European Commission as the newcomer

In November 2016 the European Commission proposed the European Defence Action Plan (EDAP). It announced the future financing of defence research by the Union budget and offered financial incentives for the capability (read development and procurement) programmes of the member states. In June 2017, after further internal deliberations and consultations with member states, the Commission launched the European Defence Fund (EDF) – a further elaboration of the financial proposals of the EDAP. The Commission states that "The key measure of its success will (..) be a significant increase in the share of cooperative defence projects in overall defence spending."[5] In other words: the Commission wants to stimulate collaborative capability development by offering funding and other incentives to the member states. At the same time, the EDF aims at retaining key technologies and industrial capacities in Europe in order to underpin the ambition of the Global Strategy that the EU should become an autonomous security actor.

The EDF foresees two legally distinct but complementary windows. In the 'research window' the Commission is proposing to fund defence research with € 90 million (the Preparatory Action, running 2017-2019) and € 500 million annually during the next EU Multi-annual Financial Framework period (2021-2027). In the 'capability window' EU co-financing for developing defence capabilities is proposed with a financial volume of € 500 million in 2019-2020 for a European Defence Industrial Development Programme (EDIDP). The Commission has proposed to fund € 1 billion annually post-2020. This programme aims at reducing the risk in the early stages of industrial development, for example by co-financing prototypes and testing. Thus, the EDIDP helps member states and industry to pass the sensitive phase of turning the results of technological research into fully-fledged procurement programmes – a phase that is also known as 'the valley of death'.

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5   *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Launching the European Defence Fund*, COM(2017) 295 final, Brussels, 7.6.2017.

Figure 3   Commission EDF proposal

Research window

Capability window

Research

Development

Acquisition

EU co-financing with Member States
€500 m until 2020
€1 bn per year post 2020

EU budget
€90 m until 2020
€500 m per year post 2020

European Defence Fund

Financial toolbox
(Member States budget)

€1.5 bn per year post 2020
Multiplying effect on Member States investments with the
objective to reach €5 bn more per year in collaborative equipment

In the capability window the Commission is also offering financial incentives to the member states to support their investment in collaborative procurement programmes. This is known as the 'financial toolbox', consisting of advisory, administrative and financial support measures. In total, the Commission proposes to invest €1.5 billion annually in the defence sector post-2020. This is a breakthrough – previously the Commission excluded defence from EU financing – and a game changer in terms of providing financial rewards for defence collaboration to the member states.[6] Of course, member states and the European Parliament will decide on the volume of the next EU Multi-annual Financial Framework and the amount of money that will be available for the EDF. But whatever the outcome, the Commission's proposal is a breakthrough in a taboo that existed in the past.

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6   Also see: Dick Zandee, *New kid on the block – The European Commission and European defence*, Clingendael Policy Brief, December 2016; Margriet Drent & Dick Zandee, *European defence: action and commitment*, Clingendael Policy Brief, March 2017.

The institutional challenge

The governance of defence capability development in the EU will fundamentally change in nature, now that the European Commission is joining the ranks. Responsibilities will be spread out over intergovernmental structures – with member states in the driving seat – and communitarian institutions. In other words, *de iure* defence remains an intergovernmental matter and this continues to apply fully for launching CSDP operations and missions. However, *de facto* decision-making on funding capability development is becoming a shared responsibility between the member states, the Commission and the European Parliament. First, the Commission has the right of initiative in defining proposals for EU budget spending. Second, decisions on budget allocation are a matter for both the Council and the European Parliament by co-decision. Third, the Commission has a role in the implementation and evaluation of programmes financed by the Union budget, although there is room for delegating the work to others in this area.

The key question is how to bring order into this complex spaghetti of intergovernmental and communitarian actors and decision-making authorities. Existing responsibilities based on the Treaties will have to be honoured. Those arguing for bringing EDF decision-making fully into the intergovernmental realm neglect juridical reality and existing practices related to funding from the Union budget. Treaty red lines cannot be crossed. Neither can the member states' prerogative in setting capability requirements be neglected.

Interesting in this regard is the Long Term Review (LTR) of the European Defence Agency which provides direction to its future development. The LTR was approved by the EDA Ministerial Steering Board in May 2017.[7] It depicts the EDA as the key EU institution for capability development and the major forum for supporting member states in their technology and capability development activities. Although the LTR text does not interfere with the right of member states to have direct contacts with the Commission, it states that the EDA will recommend "the allocation of funding to projects and programmes foreseen in the EDAP on the basis of prioritisation conducted by the Member States in the EDA, and acting as a **central operator** for EU funded defence-related activities (..)."[8] As a logical consequence the LTR is "urging the European Commission to make full use of the existing structures and networks of expertise of the

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7   *Long Term Review of the Agency – Conclusions and Recommendations. A Reinforced Agency to Enable Member States to Deliver on Defence Capabilities*, 18 May 2017. EEAS: European External Action Service.

8   Bold text inserted by the author of the report.

Agency and to acknowledge its enhanced relevance for the identification, prioritisation and development into technical specifications of overarching capability and R&T priorities as well as their implementation regarding EU funded activities." Although the LTR has taken care not to interfere with the rights and obligations of the Commission, it is clear from its conclusions and recommendations that the EDA should be the place not only for implementing EU-funded programmes but also, earlier on, for the selection of programme content – that is before formal decisions are taken.

The expected launch of a Pesco group, later this year, is adding an extra element to the institutional challenges. The Commission considers Pesco as a client for receiving EU funding and even offers a higher financial share for the development phase.[9] It is very likely that, when Pesco will be launched, several European capability development programmes will be announced, to be executed in groups consisting of different participating member states. Therefore, there will be a need for connecting the governance of Pesco and that of the EDF.[10]

The EDF proposal contains a governance model (see figure 4) in which the member states lead in step 1 (defining the EU level of ambition) and step 2 (capability priorities). In step 3 (programme selection) the Commission leads, while the EDA takes the lead for the implementation of the EU-funded research projects in step 4. For development programmes under the EDIDP industrial consortia will take the lead in step 4, supported by project management which can be carried out by the EDA, OCCAR or a lead nation acting on behalf of the project group members. A Coordination Board should ensure consistency between the reseach and capability windows when moving from step 2 to 3.

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9   The Commission has proposed a maximum of 20% of funding for the costs of the development phase when it relates to prototyping with an additional 10% for such action under Pesco. See: *Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovative capacity of the EU defence industry*, COM(2017) 294 final, Brussels, 7.6.2017.

10   This issue is not further addressed in this report.

Figure 4   The EDF governance model as proposed by the CION
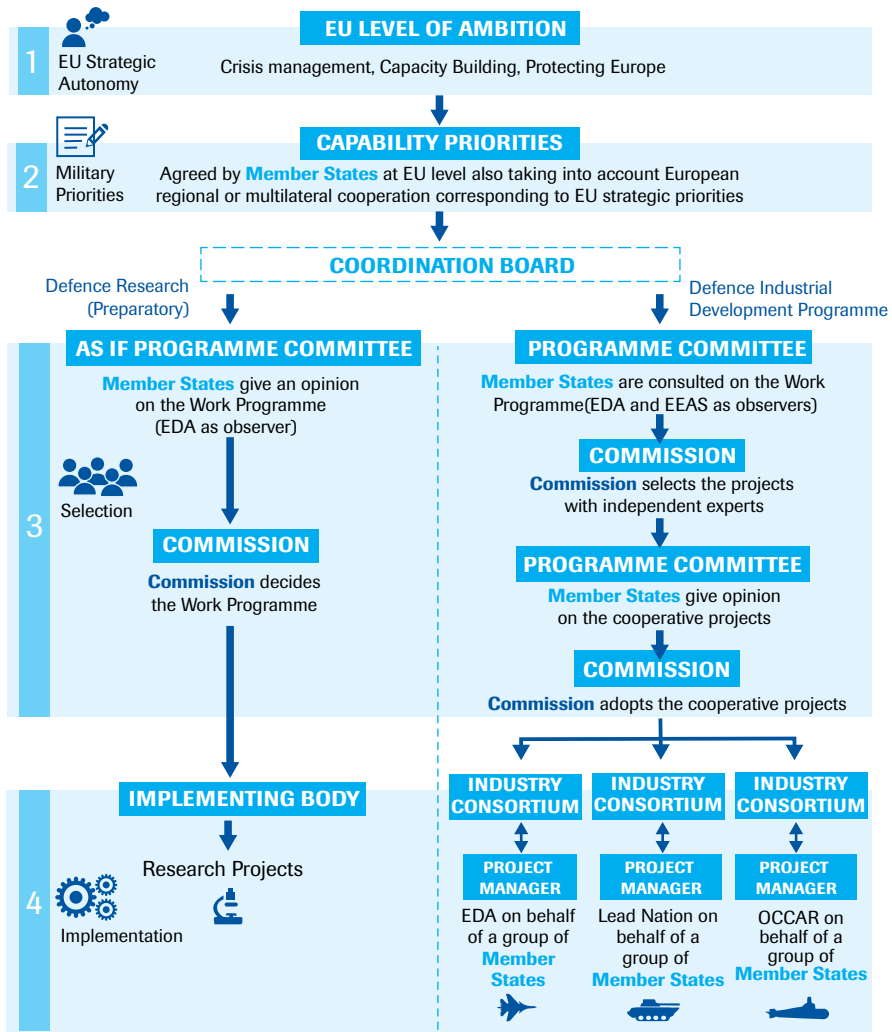
This governance scheme denies the fact that capability prioritisation and programme selection have to be closely interwoven, which also has consequences for governance. Handing over from the intergovernmental actors in step 2 to the communitarian leadership in step 3 is required in juridical terms. However, in order to ensure a capability-driven approach the actors responsible for step 2 (member states, EDA) should be closely involved in the preparations for the selection of programme content in step 3. The active EDA role, as defined in the LTR, seems to contrast with the

governance scheme of the Commission in which the Agency is given "observer status" in the phase of programme selection. It gives the impression that the Commission sees the EDA mainly as the executive body for the implementation of programmes after their approval. In other words, the proposed governance model in the June 2017 EDF communication does not fully correspond with the LTR as approved by EU Defence Ministers. How can the two be brought together in an effective framework? The solution lies in a pragmatic governance model that respects the existing structures and responsibilities.

Cutting the Gordian knot

All actors agree that member states and the EDA should lead the *upstream* process for the definition of priorities and requirements, based on the level of ambition stemming from the EU Global Strategy. The governance forum for taking relevant decisions is the EDA Steering Board (SB) which meets twice yearly in the format of Ministers of Defence.[11] The European Commission is represented in the EDA Steering Board as well as in EDA meetings preparing SB meetings. Nothing has to change here: the existing structure guarantees a close linkage between the actors, with the member states, through the EDA, being in charge of defining demand. The Council receives annual reports on EDA's activities and provides guidelines for future work.

The complication lies in the next step of programme selection. So far, for programmes or projects funded by member states, this has taken place in the EDA. For EU-funded defence research programmes, the Commission will chair meetings for consulting member states as it is used to doing for non-defence research programme selection. But the capability-driven approach requires that the responsible actors for defining demand have a decisive voice in the selection process. Thus, the EDA and the member states have to play an upfront role, without infringing upon the Commission's responsibilities and without changing existing procedures. The procedure used for selecting the content of the first year (2017) of the Preparatory Action for Defence Research could serve as a model. The potential programme content is discussed in dedicated EDA forums, starting with national R&T experts identifying and prioritising possible candidate projects and developed technical specifications. Once finalised the package with content proposals is handed over to the Commission officials. They use it as the basis for formulating their content proposal. This procedure is in line with the central role of EDA and the member states, ensuring a capability-driven approach and it is also the least time-consuming while building on given expertise. For allocating EU funding from the European Defence Industrial Development Programme the Commission will have to make use of the decisions of member states to launch collaborative development projects, including under Pesco. Again, if it were an EDA-led project (carried out by the EDA or delegated to OCCAR) then the Agency representative in the Commission-chaired programme selection meeting should recommend 'what to co-finance'.

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11   Throughout the year the EDA Steering Board also meets in sub-ministerial formations (R&T Directors, Capability Directors, National Armaments Directors). The Steering Board can also take decisons by a written procedure.

The governance model proposed by the Commission (figure 4) should be adjusted accordingly. The Coordination Board is to be the high-level governance body ensuring consistency between the research and capability windows – in capability development terminology between research programme selection and (industrial) development/procurement projects. This coordination role should ideally be given to the EDA Steering Board. However, if for institutional reasons the Commission would have to chair such meetings, then the Coordination Board could meet back-to-back with the EDA Steering Board. This back-to-back set-up would also serve the purpose of ensuring connectivity between programmes funded by the EU budget and those of a purely intergovernmental nature in the EDA.[12]

Consultation meetings on EU-funded programme or project selection will be chaired by the Commission, but the preparatory work of content definition should take place in the dedicated EDA forums. This is indicated in figure 5 as step 3. Once passed on, the Commission will chair the consultation meetings before the text of the programme selection is finalised. In line with the LTR conclusions the EDA should be given a prominent seat at the table with the right to explain and justify the proposed content, which is established beforehand within EDA meetings involving member states who have granted EDA the right to present the content proposal on their behalf. Thus, the EDA should not have observer status in the programme selection meetings, but should act as the representative of the member states in applicable cases. In other cases – the member states not having granted EDA the authority to make recommendations on their behalf – the Agency's representative would still have the right to contribute to the discussions. Once the programme selection has been completed at the committee level, the draft proposal should be checked by the EDA Steering Board and Coordination Board before the Commission formally adopts the programme (or project in the case of the EDIDP). It would not constitute a legal step as this would be contrary to comitology procedures. Rather, it would be an informal step in order to ensure that the envisaged programme or project is indeed in line with capability needs as defined by the member states in the EDA context.

After the programme or project has been adopted by the Commission, implementation should be carried out by the EDA for EU-funded defence research programmes as well as for development projects, co-financed by the European Defence Industrial Development Programme. In the latter case, such projects are likely to be passed on to OCCAR management, at least in the foreseeable future and as long as the EDA and OCCAR continue to exist as closely related but separate organisations. Taking into account that OCCAR is not an EU organisation and that *downstream* EU involvement is needed to ensure that the future product fulfils the capability requirements, preferably

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12   Despite the availability of EU funding some member states might still opt for R&T projects which will be purely financed by capitals.

EDIDP implementation should be executed through the EDA that would build on the Administrative Arrangement with OCCAR for coordination. Further rapprochement of the EDA and OCCAR, envisaged in the LTR, would thereby help to channel the downstream implementation. Naturally, for the reseach programmes the lessons learned from the Preparatory Action on Defence Research (PADR) have to be taken into account. In May 2017 the Commission and the EDA signed a Delegation Agreement defining the details of entrusting the implementation of PADR projects to the Agency. For the EDF a comparable Delegation Agreement would suit the necessary adjustments as required based on the PADR experience. Figure 5 depicts the complete governance model throughout all phases.

Another aspect is staffing. Due to the fact that defence capability development has always been excluded from the communitarian responsibilities, there is very limited knowledge in the Commission on defence research and military equipment development. Naturally, the Commission's new role in defence matters will require additional staff with appropriate expertise. However, the danger is a duplication with the EDA staff and this should be avoided. Recruitment by the Commission should be based on its governance role, not copying the Agency staff requirements. As the LTR clearly spells out, full use should be made of the Agency's existing structures and networks of expertise. Close contact between EDA and Commission officers will ensure the timely transfer of knowledge and experience in capability requirements and defence research technology selection.

A final word on the governance model and its consequences. It is not about choosing between a 'Commission lead' and an 'EDA lead'. This would simplify the issue to a bureaucratic competition which should be avoided at all costs. The real issue is how to best ensure a capability-driven approach to the selection of EDF financed or co-financed defence programmes. Ultimately, member states will have to take a principal decision. If the EDA is to play its role fully throughout the capability development process, then the member states will have to agree to expand the size and budget of the EDA. In fact, this is in line with the LTR which acknowledges "that the renewed ambition and expectations towards the Agency may have resource implications". The existing practice of continuously giving more tasks to the EDA without increasing its budget and staff is no longer viable. If member states do not agree on EDA growth, disorder in European capability development might be the consequence. There is a chance to bring order into the complex web of intergovernmental and communitarian actors, but this will not be possible without the member states' full support – including adequate financial resources – being given to EDA.

Figure 5   A capability-driven governance model for EU-funded programmes
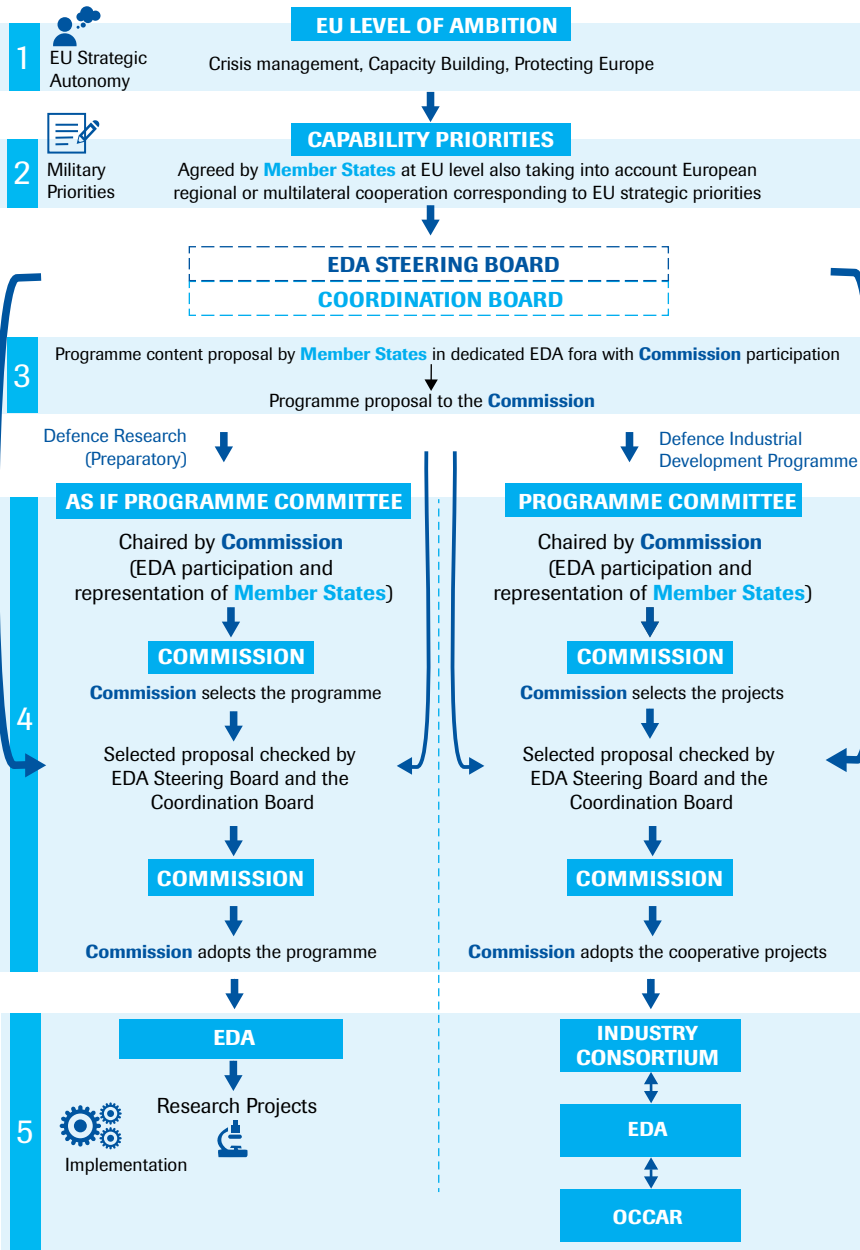
Involving industry

The remaining question is how best to engage the defence industry, as the producers of military equipment are key actors for the delivery of capabilities. In the early stages it is important to inform the widest possible circle of defence industries in order to create maximum opportunities for their future involvement, but also to have their input in already ongoing or envisaged technology research in the industrial sector. As a non-governmental actor the defence industry cannot participate in formal EU meetings. A consultative format would therefore be the right way to involve the defence industry. For the research programmes one could envisage such consultative sessions at several stages during the preparation process. Early on, EDA and Commission staff could organise these sessions to take the views of industry on board in drafting programme proposals. Later on, member states' representatives could join. These sessions could be held back-to-back with EDF programme meetings with the member states.

Small and medium-sized enterprises should also be included from the start, in particular because they are often the catalysts of technological innovation. Since it would be impossible to have all defence companies around the table, the overarching organisation of European defence industries – the Aerospace and Defence Industries Association of Europe (ASD) – should represent the companies. Through its network the ASD would act as the interlocutor with the national defence industries associations that represent defence companies located on member states' territories. For the European Defence Industrial Development Programme more regular engagement with industries taking a clear interest in participating in the future development work will be required, for example in a programme-industry consultative format. After decisions have been taken on programme content and consortia selection, the execution of projects should be conducted by industrial consortia under the management of EDA-OCCAR.

Conclusions and recommendations

1. With the launch of the European Defence Fund an important new player has entered the scene of military capability development in the EU: the European Commission. This is most welcome, but it does raise important issues of governance as intergovernmental actors (member states, the European Defence Agency) and communitarian actors (the Commission, the European Parliament) are now brought together in one framework.

2. Allocating finances from the EU budget – for defence research in the 'research window' as well as the development of equipment in the 'capability window' – should be based on European capability needs and priorities. The defence industry has to be involved from the start, but should not drive the selection of programmes and projects financed by the EDF.

3. Therefore, those in charge of defining the European capability needs and priorities (member states through the EDA) should have the primary role in recommending the allocation of EDF-funded programmes and projects. The Long Term Review of May 2017 - approved by EU Ministers of Defence in the EDA Steering Board – gives this role of the central operator to the Agency.

4. The proposed governance model of the Commission in the June 2017 EDF Communication lacks an intermediate step between the identification of capability needs (in the EDA context) and the selection process of EU-funded programmes and projects (in Commission-led committees). This is the step of identification, prioritisation and defining technical specifications of defence research programmes in the 'research window' and the choice of prototypes in the 'capability window'.

5. In this intermediate step the member states should be in the lead, using the existing structures and networks of expertise of the EDA as stated in the LTR. The practice of making recommendations for the allocation of EU funds in the first year of the Preparatory Action (2017) can serve as the example.

6. The governance model should be adapted accordingly, with an additional step before the Commission starts leading the process in the programme selection committees. To ensure consistency with capability needs and priorities a final check could take place in back-to-back organised meetings of the EDA Steering Board and the

Coordination Board once the Commission-chaired selection committee has finalised its programme or project proposal (see figure 5).

7. As is the case with the Preparatory Action, the EDA should be the leading organisation for the implementation of EDF-financed programmes and projects. This includes development projects in the 'capability window', even if the further execution will be managed by OCCAR. As OCCAR is not an EU institution, it would be better to route the implementation of developing prototypes via the EDA. A further rapprochement between the EDA and OCCAR will help to streamline the downstream implementation.

8. Commission staff dealing with defence capability development will have to be increased. However, a duplication of EDA staff is to be avoided. The proposed governance of an intermediate step for the pre-selection phase of EDF-financed programme and project content also serves this purpose. The Agency's expertise in research and capability development should be fully used, as stated in the LTR.

9. The proposed governance model implies a reinforcement of the EDA staff. Also taking into account other additional tasks that the Agency will have to execute in the future – such as its role in the coordinated annual review on defence (CARD) and in the context of permanent structured cooperation (Pesco) – it will be crucial to increase the budget and the staff of the EDA.

10. The Aerospace and Defence Industries Association of Europe (ASD) should act as the umbrella organisation for the early involvement of defence companies in EDF-financed programmes and projects. Small and medium-sized enterprises should be involved from the start. Consultative formats should be set up for interaction with the defence industries.