



**Clingendael**

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## **COVID-19 and defence: the need for EU funding**

Why EU budget negotiators should not only focus on financial firepower



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### **Introduction**

Negotiating EU budgets has never been an exercise for the impatient or the faint-hearted. It was already hard enough well before the coronavirus paralysed Europe, with protracted standoffs between the frugal and the spendthrift over the size of the budget in the coming seven years. But now the stakes are higher than ever, as all eyes will be on the EU's plans to pull the ravaged European economies out of the COVID-19 crisis. After the virtual EU Summit on 23 April, European Commission

President von der Leyen commented on the future EU budget that “we need to increase its firepower to be able to generate the necessary investment across the whole European Union.”<sup>1</sup> However, it is not only investment in *financial* firepower that is

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1 David M. Herszenhorn, ‘[EU leaders back budget reboot for coronavirus recovery](#)’, *Politico*, 23 April 2020.

of importance as the EU negotiates its next Multi-annual Financial Framework or 'MFF' for 2021-2027. It also remains to be seen whether the EU will stay the course and uphold its ambition to become more 'strategically autonomous', including in the field of security and defence. Europe's much-discussed objective to be able to defend its own interests and to become a geopolitical actor of significance in an increasingly uncertain world also depends on the EU's willingness to invest in its own military capabilities.

Over the last few weeks many analysts have sounded the alarm about expected cuts to national defence budgets due to the corona crisis, drawing parallels with the aftermath of the 2008 financial crisis when total defence spending dropped in the following six years by € 24 billion – or about 11 percent.<sup>2</sup> And while national defence budgets returned to their pre-crisis levels after 2014, defence capabilities did not. The gaps created then, still exist today.<sup>3</sup> As governments now pump vast amounts of state funds into their economies and health systems, eventually the budgetary circle will have to be squared and defence budgets will be affected. Can the same be expected at the EU level?

## Ambitious plans, ambitious budgets

Things were just looking up. Over the last couple of years, the European Commission has steadily expanded its role in defence policy and in promoting investment in the European defence technological

and industrial base, an area where the Berlaymont traditionally had only a minor role.<sup>4</sup> This had already started to change gradually and was accelerated in response to the changing geopolitical and security environment, including the Ukraine crisis, the departure of one of the EU's leading military powers through Brexit and the unilateral and unpredictable course charted by President Trump. Europe's growing awareness of the need to take its fate in its own hands and to build up its own capabilities was reflected in the EU Global Strategy and in the subsequent European Defence Action Plan launched by the Commission in 2016. A range of initiatives were deployed to promote synergies among Europe's patchwork of national armed forces such as Permanent Structured Co-operation (PESCO) and the Co-ordinated Annual Review of Defence (CARD). But the centrepiece of the Commission's effort to get EU Member States to spend more – and more smartly – on their militaries is the European Defence Fund (EDF). It is designed to jointly invest in research projects and the development of defence equipment. While pilot programmes with limited funding are already up and running, the EDF should become fully operational in 2021 with significant funding from the new MFF.

The Juncker Commission certainly cannot be blamed for a lack of ambition. In 2018, it aimed high in its first budget proposal when it asked for over EUR 17.2 billion for defence (in constant 2018 prices). This represented an almost 30-fold increase compared to the previous MFF and the first time that defence would get its own budget line. The lion's share of this budget, 11.4 billion, would go to the EDF, while another 5.7 billion was earmarked through the Connecting Europe Facility for 'military mobility' – measures to move military equipment more efficiently across the EU. The European Parliament supported this high level of both political and financial ambition when it adopted its own position on the MFF in November 2018, and the 'geopolitical Commission' of Von der Leyen even created a Directorate for Defence Industry and Space under Commissioner Breton.

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2 See Alessandro Marrone *et al.*, '[European Defence should not be the casualty of the "Great Lockdown"](#)', Euractiv.com, 27 April 2020, as well as Dick Zandee, Els Duchateau-Polderman and Adája Stoetman, '[Defence & COVID-19: Why budget cuts should be off the table](#)', *Clingendael Alert*, 16 April 2020. Figures on defence spending during 2007-2013 as reported by the European Defence Agency, [Defence Data 2017-2018: key findings and analysis](#), 2019.

3 Christian Mölling, Torben Schütz and Sophia Becker, '[Deterrence and Defense in Times of COVID-19 – Europe's Political Choices](#)', *German Council on Foreign Relations*, 9 April 2020.

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4 Sophia Besch, '[The European Commission in EU Defense Industrial Policy](#)', *Carnegie Europe*, 22 October 2019.

	2014-2020	2021-2027				
	Adopted MFF	First COM proposal (02/05/18)	EP position 2021-2027 (14/11/18)	Finnish EU Presidency (05/12/19)	Michel proposal (14/02/20)	Technical document (21/02/20)
Total MFF	1 081 144	1 134 583	1 324 089	1 087 327	1 094 827	1 088 927
<b>13. Defence</b>	<b>575</b>	<b>17 220</b>	<b>17 220</b>	<b>8 514</b>	<b>8 514</b>	<b>7 014</b>
(% of total MFF)	0.05%	1.52%	1.3%	0.78%	0.78%	0.64%
European Defence Fund	575	11 453	11 453	6 014	7 014	7 014
Military Mobility	0	5 767	5 767	2 500	1 500	0

**Table 1 EU funding reserved for defence within the Multiannual Financial Framework. Numbers are in EUR million in constant 2018 prices.<sup>5</sup>**

## Downward trend for defence

While everyone understood that Juncker's ambitious opening move was probably not going to make it to the finish, it also did not make it past the Finns. In December 2019 the Finnish EU Presidency slashed the new defence budget line nearly in half (see Table 1), cutting more on defence than on any other budget line despite its relatively modest share of the overall MFF. This was an early indication of how easily defence-related expenditure could fall victim to rising budgetary pressures. That prompted the question: who would step up and defend defence?

It was not going to be the new President of the European Council, Charles Michel. In his unsuccessful attempt at a compromise in February this year he did not even try to overturn some of the defence-related cuts from the Finnish Presidency. He merely proposed to move some of the funding earmarked for military mobility into the EDF. Insiders report that funding for military mobility even vanished altogether in a later 'technical document' drawn up by the Commission on 21 February 2020.<sup>6</sup>

Gradually, the MFF drifted back towards an old-fashioned EU budget dominated by cohesion funds and the common agricultural policy, losing unprecedented elements such as investments in defence. And that was well before the coronavirus spread across the continent and triggered what might well become Europe's deepest recession in a century.

## Why European defence budgets matter

As the Commission gears up to present a new MFF that will jump-start Europe's paralysed economies, it should not forget why it suggested those funds for defence in the first place. What would be the effect of a substantial reduction in the ambition of defence-related expenditures in the next MFF? First of all, the longer-term consequences would be dire. Existing capability shortfalls would get worse, since filling such gaps requires long-term investments in defence research and the development of equipment. In its originally proposed form, the EDF would make the European Commission the fourth largest defence research investor in Europe.<sup>7</sup>

<sup>5</sup> European Parliament, [Detailed breakdown per MFF programme](#), 18 February 2020; Lili Bayer, ['EU budget summit: As it happened'](#), *Live blog Politico*, 22 February 2020.

<sup>6</sup> Alexandra Brozowski, ['Europe's military mobility: latest casualty of EU budget battle'](#), *Euractiv.com*, 25 February 2020.

<sup>7</sup> Raluca Csernatoni and Bruno Oliveira Martins, ['The European Defence Fund: Key Issues and Controversies'](#), *PRIO Policy Brief*, March 2019.

Moreover, building on experiences following the 2008 financial crisis, experts argue that the probable cuts in national defence budgets will not lead to more cooperation between EU Member States to achieve economies of scale.<sup>8</sup> EU co-funding from the EDF will be needed both as an incentive and to save funds in the long run through more efficiency. If the EDF receives much less funding than originally anticipated, this could negatively impact European collaborative procurement cooperation in the defence sector. The same can be argued about PESCO projects, which depend on Member States' contributions, but are also eligible for partial EDF funding. Cutting back now on funds that are meant to promote longer-term synergies and efficiencies would be penny wise, pound foolish.

Second, if the EU truly wants to become more strategically autonomous in the security and defence domain, it should be mindful that putting defence investments on the backburner will lead to the erosion of its defence technological and industrial base. This leads not only to continued reliance on others, but also weakens the EU's military power relative to strategic rivals such as Russia and China. In addition, the security challenges facing Europe have not taken a COVID-19 break and may well become worse, as underlined by NATO Secretary General Stoltenberg at NATO's recent meeting in April.<sup>9</sup>

And finally, backtracking on the EU's own announced plans to bolster its role in the defence field by cutting foreseen investments by 60% would undermine its credibility in the eyes of its strategic partners on both sides of the Atlantic. While the United States has often been critical of the EU's plans to support the European defence industry, it is beyond doubt that NATO could benefit from more European investments in

defence. A prime example is the improvement of military mobility in Europe, which was identified as one of the key steps towards a more credible deterrence and was thereby set to become one of the flagships of EU-NATO cooperation.<sup>10</sup> Its disappearance from the latest drafts of the MFF is worrying, as it casts doubts on the EU's commitment to do its part to ensure that defence forces can quickly be moved from west to east if necessary. This is of significance not only for the United States and Eastern European countries but also for the Netherlands, which currently leads the PESCO project on military mobility.

## Conclusion: the way ahead

Given the enormity of the budgetary challenges posed by COVID-19 it is likely that the Commission's original proposal for defence-related expenditure in the new MFF will be reduced. However, it is vital that these cuts will not nip Europe's defence ambitions in the bud. At the most recent EU defence ministerial meeting on 6 April – held by videocall – it was recognised by all participants that the COVID-19 outbreak has a security dimension. EU foreign affairs chief Josep Borrell even explicitly stated that “we all need to think hard about how we can improve our resilience and develop defence capabilities to address similar situations in the future”, referring to the need for a capable and credible European defence.<sup>11</sup> There is strong political support for this within the European Parliament, where the Committee on Foreign Affairs recently underlined “the importance of providing adequate financial support to frame a genuine European Defence Union, promote strategic autonomy and bolster the EU's role on the global level”, referring to the EDF and military mobility in particular.<sup>12</sup> During the next MFF negotiations,

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8 Alessandro Marrone and Ottavia Credi, ‘COVID-19: Which Effects on Defence Policies in Europe?’, *Instituto Affari Internazionali*, 9 April 2020.

9 [Press conference by NATO Secretary General Jens Stoltenberg following the virtual meeting of the North Atlantic Council in Defence Ministers' session](#), 15 April 2020.

10 Margriet Drent, Kimberley Kruijver and Dick Zandee, [‘Military Mobility and the EU-NATO Conundrum’](#), *Clingendael Report*, July 2019.

11 [Video conference of Defence Ministers: Remarks by the High Representative/Vice-President Josep Borrell at the press conference](#), 6 April 2020.

12 [Opinion](#) of the European Parliament Committee on Foreign Affairs for the Committee on Budgets on Guidelines for the 2021 Budget (PE646.992), paragraph 17, 21 April 2020.

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political leaders can build on this security momentum so as not to disproportionately cut down the defence header.

It was recently argued that “now is the time to “vaccinate” the resources of Europe’s armed services” to sustain Europe’s security and defence ambition.<sup>13</sup> This call to support national armed forces should also be applied to the EU level. When the negotiations continue political leaders should be wary not to sacrifice longer-term and future-

oriented investments in European security on the traditional altar of big-ticket items such as the common agricultural policy or cohesion funds. Even President Juncker’s initial and most ambitious defence envelope only constituted a mere drop of 1.52% in the MFF ocean. Hasty and disproportionate defence cuts will not be enough to save Europe’s struggling economies, but would create longer-term security vulnerabilities that could haunt Europe for decades to come.

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13 Daniel Fiott, Marcin Terlikowski and Torben Schütz, [‘It’s time to vaccinate Europe’s defence budgets’](#), *Euractiv*, 20 April 2020.

### About the Clingendael Institute

Clingendael – the Netherlands Institute of International Relations – is a leading think tank and academy on international affairs. Through our analyses, training and public debate we aim to inspire and equip governments, businesses, and civil society in order to contribute to a secure, sustainable and just world.

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