



REPLIES OF THE EUROPEAN COMMISSION

TO THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORT

The Preparatory Action on defence research

Some lessons learned, but value as testbed for increasing EU defence spending reduced due to time constraints and limited results

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This document presents the replies of the European Commission to observations of a Special Report of the European Court of Auditors, in line with Article 259 of the [Financial Regulation](#) and to be published together with the Special Report.

1. THE COMMISSION REPLIES IN BRIEF

The idea of the Preparatory Action on Defence Research (PADR) can be traced back to Commission President Juncker who developed a vision for more defence cooperation between the Member States and the industry across Europe. In the years that followed, the Commission put in place new tools and instruments to address the long-standing fragmentation of the defence industry that hampers the efficiency of the defence sector in Europe and undermines the EU Member States' ability to secure the optimal development, production, and acquisition of the next generation of defence capabilities, which are critical to the Union's security.

With PADR, the EU used for the first time the EU budget (EUR 90 million) for initiatives to support EU defence industrial and R&D policy, quickly followed by the EUR 500 million European Defence Industrial Development Programme (EDIDP). Both programmes prepared the ground for the European Defence Fund (EDF). The EDF with a budget close to EUR 8 billion for 2021–2027 promises to be a game-changer for establishing a European defence industrial ecosystem capable of delivering novel, interoperable defence technologies and systems that will enhance the EU's competitiveness and strategic autonomy. Recently, the Commission complemented the EDF with a proposal for a EUR 500 million MFF programme for common procurement through the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA).

The Commission welcomes the ECA's audit of the Preparatory Action of Defence Research (PADR) and its recommendations.

The Commission accepts all the recommendations (see further Section III below).

II. COMMISSION REPLIES TO MAIN OBSERVATIONS OF THE ECA

1. Longer-term strategy for EDF and lessons learned from PADR

The ECA observes that the EDF needs a longer-term strategy¹. The Commission considers that it already took steps to respond to the Member States' and European defence industry needs for a longer-term view by introducing an indicative multiannual perspective, which includes main expected outcomes per category of actions. This is a consistent baseline for further improvement towards a longer-term strategy for EDF. The multiannual perspective is indicative and cannot generate a commitment of the Commission. The content of the multiannual perspective is revised annually according to the discussions leading to the preparation of the annual EDF work programmes in the EDF Programme Committee and is subject to the availability of annual budget appropriations.

- The multiannual perspective facilitates the coordination of the Member States' and Norway's long-term planning, in line with the main outcomes expected from the EDF support, especially for large capability projects that need to be supported through several work programmes over the EDF duration.

¹ See observations in paragraphs 85, 86, 104, 106, 107.

- The multiannual perspective presents possible call topics that are already considered beyond those of the annual work programme over a timeline of 4-5 years. Moreover, it provides percentage indications of the EDF budget envisaged to be allocated to some categories of actions throughout the multiannual financial framework (2021-2027). This allows industry and Member States to focus and invest into cooperation in a more structured and transparent way.

While EDF was an important step for increased defence cooperation in Europe, the Commission will continue to work to enhance investment in defence, ensure continued and consistent capability-building efforts and filling identified industrial gaps.

The Joint Communication on the Defence Investment Gaps Analysis and Way Forward of 18.05.2022 already envisages a joint EU defence strategic programming and procurement function involving Member States, the High Representative/Head of the European Defence Agency and the Commission. It would ensure joint comprehensive multiannual programming – building on the EDF multiannual perspective, refinement of needs and specifications – and act as a central purchasing body for EU joint procurement and support Member States in their joint procurements, including downstream from the EDF-funded projects.

Taking up this policy announcement and the findings of the European Court of Auditors, the Commission will reflect on the future design of EDF to prepare for the next MFF and in this context will propose to develop a longer-term strategy for the EDF.

2. The use of EU defence planning and cooperation tools

The Commission is committed to ensuring coherence between EU defence programmes and the EU defence tools and initiatives developed in the CSDP framework (CDP, CARD, PESCO)². Strategic orientation for the EDF is provided through the EU defence capability priorities commonly agreed by Member States within the framework of the CSDP and, particularly, in the context of the Capability Development Plan (CDP) and in coherence with other EU defence-related initiatives such as CARD and PESCO. Further consideration should be given on how to tap the full potential of these tools as operational input for drafting EDF Work Programmes. It should be noted that EU capability development priorities do not directly fit with the research priorities that were meant to be addressed through PADR, which had furthermore a limited budget.

Through their discussions and consultations in the EDF Programme Committee, the Commission and the Member States achieve – based on the input of the abovementioned EU instruments – further and finer prioritisation. They then agree on the strategic capabilities and long-term research priorities to be supported by the EU budget. The EDA has observer status while EEAS given the specificities in the defence area also assist in the Programme Committee. The role of EDA in the Programme Committee includes informing the Programme Committee with an in-depth analysis about compliance of the work programme with the tools above mentioned.

3. Participation of beneficiaries in PADR

PADR was new for many defence companies. PADR was testing the feasibility and interest of EU defence industrial and technological players in cooperative EU research projects. It allowed to test different types of calls with requirements to spur interoperability and standardisation: technology demonstrator, critical defence technologies, disruptive technologies. Especially the calls on critical defence technologies targeted to address a niche technical or knowledge gap.

² See observations in paragraphs 30, 31, 88, 89, 90, 107, and box 3

In the Commission's view the uptake of calls was satisfactory. All calls received at least one proposal and all topics were taken up, proving that relevant topics were programmed. Given the nature of the PADR calls and the characteristics of the defence market where Member States are the only potential end-users of the results funded, it could be expected that less consortia respond to these calls, which were more prescriptive, than is customary in civil research programmes with open, short call texts with larger oversubscription rates.

In PADR already, some calls were designed to lower the entry barrier for innovative and new players through a two-step submission approach. Starting with PADR and later the EDIDP and EDF, several measures have been taken to encourage the broadest participation of companies and RTOs of all sizes across all Member States, and to lower the barrier for innovative stakeholders from the civil domain³.

The EDF includes new supporting measures such as matchmaking with primes, investors and end-users, and business coaching to assist in solving business challenges. The Commission also has set up an EDF national focal point network to support outreach activities at Member States level. The Commission continuously evaluates and monitors the response to calls to check that stakeholders from all sizes and throughout Europe benefit from the EDF funding. First encouraging results can be mentioned for projects funded under EDF2021, which include smaller scale projects resulting from open calls that widen the cross-border participation of start-ups and SMEs. They represent 48% of the 1100 entities that have submitted proposals and 20% of the requested funding for the EDF 2021 calls.

4. Security requirements and the time-to-grant

The Commission agrees with the ECA that the time-to-grant in the PADR was rather long with an average of eighteen months⁴. The Commission would like to stress that great improvement already has been made in EDF. For the EDF2021 projects, the time between the notification letter on the award to the applicants and the signature of the grants was six months.

As regards the observations from the ECA that security requirements complicated project implementation, the Commission would like to point out that the EDF Regulation includes provisions on the security framework of individual projects and the application of the rules on classified information. The EDF Regulation lists two options (whereas the PADR had one option) on how to establish the specific security framework for the protection and handling of classified information relating to the action: either the Member States on whose territory the recipients are established may decide upon the security framework and have to inform the Commission, or if no such specific security framework is set up by those Member States, the Commission has to set up the security framework for the project in accordance with the Decision (EU, Euratom) 2015/444.

The applicable, project-based security framework is put in place before the signature of the grant agreement. Its implementation is carried and monitored rigorously by the Commission. The Commission assists the beneficiaries of the grants to implement the security arrangements. Costs incurred for security aspects can be claimed from the project budget.

³ See observations in paragraphs 37, 38, 39, 57, 59, 60, 61

⁴ See observations in paragraphs 43-45, 45, 53, 54

5. Implementation modes used for the EDF

In line with the provisions of Article 8 of the EDF Regulation the Fund is to be implemented under direct management in accordance with the Financial Regulation⁵. However, the Regulation also indicates that specific actions may, in substantiated cases, be carried out under indirect management by bodies as referred to in point (c) of Article 62(1) of the Financial Regulation. It also clarifies that indirect management will not include the selection and award procedure, which is different from PADR. The Commission ensures the implementation of the Regulation as adopted by the co-legislators.

The Commission also has applied the possibilities for indirect management for the implementation of the EDF2021 projects. It has selected two projects to be implemented in indirect management by the OCCAR and another two projects to be implemented in indirect management by the EDA. The contribution agreements with OCCAR and EDA were signed in December 2022.

The other 56 EDF projects resulting from the 2021 calls will be implemented in direct management. This will ensure a feedback loop from the content of the projects that is needed for further policy initiative development, such as EDIRPA and EDIP or the EU defence innovation scheme. Another driver in the consideration to resort to indirect management is sound financial management, where the cost-effectiveness of the implementation of the action needs to be considered.

The Commission will continue to assess the possibilities for indirect management of specific actions annually.

III. COMMISSION REPLIES TO THE RECOMMENDATIONS OF THE ECA

1. Recommendation 1: Use a horizon longer than one year for EDF work programmes

Target implementation date: 2025

The Commission accepts recommendations 1a and 1b to assess the opportunity to propose a horizon longer than one year work programme for EDF Work programmes. The EDF Regulation imposes to implement the programme through annual work programmes only. Hence, there is no legal possibility to deviate from this provision by introducing two-year work programmes going beyond the annual implementation principle. Nevertheless, the Commission already took steps to accommodate the Member States and the industry in their needs for a longer-term view by introducing an indicative multiannual perspective. The multiannual perspective is however currently indicative. It cannot constitute or generate a commitment of the Commission, as this would infringe the EDF principle of setting annual work programmes. At the occasion of the midterm evaluation of the EDF and its reflections for the design of the future programme in the next MFF, the Commission will assess the opportunity to consider a horizon longer than one year work programme for EDF Work programmes.

⁵ See observations in paragraphs 50, 51, 52 and 98-101

2. Recommendation 2: Sequence existing EU defence planning and cooperation tools coherently and assess how to further develop planning for EU defence funding

Target implementation date: 2026

The Commission accepts recommendations 2a and 2b.

3. Recommendation 3: Review processes in order to further facilitate participation in the EDF

Target implementation date: 2024

The Commission accepts recommendations 3a, 3b and 3c. Recommendation 3c is linked to the provisions of Article 27 on security of information of the EDF Regulation. Programme Security Instructions to guide the handling of classified information have been adopted in close coordination with all EU Member States. In case the classification is established at EU level, it is the Commission that is responsible in line with applicable rules and will provide assistance and guidance. In the EDF, there is also the possibility for Member States to classify information at national level (article 27(4) EDF).

4. Recommendation 4: Assess the broader use of indirect management as an option for EDF projects

Target implementation date: 2024

The Commission accepts recommendation 4. The assessment of the opportunities and feasibility of broader use of indirect management shall consider the limitations set by the EDF Regulation, which sets direct management as a rule and allows indirect management as a derogation in substantiated circumstances.

5. Recommendation 5: Design a long-term strategy for the EDF to increase the presence of the developed technology in the EU defence sector

Target implementation date: 2026

The Commission accepts recommendation 5a, 5b and 5c and will at the occasion of the midterm review and taking the elaborating on the EDF multiannual perspective as a base, develop a longer-term strategy for EDF with interconnected components and measurable indicators.