

#21

HOW TO MAKE PeSCo A SUCCESS

BY

OLIVIER DE FRANCE / Research Director, IRIS

CLAUDIA MAJOR / Senior Associate, SWP

PAOLA SARTORI / Junior Researcher, IAI

September 2017

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

Policy Paper

After years of soul-searching on defence, the European Union has been trying to bite the bullet. On 22 June 2017, European leaders announced their support for an EU defence fund which could change how Europeans cooperate to develop the capabilities they need. They concomitantly announced they were gearing up for a more flexible way of building defence cooperation¹ and some of them move first steps toward the definition of binding commitments in this domain.² The chosen mechanism is one that was dormant since 2009 in the Lisbon Treaty and which goes by the name of permanent structured cooperation (PeSCo). It basically enables the Union to make progress on defence, without waiting for everyone around the table to agree. On 13 July, Angela Merkel and Emmanuel Macron pushed a Franco-German deal whereby PeSCo should be inclusive, but also based on a number of ambitious criteria. The coming months will help to ascertain whether this is feasible, how it might be put in place, and at what political cost as regards to the EU27.

Why now? Politically, the rationale is straightforward. The European Union needs to overcome the *status quo* – it needs to make progress and to show it. This is because on the one hand, Brexit has dealt a body blow to the idea that European peoples are engaged in a political union, the purpose of which it is to draw ever closer. On the other, the Trump presidency has done what it could to cast doubt on the American security guarantee to Europe. European newspapers were quick to paint these events as game-changers for the EU. Were the Union to fail to react, it is quite plausible that European peoples would fail to comprehend and simply decide that the EU has given up on the idea of adapting to the world around it. The election of Emmanuel Macron in France opens up a political window for the Franco-German couple to take matters into its own hands. But if nothing has happened by the time a new team prepares to take office in Brussels in 2019, it may well be another decade before the next political opportunity arises. By that time, the EU will not have died a quick death by institutional collapse, monetary chaos, rabid Europhobia or transnational populism, but more plausibly of death by indifference.

¹ “To strengthen Europe’s security and defence in today’s challenging geopolitical environment and to help reach the level of ambition of the EU expressed in the EU Global Strategy, the European Council agrees on the need to launch an inclusive and ambitious Permanent Structured Cooperation (PESCO). A common list of criteria and binding commitments, fully in line with Articles 42(6) and 46 TEU and Protocol 10 to the Treaty - including with a view to the most demanding missions - will be drawn up by Member States within three months, with a precise timetable and specific assessment mechanisms, in order to enable Member States which are in a position to do so to notify their intentions to participate without delay. This work has to be consistent with Member States’ national defence planning and commitments agreed within NATO and the UN by Member States concerned. Concrete collaborative projects and initiatives should also be identified in support of PESCO’s common goals, commitments and criteria”. European Council conclusions, 22 June 2017.

² “Permanent Structured Cooperation (PeSCo) FR/DE/ES/IT Proposals on the necessary commitments and elements for an inclusive and ambitious PeSCo, supported by BE, CZ, FI and NL”, Letter by the Ministry of Defence of France, Germany, Italy and Spain to the HR, 21 July 2017, <http://club.bruxelles2.eu/2017/08/les-19-principes-de-la-PeSCo-approuves-par-au-moins-huit-pays-details/>.

Political leaders in Europe have elected that defence is one area in which such progress can, and should, be made. But if the last decade is anything to go by, agreeing upon a 28-way consensus to do so requires much political capital, and bears comparatively little fruit. Intellectually, the logic of making progress in smaller groups is therefore quite appealing. “Flexible integration”, “core groups”, “pioneer countries”, “structured cooperation”, “enhanced cooperation”, “differentiated integration” or “multi-speed defence” are all ways of trying to describe what the EU is trying to achieve by allowing countries who are more committed to defence and want to go ahead to do so. Within the EU framework, the idea is known as “Permanent Structured Cooperation” (PeSCo).

True, the EU has been debating means of fostering defence cooperation for years, with little palpable results. Is it to be different this time? The current discussion has focused on the institutional set up, and has pointedly overlooked some of the more political questions. What is it for? What incentive can the EU offer Member States to bind themselves into mutual dependence? What is the added value? The sovereignty question is the elephant in the room here. Do member states give up what they perceive as core interest so far: the autonomy of decision making on the national level on military and defence industrial affairs? Should the discussion on PeSCo fail to answer this fundamental question, it risks heading down the same route as previous efforts and help cement the EU’s reputation as a talk shop rather than a serious player in defence.³

WHAT IS THE POINT OF PeSCo?

According to the Art. 42(6) TEU, PeSCo is established by “those Member States whose military capabilities fulfill higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions”. It enables defence cooperation in smaller committed groups, below the threshold of 27 Member States, but within the EU-framework rather than outside.

Keeping cooperation within the EU framework rather than outside makes sense in a number of ways: to maintain coherence in the defence field, as well as in the political Union across its policy fields, and finally in terms of organising effective capability development. PeSCo thus represents an “institutional anchor” by bringing in the added value of providing a structured framework of cooperation enshrined in the Treaties.

Indeed, defence and defence industrial cooperation among EU members so far mainly takes place outside the EU. Military capabilities are developed largely at national level, or

³ Claudia Major: Credible EU Defense Means Rethinking Sovereignty. Unless Europeans agree to compromise on national sovereignty at the EU level, current defense initiatives will amount to all talk and no action, in: Strategic Europe, Carnegie Europe, 15.06.2017, <http://carnegieeurope.eu/strategieurope/71260>.

sometimes in small clusters with a preference for bilateral and mini-lateral framework of cooperation.⁴ Investment in collaborative projects has decreased.⁵ Evidence to date points to the fact that the current patchwork of cooperation in Europe yields sub-optimal results, because partners in cooperation follow national interest rather than EU wide needs in the area of defence.⁶ As a consequence, more cooperation among EU states outside the EU frame has so far not narrowed the existing capability gaps significantly. Neither has it limited the waste of resources through the procurement of redundant equipment.

Loss of capability in Europe has been estimated at over 25% over the last decade. It could have been stopped, mitigated, or filled by cooperation, but member states deliberately decided against it. Although this decision generated loss of capability, EU governments gave preference to staying autonomous with regard to defence policy, and sought to avoid any kind of dependence upon each other. The logic of sovereignty has therefore taken precedence over integration.

In view of this, PeSCo represents a logic of integration, according to which the integration *acquis* from other policy fields will spill over into the area of security and defence. PeSCo would provide the institutional frame to ensure long-term coherence of defence cooperation. It would also allow taking the governance of defence cooperation within the EU to a level comparable with that of other policy fields, and may facilitate the integration with other EU policy areas such as industry or homeland security. Moreover, it breaks with the previously dominant voluntarism in European defence and introduces a legally binding character of defence cooperation. While a legal framework can increase the constraints on the states to live up to their commitments and is often considered a tool to hinder states making empty promises, it will not be able to replace a lack of interest of states, or a lack of political will and commitment. Besides, the question of sanctions in case of non-compliance have not been decided. It remains hence to be seen whether the legal character really turns out to be an added value.

⁴Alessandro Marrone, Olivier De France, Daniele Fattibene (eds.), Defence Budget and Cooperation in Europe: Trends and Investments, Other Papers/Articles, IAI, Rome, July 2016, p.35, http://www.iai.it/sites/default/files/pma_2.pdf

⁵ Anne Bakker, Margriet Drent, Dick Zandee, European Defence Core Groups. The why, what & how of permanent structured cooperation, Policy Brief, Clingendael, November 2016, p. 2, https://www.clingendael.nl/sites/default/files/PB_European_defence_core_groups_0.pdf

⁶ Christian Mölling, State of play of the implementation of EDA's pooling and sharing initiatives and its impact on the European defence industry, Policy Department, Directorate-General for External Policies, European Parliament, 2015.

WHAT KIND OF PeSCo?

Articles 42(6) and 46 of the Treaty on the European Union (TEU)⁷ and the related Protocol 10⁸ describe PeSCo as the tool to pursue a “common foreign and security policy based on the achievement of growing convergence of action by Member States”. These treaty articles foresee the possibility of closer cooperation for those member states who are willing and able to undertake greater efforts in the realm of military capabilities, with a view to enhance the EU’s operational capabilities through collaborative efforts.

The key question revolves around how to define those states which are willing and able. Yet many of the provisions on PeSCo are vague when it comes to the actual cooperation that can come about – with regard to content, outcome, and who can participate. “Inclusivity” and “modularity” have emerged as guiding principles. To note the introduction of such criteria contribute to frame an “PeSCo as an evolving concept”, as these elements were not envisaged in the original provisions on PeSCo. The 2016 November Council Conclusions⁹ indicated that PeSCo should envisage an adequate level of inclusivity. The European Council Conclusions of 15 December 2016 advocated that “the High Representative will present proposals in the coming months as regards [...] elements and options for an inclusive Permanent Structured Cooperation based on a modular approach [...]”.¹⁰ The implementation of PeSCo therefore depends on the translation of these two concepts into concrete terms.

Quantitative and qualitative criteria for PeSCo

A clear definition of “higher criteria” that European states need to meet is one of the basic prerequisite for creating a PeSCo which is able to generate new collaborative efforts and concrete commitments. This should be done both in terms of targets and deadlines. In this context, it is up to MS with the support of the External Action Service (EEAS) and the European Defence Agency (EDA) to define what are the constituent elements of PeSCo.

⁷European Union, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, OJ C 202, 7 June 2016, <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:02016ME/TXT-20160901>.

⁸Protocol No. 10, *Ibid.*

⁹Council of the European Union, Council Conclusions on implementing the EU global strategy in the area of security and defence, 14149/16, 14 November 2016, para 17. <http://www.consilium.europa.eu/en/press/press-releases/2016/11/14-conclusions-eu-global-strategy-security-defence/>

¹⁰European Council, European Council Conclusions (EUCO 34/16), Brussels, 15 December 2016, para. 11, <http://europa.eu/!Qn94Rg>.

This exercise should be performed in view of the main areas of cooperation identified within Article 2 of Protocol 10, which can be summarized as follows:

- to achieve approved objectives regarding level of investment expenditure on defence equipment;
- to bring defence apparatus into line with each other by devolving specific attention to training and logistics;
- to enhance availability, interoperability, flexibility and deployability of forces;
- to ensure the necessary coordination with the EDA Capability Development Plan (CDP) and initiatives within NATO;
- to take part to major multinational or European equipment development programmes within the framework of EDA.

To note, a recent proposal advanced by the Defence Ministers of France, Germany, Italy and Spain – supported by Belgium, Czech Republic, Finland and The Netherlands - of 21 July 2017 represents a first and significant step in this direction although the document remains rather vague when it comes to definition of “entry criteria”.¹¹

In order to effectively clarify the will and capacity of EU countries to contribute to collaborative initiatives, both qualitative and quantitative criteria might be considered and need to be precise if implemented. In both cases, criteria could be drawn from existing benchmarks that have already been elaborated at the EU and NATO level. Furthermore, these targets need to be formulated less in absolute levels than as milestones to be achieved by agreed deadlines, according to a clear timetable.

As for the quantitative evaluation, the four benchmarks adopted by the 2007 EDA Ministerial steering meeting remain valid:¹²

- Equipment procurement (including R&D/R&T) that should be 20% of total defence spending;
- European collaborative equipment procurement that should be worth 35% of total equipment spending;
- Defence Research & Technology that should reach the 2% of total defence spending;
- European collaborative defence R&T to count for 20% of total defence R&T spending.¹³

¹¹ According to the document, these should be defined in the coming months and be based along the lines of the four states proposal. “Permanent Structured Cooperation (PeSCo) FR/DE/ES/IT Proposals on the necessary commitments and elements for an inclusive and ambitious PeSCo, supported by BE, CZ, FI and NL”, Letter by the Ministry of Defence of France, Germany, Italy and Spain to the HR, 21 July 2017, op. cit, p. 3.

¹² Daniel Fiott, The CARD on the EU Defence Table, Issue Alert 10/2017, EUISS, April 2017, p. 2, http://www.iss.europa.eu/uploads/media/Alert_10_CARD.pdf

¹³ European Defence Agency, Benchmarks, <https://www.eda.europa.eu/info-hub/defence-data-portal/Benchmarks>

In this regard, EU countries should move forward in order to elaborate and agree on a roadmap with a time horizon of 2022, with yearly incremental milestones.¹⁴ Assuming 2018 as the starting year and considering that the defence planning cycle of many European countries is based on a 4-years timeframe, 2022 would represent a challenging, but still realistic deadline. In order to ensure the monitoring and respect of such input criteria, Member States in close cooperation with EDA should define a common methodology to assess national defence spending.

With reference to a qualitative evaluation, parameters such as usability, deployability and sustainability should be considered with a view to both the EU Generic Military Task List and NATO benchmarks. According to the November 2016 Council Conclusions, PeSCo should contribute to fulfil the EU's level of ambition derived from the EU Global Strategy and lead to concrete progress in terms not only of development of capabilities but also deployability, therefore adequate criteria should take into account track record in deployed operations. Given that article 42(6) of the TEU refers to “most demanding missions”, these operations should include also those conducted within the NATO framework, which in the last 15 years proved to be in less permissive environments than the EU ones.

The fulfilment of the abovementioned criteria by participating EU states should be assessed by an accountability mechanism supported by EDA. In this sense, the provision to create the Coordinated Annual Review on Defence (CARD), although being conceived as a standalone initiative, could provide an adequate venue to report MS's fulfilment of the yearly milestones and ensure effective coordination as well as transparency with other MS not participating in PeSCo.¹⁵ To note, while recent official documents highlighted the voluntary nature of the review, this evaluation should not apply to PeSCo participating MSs, whose participation to these meetings should not be based on voluntarism. In fact, within such collaborative framework CARD could rather represent an obligatory monitoring and assessment system in order to effectively support the achievement of the agreed list of PeSCo common goals and binding commitments.

An “inclusive” PeSCo

The issue of the entry criteria occasioned much soul-searching and heated debate in the drafting of the Lisbon Treaty, and subsequently in 2010 and 2011. It has surfaced in strikingly identical terms today: who can join the club? All EU Members or only those who

¹⁴Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, PeSCo: An Ace in the Hand for European Defence, Other papers/Articles, IAI, Rome, March 2017, p. 4.

¹⁵Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, PeSCo: An Ace in the Hand for European Defence, Other papers/Articles, IAI, Rome, March 2017, p. 4.

are able to make a difference? In a decision from 18 May 2017¹⁶ - reiterated also by the more recent European Council Conclusions of 22-23 June 2017¹⁷ - the Council of the European Union opted for an inclusive PeSCo, which opens up the possibility of putting the bar as low as possible, instead of creating a defence avant-garde that can pave the way forward.

There is an inherent contradiction between the idea of an inclusive PeSCo and an ambitious PeSCo. The fact that all 27 from Malta to France should be part of the same defence cooperation makes the added value difficult to elucidate. Conversely, the adoption of a non-inclusive model in implementing PeSCo could end up institutionalizing and freezing the division between the group of participating MS and those countries outside of the cooperation framework. The possibility for other countries of joining at later stage is foreseen by article 46 of the TEU,¹⁸ and is liable to avoid such counterproductive effects on EU stability.

Striking the right balance between inclusiveness and effectiveness is therefore tricky in political and institutional terms. The compromise might aim at ensuring the maximum level of openness to future new entries, whilst preparing for differentiated integration to last for a longer - and possibly indefinite - time.¹⁹ This is necessary to ensure that inclusivity does not result in a watering down of political and institutional ambitions.

An “open-door” policy could ensure the achievement of more ambitious output targets while maintaining a broader European perspective in line with the founding principles of the EU. PeSCo participating MS could represent a driving force for other European countries, and the possibility of joining can serve as an incentive, thereby stimulating a virtuous cycle and leading to more convergence.

A “modular” PeSCo (PS)

In the Council conclusion of March 2017²⁰ which set up the implementation path for PeSCo, modularity emerges as another important guiding principle. The modular approach is meant to ensure a certain degree of flexibility, so that participating states would not have to contribute to every single capability area nor to any project

¹⁶ Council of the European Union, Council conclusions on Security and Defence in the context of the EU Global Strategy, 9178/17, 18 May 2017, para. 16.

¹⁷ European Council, European Council conclusions on Security and Defence, Press release 403/17, 22 June 2017, para. 8.

¹⁸ Article 46 (3), “Any Member State which, at a later stage, wishes to participate in the Permanent Structured Cooperation shall notify its intention to the Council and to the High Representative.”

¹⁹ Nicoletta Pirozzi, Pier Domenico Tortora, Lorenzo Vai, *Differentiated Integration: A Way Forward for Europe*, op. cit., p. 5.

²⁰ Council of the European Union, Council Conclusions on progress in implementing the EU Global Strategy in the area of Security and Defence, March 2017, <http://www.consilium.europa.eu/en/press/press-releases/2017/03/06-conclusions-security-defence/>

encompassed by PeSCo.²¹ Considering that the objective of PeSCo is multifold, as advocates by Article 2 of Protocol 10, participating states should be able to contribute to each initiative according to their capacity to share and develop together a specific capability.²² Considering the broader scope of PeSCo and in order to maximize its effectiveness in achieving the abovementioned objective, modules could follow a twofold logic: being operational-oriented on the one hand, and industry-oriented on the other. To note, the adoption of such an approach has to remain fully flexible and should not result in bureaucratic or legal burdens that would slow down the cooperation process.

In the case of operational-oriented modules, the immediate goal would be to provide the participating states – and therefore the EU - with the capabilities necessary to conduct a certain range of operations. This goal could be pursued by making a more effective and efficient use of the existing capabilities, by increasing their readiness and operational availability, as well as by launching new collaborative projects aimed at capability development. At the same time other modules, while ultimately having the same purpose to provide adequate capabilities to participating states, could be more R&T- and R&D-oriented, so as to devolve specific attention to the industrial side of defence in the participating countries. To note, this effort should be done always with a view on fulfilling capabilities shortfalls.

For both kinds of modules, the EDA CDP should represent the reference point, and the Collaborative Database (CODABA) should support the identification and development of cooperation proposals. Participating MS willing to join a certain module should express their concrete commitments, that could be investment contribution, sharing of existing capabilities or industrial know-how according to the projects specificity.

Though allowing for a useful degree of flexibility, the risk of a modular PeSCo is that it could become a mere umbrella for loosely coordinated cooperative projects among different groups of MS. That would prevent a meaningful convergence of military capabilities and defence policy among participating MS, thus making the operational and political outcomes of PeSCo not relevant for the capitals, the EU, and – above all – for European security. In order to avoid such a distortion of PeSCo's basic aim, it is important to ensure a high level of internal coherence and clear governance, as well as effective liaisons with other EU MS and relevant existing initiatives and projects.

With reference to the first point, PeSCo's basic organizing principle should envisage that each participating MS joins all projects and initiatives, with the only exception of those where it has no capabilities to share or develop together. Implementing this principle

²¹Sven Biscop, *Differentiated Integration in Defence: A Plea for PeSCo*, Other Papers/Articles, IAI, Rome, February 2017, p. 4, http://www.iai.it/sites/default/files/eu60_1.pdf

²²Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, *PeSCo: An Ace in the Hand for European Defence*, Other papers/Articles, IAI, Rome, March 2017, p. 2.

would mean the majority of participating MS participate in the vast majority of PeSCo activities, so as to create a stable and reliable centre of gravity able to make this effort effective and efficient.

According to this logic, participating MS should define right from the beginning what are their common strategic priorities in terms of capability development and use, also with a view to possible operational theatres and international threats, such as: the crises in the Mediterranean, Middle East, and Sahel regions; the crisis in Ukraine and relations with Russia; and the fight against terrorism.²³ In order to ensure sufficient cohesion and an adequate level of transparency and coordination with existing initiatives, the governance of PeSCo should be effectively linked with both the EU and NATO levels, although in different ways.

With reference to the Union, the High Representative/Vice-President (HRVP) will have to play a central role in order to ensure coordination with the broader objectives of the Common Security and Defence Policy on the one hand, and the alignment of PeSCo's outputs to the level of ambition defined by the EUGS on the other. To this purpose, for example, it should have a chairing role of PeSCo high-level meetings.

Considering that initiatives should include collaborative procurement, representatives from both EDA and OCCAR should also be involved in periodic meetings. In fact, the EDA would contribute to the requirement and R&T phases, by performing the necessary preparatory work, as well as developing case studies and scenario analysis, while OCCAR could be used for the development and procurement phases.²⁴

Furthermore, by linking PeSCo with the CARD meetings, the necessary degree of coordination could be ensured also with other MS not part of the PeSCo framework. During these meetings, all EU MS should discuss the advancements of PeSCo with the HRVP, as well as with a member of the European Commission at appropriate level in order to ensure an appropriate link with European Defence Action Plan (EDAP) as well as the European Defence Fund (EDF).²⁵ In fact, the power and potential of the recently launched defense instruments lies in their complementarity: PeSCo, CARD and the EDF are interlinked and should re-inforce each other.²⁶ For example, the EC decided that she will offer a higher co-financing rate (a 10% bonus) to projects funded by the EDF if carried out under the roof of PeSCo.²⁷ While normal projects for tests and demonstrators would get

²³ Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, PeSCo: an ace in the hand for European defence, op. cit., p. 3.

²⁴ Dick Zandee, New kid on the block. The European Commission and European Defence, Policy Brief, Clingendael, December 2016, p. 4. https://www.clingendael.nl/sites/default/files/PB_New%20kid%20on%20the%20block.pdf

²⁵ Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, PeSCo: an ace in the hand for European defence, op. cit., p. 2.

²⁶ Frédéric Mauro, Federico Santopinto: La coopération Structurée Permanente. Les perspectives nationales et état d'avancement, Parlement européen, Direction générale des politiques externes, Bruxelles, 2017.

²⁷ European Commission, Factsheet on the European Defence Fund, 7 June 2017, available at: http://europa.eu/rapid/press-release_IP-17-1508_en.htm

20% financial support in the capability window of the EDF – the European defense industrial development programme (EDIDP) - PeSCo projects would receive 30%. Ensuring an adequate level of coordination is even more important considering that the Commission plans to increase the already considerable amount of money she started putting into defense with the EDF. The financial support for research has already started: between 2017 and 2019, the Commission will initially provide 90 million EUR from the EU budget. This paves the way for a European Defense (Research) Budget under the next EU Multiannual Financial Framework, for which 500 million EUR has been designated starting in 2020. Moreover, the Commission intends to provide 500 million EUR between 2019 and 2020 for development and acquisition with the EDIDP. The Commission is finalizing a program to provide one billion EUR annually as of 2020.²⁸ In order to increase transparency as well as the legitimacy and accountability within the EU institutional framework, the HRVP should report twice a year to the European Parliament about developments within PeSCo.

In order to avoid useless duplication of efforts as well as to achieve a more effective defence spending, close coordination and cooperation between PeSCo and NATO should be developed. Considering the objectives of PeSCo, the EU should ensure adequate level of coordination with the Atlantic Alliance, both in terms of capabilities developments and operations.²⁹ First of all, the current process of information/documents exchanges and the role of the EU-NATO Capability Group should be enhanced in order to ensure better coordination between the NATO Defence Planning Process and the EDA CDP. Furthermore, with a view to improve the operational cooperation, military-to-military contacts should be improved by ensuring constant and structured working relations between NATO International Military Staff, Allied Command Operations and Allied Command Transformation on the one side, and the EUMC, EUMS, EDA on the other.

Clarifying what “inclusivity” and “modularity” mean thus raises challenges that participating European countries together with relevant European institutions will have to address, to ensure the effectiveness of PeSCo. On the one hand, inclusivity should not result in a watering down of political and institutional ambitions. On the other hand, the adoption of a modular approach should not lead to the creation of a mere framework of loosely coordinated cooperative projects. A functioning PeSCo might proceed from the following: a clear definition of qualitative and quantitative evaluation criteria for inclusion; the introduction a certain degree of flexibility through a modular approach addressing both the operational and the industrial dimension of defence; and finally, the establishment of an effective and transparent governance.

²⁸ Amélie Lohmann, Claudia Major: The Silent Revolution in European Defense. SWP Point of View, 24.07.2017; <https://www.swp-berlin.org/en/point-of-view/the-silent-revolution-in-european-defense/>

²⁹ Alessandro Marrone, Nicoletta Pirozzi, Paola Sartori, PeSCo: an ace in the hand for European defence, op. cit., p. 3.

CAPABILITIES AND INDUSTRY: THE IMPACT OF PeSCo

The impact of PeSCo on European industry and defence capabilities will very much depend on the character of projects that come under the PeSCo umbrella.³⁰ The four criteria delineated above will necessarily have industrial ramifications. Yet the basic (economic) rule remains simple: if (a) PeSCo implies that member states or defence industries need to spend a Euro more, it is unlikely to happen. However, PeSCo can create an economic incentive for industrial companies mainly due to economies of scale. If states agree within a PeSCo to jointly procure something, this might result in bigger procurement projects. Companies might hence be able to generate economies of scale because of the higher number of same items states might order.

Yet, for the defence industrial realm, EDF might be a greater driver for change than PeSCo.³¹ While the details are still to be defined, the main features of the EDF are clear: The EDF tries to fight the fragmentation of Europe's defence market and the lack of money for research and development first by offering financial assistance to companies that cooperate in research and development across borders. Only if companies from different countries work together, would they receive support. If cooperation takes place within PeSCo, they get an extra bonus. Secondly, the EDF supports groups of states that aim to jointly procure defence equipment. For the first time, the EU is incorporating the defence industry in its efforts to shape European defence. Now the funding must be ensured, the functioning details be defined, and the settings must be attractive for both states and industry to get engaged. While doubts remain about its attractiveness for both industry and states, the EDF's potential to shape the defence industrial landscape is higher than with PeSCo only.

Whilst it is unlikely that the PeSCo criteria will preclude any project *a priori*, industry or governments may not be interested in having them under the PeSCo umbrella. An issue arises here: if the aim of PeSCo is especially to ensure coherence within the EU-framework, then this would most likely also include applying relevant regulations to PeSCo. This particularly concerns the procurement directives in the area of defence. Until today governments and industries have circumvented these regulations. Governments dislike them since they would limit their leeway in using procurement as a means of domestic politics for jobs, industry, and infrastructure. The industry is reluctant as it could shake up the way their business model works: betting on support by national

³⁰ See also Frédéric Mauro, Federico Santopinto: La coopération Structurée Permanente. Les perspectives nationales et état d'avancement, Op Cit

³¹ Amélie Lohmann, Claudia Major: The Silent Revolution in European Defense. SWP Point of View, 24.07.2017; <https://www.swp-berlin.org/en/point-of-view/the-silent-revolution-in-european-defense/>; Daniel Fiott: Funding European Defense Cooperation, EU ISS; April 2017.

governments and ensured participation in international projects. Hence, it is likely that both governments and industry will seek to continue business as usual. Thus, PeSCo in the industrial realm can easily fall into the same trap as in other areas of defence: it may be appealing and desirable from a normative point of view of European integration, but lack practical added value for defence.

No actor is willing to carry the cost of transformation that would result in moving from the old inefficient procurement system (where national interests dominate) to one where states can achieve more efficacy by dealing with larger lots and more competition. To kick off this integration, states would need to make heavy political and financial investments – this even more so as industry has no reason to financially invest into the EU-framework. Industry is widely globalised and generates its turnover outside rather than inside the EU. PeSCo will have a hard time accommodating non-EU Partners of a significant size – be it Turkey or the US. Moreover, competition and consolidation means that some companies will not survive. Hence, why should industry care? Here again it is useful to have a look at the bigger picture: PeSCo is one tool of Europe’s new defence toolbox and should be mutually reinforcing with CARD and EDF. The tool for consolidation seems to be the EDF than PeSCo.

Even if the argument of long-term political stability and rule of law is in principle well understood, companies must strive for the shareholder value and seek to win the next contract. Thus, they need to shape the environment in a way which is favourable for their next deal. PESCO may introduce through the back door a different distribution mechanism for the funds available other than just return and national exemptions through article 346 TEU – namely transparent competition and economic rather than political criteria for awarding contracts. Where this is the case, PeSCo creates cooperation and incentives to cooperation, especially when the impact of the Commission’s European Defence Fund is considered. Alternatively, industry might consider that PeSCo creates uncertainty, and therefore might aim to prevent this. Also, governments will aim to remain in control of the industry for domestic political reasons, at least for the next project and until the next election, but some are really concerned about assuring access to defence industry and the quality of products.

What could change the current structure would be large scale cooperation, or tendering the next large procurement projects as EU-projects. This would offer significant resources to industries and thus generate their willingness to accept new ways of allocating resources, especially through EU public procurement rules. Small tenders are just a drip in the ocean: winning or losing them does not matter for the structure of the industry and the ability to change it. However, every government supporting this EU approach will immediately come under fire by its industry and other stakeholders, asking why national taxpayers money should deliberately leave the country.

Thus, the most likely scenario is that some small ticket projects that exist already are relabelled and become showcases for the role of PeSCo. However, it is very likely that those projects that do make a difference, that structure the future of Europe's defence industry and that are highly political will remain outside PeSCo and thus outside the EU rules and regulations. Just as it was the case for the last 60 or so years.

Member states could envisage a gradual approach to introduce PeSCo and procurement regulations to the relevant projects. PeSCo projects in the defence industrial realm would not have to start by day one to apply the full bandwidth of regulation. Instead, there could be deadlines or parts or percentages of projects allocated through EU-wide tendering. But again, the key question is – why should governments make the considerable efforts and put procurement out of their hands into the fate of others.

AUTONOMY AND SOVEREIGNTY

Essentially, PeSCo has to overcome the blocking power that results from the centuries-long bond between the state and the military – and the financial incentives for the industry that profits from the current setup. So far, the incentives to change this behaviour, the deep structure and realities it has created, are not really compelling. Why should a nation give up what it perceives as being at the core of its sovereignty? Of course, there is a reason: sovereignty in terms of freedom of action is actually lost already – dependency is reality for all EU member states, and it grows faster the longer states deny these realities. There is no choice between binding into frameworks or staying alone.³² The choice is only between the frameworks and – as a consequence of that – how capable and how influential governments will be in the future. Yet, EU discourse and real world problems are still detached from another. To make a relevant contribution, member states need to take PeSCo beyond its initial definition and re-interpret it so it can offer a real added value. Considering the points above, doing so requires three main things.

First of all, PeSCo has to deliver: theological discussion about institutional setups, including all the wishful thinking about what will happen once PeSCo is there, do not touch upon the only important criteria: can PeSCo deliver in the real world? Does it contribute capabilities to European defence? The beauty of institutions in and of themselves, and integration as an objective do not matter in security and defence.

Secondly, PeSCo needs to convince: so far, the EU has not offered any incentive for member states to organise meaningful defence cooperation inside the EU-framework. Most European cooperation projects blossom outside the EU. Neither the EU nor the

³² Claudia Major: Credible EU Defense Means Rethinking Sovereignty.op cit.

states seem to have learned this lesson. Lastly, PeSCo should be open to third parties: NATO has become a relevant player in organising defence cooperation. NATO projects and other and cooperation settings outside the EU-Framework would need to be acceptable if not compatible within PeSCo – otherwise, European capabilities are likely to suffer and member states do not see a reason to join if they have to change.

The EU use to conceive of defence as a result of political integration. Today, European leaders seem to perceive defence as a stepping stone to political integration. This explains why the PeSCo debate is also about the European Union, and why political leaders are pushing for genuine progress in the realm of EU defence.

In the current political climate, there is thus more to the defence debate than defence itself. It may be the case that progress in defence is too important to be left only to national militaries, national industries, and even defence ministers. But the current political efforts need to deliver more than political integration: they need to deliver tangible defence results. Otherwise, the EU will find it difficult to fulfil the expectations it has raised since 2016, and risks setting itself up for failure, by falling back into the patterns that have frustrated progress for so long. ■

#21 – Policy Paper

HOW TO MAKE PeSCo A SUCCESS

BY

OLIVIER DE FRANCE / Research Director, The French Institute for International and Strategic Affairs (IRIS)

➤ *Introduction / What is the point of PeSCo?*

CLAUDIA MAJOR/ Senior Associate, German Institute for International and Security Affairs (SWP)

➤ *Capabilities and industry: the impact of PeSCo? / Autonomy and sovereignty*

PAOLA SARTORI / Junior Researcher, Istituto Affari Internazionali (IAI)

➤ *What kind of PeSCo?*

September 2017

The views expressed here are solely those of the authors. They do not reflect the views of any organization.

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.

CONTACT [Pilots]:

Jean-Pierre Maulny, Olivier de France, Sylvie Matelly, Sophie Lefeez

ares@iris-france.org

+33 (0)1 53 27 60 60

www.iris-france.org/ares

#AresGroup