



C&V

Consulting

A Practical Vision for EDIP (2/2)

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Executive Summary

According to the Joint Communication on the Defence Investment Gaps Analysis and Way Forward of the 18 of May of 2022, the European Defence Investment Programme (EDIP), EDIP will create an EU framework for Defence Common Procurement, and it will be composed of three elements: The European Defence Capability Consortia (EDCC), a VAT exemption for commonly procured defence products, and a financial incentive from the EU's own budget.

To maximize the impact of **EDIP** in strengthening the EDTIB, the initiative should **address both common procurement and the way in which common procurement is done**. To do this, EDIP should build on the experience and **lessons learned from the EDF**.

Moreover, C&V Consulting believes that **EDIP should be more ambitious** and expand its scope from common procurement to **common acquisitions**, integrating aspects related to capability development and production. EDIP should also be at the centre of a **wider effort to improve coordination and planning** in the defence capability and industrial domains at the EU level.

In that spirit, the first part of this duology, EDIP: Rebuilding European Defence by Strengthening our Industry, proposed four key principles – and their ensuing recommendations - for EDIP.

This paper, the second part of the duology, proposes **a vision on of how all these elements can be articulated, in practice**, into a coherent whole.

First, this paper proposes a very short summary of the principles and recommendations proposed in the first part of the paper. It then dives into **the proposed set up of the initiative** and its components (section 1), the use of **financial incentives** (section 2), and proposals for a more effective and comprehensive **defence capability and industrial planning** and cooperation (section 3).

The present paper does not claim to have the only possible view of EDIP, but it does offers coherent one, in view of previous and ongoing initiatives at the EU level.

All in all, the **final output of EDIP** should be a more **competitive EDITB, capable of developing, producing, maintaining and upgrading defence capabilities within the EU's territory**. The EDITB should be capable of doing so on a **sufficient scale** to sustain a high-intensity engagement, at lower costs and lead times, while also being free of restrictions from non-associated third countries. All of this should occur within the framework of a **consolidated EU market, where suppliers from all across the EU could enjoy a proper level-playing field**.

This paper is the second part of a duology on the European Defence Investment Programme (EDIP):

(1) EDIP: Rebuilding European Defence by Strengthening our Industry synthesizes the main ideas that C&V Consulting proposes for EDIP, their rationales and the recommendations that emanate from these ideas.

(2) A Practical Vision for EDIP is the second part of the duology. The paper proposes a concrete description of how all the ideas presented in the first part can be articulated, in practice, into a coherent whole.

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Summary of Key Principles and Recommendations for EDIP

EDIP should address both common procurement of defence products as well as the ways in which common procurement is done. To do this, EDIP should build on the experience and lessons learned from the European Defence Fund (EDF). Additionally, EDIP should be more ambitious than simple common procurement and expand its scope to common acquisitions: That means that, in addition to procurement, EDIP should integrate the aspects related to capability development (notably in relation with the EDF) and production (access to finance).

With these goals in mind, this paper proposes four key principles - and associated recommendations - aimed at maximising EDIP's impact in strengthening the EDTIB:

1. EDIP should contribute directly to the EU's strategic autonomy

a. EDIP should embrace the 'EDF Blueprint':

- EDIP should allow Member States to launch common acquisition projects for both off-the-shelf defence products and products in the latest stages of development (TRL 7-9), notably in the framework of the EDF;
- EDIP should only allow the acquisition of defence products originating in Member States or associated countries, without inputs from non-associated third-countries;
- A transition period allowing some inputs from non-associated third countries could apply in the first couple of years of EDIP's implementation;
- EDIP should only allow the procurement of defence products free of restrictions by non-associated third countries to use, upgrade or transfer said products;
- Suppliers based in the EU but controlled by non-associated third countries should be allowed to participate in common acquisition projects upon providing strong guarantees.

b. EDIP can facilitate the access to public and private finance.

- EDIP can be a means for political communication vis-à-vis financial institutions (ESG criteria) to facilitate access to private finance by the EDTIB;
- Member States should amend the lending policy of the EIB to allow investments in defence-related projects;
- EDIP can be a framework to channel public funding into and leverage private investments for the EDTIB.

2. Suppliers across the EU should be able to participate in a more level-playing-field

- a. EDIP should promote the organization of genuinely competitive tenders and/or the extension of supply chains across the Union.
- b. EDIP should promote the participation of suppliers across the EU in common acquisition projects, independent of their size and whether the Member State in which they are based participates in the acquisition or not.

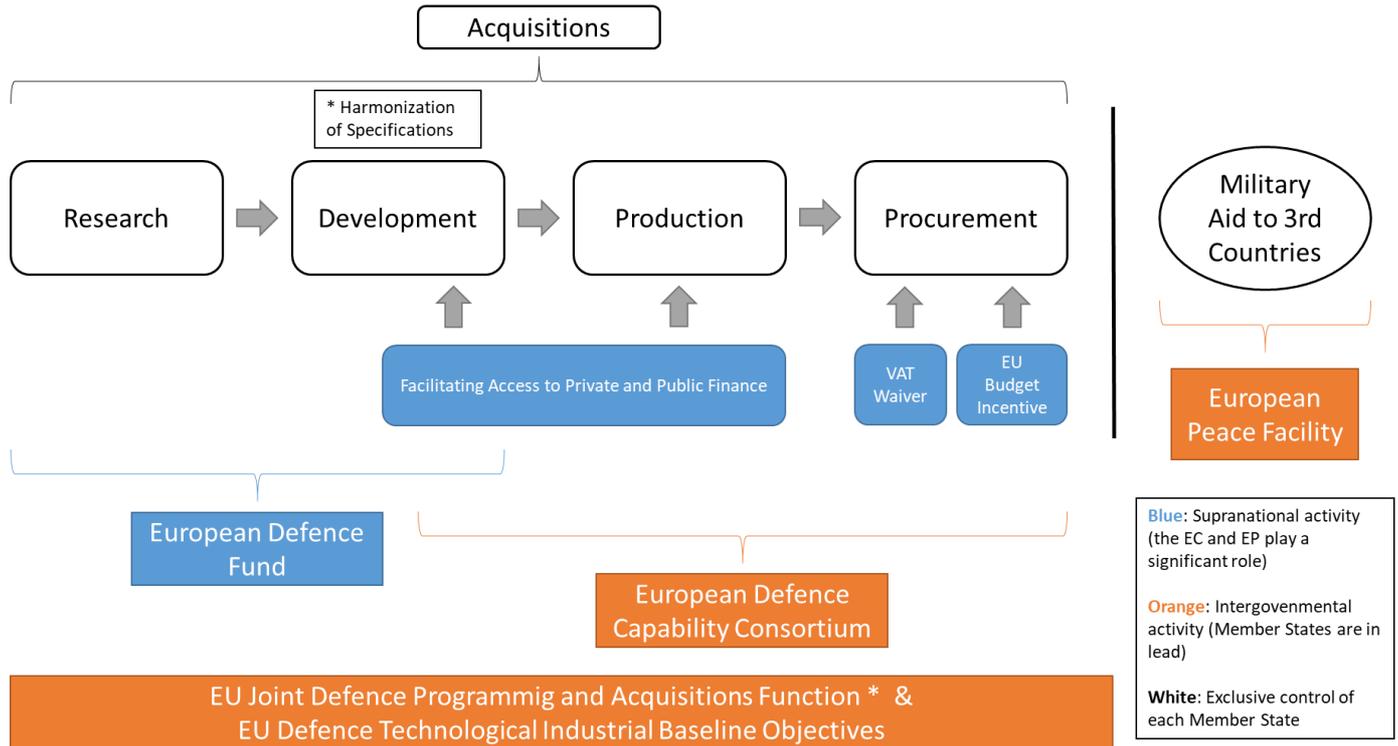
3. EDIP must provide strong financial incentives as use them strategically

- a. EDIP must provide strong financial incentives to help create a first proto-market for EU defence products.
- b. The incentives under EDIP should focus on the procurement stage of acquisitions.
- c. In addition to the VAT-exemption, the incentive from the EU budget must be strong enough to overcome the 'juste-retour' bias of Member States.
- d. The incentive from the EU budget can propose a bonus system and award criteria that incentivize the characteristics of common procurement most likely to reinforce the EDTIB.
- e. The financial incentives should be considered from the industrial perspective, and the work programme of the incentive from the EU budget should follow capability planning criteria

4. There needs to be more comprehensive and coherent defence capability and industrial coordination

- a. Establishing an EU Joint Defence Programming and Acquisitions Function:
 - The Function should ensure joint comprehensive multiannual capability programming;
 - The Function should help ensure the coordination between EU instruments, NATO's framework and the capability needs and planning processes of Member States;
 - The Function should involve national Joint Chiefs of Staff to facilitate the harmonization of capability specifications and speed up the adaptation of national capability processes to EU defence industrial instruments;
 - The Function could take form within the EDA, which could also act as single common acquisition platform under EDIP.
- b. Defining EU Defence Technological and Industrial Baseline Objectives:
 - The document should ensure the coherence between of EU and Member State initiatives and that these initiatives systematically contribute to the strengthening of the EDTIB and the EU's strategic autonomy;
 - The document should map out the technologies and production means essential for the EU's strategic autonomy;
 - The document can be used as a guide for the coordination and elaboration of the award criteria of multiple EU initiatives: EDF, the financial incentive of EDIP, Horizon Europe, etc.

EU Defence Industrial Initiatives Including the Proposals for EDIP



EU Joint Defence Programmig and Acquisitions Function * & EU Defence Technological Industrial Baseline Objectives

Illustration 1: Outlook of EU Defence Industrial Initiatives Including this Paper's Proposals for EDIP

A Practical Vision for EDIP

In the first section, the paper proposes a vision of the European Defence Capability Consortia (EDCC) that places it at the centre of EDIP and common acquisition projects. The paper's concept of the EDCC is perfectly compatible with the EDF. Then, the paper suggests a list of criteria for the formation of EDCC, and it explains ways through which the legal figure of the EDCC can be used to facilitate the access to public and private finance for the EDTIB.

In the second section, the paper proposes ways in which EDIP can strategically use the VAT exemption and the EU budget to incentivise not only common procurement, but also those characteristics of common procurement that are most likely to reinforce the EDTIB. The paper also gives an idea of what an optimal yearly budget for the financial Incentive from the EU budget could be.

In the last section, the paper highlights the stakes and the need for greater coordination "upstream" in EU defence industrial cooperation, both from the capability side and the industrial side. It proposes ideas for an EU Joint Defence Programming and Acquisitions Function and "EU Defence Technological and Industrial Baseline Objectives".

The Proposed Vision for EDIP

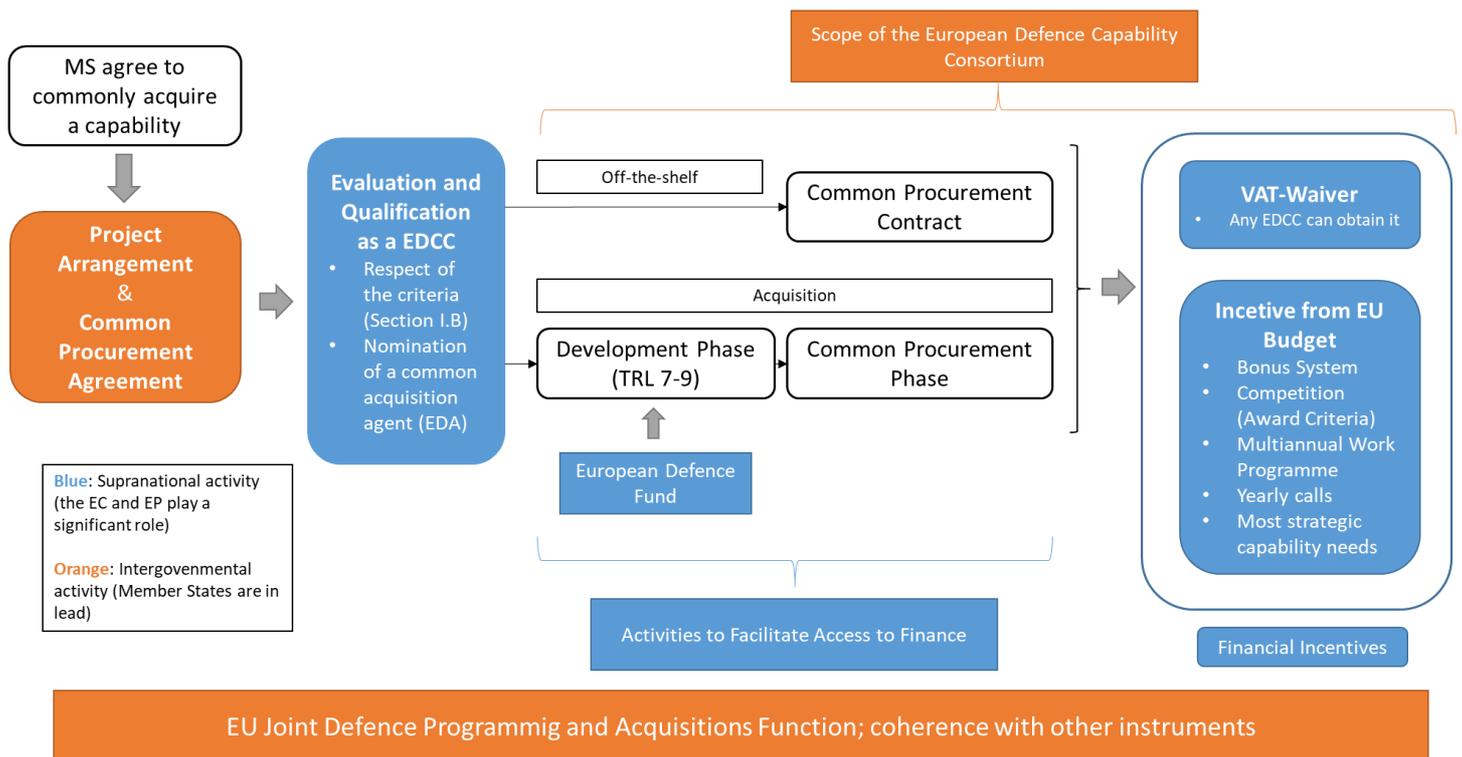


Illustration 2: The Proposed Practical Vision for EDIP.

I. The EDCC as a vehicle for collaborative defence investment

The **European Defence Capability Consortium (EDCC) is the foundation of EDIP**. The EDCC is the legal framework that Member States can use to commonly acquire defence products, apply for a VAT exemption,¹ and compete for the financial incentive from the EU budget, for commonly procured products.

At the same time, the legal figure of the EDCC could be used to facilitate the access to finance for the companies participating in a contract related to an EDCC.

A) Project Arrangement, Common Procurement Agreement, and the EDCC

Member States could agree within the EDA, a PESCO project, or ad hoc to commonly acquire or procure a certain defence product and launch a common acquisition or common procurement project.

An EDCC is a group of **at least 3 Member States** (or associated countries) that will jointly acquire defence products (as defined by directive 2009/81/EC). The commonly acquired product(s) may **not necessarily be off-the-shelf**. Member States could form an EDCC around a product that is in the **latest stages of development (TRL 7-9)**.

At the heart of an EDCC is a **project arrangement** that, among others, clearly defines the defence product(s) to be commonly acquired by the members of the consortium. The project arrangement must also **contain a common procurement agreement** defining the practical arrangements governing the common procurement of the product(s) at the last stages of the acquisition.

If the project arrangement and the common procurement agreement meet the **requirements specified in the regulation of EDIP** (see section I.B), the Commission would grant the consortium built around the agreement **the status of EDCC**.

So long as these criteria are respected, Member States should be able to join, leave the EDCC, or amend the project arrangement, until the signature of the common procurement contract.

Member States participating in an EDCC will have to appoint an **acquisition agent** to act on their behalf for the purpose of common acquisition. This acquisition agent will represent the EDCC in the negotiations with suppliers and the interactions with the Commission.

Once the common acquisition project reaches the stage of procurement, **the common procurement agreement should be at the core of the tender specifications, direct negotiations and the common procurement contract**.

After the signature of the common procurement contract, the acquisition agent representing the EDCC would **apply for the VAT exemption and the EU's financial incentive**.

The Commission would grant the VAT exemption and the financial incentive, provided that the common procurement agreement has been respected in and until the completion of the contract.

To ensure good governance and surveillance, each EDCC would have assigned an officer from the Commission, from the formation of the EDCC until its dissolution.

¹ The application of this VAT exemption probably requires an amendment to the VAT Directive (2006/112/EC) and the Excise Duty Directive (2008/118/EC).

B) Requirements to form an EDCC

EDIP's paramount goal is to reinforce the EDTIB. That is why a **project arrangement and the associated common procurement agreement should respect a set of criteria** for the group of Member States to qualify as an EDCC.

In order to facilitate the process, the project arrangement and common procurement agreement could be based on a template provided by the Commission.

C&V Consulting proposes the following criteria based on the "EDF Blueprint":

a. Control by third countries:

- Contractors and subcontractors participating in a contract related to an EDCC² (either a development or procurement contract) must be **established in a Member State or associated country and not be subject to control by non-associated third countries**.
- Third-country-controlled companies based in the EU (or associated countries) may only participate in a contract related to an EDCC if they provide guarantees approved by the Member State (or associated state) in which they are based.
- In particular, these guarantees must prevent the access to sensitive information by a non-associated third country or by a non-associated third country entity, as well as that the control over a company will not be exercised in a manner that restricts its ability to carry out the development activities or procurement order.
- One of the most effective means to obtain these guarantees is to require companies based in the EU but controlled by non-associated third countries to establish proxy boards in the EU. These boards would make the activities of these companies in the EU independent from the authority of the third-state entity. This is already a common practice in the context of the EDF.
- These guarantees should be based on a standardised template provided by the Commission and be part of the tender specifications.

b. Origin of components:

- The **infrastructure, facilities, assets and resources** of contractors and subcontractors used to implement a contract related to an EDCC must **be located in the territory of a Member State or associated countries**.
- Only when no substitutes are available in the territory of the EU or associated country, contractors and subcontractors may use their infrastructure, facilities, assets and resources outside the territory of the EU or associated country.
- Nonetheless, the cost of components originating in a non-associated third country should not exceed a given share (percentage) of the value of the end product.
- This share would decrease progressively year after year, from an initial value (for instance 30% like in EDIRPA) until reaching the objective of 0% in the medium term. This could go

² This contract could be 1) a common procurement contract, 2) the grant agreement of an EDF consortia with the Commission for a development call endorsed by a EDCC, or 3) another type of contract for activities related to the common acquisition of the defence product identified in the project arrangement.

along with successive versions of capabilities with a decreasing rate of third-party inputs. The objective of this progression is to take into consideration the current situation in the EDTIB, allowing suppliers from across the EU to participate, and push collectively the EDTIB towards strategic autonomy.

- However, when, exceptionally, components originate from a non-associated third country, Member States should commit to implement the necessary measures to ensure the security of supply along the entire life-cycle of the commonly acquired product.
- Additionally, when, exceptionally, components originate from a non-associated third country, the acquisition of these components must respect the principles of due diligence to identify, prevent, and mitigate the environmental, social and ethical risks that can arise from the fact that the producer of these components is not subject to the same standards as producers based in the EU or associated countries.

c. Products subject to restrictions of use:

- Commonly acquired defence products (or their components) must **not be subject to restrictions by non-associated countries** that limit Member States' ability to use, maintain, modify or transfer the products.

d. Cross-border cooperation:

- The project arrangement and common procurement agreement must have a **strong cross-border component**. Suppliers from any Member State should have the opportunity of participating in the supply chain of the common acquisition project, independently of their size or whether the Member State in which they are based participate in the EDCC or not.
- To achieve this participating Member States could commit to either of the following:
 - i. Genuinely transparent and **competitive common procurement tenders** throughout the EU for simple contracts such as ammunition;
 - ii. For more complex projects, direct negotiation procedures that will
 - **extend the supply chain of the commonly acquired product across the EU;**
 - **facilitate the participation of companies (regardless of their size) based in Member States that do not participate in the EDCC.**
- The objective is to **prevent the "juste-retour" bias** by the countries participating in the common acquisition project.

C) Coherence with the European Defence Fund

Common procurement is the natural continuation of the joint development of capabilities. That is why there should be strong synergies and coherence between EDIP and the EDF, especially at the higher levels of technological maturity.

Member States could form an **EDCC to either develop a defence product within the EDF, or to commonly procure the outcome of an EDF development call.**

Member States should be able to form an EDCC based on an EDF call that involves activities of prototyping, testing, qualification and certification (points e, f, g, and h of Article 10.3 of the Regulation of the EDF 2021/697/EC).

A Memorandum of Understanding or the Letters of Intent of Member States required by the EDF regulation for these calls could be the base of a common acquisition project arrangement. Vice-versa, the project arrangement could serve as evidence of the intention of Member States to procure the final product of the EDF development project.

The common procurement of a product developed under the EDF should benefit from the flexibility provided by article 13(c) of the Directive 2009/81/EC. **The intrinsic criteria of EDF-funded projects make the procurement of these products immediately compliant with the criteria listed in the previous section.**

The possibility of common procurement of jointly developed products under the EDF is an added incentive for companies to participate in EDF calls.

D) Facilitating access to finance

Facilitating access to finance for defence companies is a strategic necessity for the EU and Member States in order to strengthen the EDTIB. That is why EDIP should have a component dedicated to this issue.

During the capability acquisition process, suppliers need to make investments to move a solution from the state of the prototype (TRL 7) to that of a proven system (TRL 9). More investment is then needed to adapt and/or build new production lines for the production phase. Access to finance is particularly important for SMEs and Midcaps.

Additionally, in the context of the EDF, the EU budget does not cover the full cost for capability development calls. If EDIP and the legal figure of the EDCC can be used to facilitate access to finance, companies would have a greater incentive to participate in EDF calls, and Member States could acquire the outcome of EDF development calls at a lower cost.

Contractors and subcontractors participating in a contract in which an EDCC is involved could receive easier and cheaper access to finance by private and public investors.

For that purpose, based on a template provided by the Commission, **an EDCC could issue a certificate** to the contractors and subcontractors it has a contract with.

This contract could be 1) a common procurement contract, 2) the grant agreement of an EDF consortium with the Commission for a development call endorsed by an EDCC (as suggested in the previous section), or 3) is another type of contract for activities related to the common acquisition of the defence product identified in the project arrangement.

On the one hand, the figure of the **EDCC could be a political messaging tool** for the Commission and Member States to show to private investors that the defence industry falls within the scope of **ESG investment criteria**: Financing a company or a company's action within the scope of the company's contract related to an EDCC means contributing to the EU's strategic autonomy and therefore fulfils the **social element of ESG criteria**.

The Commission could further reinforce this message by issuing a joint communication with the High Representative that explicitly states that the regulation on Sustainable Finance does not exclude the defence industry and that its exclusions should be limited to the production of the 4 categories of controversial weapons listed in the Delegated Act 2022/1288.

This Joint Communication would explain how the EU interprets the link between security and sustainability and the EDTIB's contribution to sustainability. The document could particularly emphasise the positive impacts in terms of sustainability of the actions of defence companies in the scope of their contracts related to an EDCC.

On the other hand, EDCC could also serve as **a framework to channel public funding and to leverage private investment to the defence industry.**

The EU's public lending bodies and programmes (such as the InvestEU Fund) should be encouraged to **directly finance the activities of companies within the scope of their contract related to an EDCC.**

Member States could also be allowed to **reallocate funds from Next Generation EU and the EU's Cohesion policy** to either **directly finance** the actions of companies within the scope of their contract related to an EDCC, or to **leverage private investments** to fund these actions, in a similar manner as the CASSINNI Seed and Growth Funding Facility or the Defence Equity Facility.

Finally, **changing the lending policy of the European Investment Bank (EIB)** would greatly add to the effectiveness of the aforementioned actions: Both, in terms of messaging and the provision of public finance.

All the actions proposed above should be without prejudice to additional actions to facilitate the access to finance by the EDTIB in general, including outside the scope of contracts related to an EDCC.

E) A single platform for common acquisition under EDIP

Member States participating in an EDCC will have to appoint an acquisition agent to act on their behalf for the purpose of common acquisition. Unlike EDIRPA, it would be preferable to have a single common acquisition platform under EDIP.

A single common acquisition platform under EDIP would, in the medium term, be at the heart of a new cohesive EU defence programming and acquisitions function (See section III).

In the more immediate term, having a single focal point under the EU framework would have three very positive effects:

1. It would make it easier for Member States to agree on **common specifications for the commonly acquired products**; therefore, reducing the costs associated with differences of doctrine.
2. It would also make it **easier for industrial stakeholders of all sizes to identify common procurement opportunities.**
3. It would contribute to **a more level-playing field for all suppliers** in the EU and associated countries by **reducing unfair advantages linked to different levels of access to information.**

The EDA could fulfil this role. Having the Agency as the EU's single common acquisition platform under EDIP would bring the additional benefit of being **an impartial agent for both Member States and Industry**, and a framework in which all Member States are represented.

The Agency is competent to conduct common procurement and has done it already. Additionally, the agency will be able to draw lessons from the "Collaborative Procurement of Ammunition" project.

Nonetheless, common acquisition projects are more complex than common procurement ones. That is why the Agency would need to be reinforced in terms of budgetary and human resources for the EU to benefit from a fully fit-for-purpose capacity for common acquisitions.

II. The financial incentive from the EU's Budget

In addition to the VAT exemption, the participating Member States of an EDCC could be eligible for a financial incentive from the EU's budget once the acquisition process has entered the procurement stage. The **EU budget under EDIP should focus only in the procurement phase** of common acquisitions given that the **EDF already Incentivises capability development** activities.

Like with the requirements to form an EDCC (Section I.B.), the financial incentive from the EU's budget and the funding conditions should focus on strengthening the EDTIB. In addition to incentivising common procurement, the **EU budget** can be used with greater nuance, through a **bonus system**, to incentivise those **characteristics in common procurement that are most likely to contribute to the competitiveness and strengthening of the EDTIB**.

Additionally, the award of the incentive from the EU's budget should be based on certain **award criteria** (also akin to the EDF). These award criteria would help the Commission to **select those common acquisition projects that best respond to the capability needs of Member States and, especially, best contribute to the development of the EDTIB**. Indeed, while **all EDCC** should be able to obtain the **VAT exemption**, not all of them should necessarily receive the financial Incentive from the EU's budget.

The **multiannual work programme for the financial Incentive from the EU budget** will identify and prioritise the capability priorities of Member States that can be commonly acquired under EDIP. However, this requires more coherence in national, EU and NATO capability planning (Section III.A).

A) Type of funding and budget control

The incentive from the EU's budget should take the form of **grants not linked to costs**, as referred to in Article 180.3 of the Financial Regulation: This is the same as the Council's position regarding EDIRPA and aims at reducing the potential bureaucratic burden placed on Member States.

To ensure the good use and control of the EU's budget, the **disbursement of the grant could be done progressively and conditional** on the respect by participating Member States in a EDCC of the common procurement agreement in the signature and throughout the implementation of the common procurement contract. This ensures that common procurement contracts will be in line with the requirements (proposed in section I.B) for common procurement agreements to translate into an EDCC.

B) Budget for the incentive from the EU's budget

One of the ways of **estimating the budget for the incentive from the EU's budget** under EDIP is to consider the **collective benchmark** agreed by Member States in the framework of the EDA and PESCO's binding commitments: **35% of all defence procurement expenditure to be done in a cooperative way** (up from 18% in 2021).

To incentivise common procurement, we can assume the same baseline co-finance rate as in EDF development calls for prototypes: **20%** of eligible costs. However, given that grants should not be linked to costs, the co-finance rate should be applied over the **estimated value of the common procurement contract**.

Therefore, it is possible to estimate the budgetary needs of EDIP as follows:

$$\text{EDIP Budget} = \text{“Member States’ Total Procurement Budget”} \times 0,35 \times 0,20$$

Following this formula, the budget for EDIP would have been around 3 Billion EUR in 2021.

That is roughly:

- Three times the yearly budget of the EDF
- The budget of Erasmus +
- 1/5th the budget of Horizon Europe
- Less than 1/10th of the Regional Development Fund
- 1/20th of the budget of the Common Agricultural Policy (Heading 3.8)
- 1,8% of all of the EU’s budget in 2021

Ultimately, **the budget of EDIP will depend on the midterm review of the MFF for 2021-2027.** Additionally, EDIP will probably have to undergo a **rump-up phase before reaching its full operational capability.**

Nonetheless, the estimation exercise above serves to show that, while it is true that allocating an appropriate budget to EDIP entails a very significant increase in the budget for Security and Defence (heading 5), EDIP would remain a modest when compared to other programmes.

However, EDIP could have the potential of greatly strengthening the EDTIB, the EU’s strategic autonomy and the EU’s ability to take more responsibility for its security. **EDIP could be one of the EU’s programmes with greatest European Added Value.**

C) Bonus system and award criteria

The way in which we do common acquisitions matters as much as common acquisitions themselves. The main stakes for EDIP should be overcoming Member States’ bias for “juste retour” in defence acquisitions, as well as being a source of opportunity for suppliers of all sizes everywhere in the Union.

The requirements suggested in section I.B. to form an EDCC - and therefore be eligible for the VAT exemption and the incentive from the EU’s budget - already go in this direction.

Additionally, the financial incentive from the EU budget can be adapted to further incentivise the characteristics of common procurement that are more likely to contribute to the strengthening of the EDTIB. This could be done through a **system of bonuses similar to that in the EDF Regulation.**

a. The bonus system:

A minimum or indicative amount for the financial incentive from the EU’s budget would be attributed to each action or call in the Work Programme. **The size of the financial incentive would be increased from the minimum or indicative amount in a list of cases** that indicate common procurement of higher value:

- the commonly procured product was **developed** wholly or partially within the framework of the **EDF**;
- at least 10%³ of the estimated value of the common procurement contract is **allocated to SMEs**;

³ This number is based on the Article 13, “Co-financing rate”, of regulation of the EDF.

- at least 15%⁴ of the estimated value of the common procurement contract is **allocated to midcaps**;
 - the common procurement contract has been allocated through a **genuinely transparent and competitive tender** throughout the EU **OR** through a direct negotiation procedure that builds a **supply chain across the EU**;
 - the **participation of suppliers based in Member States which are not part of the EDCC**.
- b. Award criteria

In addition to the financial bonuses, EDIP can further incentivise the characteristics of common procurement most likely to reinforce the EDTIB through the **award criteria for the grant**.

Indeed, while all EDCC should obtain the VAT exemption, not necessarily all of them have to obtain the financial incentive from the EU's budget. **Competition between common acquisition projects** will reinforce the incentives for the characteristics of common procurement most likely to reinforce the EDTIB.

Drawing inspiration from the award criteria in the for the EDF and EDIRPA:

- the action's contribution to **strengthening, developing and consolidating the EDTIB**;
- the action's contribution to **securing or maintaining the objectives set in the "EU Defence Technological and Industrial Baseline Objectives"** (Section III.B);
- the contribution of the action to the autonomy of the EDTIB, including by **increasing the non-dependency on non-Union sources** and strengthening the security of supply;
- the estimated **size of Common Procurement and the number of Member States participating in the common procurement**;
- the action's contribution to the creation of **new cross-border cooperation between suppliers**;
- the participation of **SMEs and Midcaps**;
- the action's contribution to the **interoperability of the armed forces** of Member States and the reduction of unnecessary capability duplications;
- The quality of the plans for carrying out the action.

D) Work Programme and yearly calls

The VAT exemption and the incentive from the EU's budget (with the associated bonus system and award criteria) are used as instruments to reinforce the EDTIB: Inducing Member States to cooperate in common acquisition projects with the characteristics that are more likely to reinforce the EDTIB. This further guarantees that the EU's budget is used only in the context of the EU's industrial policy (respecting Article 41.2 of the TEU).

⁴ This number is based on the Article 13, "Co-financing rate", of regulation of the EDF.

It is **at the level of the work programme** associated to the incentive from the EU's budget that **EDIP's governance needs to be strategic**. Forming an EDCC and obtaining the VAT exemption do not require any prioritisation. However, awarding the **incentive from the EU's budget does require prioritising capability needs**.

The work programme should be **multiannual**, elaborated by the Commission, assisted by a **programme committee** that represents all Member States, analogue to those of the EDF and EDIRPA. The EDA and the European External Action Service (EEAS), including the EU Military Staff (EU MS) should be invited as observers to the programme committee.

Every year, the Commission would present calls for proposals on topics related to the capability needs of Member States. Each call will have associated a minimum or indicative amount for the financial incentive from the EU's budget. The **procurement agent of EDCCs** whose common acquisition project has reached the procurement stage **will apply to those calls**. Based on the award criteria and financial bonus system suggested above, the Commission will determine which EDCC obtains what amount of funding.

The Commission, assisted by the programme committee, will draft the multiyear **work programme and yearly calls based on the capability priorities of Member States**. These priorities can be identified by the direct input of the programme committee, the Coordinated Annual Review on Defence (CARD) and the capability development plan (CDP).

III. **Effective and comprehensive capability and Industrial planning and coordination**

In addition to the tools and instruments to incentivise cooperation in the development and acquisition of capabilities, it is paramount that a more ambitious coordination is put forward. This **greater coordination** will probably not be part of the regulation(s) setting up EDIP, but it will come **from intra-institutional rearrangements and/or other pieces of legislation**.

Member States should be able to jointly procure off-the-shelf the capabilities they currently need; to jointly develop the capabilities they will need in the future; and to jointly acquire what they jointly develop.

However, capability planning processes are projected 10 to 20 years into the future, and the processes of Member States, NATO and the EU are far from coordinated. Additionally, the current approach does not allow sufficient prioritisation of capability projects and needs.

A) On the capability dimension

More coordination is needed between and within EU instruments (EDF and EDIP), between the EU instruments and the capability planning processes of Member States and NATO, and between the planning processes of Member States themselves. This is why there is a need to establish an **EU joint defence programming and acquisitions function**.

This function should involve **Member States, the EDA, and DG DEFIS**, with an observer status for the **EEAS (including the EU MS), and the representatives of national chiefs of staff**. The function should ensure **joint comprehensive multiannual** programming and the **refinement of capability needs and specifications**.

This function could form within the framework of the EDA, whose board meets at the ministerial level twice a year, ensuring the ownership of this function by the national governments. Moreover, the EDA is already responsible for certain capability planning tasks: The elaboration of the CARD, the CDP and half of the secretariat functions of PESCO. Finally, within this function the EDA could act as the central purchasing body for common acquisitions under EDIP.

To ensure coherence between EDIP, the EDF and this planning function, Member States could nominate the same person for the programme committees of both initiatives, who would also represent them, below the ministerial level, within this new Joint Defence Programming and Acquisitions Function.

The involvement of end-users (national joint chiefs of staff) is important to facilitate the **harmonisation of the specifications** for capabilities to be jointly developed or commonly acquired, and to speed up the **adaptation of national capability planning processes** to account for the EU defence Industrial Initiatives.

B) On the defence technological and industrial dimension

The lack of industrial capacity of the EDTIB and the supply-chain bottlenecks today demonstrate the need for developing and maintaining the necessary technological and production means to defend ourselves, even in times of peace.

To achieve this, there needs to be greater coherence between the EU and Member State initiatives, within and without the defence field, so that we can collectively maintain the ability to respond to future conflicts, from an industrial perspective.

Indeed, **defence acquisition projects are a means to develop and maintain the necessary technologies and production tools for the future**; although not the only.

The Commission and Member States should agree on **"EU Defence Technological and Industrial Baseline Objectives"**. Based on the experience of the Observatory for Critical Technologies Observatory, the Commission and Member States could map out the technologies and means of production that are essential for the EU's strategic autonomy (from an EU-level perspective) in the present and the future.

The resulting document would be a guide for the elaboration of the **work programme and the award criteria** for the EDF, the financial incentive from the EU's budget under EDIP, the third cluster of Horizon Europe, and other defence industrial activities, such as the ones the Commission might propose under Track 3 of the agreement to accelerate the delivery of ammunition for Ukraine. This way, the EU (defence) Industrial initiatives will systematically contribute towards these defence technological and industrial baseline objectives.

The Values of C&V Consulting

C&V Consulting is strongly committed to the strengthening and ethical development of the EDTIB. Strengthening the EDTIB is necessary to reinforce the deterrence and defence capabilities of Member States. A consolidated and competitive EDTIB will enable Member States and the EU to take greater responsibility for their security and contribute more effectively to collective defence within NATO.

C&V Consulting believes that EDIP is a great opportunity to advance in this regard. That is why we have written this paper proposing a practical vision on how to articulate in practice the four key principles (and their ensuing recommendations) that we believe should uphold EDIP. We do this in the hope of contributing to the public policy debate.

All in all, the final output of EDIP should be a more competitive EDITB, capable of developing, producing, maintaining and upgrading defence capabilities within the EU's territory. The EDITB should be capable of doing so on a sufficient scale to sustain a high-intensity engagement, at lower costs and lead times, while also being free of restrictions from non-associated third countries. All of this should occur within the framework of a consolidated EU market, where suppliers from all across the EU could enjoy a proper level-playing field.



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