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The EU's Different Modes of Defense Governance: More European Defense, But How?

KEY MESSAGES

- **While there is broad agreement on the overall objective of strengthening European defense in terms of both capabilities and industry, the means and ways to get there remain contested**
- **The lack of a unitary vision on European defense is partly due to the division of EU defense efforts into different modes of governance. They reflect the varying rationales and diverging member states' interests that have shaped EU defense cooperation over the years**
- **In the short run, there are tensions between the different modes of EU defense governance. While the "legislative mode" aims for market efficiency, the "coordination mode" prioritizes joint capability development projects. The "financial mode," by contrast, is geared toward the development of defense industry**
- **To overcome existing divisions, the Commission, the Council, and the European Defence Agency must work hand in hand to ensure that current plans for bolstering the European defense industry adhere to the capability needs of the member states' militaries**

Russia's full-scale invasion of Ukraine has exposed the unpreparedness of most European states for a major military conflict. While almost all EU member states have committed themselves to supporting Ukraine's fight against the invader, both their stockpiles and their defense industrial capacity have proven insufficient to meet the needs of the battlefield, let alone to bolster their own deterrence and defense (Aries et al. 2023).

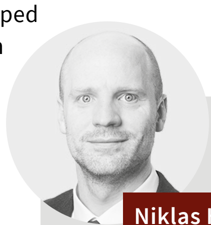
After decades of uneven defense spending and a perennial lack of cooperation, the European defense landscape is characterized by fragmentation, gaps, redundancies, and inefficiencies. Europe's defense worries are compounded by increasing international strategic competition, with global powers seeking control of key technologies, raw materials, supply chains, and markets.

Under these circumstances, the EU's defense dimension is facing growing expectations. Although NATO remains Europe's primary defense organization, the European Union possesses both regulatory and financial tools as well as political cooperation frameworks to enhance European military capabilities, and to ensure a competitive and technologically advanced European defense technological and industrial base (EDTIB) (Iso-Markku 2024).

In March 2024, the European Commission published its vision to create a stronger European defense. The European Defence Industrial Strategy (EDIS) and the accompanying proposal for a European Defence Industrial Programme (EDIP) seek to incentivize EU member states to invest more in their defense, to prioritize the procurement and development of European defense capabilities, and to approach defense matters in a more coordinated and collaborative manner. These measures are hoped to support the development of the European defense industry.

However, while there is broad agreement on the overall objective of strengthening European defense in terms of both capabilities and industry, the means and ways to get there remain contested. The EU has so far not pursued a unitary vision of European defense cooperation. Instead, the Union's defense efforts can be divided into three separate but partly overlapping modes of governance: (1) a "legislative mode" focused on market liberalization, (2) a "coordination mode" concentrating on the collaborative development of military capabilities, and (3) a "financial mode" geared toward the strengthening of the European defense industry.

The different modes of defense governance reflect the varying rationales that have driven EU defense cooperation over the years as well as the diverging interests and positions of the member states. They also imply different interpretations of the role of the EU in defense matters and, by extension, of



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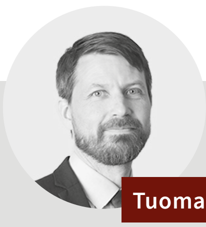

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the relationship between the EU and NATO. The three modes of defense governance can be distinguished by the processes and logics by which they try to advance European defense, as well as by the actors involved and their competences.

In the following, we will present the three modes of defense governance in more detail and discuss the interplay between them. In addition, we analyze to what extent the current EU institutional cycle until 2029 presents an opportunity to better align the different modes of defense governance and to decisively advance EU defense cooperation.

THE LEGISLATIVE MODE OF EU DEFENSE GOVERNANCE

The legislative mode comprises the EU's and, above all, the European Commission's attempts to apply its competences and experience in opening and regulating markets to the defense sector. The idea to boost intra-European competition in the armament sector and thereby increase the efficiency of the defense industry received greater attention in the Commission over the 2000s. In 2009, the EU adopted a "defense package" of two directives that sought to advance the integration of the defense market by regulating the public procurement and intra-European trade of defense equipment (Marrone and Nones 2020).

However, using the methods that have worked in civilian trade in the defense sector has proven difficult. With national governments acting as the main buyers and sellers of defense equipment, incentives for cross-border trade have remained low. In essence, the European defense market still consists of separate national defense markets. All member states with significant industrial capacity of their own tend to favor national defense companies in the development and procurement of military capabilities. Indeed, the 2009 defense directives failed to reach the intended effect (Marrone and Nones 2020), as EU member states continue to make systematic use of the exemptions under Article 346 TFEU. These allow them to forgo public procurement rules to protect their essential security interests.

Despite its limited success, the legislative mode of defense governance aligns well with the EU's core competences and strengths, which are often seen to reside primarily in economic affairs and trade. Importantly, the legislative mode does not touch upon NATO's core tasks or challenge its primacy in organizing European defense, thereby bearing little conflict potential in EU–NATO relations. The legislative mode of defense governance remains attractive especially to some of the EU's smaller and mid-sized member states. They see an open and integrated market as providing opportunities for their small but often highly specialized defense companies. However, during recent years, the legislative mode has mostly been stuck.

THE COORDINATION MODE OF EU DEFENSE GOVERNANCE

The coordination mode of defense governance focuses on collaborative development of military capabilities. Beginning in the early 2000s, increased cooperation was needed to provide the necessary military (and civilian) capabilities for the EU's crisis management efforts. The European Defence Agency (EDA) was established in 2004 exactly to this end, working to promote coordination and cooperation between the member states in capability development.

Unlike the legislative mode, the coordination mode is not characterized by top-down regulation or market logic. Instead, the EU's activities here fall largely under the inter-governmentally organized Common Security and Defence Policy (CSDP). In a bottom-up spirit, the requirements of national defense planners are the starting point for trans-European cooperation in the coordination mode. These are hoped to give rise to joint projects that would be out of reach for individual member states – and that could, ideally, prove more cost-effective.

The coordination mode gained traction in the 2010s. The financial and economic crisis resulted in cuts to national defense budgets, which pushed EU member states to look at joint projects as a central path to generate efficiency and savings. A string of crises added to the pressure, as the instability in the EU's southern neighborhood, Russia's first invasion of Ukraine in 2014, Brexit, and the disruptive term of Donald Trump as US president highlighted the need to increase Europe's – and the EU's – credibility as a military actor.

Starting in 2017, the EU launched the Coordinated Annual Review on Defence (CARD) and the Permanent Structured Cooperation (PESCO). The former seeks to harmonize the member states' national defense planning processes to identify potential areas for cooperation, whereas the latter is a policy framework for defense cooperation, consisting of both joint commitments and concrete cooperation projects. While PESCO led to a flurry of cross-border capability development projects, these have mostly remained at the low end of the military spectrum and failed to meet the member states' most urgent needs. Moreover, PESCO has suffered from the member states' low level of compliance with the joint commitments (Biscop 2020).

A key challenge in the coordination mode is also the relationship between the EU and NATO. For almost all EU member states, NATO remains the primary setting for dealing with defense matters, and NATO's defense planning process is the only collective defense planning process that the member states pay close attention to. Consequently, the EU's capability development goals and projects should be closely aligned with those of NATO to succeed. However, for various reasons coordination and cooperation between the EU and NATO remains limited (Iso-Markku 2024).

A further problem of the coordination mode is the lack of economic incentives for cooperation, as most money for defense capability development remains at the national level and cannot be easily translated into EU funding. This is where the financial mode of EU defense governance becomes relevant.

THE FINANCIAL MODE OF EU DEFENSE GOVERNANCE

The financial mode of defense governance started to develop in the 2010s and decisively took off with the European Commission's proposal to set up the European Defence Fund (EDF), which was tabled in 2017. The creation of the EDF as well as many of the steps taken by the EU after the start of Russia's war on Ukraine are signs of an active industrial policy that takes advantage of the Union's financial instruments and resources to further the European defense technological and industrial base (Fiott 2024a).

For a long time, the financial mode of EU defense governance was held back by Article 41(2) TEU, which prevents "expenditure arising from operations having military or defense implications" from being funded from the EU budget. However, to what extent non-operational expenditure, for example for infrastructure for the EU military headquarters, could be covered has been subject to repeated discussions. With the EDF and its precursors, the Commission found a way to overcome treaty-based obstacles by justifying its actions with the need to support the competitiveness of EU industry as well as R&D (Rodrigues 2023).

The financial mode gained further prominence following the start of Russia's full-scale invasion of Ukraine in February 2022. In July 2022 the Commission proposed the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) with a budget of EUR 310 million. EDIRPA seeks to facilitate the joint procurement of urgently needed defense equipment and thereby help the European defense industry adapt its production capacity to the grown demand. EDIRPA was followed by the Act in Support of Ammunition Production (ASAP) with a budget of EUR 500 million for investments in production capacity for various kinds of ammunition needed by the Ukrainian defense forces.

The European Defence Industry Programme (EDIP) proposed by the Commission is meant to consolidate the processes initiated by EDIRPA and ASAP. It would add another EUR 1.5 billion to use for common procurement as well as for defense industrial initiatives. These initiatives suggest an increased freedom to use EU funds for defense expenditures.

At the same time, doubts remain as to whether the amount of EU-level funding is enough to incentivize joint capability development or procurement, as the size of the EU instruments represents only a fraction of the member states' national defense budgets. Another potentially problematic issue with the financial mode concerns the prominent role of the European Commission, which not every member state feels comfortable with. Some of the industrial policy goals of the Commission's defense industrial strategy, such as procuring at least 40 percent of defense equipment in a collaborative manner by 2030, have been met with skepticism in the expert community (Grand 2024).

There are also concerns that by focusing on EU-based defense companies only, the EU misses important cooperation opportunities with key third countries, including the UK. The extent to which third states can participate in EU initiatives remains a particularly important and sensitive issue for NATO, which seeks to defend the interests of those NATO allies that are not members of the EU.

THE INTERPLAY BETWEEN THE DIFFERENT MODES OF EU DEFENSE GOVERNANCE

The three modes of defense governance are not mutually exclusive, and in the long run, their objectives could be aligned, as an integrated European defense market and an efficient and strong European defense industry would be able to better serve the needs of national defense planners.

In the short run, however, there are tensions between the different modes of EU defense governance. One tension concerns the objectives and priorities of EU defense cooperation. While the legislative mode aims for market efficiency, the coordination mode prioritizes joint capability development projects. The financial mode, by contrast, is geared toward the development of the defense industry, even though it also increasingly seeks to address concrete capability gaps. Both the legislative and the financial mode envisage a central role for the European Commission, whereas the coordination mode follows the intergovernmental model of EU policymaking with the member states firmly in the driving seat.

Unsurprisingly, the member states' perspectives on the different modes of EU defense cooperation vary, even though the dividing lines may not always be clear-cut. The industrial policy focus of the financial mode is strongly supported by France, which does not shy away from promoting its defense industrial interests at the EU level. This raises suspicion in the smaller and mid-sized member states as well as among defense companies from Europe's periphery (Mölling and Hellmonds 2023). These fear that the financial mode will end up favoring "European champions" that would be mostly located in Germany, France, Italy, and Spain. Smaller member states and SMEs thus advocate for a more merit-based distribution of EU funds that would reward the best technology, not the largest platform or producer (Helwig and Iso-Markku 2020). Member states with a clear threat perception may show greater support for the coordination mode, as it is more focused on capabilities and allows them to cooperate on those that they see as being relevant for themselves while opting out from others.

NEW COMMISSION, A NEW WINDOW OF OPPORTUNITY?

Russia's full-scale invasion of Ukraine has created a new awareness among the European public and EU policymakers of Europe's difficult security environment. During the first two years after the start of the war, many EU member states have increased defense spending or announced plans to do so. Moreover, they have invested in new defense equipment. However, reflecting long-standing trends in European defense, these steps have been largely uncoordinated and are set to benefit above all defense companies from outside the EU (Koenig et al. 2023; Schnitzler 2024). With the new measures adopted by the EU and proposals being discussed, is a more coordinated approach in the cards?

In the run-up to the European Parliament elections of June 2024, security and defense policy discussions were more prominent in the campaigns than ever before. To highlight the Commission's previous work and future plans regarding security and defense, Commission President Ursula von der Leyen announced the plan to create the post of a defense commissioner were she to be re-elected after the elections.

Despite von der Leyen's ambition, a more streamlined EU defense will be difficult to achieve. The incoming Commission will face the above outlined fragmentation of EU defense governance. At the time of writing, it remains an open question what the role of a "defense commissioner" (or a "defense industry commissioner") would look like, as the Commission's competences in relation to defense are limited to the legislative and financial mode of defense governance. This begs the question how he or she would coordinate the Commission's activities with the EU High Representative / Vice-President of the Commission (HRVP), who coordinates the intergovernmental side of the EU's foreign, security, and defense policies and acts as the Head of the EDA. If the Commission wants the EU to pursue a more coherent and unitary defense agenda, the defense commissioner and the HRVP will need to work closely together.

Close cooperation between the financial and coordination modes of defense governance would also help in addressing some of the concerns related to the EDIS and EDIP. While their ambitions have been relatively well received in the expert community (Fiott 2024b), their implementation will depend on member states' buy-in. Whether member states trust, and feel represented by, the Commission will ultimately determine whether they are willing to increase the monetary firepower of the EU needed to provide real incentives for cross-border cooperation.

However, for any of this to happen, it would also be necessary for the member states to achieve a more unified stance among themselves. Up to this day, a basic strategic divide inhibits the EU member states from making efficient European defense cooperation a reality. A Europeanist group of countries (mainly France, but also some other big EU defense industrial players) are in favor of increasing the EU's strategic autonomy in defense matters and becoming less reliant on the US. The Europeanist faction's view of EU defense cooperation is largely in line with the Commission's activities in the financial mode of EU defense governance. In contrast, Atlanticist member states (in particular the Baltic states and Poland and, to a somewhat lesser extent, the Nordic states) focus more on the actual defense capabilities at their disposal. Consequently, they value close cooperation with the military giant US and want to see the EU focus on collaborative projects that can concretely increase the credibility of European defense. Within this group, the Commission's top-down activism in strengthening the European industry is viewed with some suspicion.

POLICY CONCLUSIONS

Considering the security environment that Europe currently faces, the strategic division should not prevent the EU from forging a more joined-up approach. In the current institutional cycle, two aspects of better integrating the EU's different modes of defense governance are particularly important. First, the Commission, the Council, and the EDA must work hand in hand to ensure that the Commission's plans for bolstering the European defense industry adhere to the capability needs of the member states' militaries. Second, EU member states need to strike a balance between their desire to quickly close existing capability gaps, including through procurement from third states, and the need to prop up the Europe defense industry for the long haul. For this purpose, the member states should develop a joint understanding of capabilities and technologies that would need to be developed within Europe and of capabilities for which it is less risky to depend on third-country providers.

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