

# IRMO BRIEF

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## PeSCo – Anything There for European Defence?

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### Why?

The European strategic landscape has changed dramatically over the course of the last decade. The post-Cold War mantra about the obsolescence of conventional threats in the wider European space proved to be short-sighted with developments at its eastern flanks, while security dysfunctions in the MENA region and their immanent consequences for the safety of European citizens have loaded a heavy burden on compromise-building and decision-making in the field of the Common Security and Defence Policy (CSDP) of the EU.

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Furthermore, the approach of the new US administration to European security and the strategic consequences of Brexit have changed the wider framework in which security of 'the Old Continent' is to be determined, hence stimulating European leaders to rethink European security in a strive for strategic autonomy of their own. The very ambitiously phrased EU Global Strategy that came out in June 2016, served as both catalyst and umbrella document for such an endeavour. However, in order to achieve measurable progress in responding to contemporary security challenges, it was clear that the EU needs to develop a structural way for member states to do jointly what they were not capable of doing at the national level. This is so especially in the environment in which China, Russia and Saudi Arabia are championing the defence spending, right after the US, while

European states are significantly trailing behind. The fact that the EU collectively is the second largest military investor and yet far from being among the dominant military powers only emphasises the burning issue of efficiency of military spending and the level of interoperability among member states' armies. High-level fragmentation of the European defence market and the fact that defence industries are kept in national clusters is clearly contributing to that.

The reality on the ground is obviously challenging traditional methods of co-operation that operate mainly in 'national boxes' and calling for a paradigm change in the wider policy context of CSDP. However, it remains to be seen to which extent will this new security environment actually be able to push the European defence policy context over the strict national boundaries.

### **How?**

Notwithstanding above-mentioned reservations, it seems that the political leaders have been finally brought into 'the momentum of strategic necessity' for palpable developments in the field of European defence. The idea to consolidate defence co-operation within the EU framework, as opposed to the bilateral and multilateral ad-hoc forms that dominated the period up to now, is aiming primarily at maintaining coherence and facilitating development of existing capabilities.

Permanent Structured Co-operation (PeSCo), laid down in Article 42.6 of the Treaty of European Union, represents a very ambitious legal framework for enhanced defence

co-operation in which '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 shall establish permanent structured cooperation within the Union framework'. For example, they take commitments to increase their defence spending in co-ordinated fashion, cooperatively develop their defence capabilities and make them available for missions. This very concept of differentiated integration allows 'advanced parties' to undertake joint activities without bringing into question the coherence of the entire policy and keeping the doors open for those who display intention to join at a later stage. It should serve as an appropriate tool to bridge significant diversity of capacities and traditions of defence policies among member states and ensure better performance at the community level. For that to happen, PeSCo shall overcome voluntary participation of member states by introducing legally binding provisions and ensure functional governance procedures in defence matters at the EU level comparable to those in other policies.

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PeSCo's main decision makers are the member states, but within the wider CDSP framework it

will profit from support of different EU institutions. The European Defence Agency (EDA) will have a leading role in the area of capability development, the European External Action Service (EEAS) in the operational sphere, while the supervision of PeSCo and its chairmanship would be the responsibility of the High Representative/Vice-President of the European Commission. The oversight and assessment of implementation of PeSCo commitments and activities will be the subject of a two-folded process – one focusing on member states and the other on specific projects.

In order to ensure adequate participation of member states, as well as maintain measurable criteria for and contributions of participating member states, PeSCo should adhere to two basic principles – inclusiveness and modularity.

*Inclusiveness* should prevent clustering of two-track defence and security policy at the EU level, but it should not be misunderstood with abolishing the participation criteria, which would contradict the very idea of an ambitious PeSCo. The structure should establish and maintain viable criteria for membership, while member states join at different pace, depending on acquired capacity to meet them and willingness to join. This will ensure differentiated integration as well as maximal transparency and openness for potential newcomers, preventing the erosion of coherence of common policies.

*Modularity* ensures that not all countries who enter the framework should automatically take part in all areas or projects. This would provide a certain amount of flexibility, which allows

member states to contribute to them in accordance with their specific capacity to invest in development of joint capabilities. Nevertheless, the basic tendency would be to have all members taking part in every initiative, except in cases where they have no capability. That would help constructing a sustainable epicentre of activities, ensuring effectiveness and efficiency of this framework.

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Basically, the essential idea is to enable PeSCo to go beyond being just an umbrella for joint projects in the field of defence, since this overlaps with the role of EDA, and ensure defence-planning line-up on the community level which would facilitate joint defence capability development at an appropriate level, capable of responding to contemporary challenges. In other words, a joint and coherent EU defence capacity, representing a nucleus of the European defence (also within NATO), should ensure the EU's strategic autonomy in the long run. Furthermore, as a consequence of the aforementioned, the newly obtained strategic forces should not be separated among the member states, but managed as a perpetual capacity at the community level.

In order to help PeSCo achieve that, the Coordinated Annual Defence Review (CARD)

has been created to stimulate member states' governments to open up their capability-development plans and budgets to each other in order to foster harmonisation and joint planning, avoiding overlapping and unnecessary duplication of spending. Additionally, CARD could develop into a functional assessment process that is checking the level of adherence of member states to jointly defined binding commitments in the wider PeSCo framework.

### **With what?**

While firm commitments of member states to PeSCo are rather important, as well as its legally binding provisions, financial inputs that guarantee sustained governmental investments into joint capabilities under that framework are of essential importance for the functionality of the entire concept of co-operation. This is the reason why the establishment of the European Defence Fund (EDF) represents an important leap forward in providing necessary requirements for viable European defence structures. Actually, participation in the EDF could evolve into a prerequisite for PeSCo membership. On the other hand, the European Commission has announced the rise of its financial contribution (20% for joint EU capability-building projects under the EDF and additional 10% for projects conducted under PeSCo).

The idea is to offer member states' governments a financial offer that is lucrative and actually difficult to withstand, stimulating them to adhere to standards for joint defence programmes. This is of utmost importance due

to the fact that a large majority of projects (around 80%) in the field of defence is conducted at the national level. In other words, PeSCo and EDF in particular should attempt to combat the issue of fragmentation of the defence market in Europe and shortage of funds for collaborative research and development (R&D) programmes and defence equipment procurement. So, for the first time, the EU is integrating the defence industry into its attempts to enhance the European defence posture.

Economy-wise, this has a huge relevance due to the fact that previous capability-development programmes have not succeeded in fostering interoperability or cutting the costs. The differences from the national level, primarily of technical nature, generate additional costs which may skyrocket if the governments decide to retrieve from joint projects or if there are problems in finding compromises among their military representatives. The combination of the aforementioned two mechanisms should provide a viable counterbalance to those shortcomings through financial stimulations and a legally binding framework.

The overall success of PeSCo, and in particular its effect on European industry and inherently the common defence market, as well as in the end on common defence capabilities will significantly depend on the calibre of projects. If the co-operation in a new structure would increase the defence spending at the national level, the likelihood of its sustainability is seriously questioned since the member states are to be the main decision-makers. However, the economic impetus for defence industries can be found in the very concept of economy of

scale, since compromises on joint procurements would necessarily generate larger projects.

Nevertheless, few problems may occur. First of all, the governments could conduct project under PeSCo framework in seek for extra funding from the EDF needed to sponsor existing national projects instead of those supporting the capability development at the EU level. If the framework is to prevent this and ensure coherence by introducing certain regulations, especially the procurement directives in the defence area, this will certainly demotivate the governments who will lose their manoeuvring space to use public procurement as a tool for domestic politics. This will also affect the national industries who profit tremendously from their privileged position that generates a lot of profit.

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So, the fundamental difference between the allurement of the concept from the normative

point of view and its practical implications on defence industries and markets is something that implies cumbersome political and financial endowment necessary for this endeavour to start in a desired manner and remain sustainable. Namely, while sizeable procurement projects and lucrative profits they carry in the mature stage may prove to be able to compensate for the losses in 'doing business' at the national level, it will be exceptionally difficult to find the actor/s who will be willing to bear the costs of transformation in its first phase. On the other hand, it is increasingly clear that PeSCo will need some time to consolidate in order to be able to circumvent the shortcomings of the previous European capability-development programmes. Not only will appropriate functioning of CARD and EDF under the PeSCo framework be important, but also the effective and coherent governance.

### **What to expect?**

The European defence co-operation is going through modest reformative steps, depending significantly on incentives of the changing strategic environment and conformity of interests of the member states. Regardless of different initiatives, the co-operation in this specific field remains still 'a melange' of bilateral and multilateral agreements that have so far proved limited capability to tackle contemporary challenges. The co-operation is principally welcomed as indispensable, but the implementation still remains somewhat lukewarm. Obviously, accustomed ways of co-operation have proven scarce in a wider

security environment that is inviting for a paradigm change in the EU regarding this specific field.

PeSCo could be an interesting way to facilitate that. However, it will in essence depend on political will of member states to have this framework grow over the blocking power of the traditional concept of state sovereignty and a fundamental state-military nexus as its defining organigram. The financial aspect that was mentioned before is no less important in this context due to the fact that it is directly influencing the practical/implementing dimension of this endeavour and is actually being crucial for its overall success.

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In order to accomplish the core idea of being a centre of gravity for defence policy and an

anchor of the future strategic autonomy of the EU, PeSCo has to grow over the image of a theoretical framework for future policy debates and show capacity to function in a convincing way. Hence, it has to be able to pinpoint concrete projects which will substantially contribute to the development of defence capabilities and operations at the community level.

It has to also develop into a viable permanent structure, in contrast to previous *ad hoc* forms of co-operation and in accordance with its name, where member states are eager to maximise their efforts in achieving jointly defined defence capabilities. This means 'thinking outside the box' of national states, in which opportunities at the EU level with potentially multiplied profits have a priority over a traditional concept of defending national interests only. This is, of course, easier said than done in a very specific field like the defence and hence only time will tell to which extent and in which way has the European defence been able to respond to contemporary threats and challenges in an increasingly volatile international environment.

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