



## El folk europeo y la inversión en industria de defensa; criterios de convergencia

### Resumen:

Este documento trata sobre el desafío que supone una mayor financiación común para la defensa en la UE, en un contexto macroeconómico y de seguridad exigente. Se elabora sobre el incumplimiento de los compromisos PESCO, acerca de las recientes innovaciones legales y funcionales impulsadas por la Comisión para la defensa. Asimismo, se trata la supervisión multilateral de lo invertido en defensa en la OTAN y en la UE.

Se resalta la complejidad de hacer frente a la guerra en Ucrania y, al mismo tiempo, impulsar la financiación de las inversiones en la industria de defensa europea, contribuyendo a la formación de un mercado único de defensa y el cumplimiento de los compromisos reevaluados de la PESCO.

El artículo analiza la posible respuesta institucional, se plantea la posibilidad de que se esté tratando de añadir un estrato supranacional sobre la Política Común de Seguridad y Defensa (PCSD). Se llega a sugerir, como hipótesis de trabajo, que la Comisión llegue a supervisar los planes presupuestarios nacionales relacionados con las inversiones en la industria de defensa conforme a unos criterios de convergencia, para posibilitar el cumplimiento de los objetivos y compromisos adquiridos, vigentes o futuros.

### Palabras clave:

Inversión en defensa, planes de ajuste, convergencia, PCSD, intergubernamental, supranacional, industria, PESCO, EDIS, EDIP.

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"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."  
(Robert Schuman, 1950)<sup>1</sup>

## Introduction

This *score* is about defence, economics and EU integration.

The competitiveness of the EU defence industry faces constraints that are similar to those of the European *folk* music industry: each country produces its own music with its own companies, voice requirements and instruments, mainly for a domestic audience, although there is also aspiration to export. Conversely, US *country* music is widely sold in North America, but also in Europe and beyond.

Russia's invasion of Ukraine in 2022 affected the economic security of European citizens, moreover the war is speeding up changes that may be critical to the EU's Common Security and Defence Policy (CSDP), namely in the defence industry and the internal defence market. A defence industry that is technologically competitive and capable of producing armaments in large quantities constitutes a deterrent factor.

Towards the end of 2024, the financial commitments of the Permanent Structured Cooperation (PESCO) have not been met and new targets have been fixed for the EU defence industry and market. Undoubtedly, investing in defence is a burden on states; an investment for the industry that supports it. How much investment is enough<sup>2</sup>? How can Member States agree upon a fair sharing of this burden?

The Common Security and Defence Policy (CSDP) is, in principle, intergovernmental, i.e. defined and controlled strictly by state governments. However, this policy is also subject to the intergovernmental *versus* supranational dialectics. "Versus" in Latin meant "towards", however subsequently it became "against" in the English legal language<sup>3</sup>. The EU Commission is pushing for a gradual move "towards" the supranational<sup>4</sup>, promoting

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<sup>1</sup> [https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950\\_es](https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950_es) All links in the document are active at the time of publication of this paper.

<sup>2</sup> GRAY, C. S. (2014). *Strategy and defence planning: meeting the challenge of uncertainty*. Oxford University Press, and Davis, P. K. (1994). *New challenges for defense planning: rethinking how much is enough*. Rand Corporation. Santa Monica CA; Rand.

<sup>3</sup> <https://www.rae.es/dpd/versus>

<sup>4</sup> HOWORTH, J. (2011). *Decision-Making in Security and Defence Policy Towards Supranational Intergovernmentalism?* In KFG Working Paper Series, num. 25.  
<https://journals.sagepub.com/doi/10.1177/0010836712462770>

integration as a strategy of self-empowerment and competence maximization even in intergovernmental domains of security and defence<sup>5</sup>.

The previous Commission (2019-2024) has promoted capability development for the Common Security and Defence Policy (CSDP) and set economic targets for the defence industry and the single market, which will continue with the EU's 2024-2029 strategic agenda<sup>6</sup>.

CSDP funding is complex, thus this paper focuses on PESCO's failure and the path being laid by the Commission with the European Defence Industrial Strategy (EDIS) and its implementation programme (EDIP). A working hypothesis is put forward for a Commission that could insist on supranationalising the part of the CSDP centred on developing defence capabilities.

This paper suggests that the Commission could go so far as to supervise national defence and industrial budget plans, according to convergence criteria, in order to ensure compliance with targets and commitments<sup>7</sup>.

### **Where do we start?**

On 20 June 2023, the High Representative Josep Borrell presented the European Economic Security Strategy<sup>8</sup>, which mentions the Strategic Compass (2022), regarding securing vital supplies (rare earth minerals and microchips) for the technological and industrial base of European defence. The reindustrialisation of the EU was a key issue during the Spanish presidency of the EU Council in 2023.

On 29 April 2024, the 1997 Stability and Growth Pact's criteria for fiscal discipline (no more than 60% of GDP) and budget deficit (no more than 3% per year) were renewed by Regulation 2024/1263<sup>9</sup>. It refers to effective economic policy coordination and *multilateral budgetary supervision*, and also to the Strategic Compass and the development of defence capabilities.

<sup>5</sup> MÜLLER, P, SLOMINSKI, P and SAGMEISTER, W (2023) *Supranational Self-Empowerment Through Bricolage: The Role of the European Commission in EU Security and Defence*, Journal Common Market Studies, <https://doi.org/10.1111/jcms.13564>

<sup>6</sup> [https://www.consilium.europa.eu/media/4aldqfl2/2024\\_557\\_new-strategic-agenda.pdf](https://www.consilium.europa.eu/media/4aldqfl2/2024_557_new-strategic-agenda.pdf) (European Council, 27 June 2024, Strategic Agenda 2024-2029)

<sup>7</sup> CASTILLA, J. C. From Public Defence Policy to Defence Planning. About enhancing the EU processes and complementarity with NATO. (PhD thesis) 2024, pp. 260-261. <https://hdl.handle.net/20.500.14468/22970>

<sup>8</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023JC0020>

<sup>9</sup> Available at <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32024R1263>

The Strategic Compass (2022) underscored the urgent need to increase and improve defence investment. In addition to the failure of PESCO participants to meet their investment commitments, the resources of the European Defence Fund (EDF) are insufficient for the ambitions of the new European Defence Industrial Strategy (EDIS) of March 2024, which sets new targets for this section of the market. Its successful implementation (European Defence Industry Programme - EDIP)<sup>10</sup> remains to be seen, with funding a key issue.

"we are still not joining forces in the defence industry to help our companies to integrate and reach scale. European collaborative procurement accounted for less than a fifth of spending on defence equipment procurement in 2022. We also do not favour competitive European defence companies. Between mid-2022 and mid-2023, 78% of total procurement spending went to non-EU suppliers, out of which 63% went to the US."<sup>11</sup>

The EDIS objectives are set for 2030 and 2035, including the purchase of cooperative developments, the increase in the volume of the internal defence market and the procurement of European material. By 2030, the EU intends to coordinate the procurement of at least 40% of defence equipment, to trade at least 35% of defence products between EU countries, and to dedicate at least half of defence procurement spending towards European products, thereby reducing external dependence<sup>12</sup>. The latter target is sought to be increased to 60% by 2035; reducing dependence on the US.

The European Defence Industry Programme (EDIP) requires increased funding in order to be effective. In the 2024 election campaign, Ursula von der Leyen proposed two options: states can either invest directly in the defence industry or use pooled funding, which also comes indirectly from states, using the competences of the Commission and the supranational. The recent Draghi report calls for the necessary common funding<sup>13</sup>.

The Commission presented the EDIP programme as a regulatory proposal, pending its legislative processing starting in September or October 2024. This proposal may face

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<sup>10</sup> Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industry Programme and a framework of measures to ensure the timely availability and supply of defence products (EDIP), [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024PC0150](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024PC0150)

<sup>11</sup> DRAGHI, M "The future of European competitiveness" [EU competitiveness: Looking ahead - European Commission \(europa.eu\)](https://commission.europa.eu/press-room/news/2024-03-05_en), p. 4

<sup>12</sup> [https://commission.europa.eu/news/first-ever-european-defence-industrial-strategy-enhance-europes-readiness-and-security-2024-03-05\\_es](https://commission.europa.eu/news/first-ever-european-defence-industrial-strategy-enhance-europes-readiness-and-security-2024-03-05_es)

<sup>13</sup> DRAGHI, J. *Op. cit.*, p. 14.

certain governments' opposition seeking to preserve their sovereignty<sup>14</sup>; the supranational conditions national freedom to manoeuvre.

Currently, the EDIP programme has €1.5 billion of EU funds for 2025-2027, an amount that cannot be expected to have a significant impact in the short term, considering the aggregate amount invested by EU countries (about €240 billion in 2022 according to EDA data)<sup>15</sup>. The success of the strategy will depend, in part, on the funds allocated to the defence industry in the next 2028-2034 Multiannual Funding Framework (MFF).

The Lisbon Treaty gives the Commission competences in economic policy, internal market and industry, but not in Common Foreign and Security Policy (CFSP) or in security or defence (CSDP); however, it promotes initiatives related to capability development and research in the defence industry, such as the European Defence Fund (EDF).

EU economic incentives for the collaborative capability development or procurement appear to be less attractive than the political incentives of NATO<sup>16</sup> or the US. Neither PESCO commitments nor other instruments such as the European Defence Fund have achieved sufficient European collaboration to significantly develop capabilities, nor to consolidate an EU internal defence market.

The Commission aims for countries to buy European *folk* recorded in several Member States, and for 50-60% of the music purchased to be European. The strategy focuses on joint programming and procurement.

### **European Folk: Recording skills. No soloists**

Since 2017, PESCO's campaign has been unsuccessful. Germany advocated for the more inclusive formula, despite the fact that the Lisbon Treaty offered great flexibility for the initiative; the German vision prevailed over the more distinct and ambitious French one<sup>17</sup>; a "coffee for all" formula was adopted<sup>18</sup>. Sven Biscop points out that the Common

<sup>14</sup> RAMIREZ, D (2023). *Defence capabilities provision in the European Union*. IEEE [https://www.ieee.es/Galerias/fichero/docs\\_analisis/2024/DIEEEA13\\_2024\\_DAVRAM\\_Capacidades.pdf](https://www.ieee.es/Galerias/fichero/docs_analisis/2024/DIEEEA13_2024_DAVRAM_Capacidades.pdf)

<sup>15</sup> <https://eda.europa.eu/publications-and-data/defence-data>

<sup>16</sup> CASTILLA, J. C. (2024). *Op.cit.* pp. 368-369; 380.

<sup>17</sup> BLOCKMANS, S and MACCHIARINI CROSSON, D (2019) *Differentiated integration within PESCO - clusters and convergence in EU defence* [https://cdn.ceps.eu/wp-content/uploads/2019/12/RR2019\\_04\\_Differentiated-integration-within-PESCO.pdf](https://cdn.ceps.eu/wp-content/uploads/2019/12/RR2019_04_Differentiated-integration-within-PESCO.pdf)

<sup>18</sup> GOSALBO BONO, R. (2017). *Quo vadis, coniunctio europae?* Revista de Derecho Comunitario Europeo, 58, 837-867. [Quo vadis, coniunctio europae? - Dialnet \(unirioja.es\)](https://dialnet.unirioja.es) p. 846

Security and Defence Policy (CSDP) is not functioning today; member states either do not put enough beans in coffee machine <sup>19</sup> or opt for the NATO one.

Countries participating in PESCO made commitments, including the NATO target of investing 2% of GDP in defence, and other commitments on how to invest quantitatively and qualitatively. The commitments were about making *European folk music* competitive, it was necessary to research, compose and play as a group, across several countries, and not as soloists. The EU encourages multinational consortia of defence companies, not to mention small and medium-sized enterprises.

Three aspects of PESCO commitments stand out: firstly, the percentages of investment in cooperative research, development and joint capability development; secondly, their legally binding nature; thirdly, the institutions governing PESCO and which are to oversee the success of the initiative.

Of the twenty PESCO commitments, five are economically significant. The first is aligned with NATO's postulates on equitable burden sharing (2% of GDP), and the other four on how to structure spending or investment, as defined by each organisation. In 2022, aggregate EU defence spending was 1.5% of GDP, falling short of the 2% target. At least 20 percent was dedicated to the procurement of major equipment, but three other commitments were not met: joint procurement of equipment, investment of 2 percent of the defence budget in technological research (R&T), and joint research up to 20 percent<sup>20</sup>.

Given PESCO's legal status endowed by virtue of the Lisbon Treaty, one would expect EU institutions to be capable of supervising and evaluating the implementation of its commitments. This is however not the case; they are set and monitored by states, and EU institutions are unable to point the finger at those who fail to comply. The European Defence Agency (EDA) manages PESCO projects proposed by the countries and monitors the implementation of their commitments, which are in theory binding. It is assisted by the EU Military Staff (EUMS).

The EDA plays a key role in capability planning and coordination with industry, but its acts have no binding legal value. The EDA is not an EU institution, but an intergovernmental

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<sup>19</sup> BISCOP, S (2024). *The Coffee Machine*, Egmont Royal Institute for International Relations, [The Coffee Machine - Egmont Institute](#)

<sup>20</sup> CASTILLA, J. C. (2024), *Op. cit.*, p. 230

agency set up by the Council. Its mandate has been extended in May 2024<sup>21</sup>, to facilitate joint procurement by grouping demand and to improve its ability to link the intergovernmental and the supranational. The Agency can express the joint positions of Ministries of Defence to EU civilian authorities dealing with defence or its associated industry, the European External Action Service and the Commission.

The defence ministers govern the EDA, which is under intergovernmental control. The Agency also leads the biannual Coordinated Annual Defence Review (CARD), which reports on progress and opportunities for improvement in research and collaborative capability development. CARD does not single out any country for non-compliance, accountability is not encouraged.

In 2020, the Directorate-General for Defence, Industry and Space (DG DEFIS) was a reality in the Commission's organisation. In 2021, it began operating as lead administrator of the European Defence Fund (EDF). The Commission governs the EDF by virtue of Article 173 of the Treaty on the Functioning of the EU (TFEU) aimed at promoting European industry in general. The EDF focuses on cooperative research for capability development in an effort to improve the technological level and competitiveness of the defence industry, which is also related to -but can be improved in coherence with- PESCO projects.

It was already clear in 2022 that the EU policies promoted by the Commission sought to break the intergovernmental monopoly on the defence market<sup>22</sup>. States have employed Article 346(b) of the Treaty (TFEU) extensively to favour their national industries in procurement contracts, citing the "protection of their essential security interests". There will be an increasing number of dual civil-military capabilities and it will therefore become more complicated to invoke this article without "distorting the conditions of competition in the internal market"; nevertheless, countries will continue to invoke it in defence of their interests.

In 2023, given the urgency to support Ukraine, the Act in Support of Ammunition Production (ASAP) was swiftly passed. It combined, in the legal bases, competences over the single market (Art. 114) and over industry (Art. 173). Due to the same urgency, the Common Procurement Act (EDIRPA) was also passed based on Article 173; the

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<sup>21</sup> [EU Defence Ministers approve reinforced mandate for EDA \(europa.eu\)](https://european-council.europa.eu/media/en/press-room/default.aspx?id=14612)

<sup>22</sup> ARTEAGA, F. (2022) [La política industrial de defensa, civil y espacio de la Comisión Europea: ¡abran paso! - Real Instituto Elcano](#)



Commission anticipated future regulations for joint procurement. Article 114 is inherently flexible<sup>23</sup>, using it within the framework of the Common Security and Defence Policy (CSDP) opens a new door for defence build-up in the EU using market competences.

It is worth considering whether this door may become a new path for the CSDP. Pressure from the war in Ukraine may be driving a change in the funding model<sup>24</sup>. This situation is being used as an opportunity to make institutional innovations<sup>25</sup> for greater supranationality which will ultimately affect the nature of the CSDP. This may require a reform of the Lisbon Treaty, promoted by the Parliament<sup>26</sup>, although other institutions view this with suspicion. In order to improve the competitiveness of the European defence industry, the alternative is an innovative use of the current legal framework, as Mario Draghi pointed out: "a small number of overarching, targeted institutional changes should be made – without the need for Treaty change"<sup>27</sup>.

Today the EDA is collaborating with the Commission in a joint Task Force that is creating a single voice<sup>28</sup> to interact with the defence industry and the Member States.

This duo promotes the *joint programming and procurement function* formulated in two key documents. The first is the joint EDA-Commission communication of May 2022 on how to improve defence investment (Defence Investment Gap Analysis (DIGA)<sup>29</sup>; the second is the aforesaid European Defence Industrial Strategy of March 2024. The effectiveness of this new role will depend on coordination with European industrial consortia and countries, considering their national capability implementation plans, not only those related to PESCO or the European Defence Fund (EDF), but also taking into account NATO's timelines for countries' capability targets. The latter will be necessary if EU-NATO complementarity is truly sought, taking into account that the deadlines do not impose an obligation to buy US equipment.

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<sup>23</sup> FABBRINI, F (2024) European Defence Union ASAP: The Act in Support of Ammunition Production and the development of EU defence capabilities in response to the war in Ukraine, *European Foreign Affairs Review* 29, no. 1 (2024): 67–84 <https://kluerlawonline.com/api/Product/CitationPDFURL?file=Journals\EERR\EERR2024004.pdf>

<sup>24</sup> GONZÁLEZ ALONSO, L. (2024). The EU's security and defence policy funding: towards a change of model under the pressure of the war in Ukraine? [https://www.ieee.es/contenido/noticias/2024/06/DIEEEO64\\_2024\\_LUIGON\\_Financiacion.html](https://www.ieee.es/contenido/noticias/2024/06/DIEEEO64_2024_LUIGON_Financiacion.html)

<sup>25</sup> FERNÁNDEZ SOLA, N. (2015) *La innovación institucional en la Unión Europea y su impacto en la naturaleza de la Unión como actor de seguridad*, Cuadernos Europeos de Deusto, 01(1), pp. 75–100. <https://dialnet.unirioja.es/servlet/articulo?codigo=6827895>

<sup>26</sup> P9\_TA(2023)0427 Proposals of the European Parliament for the amendment of the Treaties [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf) The call for a "union defence" in Paragraph 22 is perhaps too ambitious.

<sup>27</sup> DRAGHI, M. *Op. cit.*, p. 14

<sup>28</sup> BARBÉ, E. (2012). Cambio mundial y gobernanza global. La interacción entre la Unión Europea y las instituciones internacionales. Tecnos.

<sup>29</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022JC0024>

The implementation of PESCO projects (intergovernmental control) has not lived up to the ambition of the commitments made, and supranational institutions such as the Commission do not oversee and evaluate these commitments. However, Allied Member States (23) allow NATO's International Staff and the Defence Policy and Planning Committee (DPPC) to assist the Atlantic Council in monitoring and assessing each Ally's commitments under the NATO Defence Planning Process (NDPP), including details of national implementation plans and the scheduled funding of specific capability projects. This political intensity that exists in the Alliance, which particularises the case of each country, does not exist in the Union; not even in the Coordinated Annual Review on Defence (CARD). Is it desirable? Is it feasible? These questions are up for debate.

Institutionally, prudence marks gradual change. The institutions adopt a soft and constructive approach to non-compliance. In the EU, there is a lengthy process to launching infringement proceedings and imposing sanctions commensurate with competences, for example, in the event of non-compliance by states with the stability and economic growth criteria. In the Common Foreign and Security Policy (CFSP), and specifically in the Common Security and Defence Policy (CSDP), only political signalling would be possible. Guidance notes, produced by the Commission, on how to implement directives are also important even if they are not legally binding<sup>30</sup>. The Commission can be stricter in relation to the internal single market and industrial policy, as it was in 2018 in the face of breaches of the Directive 2009/81/EC on defence procurement<sup>31</sup>. Article 173.2 (TFEU) establishes the Commission's competence to prepare "the necessary elements for periodic monitoring and evaluation"<sup>32</sup> of industrial policy objectives.

Experts in public international law<sup>33</sup> point out that, in cases of initial lack of foresight in the Treaty, there is some flexibility in interpreting the Commission's sphere of competence

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<sup>30</sup> STRIKWERDA, J. (2018). *Unexpected compliance? The implementation of the Defence and Security Procurement Directive*. Journal of European Integration, 40(7), 889–904. <https://doi.org/10.1080/07036337.2018.1482288>

<sup>31</sup> Art. 258 of the TFEU refers to the possibility for the Commission to issue an opinion when a Member State fails to comply with "an obligation under the Treaties"; this is the so-called "infringement procedure" which has already been used in the past for breaches of the Directive 2009/81/EC on defence procurement against five countries (Italy, Poland, Portugal, Denmark and the Netherlands). [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_18\\_357](https://ec.europa.eu/commission/presscorner/detail/en/IP_18_357)

<sup>32</sup> Art. 173.2 "The Member States shall consult each other in liaison with the Commission and, where necessary, shall coordinate their action. The Commission may take any useful initiative to promote such coordination, in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation. The European Parliament shall be kept fully informed."

<sup>33</sup> IGLESIAS VELASCO A. J.; RICART, R (2020). *The principle of coherence in the industrial defence policy of the European Union*, Journal of the Spanish Institute for Strategic Studies. 2020, Issue 16, pp. 157-220. <https://revista.ieee.es/article/view/2061> Article 352 TFEU covers cases where "to attain one of the objectives set out in the Treaties, and the Treaties have not provided the necessary powers". Despite the restrictions of Article 352.1 (referring to the second paragraph of Article 40), as they point out (p. 186) "i.e. to cover an unforeseen lack of competence".

(Article 352.1 of the TFEU). This flexibility, in theory, does not affect CFSP powers (Art 40.2) and requires the prior consent of the Parliament and unanimity in the Council.

The Commission is known for its skill in EU "comitology"<sup>34</sup>, setting the agenda, the goals, and the best way to achieve them<sup>35</sup>; which in principle seems admissible within its remit. The question is whether countries will allow the Commission, using its defence industry and internal market competences, to set the timetable for the development of capabilities that are required for NATO, for the EU and for individual countries; all of which have a say in defining the deadlines.

The short historical institutional continuity of the CSDP establishes its intergovernmental character, creating a path of dependence on nations, an inertia difficult to overcome<sup>36</sup> that could only be altered at a critical juncture<sup>37</sup>. Is this the kind of situation that we are faced with? The (constructivist) practice of institutional innovation makes it advisable to pay attention to synergies between the Commission and the Council in various economic areas and instruments. Germany and France are especially influential in the Council.

Germany has a general competitive advantage over France in the wider commercial and industrial sector; France is ahead in the defence sector. Some point out that Berlin could favour supranational integration towards a single European defence market that could benefit it in the long run. Paris would seek to retain intergovernmental control over a sector where it is still dominant<sup>38</sup>.

The Commission, in the absence of regulatory competences to propose regulations or directives directly related to the CSDP, can find functional or organisational "bridges" or "gateways"<sup>39</sup> to promote common actions and positions, seeking a progressive institutional change in an initially intergovernmental policy.

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<sup>34</sup> BLOM-HANSEN, J. (2008). *The origins of the EU comitology system: a case of informal agenda-setting by the Commission*, Journal of European Public Policy, Routledge, 15(2), pp. 208–226. <https://www.tandfonline.com/doi/full/10.1080/13501760701817716>

<sup>35</sup> The Commission proposes the best way between delegated acts (Article 290.1 and 291.1 and 2 of the TFEU) and implementing acts (Article 41 of the TFEU).

<sup>36</sup> See p. 937 in HALL, P. A., and TAYLOR, R. (1996). Political Science and the Three New Institutionalisms. *Political Studies*, XLIV, pp. 936–957 and MAHONEY, J, and THELEN, K (2009). A Theory of Gradual Institutional Change. In *Explaining Institutional Change: Ambiguity, Agency, and Power*, pp.1-37. Cambridge: Cambridge University Press.

<sup>37</sup> RENEDO, A (2022). "El largo camino hacia la defensa común", *Política Exterior* May/June n. 207, p. 114-115

<sup>38</sup> CÁLCARA, A and SIMÓN, L (2024). *Face to face: France, Germany and the future of the European defence industry*, Journal of European Public Policy, Routledge. <https://csds.vub.be/publication/face-to-face-france-germany-and-the-future-of-the-european-defence-industry/>

<sup>39</sup> See pp. 165 and 166 in IGLESIAS VELASCO A. and J.; RICART (2020), R. Op. cit.

Since 2009, the Commission has been regulating the internal defence market<sup>40</sup>. Since 2021, it has become more involved in the defence industry and the internal market, contributing step by step to "intergovernmental supranationalism", a trend already noted by Jolyon Howorth<sup>41</sup> in 2011. It may be too early to talk about the Commission's competences regarding the monitoring and evaluation of budgetary commitments in defence, PESCO or other areas. Or maybe not? A Commissioner for Defence and Space has just been appointed.

Another question is how to make commitments really binding and how to make member states respond in a consistent manner. PESCO will be strategically reviewed in 2025; some experts suggest that this could be the last chance for this initiative<sup>42</sup>. The PESCO model for collaborative capability development may be in crisis, nor has a single defence planning process matured in the Union<sup>43</sup>. Is the PESCO crisis on the agenda of the Commission and the Council? The formulation of new objectives for the single market in the European Defence Industrial Strategy (EDIS) could be part of the institution's response to today's security challenges. Will such targets lead to new, truly binding commitments?

For the EU, the challenge is to stop the war in Ukraine - something that does not appear to depend on its will - and as long as there are threats to its integrity, to increase funding for the defence industry while helping to shape the single defence market, in a feasible manner with the fulfilment of the reassessed PESCO commitments.

### **Institutional response; the new strategy for the record market**

How is this challenge to be met? From an institutionalist perspective, there are different mechanisms operating in these gradual changes. "Layering" adds rules to existing ones; "drift" implies that pre-existing rules have a different impact due to changes in the environment<sup>44</sup>.

If the institutional response were to be in the direction of increasing the role of and instruments available to the Commission, it would mean adding a supranational layer on

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<sup>40</sup> Directive 2009/43/EC and Directive 2009/81/EC.

<sup>41</sup> HOWORTH, J. (2011), Op. cit.

<sup>42</sup> BISCOP, S and CÓZAR, B (2024). *PESCO: the last chance*. Egmont Policy Brief 341 (April).

[https://www.egmontinstitute.be/app/uploads/2024/04/SBiscop\\_BCozarMurillo- Policy\\_Brief\\_341.pdf?type=pdf](https://www.egmontinstitute.be/app/uploads/2024/04/SBiscop_BCozarMurillo-Policy_Brief_341.pdf?type=pdf)

<sup>43</sup> CASTILLA, J.C. (2024) Op. cit.

<sup>44</sup> Displacement, layering, drift and conversion according to SCHRAMM, L and TERRANOVA, C (2024), Op. cit., p.4.

aspects of the Common Security and Defence Policy, gradually boosting the fulfilment of the PESCO commitments<sup>45</sup> together with the new objectives for its market within the European Defence Industry Strategy.

Table 1 Institutional response mechanism

Problems	Inclusion in the Agenda	Institutional response	Possible results sought
War in Ukraine and urgent needs for the European Defence Industry	EU Council and Commission combine items on the agenda.	ASAP, EDIRPA	Addressing short-term war needs, and initial seeding of new functions and procedures in the medium to long term.
Unconsolidated Internal Defence Market. PESCO non-compliance.		European Defence Industrial Strategy (EDIS) and Programme (EDIP) Programming and Joint Procurement (EDA+ Commission)	"Additional layer" Commission: possible review of national defence budgets and/or convergence plans, to boost the achievement of the objectives, in line with a "Convergence Criteria for Defence Industry Investment"
Need to return to economic parameters of stability and growth.		Regulation (EU) 2024/1263 (29APR24) Commission: review of medium-term structural fiscal plans. Mentions of the Strategic Compass	

Author's own. Adapted from Schramm and Terranova (2024)<sup>46</sup>.

This raises at least two additional questions. First, it must be decided which is more relevant: meeting PESCO commitments or achieving the objectives of the European Defence Industrial Strategy (EDIS). The former must to be reviewed, and if countries

<sup>45</sup> "However, it is these participants who take the decisions on PESCO in the Council", see p. 193 in IGLESIAS VELASCO and RICART (2020), op. cit.

<sup>46</sup> SCHRAMM, L and TERRANOVA, C. (2024). From NGEU to REPowerEU: policy steering and budgetary innovation in the EU, *Journal of European Integration*, 46:6, 943-961, <https://www.tandfonline.com/doi/pdf/10.1080/07036337.2024.2353791>

agree that achieving those of the strategy is feasible, the commitments will need to be reformulated.

Secondly, there is the question of whether countries can increase their defence investments. In 2016, some recalled the forgotten idea of a "Eurozone of Defence" that would have required economic convergence criteria, which could be recovered by PESCO<sup>47</sup>. The subsequent development of PESCO did not achieve this convergence.

The need for more and better investment in defence comes at a time when Brussels is demanding a return to debt and deficit control for all member states, and thus a return to the path of stability and growth; this will allow for budgetary predictability, which is in the interest of defence planning and industry. Economic growth can make it possible to invest more in defence, it is the fulfilment of convergence criteria that embodies a fair burden-sharing between Member States.

For those countries that do not meet the debt and deficit criteria, an adjustment period of four years is established, with the possibility of extending it up to three more years. Additionally, countries are required to submit medium-term fiscal plans, which will be monitored by the Commission through a multilateral procedure yet to be defined. The objective of the regulation is to effectively coordinate the economic policies of the Member States in order to achieve sustainable growth, integration and employment, according to the aforesaid Regulation 2024/1263 (29/04/2024).

The European Defence Industrial Strategy (EDIS) also seeks integration and the promotion of employment. However, the question arises whether it is possible to achieve effective coordination of Member States' investments in the European defence industry in order to achieve the objectives set for the single defence market. Economic growth<sup>48</sup> may make it easier for countries that do not spend 2% of GDP on defence budgets to do so.

In 2018, the NATO Parliamentary Assembly adopted Resolution 447 "Burden Sharing: New Commitments in a New Era"<sup>49</sup>, which called on countries to submit credible national plans to achieve the necessary defence investment, enabling the entire Alliance to meet

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<sup>47</sup> MAURO, F., and THOMA, K. (2016). *The future of EU defence research*. Report. Brussels; Directorate-General for External Policies Policy Department (SEDE) EP.

[http://www.europarl.europa.eu/RegData/etudes/STUD/2016/535003/EXPO\\_STU\(2016\)535003\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/535003/EXPO_STU(2016)535003_EN.pdf)

<sup>48</sup> DORN et al (2024), op. cit.

<sup>49</sup> <https://www.nato-pa.int/download-file?filename=/sites/default/files/2018-11/RESOLUTION%20447%20-%20BURDEN%20SHARING%20NEW%20COMMITMENTS%20IN%20A%20NEW%20ERA.pdf>

current and future security challenges. The Alliance would monitor the development of the plans, which were to be signed by a leading political authority, presidents or ministers. The resolution also welcomed PESCO and EDF. The Alliance required countries failing to meet the 2 percent of GDP defence spending to submit such plans.

Some Member States will find it difficult to make an increase in the defence budget in line with announced political commitments<sup>50</sup>. There are basically three ways to reach 2% of GDP: 1) an abrupt increase until the budget is increased immediately; 2) a gradual approach combining an increase in budget and public debt in a transition period, with debt being paid in the second half of the period; 3) reaching the target by accumulating debt and only paying the interest generated. The first option would be unpopular with some voters in Europe, while the third affects future generations and countries exceeding the target of public debt of 60% of GDP, such as Slovenia, Belgium, Spain and Italy<sup>51</sup>.

There seems to be a contradiction between the budgetary stability required by the growth path and the increased investment required to meet the ambitious targets for the European defence industry and market. There are already calls for flexibility measures<sup>52</sup>. In 2023, Italian debt reached 137% of GDP<sup>53</sup>. It is proposed that the debt overhang caused by defence investments be considered as a temporary exception, including the necessary considerations in the fiscal adjustment plan submitted to the Commission. This reasoning could also be applied to countries such as Spain, with a public debt close to 108% of GDP<sup>54</sup>. In 2016, the European Defence Action Plan already called for flexibility in stability and growth criteria, especially for investments and debts related to the collaborative development of military capabilities.

Now, Regulation 2024/1263, in its fifth recital, refers to the same flexibility to facilitate security and defence concerns. The tenth recital, referring to national adjustment plans ("medium-term fiscal structural plan"), stresses the need to take into account "common priorities of the Union", including "build-up of defence capabilities where applicable including the Strategic Compass for Security and Defence, or subsequent Union acts

<sup>50</sup> FONFRÍA, A and CALVO GONZÁLEZ-REGUERAL (2024). *El futuro de la financiación de Defensa: ¿una odisea política?* Real Instituto Elcano, p.2. <https://www.realinstitutoelcano.org/analisis/el-futuro-de-la-financiacion-de-defensa-una-odisea-politica/>

<sup>51</sup> DORN et al. (2024) *European Defence Spending in 2024 and Beyond: How to Provide Security in an Economically Challenging Environment*. Econpol Policy Report 45, Vol 8. [https://www.econpol.eu/publications/policy\\_report\\_45/european-defence-spending-in-2024-and-beyond](https://www.econpol.eu/publications/policy_report_45/european-defence-spending-in-2024-and-beyond)

<sup>52</sup> DORN et al. op. cit. p. 14.

<sup>53</sup> <https://datosmacro.expansion.com/deuda>

<sup>54</sup> <https://datosmacro.expansion.com/deuda>

relevant for those priorities". The latter acts may be related to actions, common positions, regulations or directives that may result from the proposed EDIP programme.

Against this background, and paraphrasing the above-mentioned NATO Parliamentary Assembly resolution, one might consider whether *the Commission* could supervise credible national plans outlining the steps Member States will take to achieve the type and level of defence *industrial* investment needed for *the EU* to meet the security challenges facing the *Union* today and in the future. One possibility would be to give responsibility for monitoring to the Commission with the assistance of the EDA. If something similar were to be adopted, it would advance EU-NATO complementarity, provided that those in the US who push for a more European NATO or a post-American Europe accept that Member States may no longer preferentially procure their equipment.

"It's *not* just the economy, stupid"<sup>55</sup>, it's also about integration, applied to the Common Security and Defence Policy. Those who promote EU integration in defence (constructivists, neo-functionalists) and those who tolerate it (liberal intergovernmentalists) apply an economic rationale. Incentives (tax exemptions and common funding) are used to promote the integration of the European defence industry, for industries to influence their governments in order to benefit, and thus constitute a European internal defence market.

## Conclusions

The Commission's role in defence matters is recent and growing. The governance of the Common Security and Defence Policy (CSDP) is drifting towards a merger between the national or intergovernmental and the supranational, adding a further layer to such a policy in terms of military capability development, driving objectives and rules that affect the defence industry and its associated market.

In addition to the failure to meet the commitments previously established by the Member States within the Permanent Structured Cooperation (PESCO), there is the definition of new objectives in the European Defence Industrial Strategy (EDIS), established by the Commission; targets for the internal defence market. Against this background, it is necessary to redefine national responsibilities and the Union's objectives.

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<sup>55</sup> FIOTT, D. (2019) *Strategic Investment Making geopolitical sense of the EU's defence industrial policy* p. 32  
[CP\\_156.pdf \(europa.eu\)](#)



Merging the EDIS strategic objectives with the review of PESCO commitments in 2025 could lead to the establishment of *Convergence Criteria for Defence Industry Investment*. These criteria would have to be agreed by the Member States and compliance with them should be ensured through national defence and industry budgets. To achieve this, unanimous agreement would be needed in the Council, reinforcing the binding nature of such criteria.

The Commission could push for a policy proposal under its competence on defence industry and market issues, to establish a multilateral supervision procedure, which would ensure that national budgets are aligned with the objectives of the European Defence Industrial Strategy and national medium-term fiscal convergence plans. Articles 114, 173, and the general clause of Article 352(1) of the Treaty on the Functioning of the European Union (TFEU) could serve as a legal basis for this measure.

Co-operation between the Commission and the Council could be conducive to this initiative. However, its implementation would require the prior consent of the European Parliament and probably the unanimity of the European Council. The convergence of positions between countries such as Germany and France might initially be difficult, but not impossible.

Such a new role for the Commission would be a further step in the drift towards the supranational in defence matters. It would be a new layer to be superimposed on a Common Security and Defence Policy (CSDP) that would remain primarily intergovernmental in terms of decision control over EU military operations, and more supranational in terms of military capability development and common budgetary instruments.

The rationale associated with economic incentives to promote the European defence industry and internal market is consistent with the view of those who advocate further integration within the field of CSDP. Monitoring the *Convergence Criteria for Defence Investment* could be part of such an inclusive process. However, it is beyond this analyst's ability to assess what this music would sound like in different Member States.

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