

THE ESTABLISHMENT OF A EUROPEAN DEFENCE FUND IN THE FUNCTION OF THE SECURITY AUTONOMY OF THE EUROPEAN UNION

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Abstract: In line with the increased level of risks, threats and challenges to the security of the European Union, on the initiative of the European Commission under the leadership of President Jean-Claude Juncker, on June 7, 2017, the European Defence Fund was established with the aim of establishing the European Union's security and strategic autonomy through the strengthening of military capacity of member states. By determining common strategic priorities for enhancing military capabilities in accordance with the regulations, European Union member states are obliged to establish a strategy for addressing military capacity shortages. In the present global aspect, the allocation of significant financial resources for the need to finance rising military demands is an important turning point in the field of international relations and it directly affects the macroeconomic and security trends in the world.

The paper examines the potential of the European Defence Fund within the framework of the new comprehensive package for the defence of the European Union and the perspectives of sustainable financing in the two planning stages through systematic financial analysis. The first phase involves research in the field of defence technologies, while in the focus of the second phase are development and acquisition. The analysis will also include two financial packages, within the fund, which is intended to fund programs and projects in two time intervals, the first by 2020, and the second from 2021 to 2027.

The research work will emphasize and the justification of the establishment of the European defence fund in terms of financial tools for public financing of which it is composed, and the impact of the fund on the activation and recruitment of industrial capacities of the member states of the European Union, ie the employment rate of the population of Europe, and the impact on interoperability between armed forces of EU member states.

Keywords: defence, European Union, fund, security, public finance, financial resources

1.INTRODUCTION

Over recent years, security threats have intensified and diversified in Europe. Terrorist attacks, new avenues of organised crime, and ever-growing cybercrime have a cross-border dimension which demands a strong EU response. EU action has provided a comprehensive and swift reaction to these challenges and the general policy response was formulated in 2015 by the Agenda on Security. Security will remain a defining issue for the EU for years to come and Europe's citizens expect their Union and national governments to deliver security in a fast-changing and uncertain world (European Commission, 2018). To be ready to face tomorrow's threats and to protect its citizens, European Union found that it has to enhance its strategic autonomy. This requires the development of key technologies in critical areas and strategic capabilities to ensure technological leadership. Cooperation at all levels is the only way to deliver on the expectations of EU citizens (Efsthathiou, 2018).

Nowadays, when geopolitical instability is increasing in the world scene and new threats like cyber-attacks transcend borders, the European Union under leadership of European Commission established goal to took greater responsibility for defending and protecting its citizens, their values and lives, borders (De la Brosse, 2017). The European Union is stepping up its contribution to Europe's collective security and defence, working closely with its partners, encouraging Member States to give greater efforts in defence and to collaborate in developing and acquiring the technologies and equipment needed to address defence challenges and common security. The European Commission, on the initiative of president Jean-Claude Juncker launched plan for a new 'European defence fund' (EUDF) in 2017, with ambitious spending plans for defence research and procurement of new military technologies.

The fund tries to address some of the underlying problems that weaken the European defence technological and industrial base (EDTIB), and to give solution for increased level of threats, challenges and risks to the comprehensive security of European Union (Besch, 2017). In the overall pool of military capabilities available to underpin European security and defence, they assess that most capability areas have seen a long-term reduction in absolute numbers of troops and equipment and a concentration, or at least an uneven distribution of capabilities, among the Member States. ‘Criticality’ has thus increased in most capability areas. Further, they observe that savings from these reductions have largely not been invested in projects to address agreed capability shortfalls (Möling, et al, 2014). National defence budgets are spent inefficiently: many member-states sustain uncompetitive defence industries as state-subsidised job creation schemes, or else they buy ‘off the shelf’ from third countries, mainly the US. Most EU countries also fall short of the target of spending 20 % of their defence budget on procurement and research and development (R&D) – a more significant indicator of investment in military capability and competitive European industries than the 2 % target, which includes salaries, maintenance and military pensions. In fact, at €2 billion or one per cent of total member-state defence expenditure, EU-wide spending on R&D has sunk to its lowest level in a decade (Besch, 2017).

Table 1. Comparative analysis of expenditures for defence and military power of European Union and United States in 2014

Indicator	Gross Domestic Product (GDP)	Investment in defence (share of GDP)					Investment in equipment and R&D per soldier
		Staff	Operations and maintenance	Investment	Other expenses	Total	
European Union (EU)	14000.67 bn €	51.00%	23.00%	19.00%	6.00%	1.30%	23,829 €
United States (US)	13111.78 bn €	33.00%	31.00%	29.00%	7.00%	4.00%	102,264 €
Indicator	Total armed forces	Number of weapon systems for selected weapon categories	Armoured personnel carriers		Number of tanker aircraft	Number of combat aircraft	
			Number	Types			
European Union (EU)	2149800	154	17160	37	42	1703	
United States (US)	1381250	27	27528	9	550	2779	

Source: European Parliament (www.europarl.europa.eu)

Looking at issues from the economic point of view, it is understood that the Member States, and at the same time the European Union as a whole, have so far spent extremely enormously and inefficiently huge financial resources on defence. As can be seen in the table, which analyzes expenditures allocated for defense by the European Union, compared with the United States, significant funds are invested, but there are, however, problems in efficiency and capacity utilization. Lack of cooperation between Member States in the field of security and defence is estimated to cost between €25 billion and €100 billion every year. Currently, around 80% of defence procurement is run on a purely national basis, leading to a costly duplication of military capabilities (European Commission, 2018). In addition, the costs of defence equipment are rising faster than defence national budgets. Nowadays, if we analyze the situation in military aspects, there is a high degree of fragmentation remains, with, for example, 178 (in 2014 there were 154) different weapon systems in Europe compared to 30 (in 2014 were 27) in the United States. The low level of coordination of the national defence planning leads to inefficient use of taxpayers' money and unnecessary duplication. In addition, weak cooperation, fragmentation and systematic duplication of resources affect the deployability and hamper the EU's ability to act and protect.

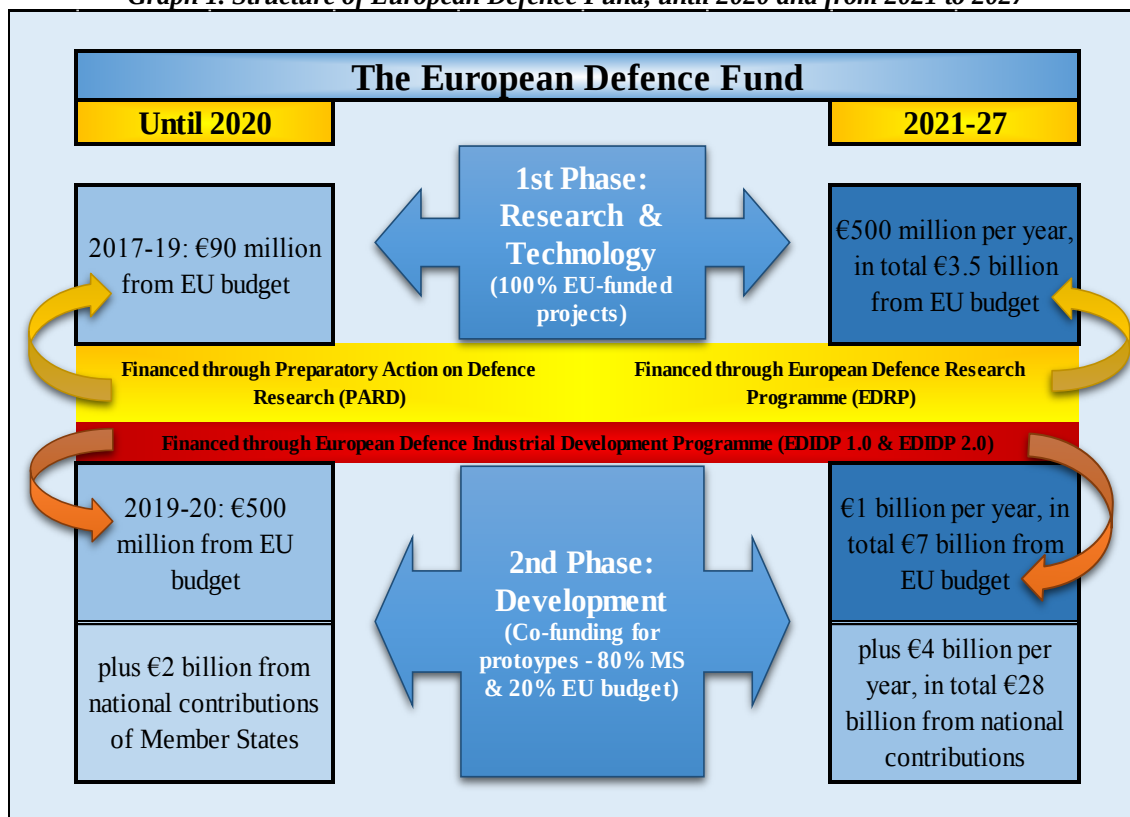
In the area of defence, it can be much more economical, working more with less, and benefiting from closer cooperation at the European level can be achieved. A devastating fact is that, in the member states of the European Union, an annual amount of EUR 26.4 billion is spent on the basis of duplication, overcharging and barriers to defense of procurement. According to the calculations, up to 500 million euros can be saved based on the use of a single ammunition certification system by all member states, which would greatly contribute to reducing the spending of resources, and the use of resources in investment projects in defense. Also, considering the available

number of armored vehicles infantry, with better disposal, in terms of sharing them for planned missions and tasks, it can be saved in the budget of up to 600 million euros.

2. EUROPEAN FUND FOR DEFENSE AS FINANCIAL HOLDER OF DEFENCE SYSTEM OF THE EUROPEAN UNION

The European Defence Fund will contribute to Europe's strategic autonomy in protecting and defending its citizens. It will coordinate, supplement and amplify national investments in defence. The Fund will promote cooperation among Member States in producing state-of-the-art and interoperable defence technology and equipment. It will strongly encourage the participation of small and medium-sized enterprises in collaborative projects and foster breakthrough innovation solutions - which means great impact to employment of people, and in prediction, it will establish growth trend in European economy (European Commission, 2018).

Graph 1. Structure of European Defence Fund, until 2020 and from 2021 to 2027



Source: Authors

As it is shown at graph 1. the EDF will support competitive and collaborative defence projects throughout the entire cycle of research and development for a bigger impact. The EU will directly finance total costs during the research phase, in particular through grants. After that phase, the EDF will complement Member States' investment by co-financing up to 20% of the costs for prototype development and up to 80% of ensuing certification and testing activities (European Commission, 2018). The European Defence Fund as a defence capability development instrument to foster EU strategic autonomy in further future will change international affairs between Member states, because it will encourage them to cooperate close to accomplish further goals, and also will change balance of power in the world.

This innovative established fund aims to trigger cooperative programmes that would not happen without a Union contribution and to provide the necessary incentives for boosting cooperation at each stage of the industrial cycle, including research and development activities.

First objective of the European Defence Fund is to foster the competitiveness and innovation capacity of the defence industry throughout the Union by supporting collaborative actions at each stage of the industrial cycle, notably from the research phase to the development phase. As second goal, EDF will support and leverage cross-border cooperation between undertakings throughout the Union, including small and medium-sized enterprises, in the research and development of technologies or products in line with defence capability priorities commonly agreed by Member States within the EU through the Capability Development Plan, also taking into account the Coordinated Annual Review on Defence. And finally, third objective which is accomplished, is supporting collaborative projects throughout the entire cycle of research and development oriented at defence products and technologies.

3. THE IMPACT OF THE ESTABLISHMENT OF A EUROPEAN DEFENCE FUND ON EU MEMBER STATES AND GEOPOLITICAL MOVEMENTS

Through an economic analysis of the expenditures that 28 EU members allocate for defense purposes, the total rate of 1.34% GDP, excluding the United Kingdom, is lower. As one of the objectives that the European Defense Fund has, it is accelerating and engaging additional resources for defense by EU Member States. The European Union's initiative to set up a fund of this kind of purpose was welcomed by the US Administration and the US Department of Defense in NATO. One of the reasons is the fear that a unified and strong defense system will distance the European Union from the NATO alliance and become an alternative to it, and perhaps even competition at the global political and military level (Calcara, 2018). On the other hand, despite the very sensitive relationship between the EU and NATO, that is, the US, there are important economic reasons that justify US concern about the payment of obligations towards NATO (Calcara, 2018). In addition, EDF will deliberately be used exclusively to support European companies and the defense industry of member states, and by establishing an effective Control System, it will be prevented and exclude the possibility for non-European companies to take advantage of this fund. This certainly poses problems to US industries, given their strong links with European industries (especially with UK, Italy and Sweden).

4. FINANCIAL ANALYSIS

When the lowest rate of allocation of funds for research in the field of defence technologies was observed in 2014, also monitored by the low rate of funds allocated for the development and implementation of innovative defence instruments, equipment and security systems, it was concluded that there were certain omissions and shortcomings that would they had to take precautions in defence of the European Union (European Defence Agency, 2016). Table 2 shows the comparative analysis of planned expenditures for the time interval 2021-2027. By comparing the value indicators, one can notice that significant financial resources are foreseen for the forthcoming period in the European Union for defense, as well as all projects and programs through which technology, research and defense innovations will be implemented.

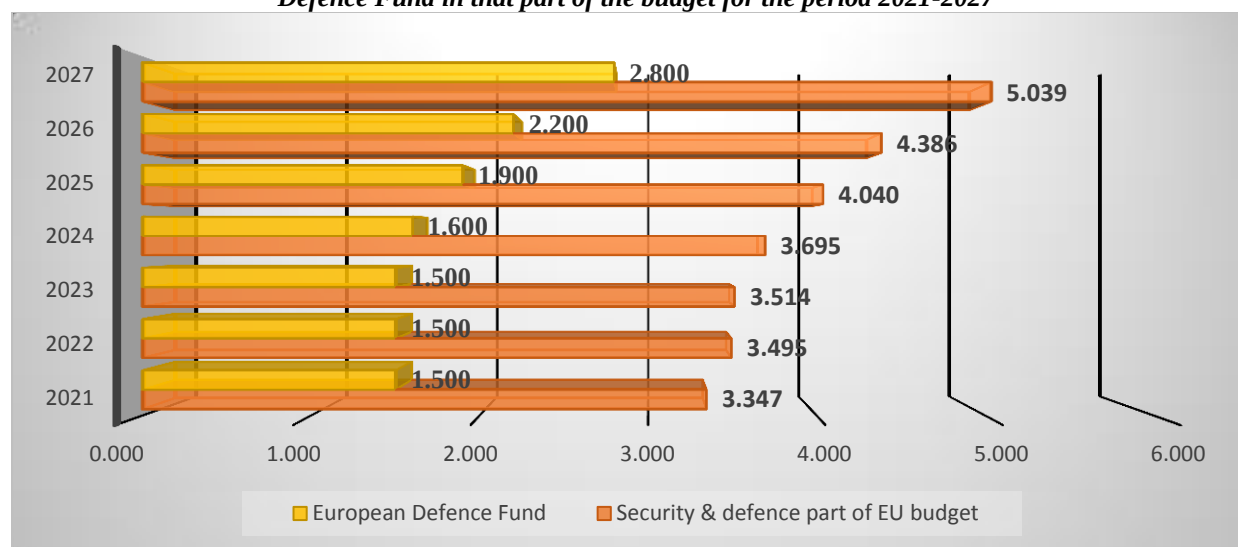
Table 2. Comparative analysis of planned expenditures for Security & defence and the European Defence Fund within the European Budget for 2021-2027 (values in bn €)

No	Indicator	Budget year							TOTAL
		2021	2022	2023	2024	2025	2026	2027	2021-2027
1	EU budget	166.721	173.694	179.363	182.892	187.047	193.743	195.947	1279.408
2	Security & defence part of EU budget	3.347	3.495	3.514	3.695	4.040	4.386	5.039	27.515
3	Share of total (%)	2.010	2.010	1.960	2.020	2.160	2.260	2.570	2.140
4	European Defence Fund	1.500	1.500	1.500	1.600	1.900	2.200	2.800	13.000
5	Share of EDF in Security & defence (%)	60.054	57.511	55.777	54.668	53.465	51.528	51.002	47.247

Source: European Commission, Multiannual financial framework 2021-2027 (<https://ec.europa.eu>)

For the years 2017 to 2020, a total of €590 million will be channelled to the military industry through European Defence Fund which is shown at Graph 1. The displayed values of planned expenditures can be seen in the table 2. for period 2021 to 2027, which in total amount €13 billion. It is about €1.5 billion in the first three years, and after 2023, it's predicted that financial resources for funding defence activities will rise. These amounts are to be taken from the EU budget, while Member States are supposed to complement this Fund with at least €2 billion in 2017-2020, and at least €28 billion in total, for period 2021-2027 as it's shown on Graph 1.

Graph 2. Analysis of planned EU budget funds for Security and Defense and the value share of the European Defence Fund in that part of the budget for the period 2021-2027



Source: Authors

In Graph 2, one can notice the value share of the European Defense Fund in the European budget allocated for security and defense. By analyzing the Planned Funds for the upcoming time interval 2021-2027, the European Union's serious tendencies towards the realization of autonomy in the strategic and defensive sense, as well as the courage to achieve significant changes in the technological, research and economic sense, are noted.

5. OPPORTUNITIES AND BARRIERS TO THE EUROPEAN DEFENCE FUND AND IMPLEMENTATION OF THE SET OBJECTIVES

It is important to emphasize that despite all the advantages and significant defense advances that are envisaged to be achieved through the newly founded European Defense Fund, there are European Union member states that have expressed some concern about their national priorities in defending sense and potential deficiencies that may arise in the coming years. The concerns that some Member States have about a role for the European Commission in defence may also be an obstacle, as may the worries of some smaller Member States that the European Defence Fund will, despite being funded by all, favour the interests of Member States with sizeable defence industries (But perhaps the largest risk to the European Defence Action Plan is that the funding available, though substantial, will be insufficient to mobilise the Member States to overcome their reluctance to work together in an EU framework and thus to access the European Defence Fund (Lawrance, et al, 2017).

There is some concern amongst the smaller Member States of EU that the current set of defence proposals, in particular the EDF, will favour the interests of Member States with sizeable defence industries. The needs of the smaller Member States will need to be addressed both to ensure the trust and sense of fairness required to foster the will to cooperate among all Member States, and in recognition of the fact that the financial contribution of these states will become proportionately larger after Brexit. The smaller defence spenders among the EU27 – all except France, Germany, Italy and the UK – currently account for a little less than 30% of the EU's total defence expenditure, a figure that will increase to close to 40% after the UK's departure from the EU (<http://ec.europa.eu>).

They account for 36% of national contributions to the EU budget, from which the EDAP's 'research window' will be funded and 'capability window' supported; this figure will likely also increase after Brexit (Lawrance, et al, 2017). In practice this means smaller states must be assured of opportunities to access the EDF and that their SMEs must have fair opportunities to become part of defence supply chains. Financial incentives for cooperative defence programmes at the early stage of the programme life cycle are more likely to lead to cooperation in later stages, hence smaller Member States cannot be left out if wider and deeper cooperation in collaborative capability development is to be encouraged throughout the EU.

Despite of all above, the Member States have agreed a new, broader and higher level of ambition for defence and security sector of EU. The world, and in particular the US, will be watching closely to see whether the Member States are ready to provide the military capability to underpin their will and their wider commitments to security (Lawrance, et al, 2017). Accordingly the interests of larger and smaller Member States of European Union must be balanced, in particular as they concern to achieve objective of the European Defence Fund and make opportunities for their defence industries real.

6.CONCLUSION

We can conclude that European Defence Fund will strengthen role of European Union in new geopolitical order, and will act as a catalyst for an innovative and competitive industrial and scientific base which is able to meet Europe's defence needs with cutting-edge, fully interoperable technology and equipment. Also Member states can get better value for their investment and develop technologies and equipment that would not be attainable working independently, by pooling resources. Offering support all along the research and development parts of the lifecycle will make sure that the results of research are not lost due to the lack of funding for developing prototypes and testing the technology, like it used to be in past.

In order for the European Union to achieve one of the main goals of establishing and establishing a European Defense Fund - which is strategic autonomy, which implies the capacity to defend itself with sufficient, appropriate and interoperable weapons systems, and a certain level of 'technical superiority' or 'exclusivity' over its potential enemies, it is necessary to include other mechanisms to resolve the main structural challenges of a collective European defence.

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