HCSS Security

European Defence Fund. Challenges and opportunities for Dutch participation

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Introduction

Confronted with numerous challenges at home and abroad, European defence is at a turning point. The European Commission has launched various initiatives to boost and strengthen European defence in general and the European Defence Technological and Industrial Base in particular. The European Defence Fund (EDF) constitutes a core element in these efforts. The EDF is intended to facilitate Member States in cooperating on research and development of key strategic defence capabilities, and in making defence materiel cooperation the norm.

This paper examines the opportunities and the challenges for the Netherlands associated with the implementation of the EDF. More specifically, the paper addresses the following two questions:

1. *What are the main challenges and dilemmas that might put successful participation of Dutch stakeholders in the implementation of the EDF at risk?*

2. *What steps and actions at the national level may be required to address these challenges in order to ensure optimal added value of the EDF for the Netherlands?*

Our analysis is based on a combination of desktop research, in which we examined the existing literature on the EDF (official documents and secondary sources), and interviews with relevant stakeholders from government, industry, and the research and technology community. Research and interview results were complemented with information provided during the high-level EU conference entitled "The European Defence Fund – Driving Factor for Defence Research and Innovation", held in Vienna on 2 October 2018. As a final step, the preliminary results were discussed in a workshop attended by the majority of stakeholders interviewed for the purpose of this paper. During the workshop the final conclusions were drawn up in order to serve as a first step towards an interdepartmental strategy for future activities and negotiating positions.

This paper also builds on the knowledge and expertise gained during the involvement of HCSS in the drafting of the 2018 Dutch Defence Industry Strategy (DIS), and the project conducted for the European Defence Agency (EDA), in which HCSS together with RAND Europe provided an overview of the potential impact of technological advancements on the future operational environment and on military capabilities of the EU for 2035 and beyond.[1]

Table of Contents

Introduction 1
EDF at a Glance 3
What the EDF aims for 3
Interlocking mechanisms 3
A budgetary turn in EU defence policy 4
Financing, co-financing, and eligibility requirements 5
Implementation timeline/EDF roadmap 6
Actors involved 7
Next steps (for the Netherlands) 7
Challenges and Dilemmas 8
1. Varying perceptions of key success factors 8
2. Coordination of stakeholders at the national level 9
3. Lack of knowledge and expertise 10
4. Reservations from Dutch industry 11
5. Future strategic partnerships 12
6. Limitations associated with Dutch arms exports policy 13
7. (Strategic) triple helix partnerships 13
8. The issue of co-financing 14
9. Institutional incoherence 14
10. Planning and budget cycles 15
Conclusions 16
Endnotes 18

EDF at a Glance

What the EDF aims for

The EU is confronted with a number of security challenges. It faces continued instability and conflict in its eastern and southern neighbourhoods. The trans-Atlantic partnership is under pressure, with US commitment to European security becoming less reliable. Many countries have undergone important budget cuts in the defence sector over the past two decades, which have severely affected the area of research and development (R&D).[2] The European defence sector is fragmented: more than 80% of procurement and more than 90% of research and technology run on a national basis.[3] European armed forces have 178 different main weapon systems in their inventories, compared to thirty for the US.[4] European countries spend large amounts on the unnecessary duplication of weapon systems due to a lack of internal coordination in defence planning. Taxpayers' money is not spent efficiently, European armed forces cannot work together optimally due to a lack of interoperability between systems, and new technologies are not effectively developed into concrete capabilities.

To address these challenges, the EU launched a number of initiatives to increase Europe's military capabilities and enhance Europe's overall strategic autonomy.[5] EDF is a key effort in this. It was first proposed by President Juncker in 2016, after which the EDF pilot project Preparatory Action on Defence Research (PADR) was launched in 2017. Another pilot project, the European Defence Industrial Development Programme (EDIDP) will run from 2019 to 2020. The aim of the EDF, which will incorporate both pilot programmes, is to coordinate and stimulate greater European cooperation in defence research and capability development. The fund should contribute to greater efficiency in national defence spending, maximise innovation through increased economy of scale and reduced duplication of costs and efforts, increase interoperability between armed forces, and promote standardisation of equipment.[6] Overall, it is intended to act as a catalyst for a stronger European Defence Technological and Industrial Base (EDTIB).

The EDF consists of two strands. In the *research window* of the EDF, the EU is, for the first time, fully and directly funding collaborative research in innovative defence technologies and products from the EU budget. The *capability window* will focus on development of key defence capabilities, creating incentives for Member States to pool national resources for joint capability development purposes by financing, in part or in whole, this capability development from the EU budget.[7]

Interlocking mechanisms

The EDF is not intended to be a stand-alone tool, but to complement other recently launched instruments, such as the Permanent Structured Cooperation (PESCO), activated by 25 EU Member States in late 2017, and the Coordinated Annual Review on Defence (CARD). In addition, the Capability Development Plan (CDP) was developed to help Member States identify future military capability needs as well as additional opportunities for cooperation. These separate but interrelated initiatives have a clear impact on EU capability development and constitute initial steps towards a EU that is more capable in the area of defence. Together, they are expected to bring about a "step-change in defence cooperation between Member States".[8]

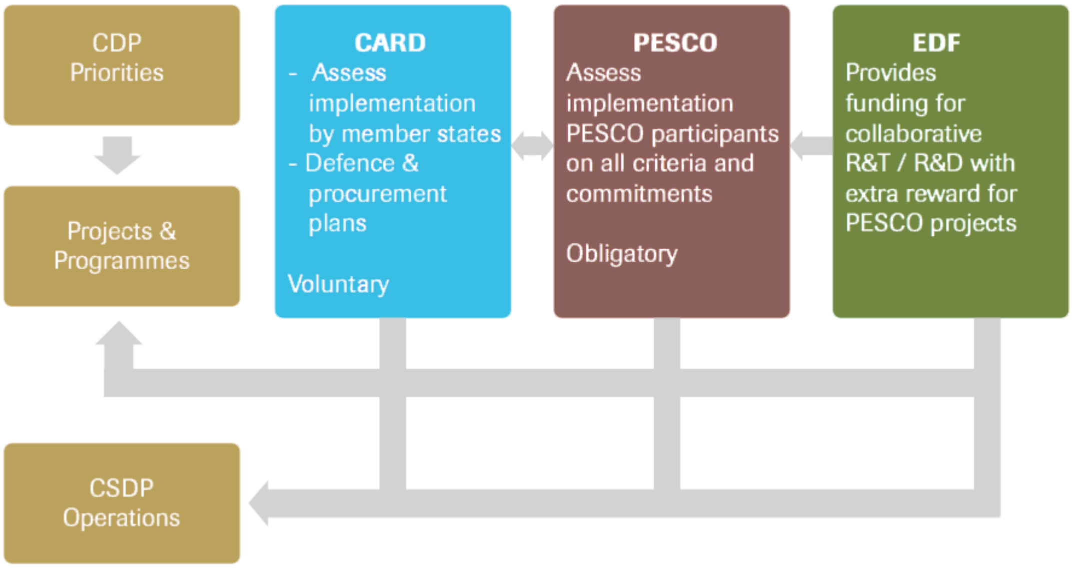
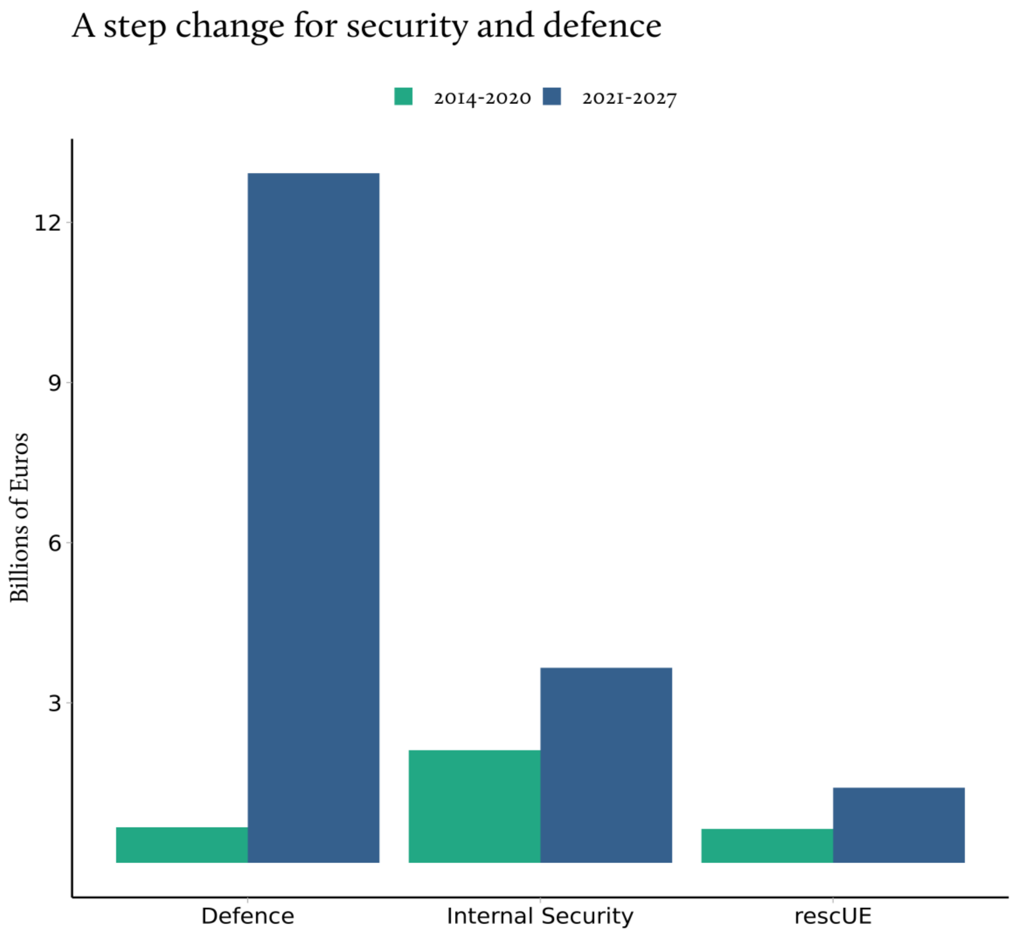


Figure 1: How the various EU defence initiatives interact[9]

A budgetary turn in EU defence policy

Together with other recent initiatives – such as the European Peace Facility (EPF) and the Action Plan on Military Mobility – the EDF forms part of a broader budgetary turn in EU defence policy.[10] For the first time, the Commission has proposed to earmark a portion of its budget in the EU's Multiannual Financial Framework (MFF) for defence.[11]

Until 2021, the future workings of the EDF will be tested by the PADR and the EDIDP. The PADR was launched in 2017 with a budget of €90 million for a period of three years. The EDIDP will start in 2019 with a budget of €500 million for a period of two years. The budget proposed in the 2021-2027 MFF is much more substantial, including €13 billion for the EDF.[12] Out of this proposed budget, the Commission envisages to invest €4.1 billion to finance defence research and €8.9 billion to co-finance the development of military capabilities.[13]



Source: European Commission

Figure 2: Substantially growing EU budgets for defence [14]

Financing, co-financing, and eligibility requirements

Procedurally, the allocation of funds through the EDF is similar to Horizon 2020 funding. The Commission will allocate points to specific consortia that have applied for funding, and the consortium with the highest number of points will be granted the funds.[15] The Commission, in close cooperation with independent experts, will be responsible for selecting the winning consortia. The EU member states are represented in the Programme Committee, which is, inter alia, responsible for drafting the work programme and monitoring the Commission.

It is important to note that the EDF does not guarantee complete funding of the selected collaborative projects. While the costs for collaborative research in innovative defence technologies and products (the 'research window') will be fully and directly funded from the EU budget, the EU will only co-fund the development of prototypes (the 'capability window').[16] Under the EDIDP, the Commission funds 20% of the eligible costs of selected cooperative projects and 30% in the case of PESCO projects, whereas indirect eligible costs shall be determined by applying a flat rate of 25% of the total direct eligible costs.[17] Apart from the fact that it is difficult to create a breakdown of (eligible) costs per project, it is clear that the EU's funding will cover just a part of the total costs. Co-financing will therefore be required to help industries develop their technologies into products. How this will be arranged is left up to the Member States.[18]

In line with the aim to promote cooperation across Member States, strict rules will be applied to determine the types of consortia that can apply for funding. For instance, only consortia that consist of at least three eligible legal entities based in at least three different Member States or associated countries can apply.[19] Many details concerning the role of associated countries and third-party participation are still to be determined.

Implementation timeline/EDF roadmap

The PADR, which is paving the way for the research strand of the EDF, has already started. Over a period of three years (2017-2019), the PADR has a budget of €90 million available to demonstrate the added value of EU-funded research in the defence sector, and to lay the foundations for the EDF under the EU's next Multiannual Financial Framework (2021-2027).[20] On 3 July 2018, Members of the European Parliament endorsed the creation of the €500 million strong EDIDP proposed by the Council. This two-year fund constitutes the forerunner of the 'capacity' component of the EDF.

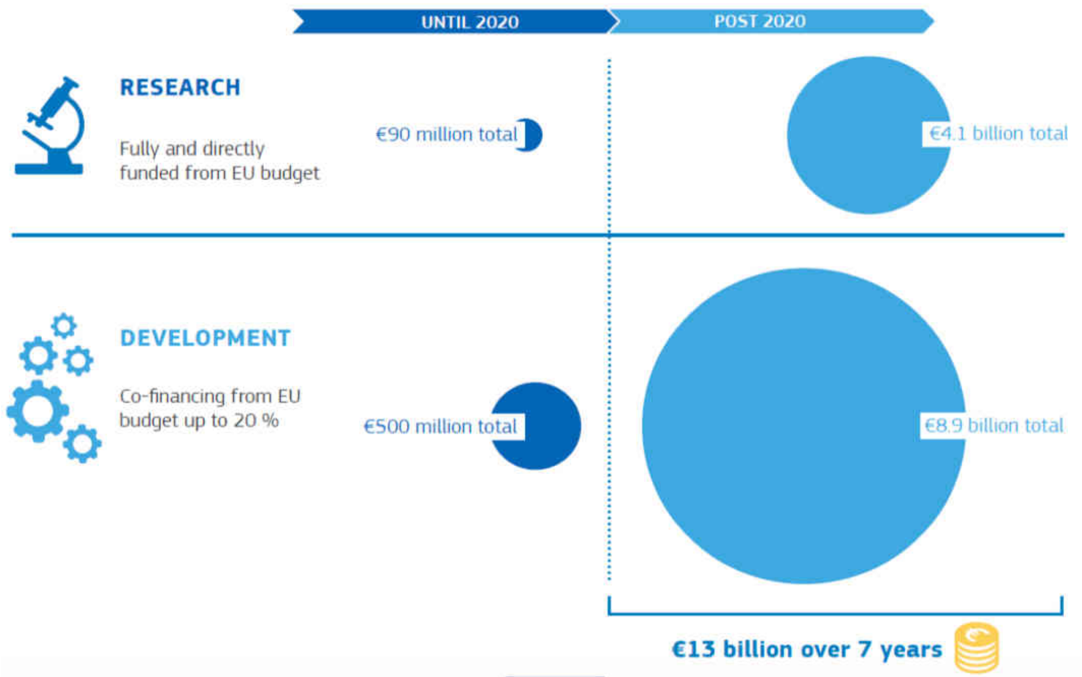


Figure 3: Actual (until 2020) and proposed (post 2020) budgets over time[21]

Whether the European Parliament and the Member States will agree to the proposed €13 billion for the EDF for the period 2021-2027 remains to be decided. According to Commissioner Oettinger, the main difficulty in approving the next MFF is reaching unanimity in the Council of 27 Member States: while a majority vote is sufficient in the European Parliament, Member States must vote for the MFF unanimously.[22] The Commission and the European Parliament have expressed their preference for a more ambitious calendar, and strongly stressed the need to finalise the negotiations on the post-2020 MFF ahead of the European Parliament elections in May 2019.[23]

Actors involved

Through a stronger commitment to the security of European citizens, the Commission has justified the use of the EU budget for European defence projects. This has raised concerns in several Member States. The Commission, however, has insisted that it does not want to challenge Member States' roles in identifying capability needs and priorities, underscoring that "Member States will remain in the driving seat."[24] Instead, through the EDF, the Commission wants to incentivise Member States to increase their spending on defence, as well as to spend it more wisely through collaboration.

The Commission will be responsible for the execution and the management structure of the EDF.[25] Identification of defence capability priorities, as well as political jurisdiction over export policies, will remain with the Member States. The Commission concluded a 'delegation agreement' with the EDA, which will manage the Capability Development Plan (CDP) that outlines defence capability priorities jointly defined by the Member States.[26] This delegation agreement, however, does not concern the implementation of the EDF itself. On the basis of these priorities, the Commission, in close cooperation with the Member States (Programme Committee), will draw up annual and multiannual work programmes.[27]

In terms of the overall governance and in whose hands the management will reside, bureaucratic rivalry is expected between the Commission, the EDA, and the European External Action Service (EEAS).[28] The EDA is a Council institution (i.e. controlled by the Member States) with much in-house experience on defence capabilities, planning and research. The Commission, in contrast, has hardly any experience in defence matters, but does have a lot of experience with the internal single market and its financial management. To prevent the EDF from becoming just another aspect of the single market, neglecting the necessity to create essential military capabilities, the Member States could use the EDA as a pivot between them and the Commission.

Next steps (for the Netherlands)

Although the foundations have been laid, many aspects of the EDF remain to be determined. Decisions regarding its exact set-up, funding mechanisms, capabilities to be developed, the exact form of industrial cooperation, and the role of third-party participants, among others, are still to be negotiated between the Commission, the Council and the European Parliament. The window of opportunity for Member States (including the Netherlands) to shape the EDF agenda according to national interests and priorities is still open. Due to its complexity, the EDF will not be rolled out overnight, and it will likely require multiple cycles before all processes are running smoothly. However, key decisions affecting the design of the EDF are expected to be made in the coming year.

Challenges and Dilemmas

The EDF represents substantial financing opportunities for Dutch industries and can enhance the security of the EU and its Member States. It is therefore crucial that the Netherlands is fully committed *and* prepared from the onset of the EDF, and that it maximises the preparation efforts necessary to become a successful participant. Based on desk research and interviews with national stakeholders, we identified a number of challenges and dilemmas that need to be addressed to enhance the added value of the EDF for the Netherlands. Below, we describe ten (partially related and overlapping) challenges and dilemmas, outline steps that can be taken to overcome these challenges, and offer a number of recommendations.

1. Varying perceptions of key success factors

The ultimate objective of the EDF is to foster the competitiveness and innovativeness of the EDTIB by supporting defence-related R&D activities.[29] In order to meet this goal, enhanced cross-border cooperation is required. For the European Commission, a smooth bureaucratic process surrounding the formation of cross-border consortia constitutes one of the key determinants of success, and is crucial to maintain ongoing political support for the EDF. This is, however, not necessarily in line with interests pursued by individual Member States. Because the EDF is funded through the EU budget, Member States indirectly contribute to all projects, whether they end up procuring products financed by the Fund or not. Therefore, the primary interest pursued by individual Member States is to ensure that technologies and products that will be developed provide added value to their military forces. Encouraging competitiveness and innovativeness of the EDTIB in itself has little to do with this.

There is also a general concern that the research window and the capability window of the EDF will be approached as two separate rather than interlinked strands. Development of a particular technology from a lower to a higher maturity level (moving up in Technology Readiness Level, or TRL) is a gradual process. It requires overall management in order to ensure that resources that are invested in research initiatives result in the development and acquisition of actual products and services that offer added value for European defence organisations.

Despite underlying efforts to enhance cross-border R&D cooperation, duplications may nevertheless persist. Once companies have formed a consortium and have undergone the entire application process, it is not unlikely that the consortium will stay together and look for alternative sources of finance even if its proposal is rejected under the EDF framework. As a result, multiple consortia might end up developing similar technologies and products. It is also possible that cross-border consortia fall apart while partners continue working together on a national level.

2. Coordination of stakeholders at the national level

Although its name suggests that the Fund targets only defence stakeholders, many actors at the national level have a vested interest in the implementation of the EDF. For the Netherlands, these include the ministries of Foreign Affairs and of Economic Affairs and Climate, established defence firms and innovative SMEs – which are mostly new entrants on the defence market – as well as knowledge institutes such as the Netherlands Organisation for Applied Scientific Research (TNO), the Netherlands Aerospace Centre (NLR) and the Maritime Research Institute Netherlands (MARIN). Within the defence organisation, a variety of actors have a stake in the EDF, ranging from the operational commands (the 'end users'), through various R&D-elements and knowledge centres, to the Defence Materiel Organisation (DMO). Until now, the various stakeholders have been meeting on an ad hoc basis. Consequently, there is a lack of clearly formulated and agreed upon national priorities that the Netherlands could put forward in the context of annual/multiannual work programmes. The lack of clearly defined priorities – which can be observed in other Member States too – can be explained by the early stage that the EDF is in. Even so, improving national coordination is necessary for the Netherlands to fully participate in the EDF. It is unclear, however, *who* should take prime responsibility (or a coordinator role) in this process.

To begin with, interdepartmental coordination and cooperation could be strengthened. The Interdepartmental Coordination Group set up for the F-35 programme could serve as an example/model. Through a similar coordinating body, representatives of all ministries, industries and knowledge institutes involved could come together on a regular basis, in order to maximise the effectiveness and efficiency of national efforts concerning the EDF. This body could also take the lead in promoting the EDF nationally, and in providing information to other national actors that already are or may potentially become involved in the EDF. Although stakeholders already meet on an informal level, it would be advisable to further develop these gatherings into a formal coordinating body. Pursuant to the F-35 programme, a special envoy could be appointed to coordinate activities of the Dutch government and industry, foreign governments and industries, and European institutions. It is equally important for the internal planning documents of the Ministry of Defence to be aligned and to incorporate (new) European processes.[30]

With regard to EDF-related processes and procedures, the Netherlands can leverage its experience with the Horizon 2020 programme, since selection procedures and mechanisms for the EDF will likely be similar. From the start of Horizon 2020 until

September of 2016, a total of 9,031 projects were signed. Of these, 1,499 projects had Dutch participants and 647 projects were coordinated by a Dutch organisation.[31] Valuable lessons have been learned within ministries, industries and knowledge institutes regarding the processes in Brussels that can be applied in the context of the EDF.

3. Lack of knowledge and expertise

In addition to the lack of formal coordination, both government and industry representatives signalled a lack of knowledge and expertise on the EDF. Although there is a great deal of expertise on how to conduct national and international development and procurement projects in the Netherlands in general, the EDF is a new initiative which involves different stakeholders in industries, government and knowledge institutes to whom this knowledge and expertise needs to be transferred.[32]

The EDF is still in its pilot phase, which could explain the somewhat low degree of awareness. However, this phase already involves quite substantial budgets. What is more, rules and regulations that will govern the EDF in the years to come are being decided upon, and first work programmes are already being discussed.

Awareness of the EDF varies particularly between large and small companies. Although the EDF seeks to ensure the greatest possible cross-border participation of SMEs, Dutch SMEs do not seem highly motivated to participate in the EDF. This partly stems from the absence of a long-term strategic focus that is required to actively participate in collaborative EDF projects. In addition, many SMEs lack awareness of the EDF, and are generally reluctant to participate in the complex bureaucratic procedures that accompany applications for EU funds. While larger companies have had successful experiences with European cooperation in European security R&D and have more knowledge on the procedures in Brussels, smaller firms generally lack such knowledge and experience. To prepare Dutch SMEs for a successful participation in the EDF, it is necessary to raise their awareness through information campaigns and provide them with assistance in making the 'big' step into the European defence market. Such assistance could take the form of matchmaking events (some of which are already taking place), dissemination of information on regulations and procedures associated with the EDF, or even active lobbying in Brussels to bring Dutch SMEs to the attention of larger European firms.

The coming two years will be crucial for the establishment of a solid base for a national strategy on the EDF, and for the identification of the objectives to be pursued during the first seven-year cycle of the programme. It is important for the Netherlands to participate fully in the pilot phase of the EDF in order to ensure that all stakeholders involved are familiar with the EDF procedures, as well as to signal commitment to possible partners in the consortia that are already being formed in the early implementation phase.

4. Reservations from Dutch industry

Although the Dutch defence industry is relatively small compared to its European counterparts,[33] the Dutch defence sector has other features that make it an attractive partner for collaborative projects under the EDF. The Dutch defence industry is characterised by high-quality technologies, innovation and highly educated personnel.[34] Dutch companies have successfully specialised in niche markets, and almost a third of the employees in the 651 companies that make up the defence sector continually work on innovation. For most of these companies, the defence market constitutes just a small part of their business activities: in 2014 the average revenue generated through the defence market for companies active in the defence and security sector was only 15%.[35]

The majority of Dutch SMEs active in the defence sector act as subcontractors, supplying components for large prime contractors in Europe and the US, rather than producing final products themselves.[36] This is one of the reasons why the Dutch government has pressed for the EDF to ensure the greatest possible cross-border participation of SMEs. The Netherlands also actively pursues a level playing field for defence R&D spending in Europe, so that businesses from smaller Member States stand a fair chance in competing for these investments.[37] If Dutch SMEs already participate in supply chains of prime contractors, they are more likely to be invited to join new consortia formed by large companies and, as such, to benefit from the EDF. Successful participation of Dutch SMEs in the EDF could therefore to a large extent be achieved by helping them gain access to international supply chains in the defence market.

When compared to SMEs, large (tier 1) system integrators face different challenges. They know how to navigate EU bureaucracy, have established partnerships, and can rely on effective and efficient (Europe-wide) defence supply chains. At the same time, they are reluctant to forge new partnerships in which information that is considered proprietary needs to be shared. In addition, clearly regulated integration of dual-use technologies into the EDF is a prerequisite for the participation of the larger firms, since it creates the opportunity to increase market volumes and make use of economies of scale for the capabilities developed. Without the possibility to sell technologies developed with help of the EDF to clients other than defence organisations, industries might not see a valuable business model in EDF participation. It is important that the Dutch strategy towards the EDF not only focuses on SMEs, but also takes into account the concerns and interests of the larger firms. In fact, as stated above, successful involvement of innovative SMEs which have limited or no experience in the defence market and/or the EU's bureaucratic processes, largely depends on the willingness of the system's integrators to take them on board in the consortia that are already taking shape.

5. Future strategic partnerships

When it comes to international (operational and capability development) cooperation, besides NATO and the EU, the Dutch Ministry of Defence considers Belgium, Luxembourg, Germany, France, Norway, the United Kingdom and the United States its strategic partners.[38] Cooperation with other partners is not excluded, but it is generally less intensive and lasts for shorter periods of time.[39]

Over the past decade, the Netherlands has become a frontrunner in international defence capability development cooperation. This is largely due to its position as a supplier to other European companies and the fact that the Dutch defence market is too small to generate all the necessary expertise. The Netherlands has participated in multiple bilateral and multilateral initiatives and has acted as a leading nation in larger European and NATO-led defence initiatives. Commercial ties have been developed with German, American, British and Belgian companies working in the defence sector.[40] Examples include the Boxer project, a multi-nation, multi-role armoured fighting vehicle designed to accomplish a number of operations through the use of installable mission modules,[41] the NATO Multi-Role Tanker Transport (MRTT) project, in which the Netherlands played a leading role,[42] and, most recently, the PESCO project on Military Mobility, in which the Netherlands acts as leading party.[43]

Future strategic partnerships have to respect eligible forms of collaboration, outlined in the proposal for the establishment of the EDF. Only consortia consisting of at least three eligible legal entities that are based in at least three different Member States or associated countries can apply. Although the exact work programmes are yet to be drawn up, consortia are already being formed (and some are already active in the PADR). To ensure that Dutch companies are included in consortium-building activities, a proactive attitude is needed.[44] Dutch industries and knowledge institutes could take the lead and initiate consortia for EDF projects. However, Article 23.3(a) of the Proposal for a Regulation establishing the EDF requires a written intention of at least two Member States and/or associated countries “to procure the final product, or use the technology in a coordinated way, including joint procurement.”[45] As such, selection of preferred partners constitutes a strategic and, partly, a political decision that cannot be made by industry alone, but requires the involvement of national authorities.

There is currently no consensus on which countries the Netherlands should partner with in the context of the EDF. The Nordic countries, Belgium and Germany, with whom the Netherlands already cooperates in the area of defence-related R&D, are the most likely candidates. However, EDF rules require the Netherlands to re-evaluate its current strategic partnerships. First, conditions for participation of third countries – including the post-Brexit UK and the USA – are yet to be determined. According to the draft Regulation, entities from countries that are not members of the EU, the

European Economic Area or the European Free Trade Association (EFTA) will not be able to access funding. This affects not only the post-Brexit UK, but leaves other third states in a difficult position as well. Exceptions may be granted to companies that are based in one of the Member States, but are controlled by a parent company outside of the EU.[46] Since some of the bigger defence players in the Netherlands, such as GKN Aerospace/Fokker Technologies and Fox IT, are subsidiaries of parent companies located in the UK, it is in the interest of the Netherlands to ensure that UK companies and their foreign subsidiaries are able to tender for EDF projects after Brexit.

Finally, the Netherlands should also consider forging new cooperative agreements with other smaller European countries, in addition to its traditional partners, in order to 'balance out' the hegemony of France and Germany within the EDTIB. It is important to note that neglecting possible consortium partners from southern and eastern European Member States might severely reduce the number of successful applications.

6. Limitations associated with Dutch arms exports policy

Political jurisdiction over export policies resides with the Member States. Differences in arms export regulations across the EU complicate management and marketing of cross-border collaboration projects. In light of this fact, Member States have committed to seeking better coordination of national policies on exports of strategic goods. European cooperation on export controls for conventional weapon systems is already taking place within the Council Working Party on Conventional Arms Exports (COARM) and has led to the adoption of a common position defining rules governing control of exports of military technology and equipment, adopted by the Council on 8 December, 2008.[47]

The Netherlands has relatively strict export regulations on military goods and dual-use products, as well as high transparency standards in enforcing these regulations.[48] In the context of the EDF, strict export regulations may impede successful participation of Dutch companies in cross-border partnerships. If the end products cannot be exported to countries prohibited by Dutch export laws, cooperating with Dutch companies may be perceived by possible strategic partners as less attractive. The Netherlands should therefore continue to advocate for greater harmonization of export regulations across the EU, possibly within the framework of the EDF.

7. (Strategic) triple helix partnerships

Industries and knowledge institutes often have a more in-depth and hands-on knowledge of the latest technological developments than government parties. Their constant input and feedback is necessary to ensure cutting-edge innovation (both in the context of the EDF and elsewhere). So-called 'triple helix partnerships' are a powerful way to organise this. A triple helix collaboration refers to a set of interactions between at least one public organisation (government), one knowledge organisation (knowledge or educational institution) and one private enterprise (business sector).[49] The platform "Nederland Radarland" provides a good example of a successful triple helix collaboration, in which the government (Ministry of Defence), knowledge institutes (TNO and TU Delft), and the business community (Thales) combine their strengths in order to create world-class innovative products in the field of radar technology.[50] It is difficult to imagine how such national dynamics – based on long-lasting partnerships, common culture, and mutual trust – can be replaced within an EDF framework, where new partnerships need to form in a relatively short time frame.

8. The issue of co-financing

The EU will only co-fund total eligible costs associated with the development of key defence capabilities. Industry (including knowledge institutes partaking in the capability window of the EDF) will therefore have to bear a significant part of the costs themselves, *or* secure co-funding from other European funds or national government programmes. The issue of co-financing is considered problematic by various stakeholders, since national possibilities are (currently) limited and/or unclear. On the one hand, when industry chooses to bear such costs, its participation will be likely driven by motivations related to valuable end products, rather than to the availability of EU funding as such. What is more, interaction between larger companies and SMEs in the context of the EDF entails a potential for increased costs and risks to be borne by financially less resilient subcontractors, which reduces competitiveness of SMEs vis-à-vis larger contractors.[51] To overcome these issues, the ministries of Defence and Economic Affairs and Climate could take the lead in securing the necessary funding.

Participation of SMEs is further hindered by administrative burdens and access to investment funds, particularly in Member States with less developed and less efficient financial markets.[52] Establishment of a national funding mechanism that is easy to access and flexible enough to adapt to the nature of tenders under the EDF as well as to national defence planning cycles, would be a step in the right direction. Although all industries need to be adequately informed about future capability requirements, business opportunities and procurement procedures, SMEs might need additional assistance when applying for EU funding. Actors such as the Netherlands Enterprise Agency (RVO), the Netherlands Industries for Defence and Security (NIDV) and the Ministry of Economic Affairs and Climate could play a supporting role in this regard.

9. Institutional incoherence

The EDF is part of a broader set of initiatives aimed at strengthening the EDTIB. With regard to capability development, three initiatives have been set up over the past year, namely the PESCO, the CARD and the EDF. While the PESCO constitutes a treaty-based framework to jointly develop defence capabilities on a legally binding basis, the CARD is a review mechanism on a voluntary basis, aimed at developing a more structured way to deliver identified capabilities based on greater transparency, political visibility and commitment from Member States.[53] No mechanism currently exists to guide the relationship between the EDF, the PESCO and the CARD, except for the proposal to offer an additional 10% of co-financing to projects funded by the EDF if carried out in a context of PESCO.[54] In its statement of 19 October 2017, the European Council called for the three entities to be "mutually reinforcing", acknowledging the difficulty of institutional coherence.[55] The EDF could serve as a tool for this consolidation.

The Netherlands has always shown caution towards overly bureaucratic procedures and duplication of already existing efforts.[56] It is important for the Netherlands to advocate for procedural clarity on the complementarity of different initiatives, especially those governed by the European Commission and the EDA. All projects focusing on the development of capabilities should avoid unnecessary overlap. Furthermore, links with the CARD and the NATO Defence Planning Process (NDPP) should be established in order to avoid duplication of initiatives.

10. Planning and budget cycles

The looming mismatch in time cycles constitutes a practical obstacle to a successful implementation of the EDF. Proposals for EU funding will have to take into account EU budgetary planning cycles. The next budget cycle will run for seven years, from 2021-2027. This is not necessarily in sync with the planning and budget cycles of individual Member States and industry. In the industry's case, a notable difference exists between planning cycles of larger defence firms/tier 1 integrators – which have largely adapted to government planning cycles – and innovative SMEs with short-term horizons, stemming from both a business continuity perspective and from their innovation pace.

Member States have different planning and budget cycles too, which constitutes an important obstacle for joint acquisition. There is also a mismatch between the time frame that will accompany the roll-out of the EDF and the pace of technological innovation. Multi-year structures and processes, like those around which the Fund is centred, are ill-fitted for technologies with fast innovation cycles, such as ICT in general, as well as robotics, autonomous systems, and AI in particular.

Conclusions

Although the PADR has already been launched and the EDIDP will soon follow, the EDF itself has not yet been officiated. Many of the challenges and dilemmas outlined in this report can, at least partly, be explained by the fact that the EDF is still in its development/pilot phase. The Netherlands is not the only Member State needing to adapt existing national and international processes and collaborations to the new criteria for European cooperation on defence research and capability development, as outlined in the proposal for the establishment of the EDF. Although this report focuses on the challenges, these should not overshadow the new opportunities that the EDF brings. The Dutch defence sector is competitive and includes a number of leading companies in their particular niche, as well as high-level knowledge institutes. The EDF can further enhance the already strong reputation the Netherlands enjoys in international defence cooperation. A stronger cooperation between ministries, knowledge institutes, and industries is required, but steps in the right direction have already been taken. The same goes for the involvement of SMEs. The challenges identified in this report constitute the main areas, which require further attention.

The EDF is not the ultimate answer to existing challenges in European defence cooperation on research and capability development. Other initiatives aiming to strengthen defence cooperation were launched in the past, some of which run in parallel to the EDF today. In this context, the EDF should be seen as part of a wider process. Furthermore, not all (future) capabilities for the Dutch armed forces require or can be pursued within the EDF's framework. Therefore, it would be advisable for the Netherlands to identify and focus on those initiatives that appear most suitable in light of future capability needs.

The EDF should be taken seriously. One, the funds made available through the EDF are substantial. Two, the Netherlands is a net contributor to the EU's budget, which makes it important for the country to not only contribute but to also make sure that its industry can benefit from programmes such as the EDF. And three, the EDF could prove to be a useful 'mind changer' for defence planners and industry alike, helping them move from a national towards a more European way of approaching defence matters.

This report sought to identify national priorities to be pursued in the context of the EDF. In the interviews as well as in the final plenary design session with the stakeholders, the final question invariably was: when would you consider the implementation of the EDF to be successful? Not surprisingly, the answers and priorities varied. But this fact need not be perceived as problematic. The EDF will involve many different stakeholders, projects and consortia, all of which can pursue varying goals in parallel. While the defence sector might care most about developing the best technologies and capabilities, the Ministry of Economic Affairs and Climate might pursue the most profitable solutions for Dutch industries. For small SMEs in particular, the EDF can prove to be a unique opportunity to secure a place in supply chains led by large companies in the European defence sector. These goals are not mutually exclusive and can best be realised if stakeholders continue to come together and discuss the realisation of these goals without compromising other priorities.

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[29] Article 173 of the Treaty on the Functioning of the European Union (TFEU) constitutes the legal basis actions aimed at "encouraging an environment favourable to the development of undertakings throughout the Union, particularly SMEs, favourable to cooperation between undertakings and fostering better exploitation of the industrial potential of policies of innovation, research and technological development". See European Commission, "Proposal for a Regulation of the European Parliament and of the Council Establishing the European Defence Fund," June 13, 2018., p. 4.

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