

#39

# Moving PeSCo forward: what are the next steps?

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*Policy Paper*

## ABSTRACT

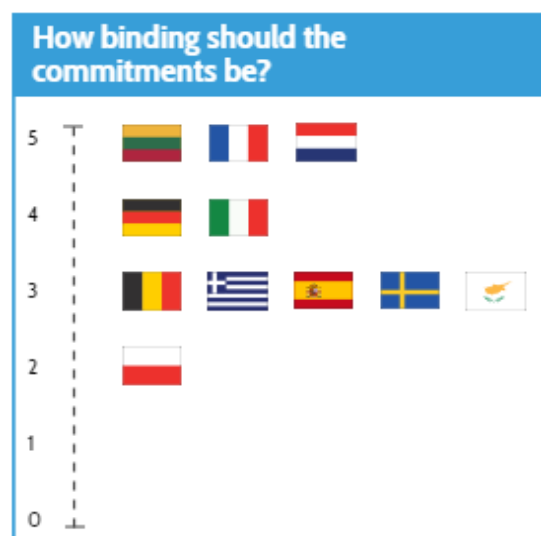
The present paper draws the key conclusions from a year's worth of ARES analysis on PeSCo. ARES experts have set out their vision of the approach to PeSCo adopted by their 11 respective countries: France, Germany, Italy, Spain, Sweden, Lithuania, Greece, Poland, Cyprus, Belgium and the Netherlands. The purpose of this study was to tease out lines of convergence and divergence by asking similar questions across European states. Comparing these national views has yielded **five main recommendations that would both help achieve PeSCo's objectives, and are liable to garner Member State consensus:**

- Rule number 1: Rigorously enforce the binding nature of the PeSCo commitments.
- Rule number 2: Choose compatible crisis management and collective defence projects.
- Rule number 3: Limit the number of capability projects and distinguish two categories: category 1 for the largest and most expensive projects, category 2 for the less expensive ones. All projects in category 1 and 2 must be in line with the Capability Development Plan priorities and the necessity to fulfil EU military capacity shortfalls.
- Rule number 4: Reconcile the need to involve the DTIBs of all PeSCo members with the need to develop the most effective military capabilities.
- Rule number 5: Accept third States into a PeSCo project only if their contribution is substantial, and would make it impossible to carry out the projects without this contribution.

These proposals aim to address the following splits across European countries:

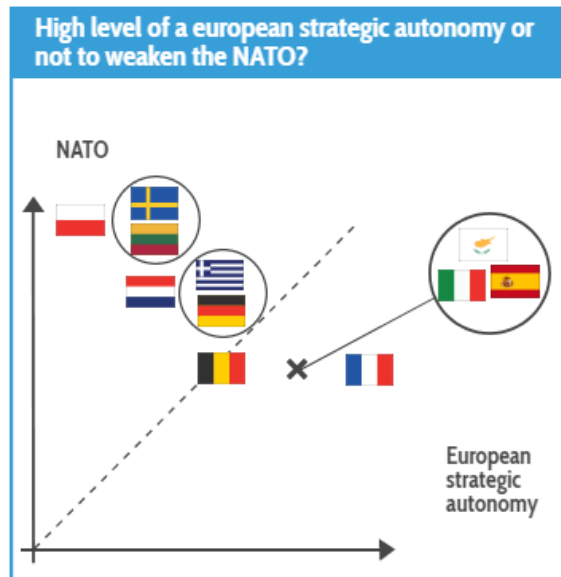
### - **Binding commitments versus flexible commitments**

Some countries want the binding nature of the commitments to be strictly enforced, while others are willing to accept more flexibility.



- **High level of ambition and willingness to develop the European strategic autonomy versus need to not weaken NATO**

Some countries want projects to have a high level of ambition in order to develop Europe’s strategic autonomy, whilst others fear that this objective could weaken NATO and increase the decoupling of EU and US on European security.



It is worth noting that the states that champion a high level of ambition for PeSCo do not think that it would weaken NATO.

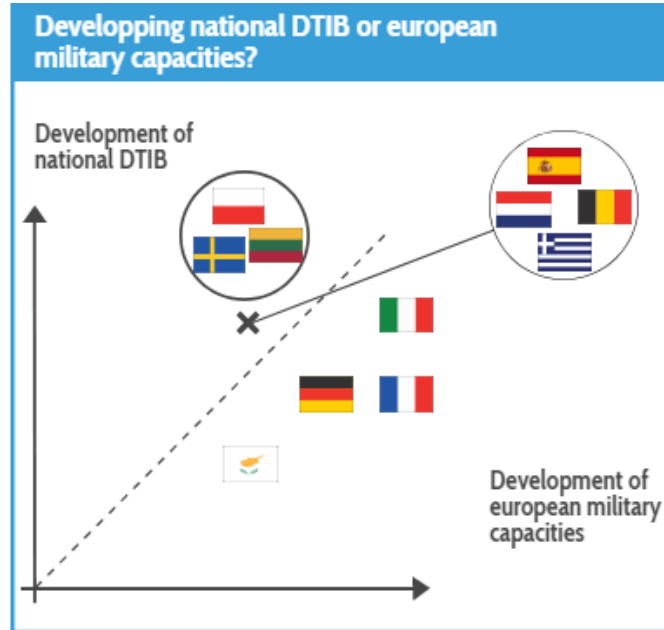
- **Open or restricted rules to accept third States in PeSCo projects**

Some countries would like to be able to open PeSCo projects widely to third States for interoperability reasons, while others would like to see more restrictive conditions to protect the specificity of the European capability approach.



- **Development of national DTIBs versus development of European military capabilities**

Some countries want PeSCo projects to benefit their national DTIBs as a matter of priority, others want them to meet the objective of filling capacity gaps.



Despite the potential contradictions involved, it should be added that all countries wish to develop their DTIBs through PeSCo to some extent, although they all also think that PeSCo's objective should be to develop EU military capabilities.

**Keywords:** PeSCo, Common Security and Defence Policy, European Defence Fund, CARD, Framework Nation Concept, European Intervention Initiative, NATO, NORDEF, EDA, European commission

**A**RES launched a series of papers on the national visions of PeSCo beginning in September 2018. The objective was to identify convergences and divergences on the perception of PeSCo in order to define the way PeSCo could and must evolve in the following years. Eleven countries<sup>1</sup> were analysed by in-country researchers of the ARES network through interviews with officials. This paper is the synthesis of these national visions and positions.

## **THE STARTING POINT: PESCO, THE FUTURE OF THE CSDP AND NATO**

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Member States have finally joined PeSCo but starting from different positions.

On the one hand, some like-minded countries such as France, Germany, Italy and Spain, who proposed the first draft of the PeSCo notification in July 2017 proved over time to be great supporters of the project to deepen European defence integration, showing their eagerness to contribute and develop initiatives aimed at achieving a greater level of EU ambition as well as strategic autonomy. For these countries, PeSCo is not just a technical tool, it is rather a relevant step in the perspective of a common defence of the EU. Greece follows the same line.

On the other hand, countries such as Poland, Lithuania and the Netherlands have enthusiastically joined PeSCo despite their traditional tendency to count on NATO – more than the EU - as the “cornerstone” and their main security provider<sup>2</sup>. Poland and Lithuania, in particular, feared that PeSCo would divert the European countries from their main objectives in security matters, i.e. to reinforce collective defence capacities in order to respond to the resurgence of the Russian threat within the NATO framework.

Therefore, the main concern expressed by Poland and Lithuania was that PeSCo should not undermine NATO. Indeed, the historical concern represented by Madeleine Albright’s

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<sup>1</sup> Germany, France, Spain, Italy, Sweden, Poland, the Netherlands, Belgium, Greece, Lithuania, Cyprus.

<sup>2</sup> Margarita ŠEŠELGYTĖ, *PeSCo, The Lithuanian Perspective*, ARES Policy Paper, September 2018.

“three Ds” (no duplication, no discrimination, no decoupling)<sup>3</sup> seems to still be alive. The Polish and Lithuanian perspectives see it as essential to prevent this new mechanism from weakening to some extent the Alliance. It is only in this context that they consider PeSCo as a useful – if additional - tool to increase the European ability to mainly respond to hybrid threats and cyber-attacks in a complementary dimension along with NATO. Such a mechanism can fill the Alliance’s gaps and improve European military capabilities so as to also strengthen NATO.

The Netherlands have a more balanced position which considers PeSCo as a valuable tool in order to lead to better defence capabilities for CSDP operations, while at the same time strengthening the European contribution to NATO.

The development of capabilities that NATO can benefit from is also a consideration particularly supported by Greece according to the “single set of forces principle”<sup>4</sup>. Despite not being a NATO member, the Cypriot perspective is quite similar since it suggests PeSCo should fill EU shortfalls while avoiding duplication. Sweden also outlined that PeSCo can be a useful tool, a complement and not a replacement of the other existing cooperation frameworks.

But, finally, the need to enhance EU-NATO cooperation is a key point on which all Member States’ approaches widely converge.

At this point, the uncertainties about the engagement of the United States (US) in European security, partly due to President Donald Trump’s words and actions, have led to contradictory interpretations. On the one hand, PeSCo has been seen by these countries as a European willingness to be more decoupled from the US, which might widen the transatlantic gap. On the other hand, and this perspective is growing stronger, PeSCo could be seen as a willingness to do more in order to ensure their security, which is well seen by the Americans if these efforts are consistent with and complementary to NATO’s processes and therefore aim to develop the collective defence capabilities.

Within the debate on PeSCo should also be considered the permanent historical issue of burden sharing between the EU and the Alliance, which has gained strength under the

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<sup>3</sup> Madeleine Albright, “Remarks to the North Atlantic Council Ministerial Meeting”, Brussels, 8 December 1998.

<sup>4</sup> Yvonne-Stefania Efstathiou, *PeSCo the Greek Perspective*, November 2018, ARES Policy Paper.

Trump administration through a stronger pressure on European allies to commit and spend more for their own defence.

The increasingly aggressive posture of Russia's foreign policy and the loss of reliability with regard to the US as a transatlantic partner has also contributed to Germany's perception of PeSCo. The tendency of the US to move away from transatlantic relations, accentuated under Trump's administration, has become a further alarming element in Germany's point of view – especially as the US continues to be seen as an indispensable partner. Berlin also adds to all this their concern about the unity of the EU, which is questioned by growing phenomena across Europe such as nationalism and populism, with Brexit as the most visible incarnation of this. For these reasons, what became increasingly important for Germany was to answer these challenges with unity and cohesion. Here, it is worth mentioning the joint document presented by Berlin and Paris to the High Representative of the Union for Foreign and Security Policy and Vice-President of the European Commission (HR/VP) in September 2016, entitled “Revitalizing CSDP – Towards a Comprehensive, Realistic and Credible Defence in the EU<sup>5</sup>”. Moving from the deteriorated environment of international security, referring also to the terrorist attacks suffered by multiple European cities, the document answered the call for a “stronger Europe” on defence and security advocated by the EU Global Strategy.

Another country that shares with Germany this concern about European unity is Sweden. This factor has contributed to a change in its approach towards PeSCo that has shifted from scepticism to a positive vision for this tool for the development of European defence. The initial mistrust towards PeSCo was linked to a wider one about supranational cooperation where national sovereignty and an independent defence policy are considered as two crucial lynchpins, in addition to the preference of bilateral formats (with the US, the UK, Finland, Denmark, Norway) as well as geographically-based structures such as NORDEFECO. In the end, the Swedish approach embraced both the French concept of PeSCo as an additional tool for capability development rather than a

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5 Jean-Yves Le Drian, Ursula von der Leyen, “Revitalizing CSDP – Towards a Comprehensive, Realistic and Credible Defence in the EU”:  
<https://club.bruxelles2.eu/wp-content/uploads/2016/09/let-fra-all-defensefeuiileroute@fr160911en.pdf>.

substitute for other formats, and the German view focused on promoting European political unity against any risk of division.

The PeSCo initiative was however seen by other states, namely Cyprus, as a double opportunity: from a European side, to achieve the level of ambition set in the 2016 EU Global Strategy and defined as a priority for the country; and in national terms, as a way to sustain the development of the country's defence capabilities. In particular, Nicosia seeks through PeSCo to mitigate the effects on national military capabilities of the 1992 arms embargo. The participation of Cyprus in cooperative projects, thus involving its SMEs, could be useful to fill its capability gaps. Cyprus seeks to maintain its political commitment as well as to effectively communicate to the European citizens the importance and impact of PeSCo.

Although traditionally pro-European, since 2014 Belgium has shown less support for European integration as the Flemish nationalists have taken power.

Therefore, almost all the Member States (except Denmark because of its opt-out from the CSDP, and Malta which has decided not to participate in PeSCo for the time being) agreed to activate PeSCo but not before certain conditions were met.

## WHAT KIND OF PESCO?

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### Level of inclusiveness

The second great concern largely shared by most of the Member States was that PeSCo might pave the way to a differentiated form of integration where a core of countries, namely the most willing and able in terms of capabilities and defence spending, advance towards a “two-speed” common defence. While France, above all, insisted on an exclusive PeSCo, eager to actively participate in the vanguard group of countries ready to lead a deepened defence cooperation and in line with the description of PeSCo in the Lisbon treaty, other countries, led by Germany, strongly opposed any idea of a kind of club composed of the most committed countries. Indeed, the perspective for most of the



Member States to not be able to meet the ambitious criteria<sup>6</sup> provided for in article 42.6 TEU and to be excluded from the circle, led them to claim a more inclusive approach. This is especially true for Belgium, which hoped to be involved with the most capable Member State in defence cooperation initiatives, despite its defence budget being among the lowest in the EU.

Despite the fact that Spain has always aspired to be part of the core of countries leading on European integration when it comes to defence matters, this country also supported an inclusive formula that allows most of the Member States to be committed to EU defence<sup>7</sup>. In the same way, Germany stands as a great supporter of an inclusive PeSCo, focused on ensuring cohesion within the EU, the issue that matters the most from a German perspective. Sweden has fully followed German footsteps by supporting the widest possible inclusiveness and participation in order to avoid divisions among European countries. Finally, between the French aspiration for a more restricted PeSCo and the German position on inclusiveness, the latter prevailed, positively regarded as a way to prevent possible division lines among the Member States. This is highlighted by the Italian perspective, which did not want to take sides in the debate on an inclusive or exclusive PeSCo, but which still wished for it to be ambitious. They were aware of the fact that a larger pool of participating members can affect the added value of PeSCo projects with a lack of ambition potentially hampering the achievement of strategic autonomy. More inclusiveness implies more political will and a greater effort to sustain qualitative projects and meet the standards.

It should finally be noted that the first draft of what would become the Permanent Structured Cooperation notification by the European Council in December 2017 had been devised by France, Germany, Italy and Spain, which is a fair representation of the countries on both sides of the inclusiveness debate. As adopted, PeSCo is therefore a compromise which shows every country's will to succeed. That debate is thus over. What needs to be addressed now is the level of commitment and the nature of the projects initiated within PeSCo.

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<sup>6</sup> "Member States whose military capabilities fulfil higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions" Notification on Permanent Structured Cooperation (PeSCo) to the Council and to the High Representative of the Union for Foreign Affairs and Security Policy  
<sup>7</sup> Felix Arteaga, PeSCo, The Spanish Perspective, September 2018, ARES Policy Paper.

## Level of commitment

On the question of the level of commitment desired by the Member States, Belgium among others supported a “light”<sup>8</sup> version of PeSCo including few commitments. On the other hand, France, the Netherlands, Lithuania, Greece, Cyprus and Italy welcomed the higher binding commitment envisaged by Annex II of the Notification on PeSCo. According to them, a certain degree of institutionalisation can better ensure the development of EU military capabilities by including monitoring, evaluation and more transparency.

But the final formula seems to be a compromise between two visions related to a greater and lesser level of commitment: it foresees 20 binding commitments<sup>9</sup> but so far these remain rather generic. Lithuania, for instance, expressed its concern about the vagueness and the lack of definite limits of the benchmarks which appear inadequate to effectively bring improvements to national defence capabilities. For France, the question of the level of commitment will begin a « second battle » following the one on inclusiveness. France thinks an inclusive PeSCo presents a risk of weakness. Therefore, the level of commitment and the binding nature of national engagements are the conditions for a successful PeSCo.

In this regard, the PeSCo Secretariat composed of the European External Action Service (EEAS), including the EU Military Staff (EUMS), and the European Defence Agency (EDA), under the responsibility of the HR/VP, is widely perceived to be positive. Rome particularly outlines how this secretariat can act as a brake on the tendency to lower the level of ambition given the large number of participants, and guarantee more ambitious projects.

In any case, control over commitment will represent for some countries such as France a test of the current capacity of the European institutions to oversee the binding commitments of the 25 PeSCo Member States.

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<sup>8</sup> Federico Santopinto, PeSCo, The Belgian Perspective, November 2018, ARES Policy Paper.

<sup>9</sup> The list of the binding commitments is available here: <https://pesco.europa.eu/binding-commitments/>

## Access to third States

If the Member States generally agree on the level of inclusiveness, their opinion diverges as far as access to third states is concerned. Indeed, for most of the European countries this is a fundamental issue to determine their support for PeSCo.

Greece stated its support for a “case by case” criterion that allows the involvement of third states while keeping in place restrictions related to safeguarding EU security and the independence of the management structures. By doing so, according to Greece, it would be possible to include countries such as the US and prevent the participation of others, like Turkey.

However, countries such as Spain, France and Germany have promoted restricted access to third countries with the aim of better achieving EU strategic autonomy.

Poland, the Netherlands, Belgium and Sweden strongly expressed their opinion in favour of an open PeSCo. Cyprus also looks positively towards access for third states, but on the condition that this would bring added value to projects, especially concerning expertise. According to Nicosia, for third states to access PeSCo they should secure a Security Agreement with the EU, an Administrative Arrangement with the EDA and prove that they share European values<sup>10</sup>. The main points that are not viewed favourably by Cyprus are that the third countries could uphold the collaborative projects without formally signing up, as well as the lack of limitations on the future use of the resulted capabilities.

The US, as well as the United Kingdom, are the main partners that those who want to limit the access to third countries want to include. Poland, which sees the US presence as indispensable for its own defence, and for the whole defence of the eastern flank, particularly supports American involvement. The participation of Washington is also of primary interest for Lithuania given its military ties with the US, a vital partner in the defence sector. The Netherlands would like to involve the UK and Norway considering the cooperation with them a key element. Sweden also perceives as a serious problem the

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<sup>10</sup> Yvonne-Stefania Efstathiou, *PeSCo: the Cyprus Perspective*, February 2019, ARES Policy Paper #35, p.5

restrictions to the UK and the US, since its defence industrial base is largely foreign-owned, and transatlantic relations are vital in terms of materiel acquisition and development. In addition, given its geographical location and the resulting relevance of Nordic cooperation, a solution involving third non-associated countries is a fundamental condition without which capacity development through PeSCo would be completely useless to meet Swedish needs. An exclusion of countries such as the US, Canada, Norway and Denmark would have a negative impact on Nordic cooperation which plays a key bridging role for these states.

As for Belgium, it is eager to open the access to third states, mainly to the UK – this sits in contrast to the Franco-German position. Belgium, Poland, Sweden, Lithuania and the Netherlands are also among the 11 countries<sup>11</sup> who signed a “non-paper” to advocate the participation of third states in PeSCo. According to those who signed the document, when defining the conditions for the admission of non-EU states, the “substantial added value” is the key element to take into account, while the notion of exceptionality, included in the November 2017 notification letter, must be flexibly interpreted<sup>12</sup>. Participation must be restricted to what is strictly necessary and based on the elements which can favour the success of a project. Moreover, it is not necessary to impose binding commitments, and a simplified admission procedure should be considered such as silent procedure. The document highlights the need to not hamper the access of third states to PeSCo projects, so the signature of an administrative arrangement with the EDA or an agreement on the exchange of information with the EU should be determined on a case-by-case basis. However, some limits are provided: even if non-EU countries can participate in the decision-making process, they cannot have a veto right; the deployment of capabilities developed must remain at the discretion of PeSCo Member States; and when the participating Member States unanimously agree, the third state may be invited to leave a project if it no longer meets the conditions<sup>13</sup>.

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<sup>11</sup> The other countries are Estonia, Finland, the Czech Republic, Slovakia, and Portugal.

<sup>12</sup> Bruxelles2Pro, *Exit, le Royaume-Uni pourra participer à la PeSCo. Vers un accord sur la participation des pays tiers*, 14 December 2018.

<sup>13</sup> Bruxelles2Pro, *Une coopération structurée permanente bien ouverte aux pays tiers, plaident onze pays*, 27 September 2018.

The other countries are in favour of a more restricted access to PeSCo. The divergence stems from two points:

First, the main concern is that third states joining PeSCo would be able to interfere in the EU decision making process in defence matters. This reflects a broader Brexit debate as one of the fears of the European negotiators while discussing the conditions for the UK's exit from the EU and its future relationship, was that the UK would interfere as a third state in the EU's legislative process.

Second, there is a concern expressed by France coming from the fact that PeSCo capability projects could be proposed at the very early stage, when they are not equipment programmes, with the consequences of multiplying the number of third states that want to be involved in the project and so to dilute the concept itself of PeSCo.

## Level of ambition

The level of ambition must be differentiated from the level of commitment, which will control that states honour their commitments, while the former is determined by the obligations the states will set themselves. If a certain level of ambition has already been defined in the 20 commitments shared by the Member States, the capability development projects in which some states might engage must complement PeSCo's level of ambition, knowing that 34 projects have been adopted during two selection processes. In some ways, the debate on PeSCo's level of ambition touches on the level of commitment and about PeSCo's inclusiveness.

Formally, the formula which obtained the wider support differs from the one envisaged by the Treaty. It is no longer the matter of a group of Member States "whose military capabilities fulfil higher criteria"<sup>14</sup> since all Member States can now participate in PeSCo and almost all of them actually have been included. Moreover, the "inclusive" and "modular" nature<sup>15</sup> of the agreed PeSCo allows the involvement of non-EU states even if

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<sup>14</sup> Art. 42.6 Treaty of European Union.

<sup>15</sup> Notification on Permanent Structured Cooperation (PeSCo) to the Council and to the High Representative of the Union for European Affairs and Security Policy <https://www.consilium.europa.eu/media/31511/171113-pesco-notification.pdf>

exceptionally and on certain conditions. Therefore, a relevant issue remains open on the level of ambition, namely whether extensive participation could have negative effects on PeSCo's level of ambition. The Notification on PeSCo to the Council and to the HR/VP outlined the ambitious nature of PeSCo so the inclusiveness and modularity "must not lead to cooperation being levelled down". However, the risk persists that in order to reach broader participation, the developed projects will be based on the lowest common denominator. This is mostly true given the differences of opinion between the Member States concerning the objective to develop an appropriate level of strategic autonomy. Whereas PeSCo for some countries represents a step in this direction, for others such as Poland it is nothing more than a military tool. In this context, to ensure an "ambitious PeSCo", the four countries who have mostly supported PeSCo, namely France, Germany, Spain and Italy could play a relevant role by pushing and sustaining a higher level of ambition related to projects developed within PeSCo<sup>16</sup>.

Finally, the question of the level of ambition is also linked to the involvement of the DTIB of the countries that are part of PeSCo in the future projects. The countries who do not have a large DTIB fear that the high-end capability projects proposed by countries such as France, Germany and Italy will take a large part of the EDF, excluding countries such as Poland or Sweden. Even if the rules of the future EDF try to encourage cross-border business in EU and to involve SMEs from all the EU countries, this risk still creates for the moment a very opportunist and pragmatic division between PeSCo Member States on the level of ambition question. This debate undoubtedly has had consequences on the type of projects which have been selected since December 2017.

## Type of projects

Regarding PeSCo projects, Italy, Spain and Greece are the most present countries, among those taken into consideration here, demonstrating a high willingness to actively participate. Italy takes part in 21 projects, leading 7 (European Training Certification Centre for European Armies, Deployable Military Disaster Relief Capability Package,

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<sup>16</sup> Sven Biscop, "European Defence: Give PeSCo a chance", Egmont Institute, 2018 <http://www.egmontinstitute.be/content/uploads/2018/06/European-defence-give-PeSCo-a-change-SvenBiscop-june18-1.pdf>

European Armoured Infantry Fighting Vehicle / Amphibious Assault Vehicle / Light Armoured Vehicle, Harbour & Maritime Surveillance and Protection, Counter Unmanned Aerial System, European High Atmosphere Airship Platform -EHAAP-, European Military Space Surveillance Awareness Network); Spain participates in 18 projects and leads one (Strategic Command and Control System for CSDP Missions and Operations); and Greece is involved in 13, leading 5 of them (Helicopter Hot and High Training, Joint EU Intelligence School, Upgrade of Maritime Surveillance, Cyber Threats and Incident Response Information Sharing Platform, One Deployable Special Operations Forces Tactical Command and Control Command Post for Small Joint Operations)<sup>17</sup>.

This reveals probably one of the limits of PeSCo as it is conceived or applied today. The number of projects already adopted during the two first selection processes, 34, is certainly too high and some countries are developing a participation policy in projects that probably exceeds their capacities. This is revealed by those countries that take part in as many projects as possible, as they might be influenced by the defence industry mainly interested in projects oriented towards industrial development and procurement - as can be seen in Greece. Similarly, Italy has always developed a policy favouring industrial cooperation in order to improve competitiveness and the technological level of the European DTIB, but also of the Italian DTIB.

Italy is mostly focused on the capability field, as shown by its leading role for the development of capabilities related to military disaster relief and armoured vehicles. An issue to be taken into consideration refers to the sustainability of the projects in terms of budget, since no substantial increase in the level of defence spending is expected. Spain however is particularly interested in the operational dimension in which it has long been involved by participating in all CSDP missions and operations, as well as contributing to the EUBattle Groups, EUROCORPS, EUROGENDFOR and EUFOR CROC. But as with Greece and Italy, the general condition of Spain's participation in PeSCo projects concerns their relevance in terms of national priorities.

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<sup>17</sup> The full list of approved projects is available here: <https://www.consilium.europa.eu/media/37028/table-pesco-projects.pdf>

Belgium seems to prefer bilateral cooperation when it comes to capacity development projects, especially with Benelux countries as well as with France and Germany. Among the 34 PeSCo projects, Brussels leads only one - Maritime (semi-) Autonomous Systems for Mine Countermeasures (MAS MCM) -, participates in nine other projects and is observer in four more projects. Nevertheless, Belgium sustained the idea of entering other existing projects under the PeSCo umbrella, as is the case for the Future Combat Air System (FCAS) despite its recent choice to buy the American F-35.

If the Netherlands highlighted the CDP as a term of reference for PeSCo projects in order to preserve quality and improve European military capabilities, as well as the burden-sharing with NATO, the Netherlands share with Belgium the focus on bilateral and minilateral cooperation. With very few exceptions, the Netherlands and Belgium participate in the same PeSCo initiatives. Among the PeSCo projects, The Hague leads on Military Mobility (MM) which is considered a key need to be filled.

This project aimed to improve the movement of military forces across Europe and is also fully supported by Poland, as it exactly responds to the purpose of reinforcing both the EU and NATO, which is a clear guideline that PeSCo must follow for the Netherlands and Poland. Thus, the MM project tries primarily to fill a NATO gap and is less concerned with CSDP crisis management due to the more limited ambition of CSDP operations, two features that characterise the projects in which Warsaw participates. It is also interesting to note that two of the six projects in which it takes part are in the cyber sector, which is a clear preoccupation for Poland that has in mind the Russian threat in this domain.

Cyber defence is a field in which Lithuania is also particularly interested since it is perceived as one of the main current threats for its security. According to Vilnius, it is in the hybrid challenges that PeSCo can play a major role in developing the defence capabilities needed by the EU to effectively face these kinds of threats. Indeed, the only PeSCo project led by Lithuania is the Cyber Rapid Response Teams and Mutual Assistance in Cyber Security aimed at ensuring a better cyber resilience.



Cyprus is also an active member as regards the participation in PeSCo projects, currently taking part in nine of them<sup>18</sup>. Its participation in the collaborative projects depends on its capabilities in financial and operational terms, but what matters the most is their relevance for the development of national military capabilities. The country seems mainly interested in projects concerning the forces preparation, the cyber sector, and above all the maritime field. Moreover, the PeSCo programmes should firstly aim to develop defence capabilities that can address the EU level of ambition and the Requirements Catalogue 2017 (RC17), as well as the CDP. According to Cyprus, the batch of projects adopted goes in the right direction, meeting to a certain extent European capability needs.

The Swedish focus on effectively allocating its resources, together with the perception of PeSCo as a supplement for the development of national capabilities, explain the caution with which Sweden has turned to PeSCo projects. In the Swedish perspective, PeSCo should mainly serve its national needs and address the interests of its defence industry at a limited cost. A relevant point stressed by industrial representatives consists of defending in the EU the Nordic and Swedish interests in the defence industry sector. Moreover, for Sweden a key element for collaborative projects is to strengthen the EU's crisis management operations in both civil and military dimensions. Sweden co-leads with France the EU Test and Evaluation (T & E) Centres (ETEC) project, which has the double positive aspect of emphasising the Swedish defence industrial capacity while making use of an existing facility, the Test and Evaluation Centre Vidsel in Lapland. Stockholm participates in three other projects, led by Germany. The MM project, which acquired further added value since the wide participation obtained by the Member States, has a clear advantage for the country given its location. Moreover, this project could positively impact the Nordic initiative on Easy Access<sup>19</sup>, and benefit Swedish capabilities. The other two projects in which Stockholm is participating, the European Union Training Mission Competence Centre (EU TMCC) and the European Medical Command (EMC), both

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<sup>18</sup>EUFOR Crisis Response Operation Core (EUFOR CROC), Network of Logistic Hubs in Europe and Support to Operations, Military Mobility, Upgrade of Maritime Surveillance, Cyber Threats and Incidents Response and Information Sharing Platform, Joint EU Intelligence School, EU Beyond Line of Sight (BLOS) Land Battlefield Missile System, One Deployable Special Operations Forces (SOF), Tactical Command and Control (C2) Command Post (CP) for Small Joint Operation (SJO) – (SOCC) for SJO.

<sup>19</sup> Yvonna-Stefania Efstathiou *PeSCo the Greek perspective*, p. 14.

address the Swedish will to meet its national interest and sustain the EU's crisis management capability development at moderate costs.

Overall, the current 34 projects seem affected by the intent of gathering the widest possible participation. Moreover, they are mostly oriented towards national needs suffering from a qualitative lack in terms of addressing the gaps in European strategic autonomy<sup>20</sup>. These aspects should be improved in the next round of projects.

France has had an ambivalent attitude towards PeSCo projects. Absent during the first batch of initiatives, as it was launching the EII, Paris is fully engaged during the second batch in projects that it considers to be significant in terms of capacity in order to fulfil the most demanding missions of the CSDP, i.e. in line with the letter of the Lisbon Treaty.

This profusion of projects in PeSCo is also a reflection of the prevailing feeling of a potluck attitude. Some see it as a way to strengthen the link with NATO, some try to include their specific security concerns in it, some highlight regional cooperation while others insist on the primacy of the European framework over regional cooperation, and they all try to find in the proposed projects the benefits for their defence industry. For the time being, the choice of the selected projects has been a means of maintaining the cohesion of the EU and satisfying the wishes of PeSCo members. However, this policy should not persist or it might undermine the credibility of the EU in its quest to develop its military capabilities.

## WHAT LINKS BETWEEN PESCO AND THE OTHER INITIATIVES IN CAPABILITY DEVELOPMENT?

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### PeSCo and the other EU framework initiatives (EDF-CARD)

All the Member States welcomed the **European Defence Fund** (EDF) as a useful tool and, for most of them, as the real game changer among the EU initiatives to further defence cooperation. Concerning its link with PeSCo, a particular position is expressed by Poland. The country considers the EDF a relevant mechanism to facilitate the development of European military capabilities, but it prefers this tool to have an open and flexible

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<sup>20</sup> "such as long-range air and sea transport; intelligence, surveillance, target acquisition and reconnaissance (from drones to satellites); air-to-air refuelling; and deployable networks." Sven Biscop, *European Defence: give PeSCo a chance*, op.cit.

character not necessarily linked and focused on PeSCo. This is mainly due to its national Defence Industrial and Technological Base (DTIB) which is not integrated at the EU level, and because of the relevance of the US as a crucial partner from the strategic dimension to the defence industrial sector. Warsaw would like this tool not only for EU industrial partners but also for non-EU players.

However, among the other Member States the widely shared opinion sees a natural connection between PeSCo and the EDF, considering the latter a valid financial instrument to encourage cooperation projects<sup>21</sup>. PeSCo and the EDF should therefore work hand-in-hand, contributing together to the development of European capabilities. In Sweden's view, the EDF could benefit Nordic industry and this is the reason why a relevant issue for this country is to ensure that the Nordic industrial base can be eligible for EDF funding. It also explains the Swedish position on the criteria of eligibility to the EDF that Stockholm wants to facilitate for non-EU eligible entities.

Rome, in particular, stressed the potential synergies between the two mechanisms, pointing out how European funding could boost more ambitious projects. In this regard, as also highlighted by Greece, it is crucial for the projects to fill the EU shortfalls as identified by the Capability Development Plan (CDP). In the Spanish view, the EDF can also affect the priority choices in terms of defence planning as it will be advantageous to favour projects aimed at developing capabilities that can be financed at the European level. Thus, the financial instrument would not be successful without a shared vision of strategic needs. This could be a problematic point since the Member States do not agree on the same priorities, neither do they support in the same way the political implications of these tools created in order to achieve the EU strategic autonomy.

As for the EDF, the **Coordinated Annual Review on Defence** (CARD) is considered to be linked with PeSCo, the three mechanisms creating a coherent whole. The capability development projects funded by the EU Commission budget along with the review of Member States defence planning, have the potential to improve cooperation and fill European military needs. CARD can play a great role in identifying the more useful

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<sup>21</sup> "enabler for project development" from the point of view of Cyprus expressed by Yvonne-Stefania Efstathiou in *PeSCo: the Cyprus Perspective*, *op.cit.*

projects and stimulate military integration and synergies among the Member States. Moreover, as expressed in particular by Cyprus, this instrument could exercise a relevant function in terms of scrutiny and assessment of the implementation at the national level.

Some countries, such as Poland above all, that are particularly worried to keep the initiative complementary with NATO, have shown reluctance concerning the possibility for CARD to be mandatory. However, the biggest concern expressed rests at the implementation level, namely to what extent these tools will effectively work in a consistent and synchronised way.

### PeSCo and the non-EU framework of cooperation

The **Framework Nation Concept** was introduced by Germany in 2014 at the NATO level. According to **Berlin**, the FNC and PeSCo have some common points, mainly both aim to fill the lacking capabilities by organising state clusters. In order to jointly develop military capabilities, now the EU has an additional financial tool that can, through the common budget, promote the activation of cooperative projects. Thus, the two frameworks are relevant to European defence and the development of the necessary capabilities in accordance with the single set of forces principle. What is crucial to Berlin is that NATO and EU agendas advance in a consistent and coordinated manner. Greece also recognises EU strategic autonomy as the aim of both PeSCo and the FNC, but remains sceptical about the possibility to produce mutual synergies between the two initiatives. Although **Cyprus** does not belong to NATO, it welcomes the connection with the FNC mainly with the aim of avoiding duplication in line with the single force principle. The **Swedish Armed Forces** were tasked by the Swedish Defence Minister to join the German FNC in June 2018, as a result of the increasing Swedish interest in defence cooperation with Berlin, especially on the Baltic Sea, as well as the traditional relevance of Germany as a military recipient for the country.

However, despite its support for greater EU-NATO cooperation **Italy** does not consider PeSCo and the FNC as particularly connected. This is because PeSCo is more about pooling and sharing rather than task specialisation: it is not a matter of framework nations who provide the major effort, but the participating Member States jointly cooperate to develop

capabilities according to different types of formats depending on the project. Rather than with the FNC, Rome prefers to link PeSCo with the EDF and CARD.

Regarding the **European Intervention Initiative** (EII) launched by French President Emmanuel Macron, the other Member States reacted differently. Spanish signed the Letter of Intent in June 2018 to join it, although some factors condition its participation such as the mandatory passage to Congress to deploy troops abroad or increasing maintenance and operation expenses. While **Greece** was also in favour of the EII, it highlighted at the same time the need to keep the focus on PeSCo and to avoid the risk of being distracted by other initiatives in addition to those already existing in the EU. Cyprus welcomed the EII perceiving it as distinct from other European initiatives, including PeSCo. At the same time, according to the Cypriot perspective, a potential connection with PeSCo could help avoid a duplication of efforts.

Conversely, **Italy and Germany** showed a certain reluctance to the French initiative. In Rome's perspective, the EII seems to respond more to the French military needs linked with the intervention in Africa by establishing bilateral formats with the other European Members. Rome decided not to join the initiative, demonstrating its steady preference for EU and NATO frameworks. The negatively regarded intervention of Paris in North Africa (in particular in Libya), as well as the tensions on the migrant issue, contributed to this position. Similarly, Berlin did not consider positively the French initiative despite responding favourably to the French offer to participate: a new mechanism outside the EU launched so closely in time to PeSCo can be distracting and have a negative effect on European efforts to strengthen defence cooperation. Germany is particularly concerned about keeping the EU as the main political framework. For this reason, Berlin would rather Member States advance in cooperation under the Union's umbrella and it wants to prevent any risk of weakening European political cohesion.

As far as Sweden is concerned, the French promotion of a European strategic autonomy raises concerns that this might reflect a French wish to distance Europe from the US and, as a result, it negatively influenced Stockholm's perspective. The idea of the EII as an exclusive group and involving defence cooperation at all levels contradicts the Swedish preferences. Sweden favours a selective approach and pursues a step-by-step approach

to deepen any bilateral or multilateral defence cooperation. Although the EII obtained the support of several of its close Northern European cooperation partners, notably the UK and Denmark, but even the Netherlands and Estonia, the decisive country is Finland in this regard. This is because Finland and Sweden are in the process of developing a unique and far-reaching bilateral defence cooperation with the aim of achieving interoperability “beyond peacetime”. As a result, Sweden will probably feel compelled to try and join the EII, not because it perceives this format of cooperation as desirable, but because staying outside the EII would create an asymmetry with Finland that could negatively impact the further Swedish-Finnish military cooperation. Despite the recent Swedish steps to deepen their cooperation with both Germany and France, the gap between Stockholm’s transatlantic focus on the one side, and the EU-oriented vision of both Paris and Berlin on the other will be difficult to close.

While the Member States shared the opinion that CARD, PeSCo and the EDF are connected mechanisms that should work together, they consider differently other initiatives such as the FNC and the EII.

### **PeSCo and sub-regional initiatives**

One of the questions raised was the coherence of PeSCo, an initiative designed to develop military capabilities in a European framework through a generalised cooperation mechanism, with regional initiatives in the field of defence cooperation. Among these regional cooperations, we must distinguish minilateral cooperation formats such as Visegrad and NORDEFECO, from bilateral cooperations such as Franco-British cooperation, Franco-German cooperation, as well as the cooperation between Belgium and the Netherlands, and between the Netherlands and Germany.

In general, the countries consider that the organisation of coherence between these initiatives must go from the sub-regional level up to PeSCo, which guarantees the primacy of cooperation in the European framework. However, there is an exception to this principle with Sweden, which views PeSCo in terms of its level of consistency with NORDEFECO and not the other way around. This is explained both by the role played by non-European countries in NORDEFECO, starting with Norway, but also by the primacy of

Swedish security interests and by the Swedish DTIB's links with non-European DTIBs.

Visegrad does not seem to play a pre-eminent role in defence cooperation today, and the issue of articulating it within PeSCo is therefore a minor one. It could be different for the « Bucharest Nine » format, which gathers all NATO members of the Eastern flank, and which will look at options to run PeSCo projects among its members.

The question of the Belgian-Dutch cooperation is in itself a textbook case because these two countries are in the process of a very strong integration of capabilities, specifically in the naval sector, due to the limited size of their armed forces. As a result, the two countries partly articulate their initiatives within PeSCo but also ensure that it does not go against their common interests, which may be of an industrial nature.

Franco-British and Franco-German cooperation are of a different kind. While they may cause concern for countries that are not part of these bilateral cooperations, they are above all perceived by these states, and in particular France, as laboratories for cooperation in defence and industrial matters that are in no way contradictory to the objectives of PeSCo. Minilateral cooperation is tested before bringing them into PeSCo, as will certainly be the case for the Franco-German-Spanish air combat systems project and the Franco-German Main Ground Combat Systems. But this is for sure a question for the future.

## **INTERACTIONS WITH THE NATIONAL DEFENCE INDUSTRIES**

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How Member States will contribute to PeSCo projects also depends on their national defence industries, which vary considerably from one country to another. If the positive effect on the arms industry is clearly one of the key expectations of PeSCo, even if it is not underlined in the French and German cases, participation in European cooperative projects may be particularly difficult for some countries such as Greece, Lithuania, Poland, Cyprus or Sweden.

As far as Greece is concerned, the participation of national SMEs may be hampered by the lack of large defence firms able to be involved in PeSCo projects. Indeed, major national

defence companies are close to collapse. Nevertheless, Greece is among the few countries that have reached the 2% threshold of GDP in defence spending although this is a declining trend, and 78% of its budget is spent on pensions and personnel expenses. The Greek perspective supports a proportional approach in which each state contributes to the cooperative projects according to its capacity, and its participation to PeSCo projects is directly linked with the benefits Athens expects for its defence industry.

As regards Lithuania, two factors affect its participation in the European Defence Technological and Industrial Base: the characteristics of its defence industry and its ties with the US. The Lithuanian defence industry is small, basically private (AB Giraite is the only state-owned defence firm) and there are only a few SMEs engaged in the defence sector. Due to the limited defence budget, national procurement responds mostly to the logic of the lowest price regarding acquisitions. For this reason, government-to-government contracts are considered particularly advantageous. The US is a key partner in the defence field, being among the greatest defence system provider while most of the Lithuanian production is exported to NATO. Thus, Lithuania has limited incentives and abilities to fully participate in European defence procurement.

Conversely, **the Polish defence industry** is mainly state-owned and only a limited number of SMEs are private. The Warsaw DTIB is not integrated at the European level, and it remains largely dependent on the domestic market. As with Lithuania, Poland also privileges government-to-government contracts because of their flexibility and the possibility to benefit from offsets. Moreover, cooperation with the US even in the defence industrial field is considered essential - NATO being the major defence and deterrence provider in the Eastern Flank.

For these countries, PeSCo could be an important but not sufficient incentive to actively contribute to the process of integration among the European defence industries.

Regarding Cyprus, the country is not able to develop adequate equipment for its armed forces on its own, and it is eager to involve its SMEs in the PeSCo projects in order to favour the country's defence industry. However, it seems far from easy to incorporate its national industry in the collaborative projects because of the lack of credible large



domestic firms able to take the lead on military capability programmes. Moreover, given the size of its defence industry, the impact of PeSCo would likely be minor compared to what is expected in return. A concrete advantage, however, is for Cyprus to learn from and partner with other participating countries.

For Sweden, the problem is not so much the size of its DTIB and its ability to integrate into PeSCo capacity projects, but the links of the Swedish industry with non-European partners. In other words, it is the conditions of access to the EDF that pose a problem for Sweden, even beyond its inclusion in PeSCo projects which will certainly be eligible for EDF funding. Sweden cooperates with Norwegian, British and American companies that will not have access to the EDF if this industry itself is owned by non-European capital (Hägglunds, Borfors).

## CONCLUSION

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The launch of PeSCo, almost 10 years after the coming into force of the Lisbon Treaty, is undoubtedly a success for the EU. France, which had launched reflections on the PeSCo criteria in the second half of 2008, then concluded its EU presidency with the feeling that it would be impossible to implement this project.

However, the potential risk that PeSCo becomes a failure should not be minimised. First of all, all the initiatives that have followed one another over the past 20 years in terms of pooling capabilities to strengthen European military capabilities have failed or achieved very little, either at the NATO or EU level. In NATO, it was the Defence Capability Initiative in 2002 or Smart Defence in 2011, in the EU it was the European Capability Action Plan (ECAP) in 2001 and pooling and sharing in 2010. PeSCo must not fail because there is a much higher expectation of this initiative than there was in the past. The credibility of Europeans in the eyes of the US is at stake. It is also about the EU's credibility with its citizens: will the slogan “a European Union that protects you” become a reality or is it condemned to remain a myth?

While the 18 months that have elapsed since the notification of the PeSCo can be considered a test, the 34 projects that complemented the 20 common criteria have been launched without testing the governance of PeSCo, the indulgence that has prevailed until

today cannot be a guideline for future years.

The main difficulty with PeSCo comes from the fact that it highlights all the dividing lines between the Member States of the EU and that the potluck policy, which has until now consisted of satisfying everyone without any formal process, will have its limits. All the contradictions we have identified in this comparison must therefore be resolved. In fact, the antagonism between exclusiveness and inclusiveness must be resolved, and strict rules must also be established to allow countries outside the EU to take part in some projects.

**1<sup>st</sup> rule: Apply very strictly the obligation to have binding commitments.**

What distinguishes PeSCo from the previous initiatives, which had largely failed, is the binding nature of PeSCo and of the commitments that will be made by states. If a state does not respect its commitments, which are fixed in its National Implementation Plan (NIP), it should be excluded from the project, or even from PeSCo itself, as envisaged in the Lisbon Treaty. It will be up to the PeSCo Secretariat to point the non-respect of commitments, and to the European Council in PeSCo formation to enforce this rule, but this can only be done if there is clear support from all PeSCo Member States. If this rule is not applied, it is to be feared that the PeSCo will become a new failure.

**2<sup>nd</sup> rule: Choose compatible crisis management and collective defence projects.**

If the CSDP is theoretically competent in crisis management, and collective defence relies on NATO, this dichotomy can no longer exist in the field of EU military capability development for two reasons:

- 1) European citizens would not understand if European defence did not come to protect their territory. It is the very mission of the EU that is at stake;
- 2) The only way to prevent PeSCo commitments from becoming second-class commitments that do not strengthen the states' security is to ensure that they contribute to the collective security of the EU Member States. It would be the case for example for a future combat land system or for a Future

Combat Air System (FCAS), which could be in each case a system of systems. This is the *sine qua non* condition for obtaining full membership of PeSCo and to avoid simply being an observer.

**3<sup>rd</sup> rule: Limit the number of capacity projects and distinguish two categories of projects, 1 and 2, one for the most important projects, and the other for the less important ones.**

The number of projects complementary to the 20 criteria to participate in PeSCo that were selected in December 2017 and December 2018 is too high. They do not address the most important capability gaps nor prioritise the needs to be met. It is therefore necessary to establish clear capability priorities based on the CDP. PeSCo capability projects should be classified into two categories:

- 'Category 1' would include the most important projects in terms of financial commitment, technological challenges and strategic autonomy. These projects should be eligible for funding from the European Defence Fund. These category 1 projects should involve the DTIBs of a large number of Member States as the EDF rules favour cross border business and the necessity to include in the projects SMEs with a different nationality from the prime contractors;
- 'Category 2' would include priority capability coherence projects that can be the subject of cooperation or common procurement but require a smaller financial commitment. Category 1 as category 2 projects have to be in line with the priorities defined by the CDP in order to fill the EU capabilities shortfalls.

**4<sup>th</sup> rule: Reconcile the need to involve the DTIBs of all PeSCo members with the need to develop the most effective military capabilities.**

At this level, PeSCo cannot have the task of selecting projects based on the industrial interests of the Member States at the risk of developing military capabilities that would not be a priority both in terms of filling capability gaps and increasing the EDTIB's technological competitiveness. It is up to the European Defence Fund, and its

implementation through project selection, to ensure that the DTIBs of the smaller countries, and in particular their mid-caps and SMEs, are involved in these projects. This should be done in compliance with two obligations:

- 1) the one resulting from the financing of category 1 projects coming from PeSCo, bearing in mind that in such a case only one European cooperation project should be selected within the PeSCo framework (it is necessary to make countries and industrialists join forces on the most important projects);
- 2) the selection of SMEs should be made by the prime contractor according to the competence and level of technological innovation of the SMEs<sup>22</sup>, which have to be applied taking in account the necessity to involve SMEs with a different nationality from the prime contractor.

**5<sup>th</sup> rule: Accept third states into a PeSCo project only if their contribution is substantial and would make it impossible to carry out the projects without this contribution.**

The European Union's concern regarding the participation of third States in PeSCo is two-fold:

- First, to make a substantial contribution to PeSCo's projects. The question that must be asked at this level is the capacity of the PeSCo Member States to carry out the projects successfully. If they consider that they cannot carry out a project in the best conditions, i.e. develop capacities of a high operational level requiring an industrial and technological contribution that the PeSCo states do not possess, or simply that it requires sharing the budgetary effort on a broader basis, it is then necessary to open PeSCo projects to third states. Thus, it will probably be necessary to open the Franco-German-Spanish FCAS programme to the United Kingdom if this programme is included in PeSCo;

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<sup>22</sup> Cf. Antonio Fonfria, Patrick Bellouard, *The Relationship between Prime Contractors and SMEs. How to Best Manage and Fund Cooperative Programmes*, ARES n°24, January 2018

- Second, the rules of governance for third States participating in a PeSCo programme must be the same as those imposed on Member States.

Finally, the participation of third states in PESCO should begin with the countries that already have administrative arrangements with the EDA. ■

**#39**

***Policy Paper***

## **Moving PeSCo forward: what are the next steps?**

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

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*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.*

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