

EDIP: more cooperation in the European defence industry

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On 8 December, the Council of the European Union adopted the regulation establishing the European Defence Industry Programme (EDIP), which the European Parliament had approved in November. The draft was presented by the European Commission in March 2024, together with the European Defence Industrial Strategy (EDIS, see *'The imperative of cooperation: the European Commission's strategy for the defence industry'*). The mechanisms introduced under EDIP are intended to create financial incentives for European defence companies to engage in joint efforts to expand production capacity. Member states, in turn, are encouraged to carry out joint purchases and operation of armaments, as well as to implement joint defence projects.

The programme's budget amounts to €1.5 billion, and its duration is limited to 31 December 2027. Apart from funding for joint projects with Ukrainian entities (€300 million), the largest share will be allocated to boosting production capacities (€360 million) and to European Defence Projects of Common Interest (€300 million). A relatively small portion will be available for joint procurement (€180 million). This determines the industrial nature of the programme, in contrast to, for example, SAFE, which aims to accelerate the build-up of military capabilities.

Despite its limited budget, EDIP represents a step forward in the development of EU initiatives to support the defence industry, due to the comprehensive nature of the adopted measures. These will serve as a basis for developing similar instruments financed under the next multiannual financial framework for 2028–2034.

Commentary

- **The restrictions in EDIP regarding the admissibility of components from third countries reflect the interests of those member states calling for a more protectionist approach.** Ultimately, it was agreed that the value of 'foreign' components may not exceed 35% of the product's final value. However, the regulations allow for the inclusion of third countries under separate agreements. The solutions in the final version of the programme are similar to those adopted in the SAFE programme (see *'Imperfect balance: the EU's defence loan mechanism (SAFE)'*). The protectionist approach – supported during the negotiations by France and Italy, with German support – was further reinforced by pressure from the European Parliament, which demanded a minimum threshold of 70% of the value of components be produced in the EU, Norway, or Ukraine for a product to qualify for funding. At Poland's initiative, more flexible provisions were also negotiated regarding the production of ammunition and missiles.

- **The allocation of a specific sum to support Ukraine is also intended to encourage companies from EU member states to engage in defence cooperation with Kyiv.** Although both EDIS and the original version of EDIP proposed by the European Commission envisaged Ukraine's participation in most elements of the programme, the designation of a specific amount of funding for projects involving it may have a motivating effect on European companies, particularly those interested in exchanging experience and technologies gained on the battlefield – for example regarding drones.
- **Although the increase in funding requested by the European Parliament could not be achieved, the regulation provides for the possibility of securing additional resources from sources other than the EU budget.** Third countries interested in participating in the programme will have to contribute to the financing of EDIP. Other sources of funding include international financial institutions, EU institutions, and unspent funds from the Recovery and Resilience Facility.
- **Under EDIP, the European Commission gains new powers to coordinate arms production.** These may be used only if the Council – at the request of a member state – declares a crisis situation related to limited access to 'sensitive products' or defence products. The new provisions allow the Commission, among other things, to order a company to prioritise production (applicable only to sensitive products other than armaments) or to transfer such products within the EU. Member states may oppose the Commission's intervention by invoking Article 346 of the Treaty on the Functioning of the EU (the protection of essential security interests). The provisions strengthening the Commission's coordinating role were supported by smaller member states, which fear that, in the event of difficulties in obtaining armaments, raw materials, or components, they could fall victim to intra-EU competition from larger countries (for example, components produced in Estonia might be transferred to Germany, undermining Estonian production). The main opponents of these solutions were large defence companies from the biggest member states.