

European offensive in defense sphere – EDF, PESCO and CARD



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Casimir Pulaski Foundation

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Introduction

For almost two years the European Commission and a group of most influential Member States (such as France, Germany and Italy) have been pushing the development of new initiatives in area of defense. The presentation of the Global Strategy of the European Union's Foreign and Security Policy in June 2016 marked a major milestone in this area. The document includes several provisions regarding the need to strengthen Europe's security and specifies EU's role in the process. A number of later events amplified the tendency towards building some sort of a European defense union. Among them, the most important ones include the Brexit referendum, the aggressive actions of the Russian Federation towards neighbors and Western countries, the election of Donald Trump to the office of the President of the United States of America, as well as armed conflicts in the EU's southern neighborhood and the resulting migration crisis.

This report is a collection of articles concerning three programs (EDF, PESCO and CARD) of the new EU defense package, which have been published in the 'Wojsko i Technika' monthly magazine, in the first half of 2018. Since the initiatives that are now coming into force are closely related, they should undergo joint assessment. Authors of the articles have repeatedly pointed to the connection between the European Defense Fund, Permanent Structural Cooperation and the Coordinated Annual Review on Defense. Success or failure of any one of them will have a severe impact on the functioning of the others. This in turn affects the chances of creating a European defense union, which currently seems to be within reach. Failure to take advantage of the existing opportunity might plunge EU's common defense initiative back into a period of lethargy, which it emerged from not too long ago.

1. European Defense Fund as the key to armament cooperation

The proposal dated June 7th 2017, which set up the European Defense Fund (EDF), implemented European Commission's commitments set forth in the European Defense Action Plan (EDAP) from November 30th 2016. The goal of the EDF is to increase the efficiency of spending of European Union Member States in the field of defense by supporting investments in joint research and development projects. In the long term, Commission also intends the Fund to serve as a platform for creation of the European Defense Equipment Market. This would further consolidate member state defense industries, thus significantly strengthening the global competitiveness of European companies.

The latest draft of the regulation prepared by the European Commission shows that, the creation of the European Defense Fund will add EUR 13 billion for defense technology research and development in the 2021-2027 financial perspective. Out of this amount, over 550 million a year will be spent on research, while the remaining 1200 million on capability development. This will place the EU as the fourth largest public entity in Europe in terms of expenditure on defense research, after the governments of France, Great Britain and Germany.¹ Considering that 27 EU states (all members except Denmark) spend a total of EUR 7.5 billion a year for this purpose (which fades in comparison with EUR 64 billion a year spent by the USA), EDF's resources will provide a major incentive for joint projects. In regard to capability development, the Commission estimates that the EUR 1.2 billion a year will contribute to the implementation of arms projects totaling EUR 5 billion annually. This means that even a few percent share in the Fund would provide Polish defense companies with hundreds of millions of PLN each year for research and development.

¹ *A European Defence Fund: €5.5 billion per year to boost Europe's defence capabilities*, European Commission – Press release, Brussels, 7 June 2017, s.1. <http://europa.eu>.

1.1. Reasons for creation of the EDF

The European Union has sought to strengthen its activity in security and defense sphere since at least 1999 (establishment of the European Security and Defense Policy, ESDP.) However, in practice the previous initiatives did not produce the expected results. Neither the creation of the European Defense Agency (EDA) and the EU Battle Groups in 2004 nor the adoption of defense package directives in 2009 resulted in the creation of a single armament market. EU member states have limited their involvement in joint armament projects for a variety of reasons. Among them the leading factors were market protectionism, lack of trust between governments, various military planning cycles and the unwillingness of European Commission to engage in defense issues. All this was happening at the time of plummeting defense spending across Europe. According to EC data, currently over 80% of funds allocated to military hardware acquisition and more than 90% of defense research funds is spent at the national level. Considering that duplication of projects occurs in almost all areas, the lack of pan-European cooperation costs between EUR 25 to 100 billion per year. Therefore closer procurement cooperation could save, and free up, almost 30% of all resources allocated to military equipment EU-wide.

In addition to the factors above, the basic problem faced by defense R&D companies is ensuring a smooth transition between research and development. This transition phase is often called the “valley of death” for defense projects, and currently constitutes the main obstacle in development of new military hardware. To avoid this, the EDF promotes standardization of solutions and technologies from the earliest possible point and its maintenance through all stages of development. Therefore, the EDF provides not only financial support for both phases, but more importantly, forms a transition mechanism between them and a gateway to

the procurement phase of a given weapon system. EDF has been divided into two legally separate elements, the so-called “windows”: the research window and the capability development window. They are supervised by a specially appointed Coordinating Committee composed of representatives of the European Commission, the High Representative of the Union for Foreign Affairs and Security Policy, Member States, the European Defense Agency and companies involved in a given project.

1.2. Research window

Although the EC made a formal proposal to create the EDF in June 2017, initial funds (EUR 1.4 million) under the research window were contracted through pilot projects in years 2015–2016. These paved the way for the creation of the Preparatory Action on Defense Research (PADR), which provides EUR 90 million of funding for defense projects in the 2017–2019 timeframe. The European Defense Agency, acting on behalf of the European Commission, is responsible for implementation of these projects. Experience from PADR projects will serve as the basis for launching the research window. Starting from January 1st, 2021, EC will be expending over EUR 550 million annually (EUR 4.1 billion over the entire period), with all funds coming from the EU budget.

The goal of the research window is to supplement national research programs, rather than replacing them. The projects implemented within its framework focus on cooperative activities, and thus stimulate cooperation in the field of research and technology in Europe. They address challenges in the development of defense capabilities, which are priorities from the EU Member States point of view. While PADR is carried out mainly through research grants (first contracts signed at the end of 2017), no final decision has yet been made on the funding mechanism after 2020. Moreover, the relationship between the new financing mechanism and the successor of the Horizon 2020 instrument

remains unclear.² However, it is widely acknowledged that civilian projects under Horizon's successor cannot affect the military initiatives of the research window. What's interesting is that the current proposal of the regulation allocates 5% of funds to breakthrough and risky technologies. This aims to strengthen the remaining activities carried out by the EU and its Member States in building Union's position as a global technology leader.

EDF's ultimate goal is to provide EU funding for multinational defense research projects up to the level necessary to create a technology demonstrator. The end product should be highly harmonized to the needs of the armed forces of participating countries and should serve as a solid base for future capability window projects. Those, however, will be eligible only for partial financing from the EU budget.

1.3. Capability window

The second phase stipulated in EDF's initial version provides EUR 500 million annually in 2019 and 2020 through an instrument called the European Defense Industrial Development Program (EDIDP). In addition to the financial provisions, this mechanism co-finances up to 20% of expected costs for projects aimed at developing a prototype. Projects implemented under the Permanent Structured Cooperation (PESCO) are an exception to this rule, and can obtain EU support up to 30% of expected costs. Activities of a given project which are not related to constructing a prototype can be financed entirely by the EU.

According to the proposed regulation, proposed by the European Commission in June 2017, the objectives of EDIDP are:

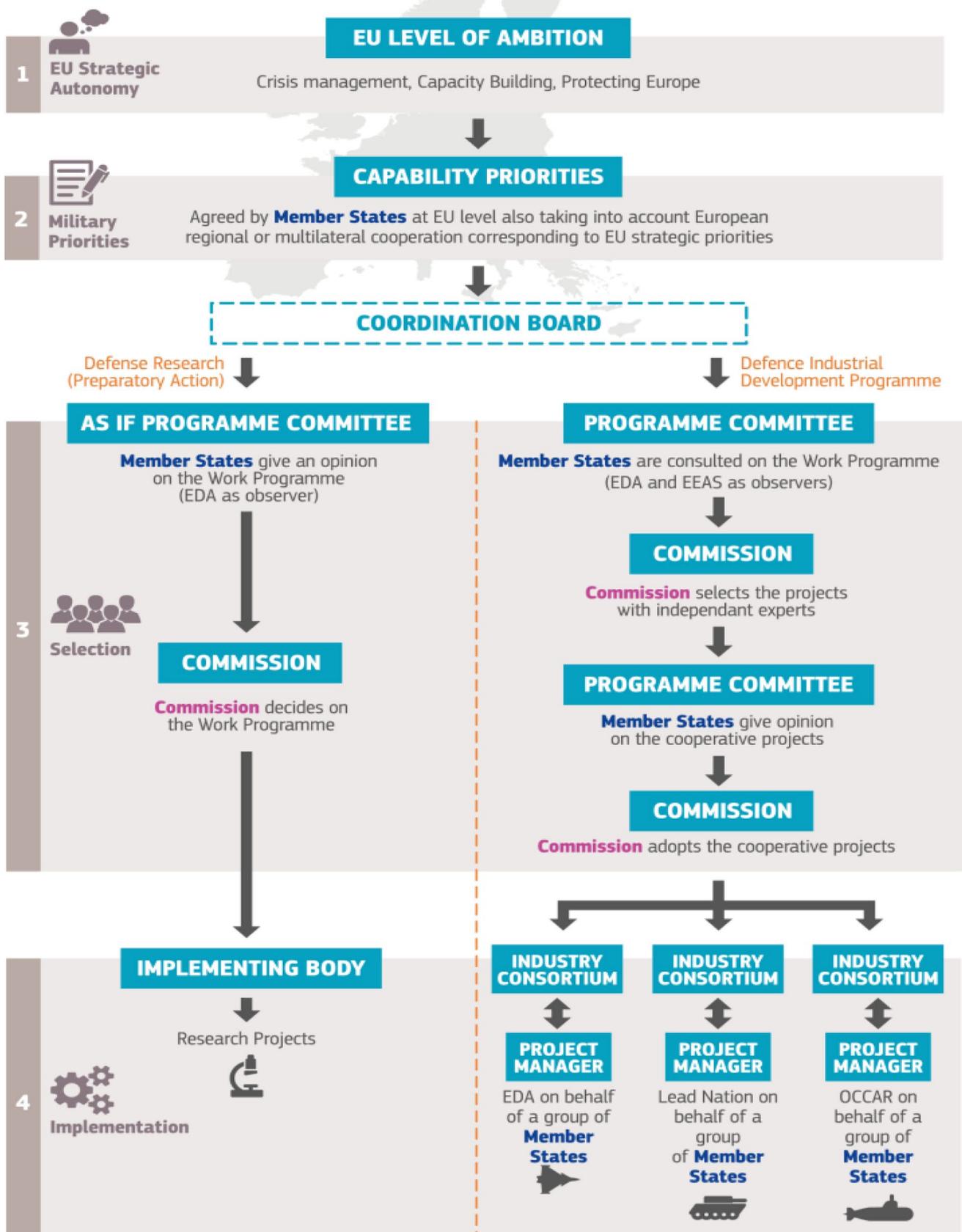
- » to foster the competitiveness and innovation capacity of the Union defense industry by supporting actions in their development phase;
- » to support and leverage the cooperation between undertakings, including small and medium-sized enterprises, in the development of technologies or products in line with defense capability priorities commonly agreed by Member States within the Union;
- » to foster better exploitation of the results of defense research and contribute to closing the gaps between research and development.³

The short- and medium-term goals of the capability window are to support Member States' political decisions regarding the implementation of cooperative programs, accelerate their implementation, promote supply chain innovation and strengthen the demand side of the defense market in Europe. In the long term, the capability window should allow for joint industrial initiatives and further consolidation of the sector. Importantly, only projects implemented cooperatively - i.e. with at least three companies from at least three EU Member States - can benefit from EDIDP. Another important aspect envisaged by the European Commission is the obligation of participating companies to that EU member states plan to purchase the effects of a given project. The goal is to limit spending of EU tax-payer's money on projects which have a small chance of being implemented and, therefore, do not provide capabilities necessary for the armed forces.

² Horizon 2020 is the 8th Framework Program of the European Union for research and innovation implemented in 2014-2020 with a budget of almost EUR 80 billion. This financial instrument is one of the basic EU mechanisms to achieve the objective of increasing the Union's global competitiveness, creating new jobs and its economic growth.

³ *REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the European Defense Industrial Development Programme aiming at supporting the competitiveness and innovative capacity of the EU defense industry*, COM(2017) 294 final, Brussels 07.06.2017, art. 2.

EUROPEAN DEFENCE FUND - GOVERNANCE (UNTIL 2020)



Graph 1. European Defence Fund - management up to 2020. Source: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Launching the European Defence Fund, Brussels 7.6.2017, COM (2017) 295 final.

The experience gained from the implementation of EDIDP projects will form the basis for future programs. As part of the upcoming multiannual financial framework, EC's plans include financing of over EUR 1.2 billion annually (total of EUR 8.9 billion over 7 years). This level of expenditure from the EU budget is expected to contribute to the annual financing of joint development projects in the defense sector for a total amount of EUR 5 billion.

1.4. Defense procurement – common approach

The architects of the EDF also acknowledge the need to transform prototypes completed under the capability window into procurement of end products. At this stage, however, the EC does not provide for any EU budget funds for Member States wishing to purchase a given weapon system. This is perfectly understandable given EC's reluctance to direct engagement in purchases for the armed forces. At the same time, a number of measures are under consideration to support countries considering joint purchase of equipment developed with EDF funding.

Currently it is impossible to predict which tools the EC will use in order to assist countries in joint procurement of military equipment. However, four areas of possible support have emerged:

- » Incentives to combine national resources in order to implement specific cooperative projects. The Cooperative Financial Mechanism (CFM), established by the EDA in May 2017, is an example of such an initiative.
- » Financial vehicles for selected projects. Vehicles would provide compensation for countries participating in the development of a given system in the event that non-participating countries decide to buy such a system.

- » Financial instruments such as guarantees for sub-suppliers that would enable small and medium-sized enterprises to engage in joint projects.
- » New forms of ownership for operating equipment, e.g. co-ownership or leasing.

The planned tools are hardly a guarantee of countries' commitment to joint procurement of military equipment. However, when combined with research and capability windows financing, they will likely increase the number of joint arms projects executed in the EU.

In the short term, the EC and EU Member States plan to establish an ad-hoc committee, which will develop standardized processes (such as applications, regulations, and templates.) These will be used to implement planned instruments whenever a state expresses its will. In addition, a task force with a necessary expertise will be set up in order to assist the governments in using the chosen instrument.

1.5. Polish defense industry in the context of the EDF

The recurring theme during discussions about EDF has been the involvement of small and medium enterprises and their access to funding. The so-called 'mid-caps', such as the Polish Armaments Group (PGZ), are at the center of attention for member states lacking national defense giants (i.e. Airbus, BAE Systems or Thales). Creating an appropriate offer for mid-caps will be the key to gaining support for the EDF from countries such as Poland.

The European Commission announced that both PADR and EDIDP will continue managing projects involving smaller and less competitive companies. Current EC proposals – some of them already in progress – include: support under the European Structural and Investment Funds; financing from the European Investment Bank,

the European Investment Fund or national development banks; as well as support for the development of clusters as part of the European Network of Defense-related Regions (ENDR).

Only time will tell whether the implementation of international defense projects with EDF financing actually accounts for the needs and abilities of smaller industrial entities. This pertains also to the extent the Polish companies will use the proposed mechanisms. The next three years will also show whether the Fund will meet the expectations of various kinds of companies operating on the European defense market. This assessment will influence the entire initiative and determine Member State's decision concerning the Fund.

On a positive side, first engagements of Polish defense companies in the EDF are already taking place. Earlier this year, the EDA awarded a contract for OCEAN 2020 program initiation to a Leonardo-led consortium which includes two Polish enterprises – Polish Armaments Group and OBR CTM. This research-window contract will be executed by 42 partners from 15 European countries and will improve reconnaissance capabilities of navies as well as implementation of surveillance missions involving offshore and airborne unmanned systems. PGZ and OBR CTM will bring the experience and know-how in construction and integration of marine observation systems (offshore and onshore), which they are developing for the Polish Navy. Program is designed to check the integration of UAVs with command and control centers located on board navy vessels and to exchange data using satellite links with counterpart onshore centers. Moreover, Poland's privately-owned ITTI company, which operates in the space sector, will benefit from EDF funding allocated to the Generic Open Soldier Systems Reference Architecture project. The latter is led by Germany's Rheinmetall.

The current draft EDF regulation contains provisions to support the participation of small and medium-sized companies as well as mid-caps in the absorption of funds after 2020. This is good information for all countries with

relatively small defense enterprises (majority in the EU). Although the proposed solutions are not a silver bullet which will prevent major defense companies from taking lion's share of the funds, it is certainly a step in the right direction.

1.6. Long-term implications of the establishing the EDF

For the first time in the history of building the foundations of the European defense union, the EU budget will have a significant share in armaments expenditures. The European Commission was forced to take concrete financial steps after years of failing to boost the level of defense cooperation otherwise.

In addition to strengthening the Member State's armed forces, the main long-term goals of the EDF are to create a single European Defense Equipment Market and to consolidate the sector, which – with the exception of the aerospace part – remains highly fragmented. Both goals intend to reduce the duplication of defense programs, saving billions of euros and strengthening sector's global competitiveness.

On the one hand, Poland and the Polish defense industry should advocate for favorable legal regulations. Those include relaxed requirements for granting funds or extensive technical and legal support for small and medium enterprises. On the other hand, both must improve the organizational capabilities needed to efficiently use funding. EDF is a unique opportunity for the Polish industry to make a technological leap in innovation and to become involved in most advanced defense projects in Europe.

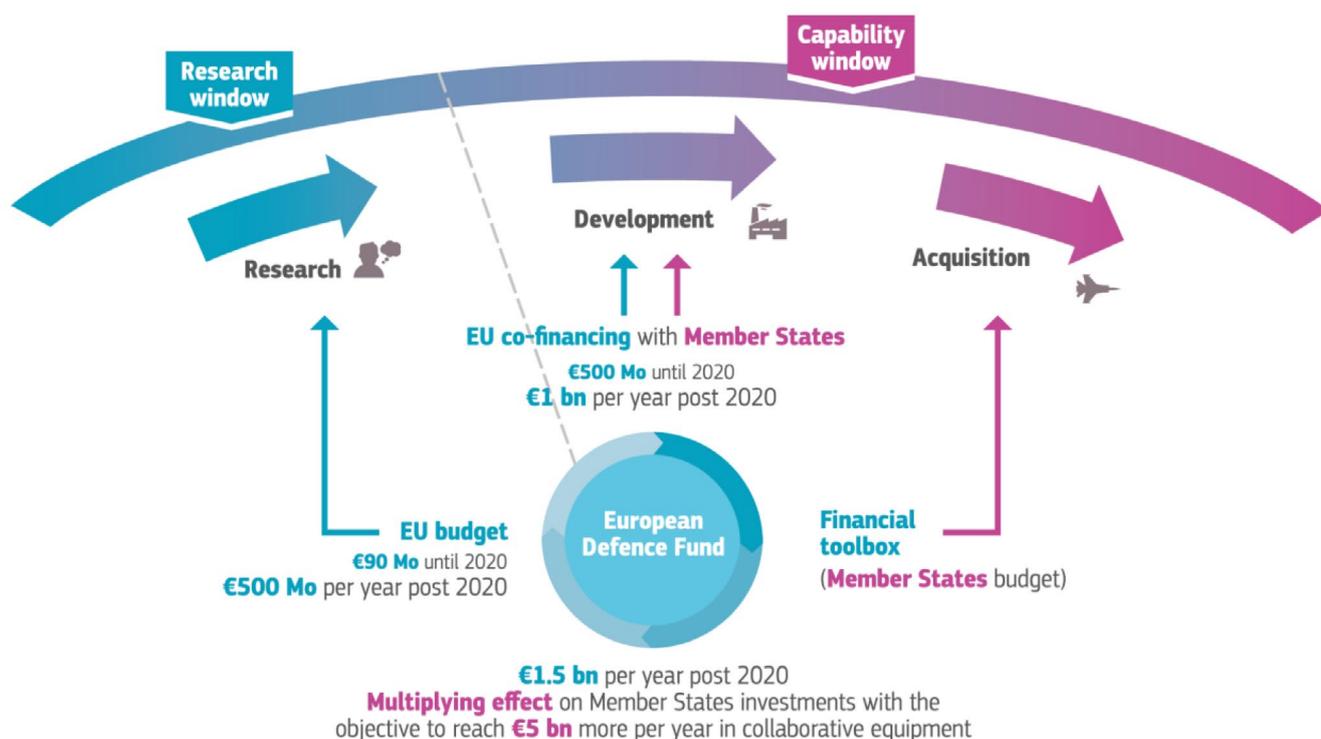
2. Permanent Structured Cooperation – pros and cons of the new initiative

On December 11, 2017, the Council of the European Union initiated the Permanent Structured Cooperation. 25 EU Member States, including Poland, expressed their will to participate in implementing 17 cooperative defense projects. This mechanism, which was established by the Treaty of Lisbon, is relatively unknown in Poland. Nevertheless, it has a chance to become a key element of Europe’s new security and defense architecture, next to the European Defense Fund.

PESCO, once described by the President of the European Commission Jean-Claude Juncker as “the sleeping beauty of the Lisbon Treaty”, will now serve as a vehicle for the Union and its Member States to achieve strategic autonomy in the defense field. Overlap of several events, which affected the European security, precipitated the start of this process. Among them were Donald Trump

success in US Presidential elections, Russia’s aggressive posture towards its neighbors and Western nations, the security crisis in the Middle East and North Africa as well as the Brexit referendum. This last event played a particularly significant role, since the UK has been blocking similar defense initiatives in the past. The post-Brexit EU will have better chances of building autonomous capabilities and, in the longer term, establishing a European defense union similar to the currently existing economic and monetary union.

Apart from the United Kingdom, only Denmark and Malta opted out of PESCO. Denmark also decided not participate in the Common Security and Defense Policy (CSDP). The remaining, vast majority – including Poland – is involved in the process, albeit with different attitudes towards the new initiative. However, the real test for EU’s determination to gain defense autonomy will be the success of failure in implementing the 17 planned projects. Although PESCO is legally binding for its signatories, the intergovernmental form of cooperation requires unanimity for majority of decisions, which may cause numerous problems right from the outset. PESCO’s emphasis on inclusiveness and lack of community method enabled for obstruction



Graph 2. European Defense Found process. Source: Communication form the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Launching the European Defence Fund, Brussels 7.6.2017, COM (2017) 295 final.

of the process even before states were formally notified about the plan to establish cooperation. France, as the nation most interested in the emergence of continent's defense autonomy, proposed a non-EU alternative called the European Intervention Initiative (EII). It was designed as a framework for conducting operations independently from the EU or NATO by the countries willing to do so. Time will tell whether EII will compete or complement PESCO, serving as an 'insurance' if the latter fails. A large group of more or less skeptical PESCO participants make this a viable possibility.

2.1. Legal and political background of PESCO

Permanent Structured Cooperation is present in the Treaties, making it a more permanent element of EU's institutional landscape. Articles 42 (6) and 46 of the Treaty on European Union as well as Protocol No. 10 to the Treaty provide a formal framework for nations interested in a more robust defense cooperation, whether capability – or military operations – related. Even though the aforementioned Protocol listed "higher military capabilities criteria" for states wishing to take part in PESCO, in practice each EU Member State was able to join. At the same time, in accordance with the Treaty, the participating states assumed some obligations in terms of capability development. Although they are currently vague, they will be defined more closely in the coming months.

The main advantage of PESCO, especially in comparison to previous NATO and EU member states' declarations, is its binding nature. When a state decides to participate in a given PESCO project, it makes a binding commitment in a form of the National Implementation Plan (NIP). The powers vested in the High Representative for Foreign Affairs and Security Policy allow him/her to annually monitor NIP's progress through the newly established PESCO Secretariat, the European Defense Agency, the European External Action Service (EEAS) and the EU Military Staff (EUMS). Plans will be updated by the

states, as implementation progresses. A strategic review of the implementation of commitments is planned the end of each phase (in 2021 and 2025.) The review will also decide on launch of a next phase or revision of the declared commitments. Unfortunately, since PESCO relies entirely on intergovernmental consensus, the most far-reaching sanction is the removal of a state from a given project. Moreover, regardless of the declarations and commitments, each country can decide to pull out of PESCO anytime, and face only political repercussions. The time will show whether political consequences will be a sufficient to convince states to fulfil their obligations.

PESCO was spearheaded, as usual in the community, by EU's two main players – France and Germany. The two saw ongoing Brexit negotiations as a window of opportunity to start negotiations on the PESCO formula. Berlin and Paris quickly reached an understanding on need to establish a new mechanism, but remained divided on the level of cooperation and inclusiveness of the project.

2.2. Vanguard or inclusiveness?

Soon into the negotiation process Germany came out as exerting its vision of PESCO to a greater extent, but the balance between inclusiveness and ambitions was not achieved. Despite Treaty provisions, each Member State could join the process whether or not it fulfilled the military capability criteria. Among the 25 participating states are those eager for European defense cooperation (i.e. Finland, Estonia, the Czech Republic, Greece, Luxembourg) as well as those relatively reluctant to the new initiative (i.e. Lithuania, Cyprus, Poland.) Upon the notification about joining PESCO, Poland's Minister of Foreign Affairs at the time, Witold Waszczykowski, stated publicly that the mechanism is an "experiment" and that it would be possible to withdraw from it if it will be unsatisfactory for Warsaw. Therefore it is hardly surprising that even before the formal PESCO notification, France - a supporter of the avant-garde defense cooperation model - started to build a non-EU European Intervention Initiative.

The problem of excessive inclusivity was noticed, among others, by the European Parliament. The study prepared for the Subcommittee on Security and Defense (SEDE), pointed out that in the name of maintaining the political unity, the bar to join PESCO was set at the lowest common denominator – expression of will to participate. Moreover, since vast majority of decisions need to be taken unanimously, and since the intergovernmental rather than community method was chosen, it is clear that states do not intend to cooperate seriously under the EU umbrella. At the same time, the success of PESCO will not be evaluated on the number of participating countries, but on the number of successful joint projects and the level to which armed forces of European nations will be strengthened.

It is still possible to overhaul PESCO's decision-making weaknesses, although much will depend on internal and external factors and the effectiveness of other EU's security elements. Initiatives led by the European Commission are the best hope here. Since excluding nations from PESCO would be highly undesirable, overhaul efforts should focus on creating and maintaining political and financial incentives for leading vanguard states.

2.3. Current projects

Currently, 17 PESCO projects are underway:

- » Harbor & Maritime Surveillance and Protection (HARMSPRO);
 - » Upgrade of Maritime Surveillance;
 - » Cyber Threats and Incident Response Information Sharing Platform;
 - » Cyber Rapid Response Teams and Mutual Assistance in Cyber Security;
 - » Strategic Command and Control (C2) System for CSDP Missions and Operations;
 - » Armored Infantry Fighting Vehicles / Amphibious Assault Vehicle / Light Armored Vehicle;
 - » Indirect Fire Support (EuroArtillery);
 - » EUFOR Crisis Response Operation Core (EUFOR CROC).
- Considering the number of participating states, the list above is relatively small. However, negotiations on new projects are currently underway and will be surfacing when countries agree on the willingness to implement them. Next round of proposals is set for this autumn. The Polish government has not yet come up with a proposal of its own, but, according to the former Minister of National Defense Antoni Macierewicz, Poland's coming projects will be aiming to strengthen NATO's eastern flank. No proposal timeline has been set thus far.
- Poland is participating in two projects created by other states. The first one, ESSOR, has already been ongoing for years under the umbrella of the non-EU Organization for Joint Armament Cooperation (fr. Organisation conjointe de coopération en matière d'armement, OCCAR). The second one relates to the mobility of troops and will be closely coordinated with NATO due to the need to rebuild capabilities of military units to travel through the territories of allied countries. Moreover, at the meeting of EU defense ministers at the beginning of March 2018, Poland declared the intent to join several other projects as an observer, including Network of logistic Hubs, Maritime Autonomous Systems for Mine Countermeasures, or Indirect Fire Support.
- » European Medical Command;
 - » European Secure Software defined Radio (ESSOR);
 - » Network of logistic Hubs and support to Operations;
 - » Military Mobility;
 - » European Union Training Mission Competence Centre (EU TMCC);
 - » European Training Certification Centre for European Armies;
 - » Energy Operational Function (EOF);
 - » Deployable Military Disaster Relief Capability Package;
 - » Maritime (semi-) Autonomous Systems for Mine Countermeasures (MAS MCM);

2.4. Management and the role of supporting institutions

The intergovernmental nature of this mechanism and the unanimity requirement remain the main risk to PESCO's success. EU institutions (with the exception of the High Representative of the Union for Foreign Affairs and Security Policy) do not have wide competences in the implementation of projects or control over governments which fail to fulfil obligations. Current EU experience shows that cooperation based on intergovernmental rather than community-based method, tends to produce mixed results at best. At worst, the projects end up failing altogether, as was the case with the EU Battlegroups which were never employed.

The process of Permanent Structured Cooperation will be managed on four levels:

- » The Common Security and Defense Policy level. European Council and sometimes the Council of the European Union (the Council) will define and establish general guidelines. Decisions relating to the CSDP and PESCO are taken by the Council by unanimity. Therefore, even countries not participating in PESCO will have a veto right.
- » PESCO level. Participating states will decide and adopt recommendations concerning specific issues such as strengthening or weakening commitments in a given project, establishing new commitments, allowing additional state to join PESCO or excluding one that fails to meet its obligations. Two types of voting are carried out by qualified majority and thus do not require unanimity.
- » European Defense Agency level. In accordance with Protocol No. 10 to the Treaty, the EDA has a dual role within PESCO. First, at least once a year the Agency will participate in assessing the involvement of Member States in the implementation of commitments and present its conclusions to the Council. Second, the EDA will implement joint defense programs.

In theory the Agency's Steering Board (composed of representatives of the EU Member States with the exception of Denmark) makes decisions by a qualified majority. In practice unanimity is almost always pursued.

- » Project level. PESCO member states have not agreed on the details concerning this level. It is likely that each project will have its own management system, with the OCCAR mechanisms often set as a model.

2.5. PESCO in the context of NATO

The PESCO discussion exacerbated the question of the relationship between EU defense initiatives and the North Atlantic Treaty Organization. Numerous public statements of the EU and Alliance leaders indicate that maintaining cohesion between the two is paramount. In particular the EU Council Conclusions of June 2017 on the creation of PESCO, state that all actions must be consistent with NATO defense planning and national obligations within the Alliance. On the one hand, NATO structures and the United States are both interested in strengthening Europe's defense capabilities. On the other, the majority of Member States, especially Poland, want to ensure that EU initiatives do not weaken the transatlantic ties and US security guarantees. Nonetheless, EU leaders are wary of president Trump's skepticism towards Europe, the alliance and multilateralism in general. This prompted calls for building alternative forms of security guarantees on the Old Continent. The answer to these voices was PESCO. Regardless of public declarations of the EU and NATO leaders, the two organizations will compete. As the EU's defense autonomy is implemented, the already blurry line between NATO's "hard security" and Union's "soft security" roles will be disappearing. Although the European pooling and sharing concept and NATO's smart defense are similar and largely compatible, there is a permanent conflict for the allocation of limited financial and personal resources. The question of which

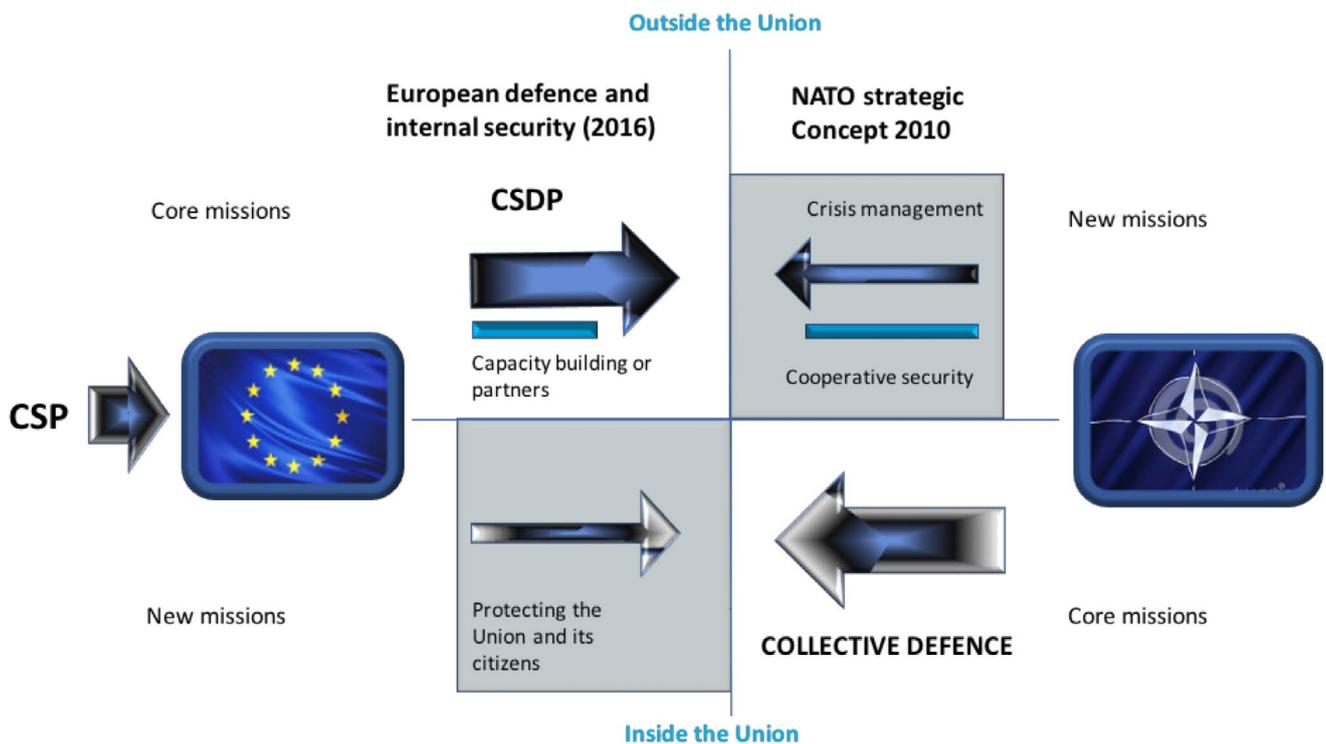
organization should be tasked with strengthening the common defense capabilities will remain a bone of contention.

The resolution of this conflict must include two elements. First, in order for the transatlantic bond to function properly, there must be a political decision to “Europeanize” NATO. That is, European nations need to take responsibility, financially and otherwise, for Alliance’s initiatives and agencies, balancing US’ influence over the organization. Second, it’s paramount to establish low and medium level ties and channels of communication between the CSDP institutions and the Alliance. Currently the limited number thereof is one of the main obstacles in the effective cooperation between both organizations. Second element, albeit important, remains largely a technical matter. The most important question is whether Washington and European capitals will agree to hand over more responsibility for defense and security to the Old Continent.

2.6. Poland in the process of forming PESCO

Polish authorities were quite reluctant to join Permanent Structural Cooperation. Although the final decision was positive, some conditions were laid down, including the provision to preserve NATO as a key security organization in Europe. Poland’s decision was influenced by three factors. First, as one of the top defense spenders on the Old Continent, Poland will benefit from the new mechanism. Second, the US continues to push Europeans to assume responsibility for their security. And lastly, decision to forgo a European defense initiative would have angered EU allies and start another conflict with Brussels. However, in order to be substantive, the political decision must be followed by actual engagement in joint defense projects, which is not yet sure.

NEW GOALS ASSIGNED TO PESCO AND THE LINKS WITH NATO



Graph 3. PESCO goals and its links with NATO. Source: Directorate-General For External Policies, Policy Department, SEDE, „Permanent Structured Cooperation: national perspectives and state of play”, 2017.

Despite the initial skepticism, chilly comments from high state representatives joining only 2 out of 17 projects, Poland still can be a major contributor to the initiative. While PESCO-related legislation was largely driven by Franco-German tandem, solutions regarding specific projects and management provisions are still to be negotiated. This is an opportunity for Poland to advocate for favorable solutions, provided the country's leadership is truly committed to participating in PESCO. Moreover, the inclusive decision making process and flexibility of the mechanism enable countries to create Polish projects, adapted to country's needs. Since military requirements in CEE and beyond are abundant, many types of projects can be in consideration.

Polish MoD should take advantage of PESCO and the EDF, or risk a self-exclusion from building European defense capabilities. If PESCO fails, the European Intervention Initiative might take precedence, which would not be favorable to Warsaw's geopolitical goals.

3. New mechanism of defense planning coordination in Europe – CARD

The Global Strategy of the European Union presented in June 2016 calls for EU Member States to gradually synchronize and adapt national defense capabilities planning systems and activities. The goal is to increase strategic convergence between Member States and to promote cooperation in the defense field. Operationally this meant launching another mechanism for strengthening European security - the Coordinated Annual Review on Defense (CARD). This initiative is separate from Permanent Structural Cooperation or the European Defense Fund.

Permanent Structured Cooperation and research window of the European Defense Fund, both launched in 2017, mark a new beginning for defense cooperation in Europe.

With CARD, the EU decision-makers are aiming to tackle another, thus unaddressed, obstacle to armaments cooperation – synchronization of defense planning cycles.

Work on CARD conceptual documents has been underway even before the Global Strategy was presented in June 2016, with the European Defense Agency leading efforts in this area. In May 2017 the Council approved the establishment of a new mechanism and set the launching date for September 2017. Trial period was scheduled to conclude in just over a year, giving time to the EU Member States for legal and administrative adaptation.

3.1. Defense planning in Europe – NATO and EU

The current NATO defense planning focuses on the contributions of Member States to collective defense and takes place in a four-year cycle. NATO's benchmark is the ability to conduct 2 large-scale and up to 6 minor operations simultaneously. Since the defense planning is implemented in a top-down approach, Member States receive clear information where resources should be allocated. Generally, this process consists of five phases:

- » **1. establishment of political guidance;**
- » **2. determination of requirements;**
- » **3. requirements apportion and setting targets;**
- » **4. facilitation of the whole process;**
- » **5. revision of results.**

The system design ensures that Member States defense planning takes into account the future needs of NATO as a whole. Emphasis is put on harmonization of national planning efforts and regular assessment of objective's implementation, with constructive pressure exerted in case of delays.

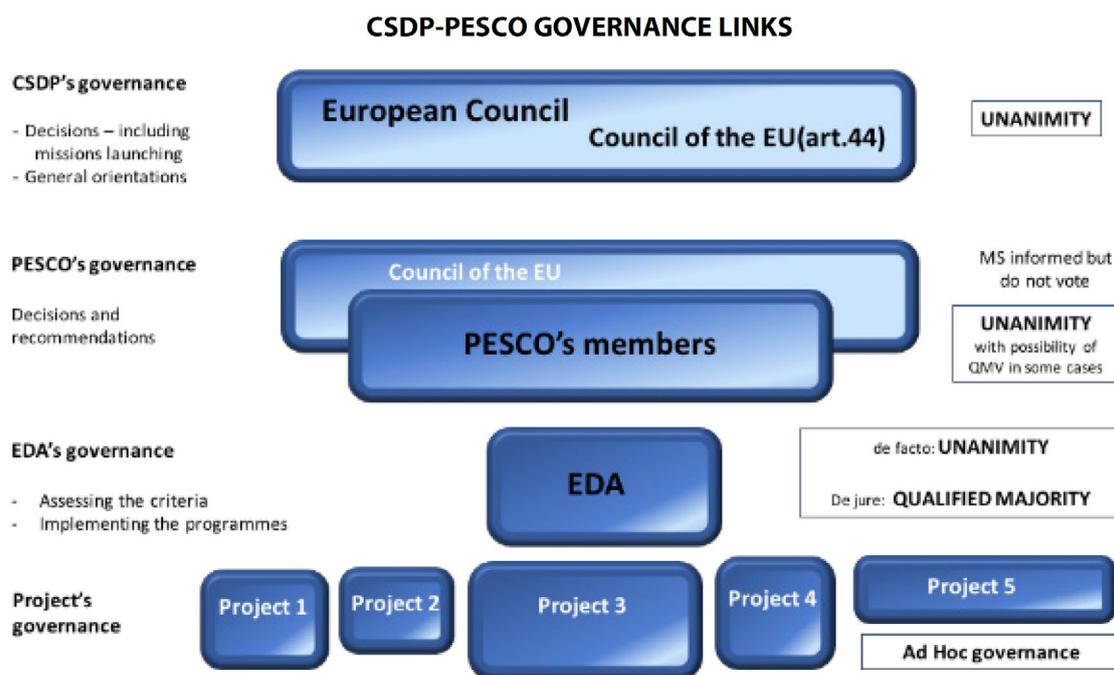
NATO defense planning focuses on whether a given state is able to fulfill its obligations in the field of joint operations. This process includes a series of stages during which NATO exerts pressure concerning the implementation of member states' commitments. The allies are accountable to each other based on their obligations resulting from the North Atlantic Treaty, ensuring an adequate level of political pressure and efficiency. This is why some European NATO members are highly skeptical about EU initiatives, which lack these disciplinary mechanisms.

Nonetheless, the process has certain shortfalls. It has been designed for alliance-level planning, and therefore is not suitable for overall development planning of military and non-military capabilities needed by nation states. It has a limited time horizon and concerns only member state's commitments to the planned Alliance activities. NATO process is not tied back to the overall defense planning employed on a national level. For this reason, NATO is considering a change in approach, which would take into account medium- and long-term goals.

The European Union is a sui generi (one of its kind) entity, very different from a collective defense organization such as NATO. Therefore its process of joint defense planning

is based on different prerequisites. Development of long-term, efficient functioning of defense planning in the EU was started with the establishment of the European Security and Defense Policy in 1999. However, that initiative was focused on crisis management operations ("Petersberg missions"), a legacy of the Western European Union. The casus foederis clause wasn't introduced into the Treaty on European Union (TEU) until the 2009 through the Treaty of Lisbon (article 42 (7) TEU). Therefore, EU prioritizes interoperability improvement, joint research and development of capabilities for lower intensity missions rather than an open military conflict.

These contradictory objectives (crisis management vs. open conflict) have been a major obstacle in coordinating EU's defense planning. Similarly, the European Defense Agency's intergovernmental nature, relatively weak position and the de facto unanimity requirement, also limited this institution's impact on convergence in defense planning of EU Member States. Nevertheless the EDA was able to create the Capability Development Plan (CDP) which was accepted by member states. This fact is a proof that the EU possesses a greater long-term planning ability than NATO.



Graph 4. CSDP-PESCO links. Source: Directorate-General For External Policies, Policy Department, SEDE, „Permanent Structured Cooperation: national perspectives and state of play“, 2017.

3.2. CARD fundamentals

In order to address EU's defense planning shortcomings, member states instituted a new process to ensure a systematic and comprehensive review of existing, developed and planned military capabilities of participating parties. Moreover, this process will account for capability gaps related to operations executed under the auspices of the EU. Council declared in March 2017, that the CARD will assist Member States in gaining critical capabilities according to CDP priorities, and will be a venue for exchanging information on national modernization plans and coordination activities. The EDA will be responsible for day-to-day management of the process. Additionally, defense ministers will meet every two years to discuss how to enhance synchronization of defense planning.

CARD's voluntary character means that the whole mechanism is based on the "intergovernmental method", as opposed to the "community method" common in many EU policies. Participating states retain full sovereignty on the information transferred within the CARD, which make the process prone to the same problems faced by previous EU initiatives in this regard. In order to ensure that far-reaching political declarations are followed by concrete steps, it will be crucial to create a system that will allow for flexibility in delivering commitments. The front-runner countries should be able to pair up for more ambitious, cooperative projects while others should not be forced to join their pace.

CARD's goal should not be to set the obligations at the lowest common denominator, but rather to seek maximum transparency and visibility for EU citizens. When accompanied by incentives for cooperation such as PESCO, CARD will stimulate states to pursue more ambitious projects. A trial stage for this mechanism began last autumn and will last several more months. The results will show whether intergovernmental method delivers a new quality in defense planning coordination within the EU.

Sensible measure of success for the mechanism is still to be introduced. As evidenced by the EDA data, thus far the states have often failed to meet their commitments. Out of 4 benchmarks established in 2007, only 1 (i.e. at least 20% of defense outlays allocated for the procurement of new equipment) has been achieved. The CARD evaluation should utilize EDA's method of measurement and also accept only medium and long-term horizons for defense planning. Therefore, the new process will not bring quick and easily quantifiable results within 2-3 years. Even so, this does not undermine the validity of currently pursued course.

3.3. Trial of the new mechanism

In May last year, the Council decided to start the CARD trial. The methodology, prepared by the EDA, was quickly implemented and presented to the member states' capability directors in September. Trial's four phases include:

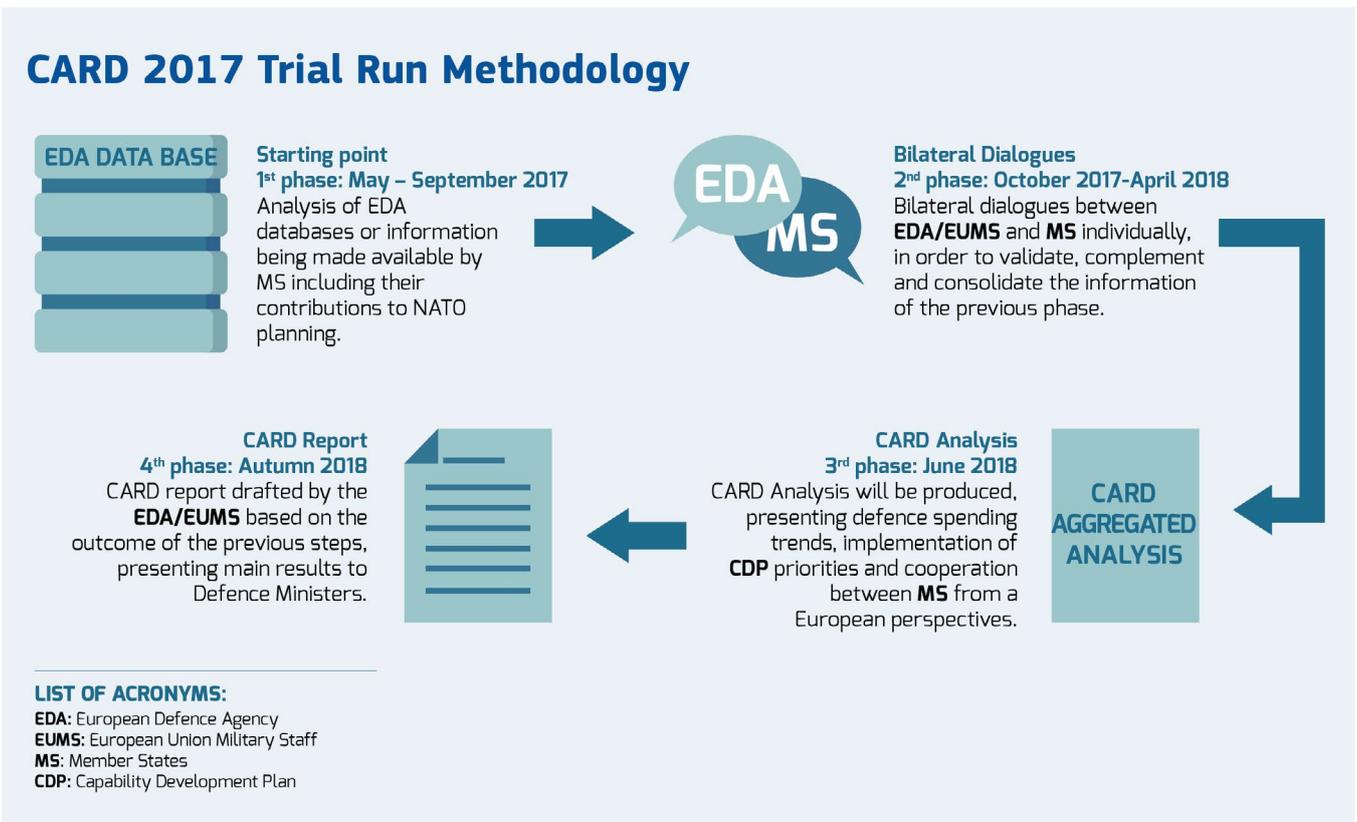
1. Analysis of EDA databases and information shared by Member States including their contributions to NATO planning that lasts. May to September 2017.
2. Bilateral dialogues between EDA/EUMS and Member States individually, in order to validate, complement and consolidate the information gained during the phase 1. October 2017 to April 2018.
3. CARD analysis launched in June 2018. It will present defense spending, trends, implementation of CDP priorities and cooperation between Member States from the European perspective. This analysis will be discussed with the Member States and will form the basis for the final report.
4. Final CARD report prepared by EDA in the autumn 2018 on the basis of information from previous phases. It will include final conclusions from the trial and recommendations regarding problems, challenges and opportunities in EU's defense planning. This in turn will be the basis for improvement of the mature CARD mechanism, which will start in 2019.

The basic goals of the trial are to check how effective is the designed mechanism in providing the necessary information to the states and the Agency, and to prove the importance of information exchange in the context of future cooperation. Due to the voluntary nature of the process, participating states retain full control over the flow of information and it will be up to their good will to determine how much data will be transferred. This approach will most likely limit specific information available in CARD final report, particularly information about countries' capability gaps. Rather, it will include a review of shortcomings that countries are facing focusing on possibilities and proposals for cooperative activities.

CARD mechanism trial is a good litmus test for European defense initiatives. Its potential failure due to states' reluctance to share information will be less politically painful than a failure of a legally-binding mechanism.

3.4. CARD in relation to EDF and PESCO

Initiative's architects emphasize that CARD, along with PESCO and EDF, will be milestones in implementation of the revised CDP. It will also strengthen military cooperation in the areas of planning, research, development, procurement, training and operations. CDP-identified priorities will be analyzed under CARD umbrella. Afterwards, joint projects will be launched using various formats of cooperation - bilateral, multilateral, through EDA, or within PESCO, and financed through the European Defense Fund. Therefore, a logical, consistent series of actions will be put in place, strengthening the security of the Union and its Member States.



Graph 5. CARD Trial Round Methodology. Source: Coordinated Annual Review on Defence (CARD), eeas.europa.eu.

According to the EDF and subject matter experts, CARD's success will depend on connecting it to other EU defense processes. In order to do that, strong institutional links need to be formed between EU institutions which are the base for CARD. It is particularly important for the High Representative of the Union for Foreign Affairs and Security Policy, who is also the vice-president of the European Commission and the head of the EDA, to have a strong presence and voice in all key CARD activities. Permanent, political and bureaucratic entity such as the European Commission cannot be ignored in this discussion - Commission's resources will coerce governments to fulfill their commitments. Therefore, the risk that PESCO will suffer similar problems to previous joint defense planning initiatives is mitigated by EC involvement in the EDF.

The CARD process has the potential to change the mindset in Europe on defense planning and capacity building. This will require extensive involvement from the Member States and focused approach on filling capability gaps from the EDA. This process may take several years to complete. At the same time, straightforward comparison between CARD and NATO's successful defense planning process is not appropriate due to fundamental differences of both mechanisms. Rather, links should be established between the two, enabling synergy and mutual benefits.

Synchronization of defense planning is a complicated matter, which will take pains and time to complete. Particularly difficult in this respect might be involving the highly bureaucratic information defense ministries, which consider defense planning as one of the key elements of their raison d'être.

4. Conclusions and recommendations

European Defense Fund:

1. Since the 2009 defense package, the European Defense Fund is EC's most important initiative in the development

of armaments cooperation. It provides an opportunity to change the corporate and government behavior patterns in the context of engagement in cooperative defense projects in Europe.

2. The Fund a part of EC's broader defense sphere strategy and should be assessed alongside other initiatives (especially with PESCO and CARD).

3. Given the relatively low funding level for defense R&D in Poland, the EDF represents a unique opportunity for Polish companies to leap forward in the area of joint EU programs.

4. Polish authorities, specifically the MoD, should promptly acquire knowledge and skills regarding EDF mechanisms, and should contribute to preparation of legal provisions for research and capability windows. A dedicated cell within the MoD or the National Centre for Research and Development should be established to improve coordination of national and industrial activities in relation to EDF projects.

5. Aside from actions undertaken by state authorities, Polish defense companies should put forward joint project proposals or join existing initiatives. This experience will be valuable in competing for EDF funds after 2020.

Permanent Structured Cooperation:

1. PESCO was initiated based on EU Treaties, which makes it a permanent element of European defense landscape.

2. Closer defense cooperation and integration are becoming a reality. As an EU mechanism, PESCO is preferred by small and medium states over the European Intervention Initiative. Thus, Warsaw should advocate for PESCO framework.

3. PESCO's inclusiveness and intergovernmental nature are a threat to its success. Initiative's main weakness is a lack of a wider involvement of the community element – mainly the European Commission.

4. The Polish authorities have made a sound decision to engage in PESCO, albeit publicly voicing reservations. Poland should actively participate in negotiations concerning individual projects, to ensure their alignment with country's security interests.

5. In the coming months, Polish authorities should initiate Polish-led projects. Poland and the Baltic States are particularly vulnerable to instability spread by Russia. The best response would be strong involvement of European partners in defense cooperation. This will increase national security and also demonstrate that Poland is a valuable ally.

Coordinated Annual Review on Defense:

1. The CARD is the least known European defense initiatives, and one unlikely to produce tangible effects, unless in conjunction with the EDF and PESCO.

2. Defense planning is a long-term process, so CARDS effects will be visible in a few years' time.

3. Like PESCO, CARD is an intergovernmental mechanism, without a major participation of the community element. This is initiative's major weakness, jeopardizing its effective implementation if countries are reluctant to provide information to the EDA.

4. Out of all proposed initiatives, CARD could add the most value in military equipment procurement cooperation. Coordination of activities can bring about substantial savings.

5. Since wide-scale defense planning cooperation is complicated, it might prove difficult to merge these processes between states without a political pressure. Red tape in particular states and the intergovernmental nature of CARD are the most significant problems of the mechanism.

6. The NATO planning process is cannot be copied one-to-one on the EU level. The CARD learn from good practices created by the Alliance system, but must also develop its own methodology.

7. Since defense planning in the EU has been lagging, Poland can easily become the CARD leader. Considering country's financial resources and prioritization of defense issues, Poland can become a model country in the field of defense planning cooperation.





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