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**PROPOSAL**

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Delegations will find attached document COM(2022) 349 final.

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EUROPEAN
COMMISSION

Brussels, 19.7.2022
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2022/0219 (COD)

Proposal for a

# REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

## on establishing the European defence industry Reinforcement through common Procurement Act

# EXPLANATORY MEMORANDUM

## 1. CONTEXT OF THE PROPOSAL

### • Reasons for and objectives of the proposal

Already characterised by an unstable situation in Europe's neighbouring regions for many years and a complex and challenging environment, the Union's geopolitical context has changed dramatically in light of the Russia's military aggression against Ukraine. The return of territorial conflict and high-intensity warfare on European soil requires Member States to rethink their defence plans and capacities.

EU Heads of State or Government, meeting in Versailles on 11 March 2022, committed to "bolster European defence capabilities" in light of the Russia's military aggression against Ukraine. The Versailles declaration notably states that Member States should increase defence expenditures; step up cooperation through joint projects; close shortfalls and meet capability objectives; boost innovation including through civil/military synergies; and strengthen and develop the EU defence industry, including SMEs. Moreover, the Council invited "the Commission, in coordination with the European Defence Agency, to put forward an analysis of the defence investment gaps by mid-May and to propose any further initiative necessary to strengthen the European defence industrial and technological base."

In response to this invitation, the European Commission and the High Representative presented a Joint Communication on the Defence Investment Gaps Analysis and Way Forward (the "Joint Communication") on 18 May 2022. It provided insights on three main types of gaps: a financial gap, an industrial one, and a capability gap. The Joint Communication notes that Member States' recent budgetary increases come after years of substantial cuts and severe underinvestment. Such underinvestment in defence expenditure led to industrial and capability gaps in the EU and to the current low levels of defence equipment stocks. The transfers of defence equipment to Ukraine, combined with a level of stocks tailored to peacetime, has resulted into the emergence of urgent and critical gaps in terms of military equipment.

The Joint Communication recalls that Member States need to restore defence combat readiness as a matter of urgency in light of the security situation and of transfers already made to Ukraine. In particular, a replenishment of stocks of material would also enable them to provide further assistance to Ukraine.

The Joint Communication indicates that as Member States will proceed to replenish their stockpiles and increase the quantity of their defence equipment, they should seize the opportunity to do so in a collaborative way. This would provide greater value for money, enhance interoperability and avoid that the most exposed EU Member States face an impossibility to obtain what they need, because of conflicting demands on the defence industry, which cannot respond to such a demand surge in the short term.

Without coordination and cooperation, increased Member State investments into defence risk to deepen the fragmentation of the European defence sector, to limit the potential for cooperation throughout the life cycle of the equipment, to intensify external dependencies and to hamper interoperability. Choices made as regards of short-term acquisitions will have a longer-term impact on the market strength of European Defence Technological and Industrial Base (EDTIB) and opportunities for the next decades.

Given the need to support in a timely and targeted manner the Member States for reinforcing their defence capacities in this emergency situation, the European Commission proposed to incentivise common procurement via the EU budget through a dedicated Short Term Instrument establishing the European Defence industry Reinforcement through Common Procurement Act (the 'Instrument').

The EU financial support brought through the Instrument should stimulate cooperative defence procurement process from Member States and benefit the EDTIB while ensuring EU Member States' armed forces' ability to act, security of supply and increased interoperability.

Such an Instrument should be established to incentivise those Member States who are willing to pursue common procurement to fill these gaps. The Instrument should be a dedicated tool designed to tackle the adverse effects and consequences of the Ukraine war in the Union.

The Instrument will follow the establishment of a Defence Joint Procurement Task Force supporting the coordination of their very short-term procurement needs to face the new security situation. Following the creation of the Instrument, the Commission will propose a European Defence Investment Programme (EDIP) regulation. The EDIP Regulation could serve as the anchor for future joint development and procurement projects of high common interest to the security of the Member States and the Union, and by extension of the logic of the short-term instrument, for possible associated Union financial intervention for the reinforcement of the European defence industrial base, in particular for projects which no single Member State could develop or procure alone.

- **Consistency with existing policy provisions in the policy area**

The Instrument is consistent with the European Defence Fund. It complements the latter and relies on the same legal basis. While the EDF incentivises cooperation of legal entities on defence Research and Development projects, the Instrument will support cooperation on common defence procurement. The Instrument also takes up the European Defence Fund's approach when it comes to forbidding support for goods or services, which are prohibited by applicable international law, or lethal autonomous weapons without the possibility for meaningful human control over selection and engagement decisions when carrying out strikes against humans.

- **Consistency with other Union policies**

The Instrument will complement existing collaborative EU defence initiatives such as the Permanent Structured Cooperation (PESCO), and generate synergies with the implementation of the Strategic Compass for Security and Defence, and other EU programmes, such as the European Defence Fund.

The Instrument will also be implemented in full consistency with the EU capability development plan (CDP) identifying the defence capability priorities at EU level, as well as with the EU coordinated annual review on defence (CARD), which inter alia identifies new opportunities for defence cooperation. In this context, account may also be taken of relevant activities carried out by the North Atlantic Treaty Organisation (NATO) and other partners where they serve the Union's security and defence interests and do not exclude any Member State from participating.

## 2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

### • Legal basis

Aimed at fostering the competitiveness of the EDTIB by supporting cooperation between Member States in the field of defence common procurement, the proposal is based on Article 173 TFEU (support to competitiveness of the European Industry).

### • Subsidiarity (for non-exclusive competence)

While cooperation presents several obvious advantages (increased interoperability, reduced unit and maintenance costs) EU Member States continue to procure defence systems in a mostly national manner.

This can be explained by several factors:

– Increased complexity and administrative burden of cooperation;

– different national requirements;

– different procurement calendars and lack of budgetary synchronisation;

– security of Information considerations;

– national defence industrial policy considerations;

– lack of national expertise in procurement agencies.

According to EDA Defence Data for 2020, EU Member States invested only €4.1bn in collaborative defence equipment procurement (11% of their total spending), a 13% decrease compared to 2019.

This is far below the 35% benchmark to which Member States committed. Fragmentation of the demand side of the defence market results into a series of problems and inefficiencies, including on the supply side, while increasing maintenance costs of a plethora of different systems.

If this current trend is not addressed, it will continue to significantly undermine the competitiveness of the EDTIB and risks affecting its market prospects in the next decade.

At the same time, the current defence market context, marked by an increased security threat and the realistic prospect of a high intensity conflict, sees Member States rapidly increasing their defence budgets and aiming at similar equipment purchases. This results in an amount of demand which exceeds EDTIB manufacturing capacities, currently tailored for peacetime.

Consequently, strong price inflation can be anticipated, as well as longer delays in delivery time, potentially harming the security of EU citizens. Defence industries need to secure the production capacity necessary to process orders, as well as critical raw materials and sub-components. In this context, defence manufacturers might privilege major orders, potentially leaving exposed the most vulnerable countries, lacking the critical size and financial means to ensure large orders.

Fragmented orders placed individually by Member States would result in more limited market prospects for defence companies, and necessarily translate into an increased fragmentation of the offer, thus significantly harming the economic efficiency of the sector and worsening the EDTIB competitiveness.

Incentivising joint procurement is therefore a necessity, and would present the advantage of ensuring that, while the defence industry can more rapidly adapt to current market structural changes, national Armed Forces would obtain better conditions and delivery timelines by cooperating in the acquisition phase. On top of this, cooperation in the field of acquisition would result in diminished costs in terms of exploitation, maintenance and withdrawal of the systems (costs estimated at 55% of the total cost of an equipment).

Consequently, the current situation requires a policy intervention at EU level to improve the level of cooperation by incentivising financial cooperation between Member States in the defence procurement process. Such intervention is beneficial for the security of EU citizens as well as for the EDTIB.

- **Proportionality**

The proposed policy approach is proportionate to the scale and gravity of the problems that have been identified, i.e. need to speed up the adjustment of industry to structural changes and encourage an environment favourable to cooperation between undertakings within a system of open and competitive markets by incentivising cooperation and coordination between Member States. It respects the limits of possible Union intervention under the Treaties.

The initiative is limited to goals that Member States cannot achieve satisfactorily on their own and where the Union can be expected to do better.

- **Choice of the instrument**

The Commission proposes a Regulation of the European Parliament and of the Council in order to set up the Instrument. This is the most suitable legal instrument as only a Regulation, with its directly applicable legal provisions, can provide the necessary degree of uniformity needed for the establishment and operation of a Union Instrument aiming at promoting the reinforcement of an industrial sector across Europe.

## 3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Ex-post evaluations/fitness checks of existing legislation**

There is no prior existing legislation covering or pertaining to this specific action. To date, there was no other Union legislative initiatives in the area of defence with the objective of enhancing the competitiveness of the EDTIB in particular by speeding up, in a collaborative manner, the adjustment of industry to structural changes, including ramp-up of its manufacturing capacities. There was also no other Union legislative initiatives in the area of defence with the objective of fostering cooperation in the defence procurement process between participating Member States. Therefore, there is no previous ex-post evaluation or fitness check of existing legislation that took place for this legislative initiative.

- **Impact assessment**

European Council conclusions of 30-31 May 2022 invited the Council to examine as a matter of urgency, the short-term instrument. Therefore, Commission tables the proposal for a regulation establishing the instrument without including an impact assessment, in order to allow the co-legislators to receive it as early as possible.

- **Regulatory fitness and simplification**

The Instrument is not expected to increase the administrative burden.

The proposed performance-based approach, relying on the conditionality between the disbursement of payments and the achievement of milestones and targets by the consortium, is also an element of simplification in the implementation of the instrument.

- **Fundamental rights**

Enhancing the security of EU citizens can contribute to safeguarding their fundamental rights.

In addition, actions for defence common procurement of goods or services, which are prohibited by applicable international law, shall not be eligible for support from the Instrument.

Moreover, actions with a view to the common procurement of lethal autonomous weapons without the possibility for meaningful human control over selection and engagement decisions when carrying out strikes against humans shall not be eligible for support from the Instrument.

## 4. BUDGETARY IMPLICATIONS

The financial envelope for the implementation of the Instrument for the period from period XX 2022 to 31 December 2024 shall be EUR 500 million in current prices.

The impact on the multi-annual financial framework period in terms of required budget and human resources is detailed in the legislative financial statement annexed to the proposal.

## 5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

The Commission should regularly monitor its actions, review progress made towards delivering the expected results as well as examine synergies with other complementary Union programmes. The Commission should draw up an evaluation report for the Instrument and communicate it to the European Parliament and to the Council. This report will notably assess the progress made towards the achievement of the objectives set in the proposal.

2022/0219 (COD)

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**on establishing the European defence industry Reinforcement through common Procurement Act**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 173(3) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee[1],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) The EU Heads of State or Government, meeting in Versailles on 11 March, committed to “bolster European defence capabilities” in light of the Russian military aggression against Ukraine. They agreed to increase defence expenditures, step up cooperation through joint projects, and common procurement of defence capabilities, close shortfalls, boost innovation and strengthen and develop the EU defence industry.

(2) The unjustified invasion of Ukraine by the Russian Federation on 24 February 2022 and the ongoing armed conflict in Ukraine has made it clear that it is critical to act now to address the existing shortfalls It has led to the return of high-intensity warfare and territorial conflict in Europe, requiring a significant increase in the capacity of Member States to fill the most urgent and critical gaps, especially those exacerbated by the transfer of defence products to Ukraine.

(3) The Commission and the High Representative presented a Joint Communication on “The Defence Investment Gaps Analysis and Way Forward” on 18 May 2022. The Communication highlighted the existence, within the EU, of defence financial, industrial and capability gaps.

(4) A dedicated short-term instrument, designed in a spirit of solidarity, was indicated as a tool to incentivise Member States, on a voluntary basis, to pursue common procurement to fill the most urgent and critical gaps, especially those created by the response to the current Russia’s aggression, in a collaborative way.

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[1] OJ C , , p. .

(5) Such a new instrument will contribute to reinforce common defence procurement and, through the associated Union financing, to strengthen EU defence industrial capabilities.

(6) Reinforcing the European Defence Technological and Industrial Base should therefore be at the core of those efforts. Indeed difficulties and gaps still exist and the European defence industrial base remains highly fragmented, lacking sufficient collaborative action and inter-operability of products.

(7) In the current defence market context, marked by an increased security threat and the realistic perspective of a high intensity conflict, Member States are rapidly increasing their defence budgets and aiming at similar purchases. This results in an amount of demand which exceeds European Defence Technological and Industrial Base manufacturing capacities, currently tailored for peace time.

(8) As a result, strong price inflation can be anticipated, as well as longer delays in delivery time, potentially harming the security of the Union and its Member States. Defence industries need to secure the production capacity necessary to process orders, as well as critical raw materials and sub-components. In this context producers might privilege major orders, potentially leaving exposed the most vulnerable countries, lacking the critical size and financial means to ensure large orders.

(9) Furthermore, efforts should be made so that the increased spending results in a much stronger European Defence Technological and Industrial Base. Indeed, without coordination and cooperation, the increased national investments are likely to deepen the fragmentation of the European defence industry.

(10) In the light of the above challenges and the related structural changes in the EU Defence industry, it appears necessary to speed up the adjustment of the European Defence Technological and Industrial Base, enhance its competitiveness and efficiency, and thereby contribute to strengthening and reforming Member States' defence industrial capabilities. Addressing industrial shortfalls should include promptly tackling the most urgent gaps.

(11) Common investment and defence procurement should in particular be incentivised, as such collaborative actions would ensure that the necessary changes in the EU industrial base takes place in a collaborative manner, avoiding further fragmentation of the industry.

(12) To that end a Short Term Instrument for increasing the collaboration of the Member States in the defence procurement phase (the 'Instrument') should be established. It will incentivise Member States to pursue collaborative actions and in particular, when they procure in order to fill these gaps, to do so jointly, increasing the level of interoperability and strengthening and reforming their defence industrial capabilities.

(13) The Short Term Instrument should offset the complexity and risks associated with such joint actions while allowing economies of scale in the actions undertaken by Member States to reinforce and modernise the European Technological and Industrial Base, increasing thereby the Union's capacity resilience and security of supply. Incentivizing common procurement would also result into diminished costs in terms of exploitation, maintenance and withdrawal of the systems.

(14) This Instrument will build on and take into account the work of the Defence Joint Procurement Task Force established by the Commission and the High Representative/Head of Agency, in line with the Joint Communication ‘Defence Investment Gaps Analysis and Way Forward”, to coordinate very short-term defence procurement needs and engage with Member States and EU defence manufacturers to support joint procurement to replenish stocks, notably in light of the support provided to Ukraine.

(15) The Instrument is coherent with existing collaborative EU defence-related initiatives such as in the European Defence Fund as well as the Permanent Structured Cooperation (PESCO), and generates synergies with other EU programmes. The Instrument is fully coherent with the ambition of the Strategic Compass.

(16) As the instrument aims to enhance the competitiveness and efficiency of the Union’s defence industry, to benefit from the instrument, common procurement contracts will need to be placed with legal entities which are established in the Union or in associated countries and are not subject to control by non-associated third countries or by non-associated third-country entities. In that context, control should be understood to be the ability to exercise a decisive influence on a legal entity directly, or indirectly through one or more intermediate legal entities. Additionally, in order to ensure the protection of essential security and defence interests of the Union and its Member States, the infrastructure, facilities, assets and resources of the contractors and subcontractors involved in the common procurement which are used for the purposes of the common procurement shall be located on the territory of a Member State or of an associated third country.

(17) In certain circumstances, it should be possible to derogate from the principle that contractors and subcontractors involved in a common procurement supported by the Instrument are not subject to control by non-associated third countries or non associated third-country entities. In that context, a legal entity established in the Union or in an associated third country and controlled by a non-associated third country or a non-associated third country entity may participate as contractor and subcontractor involved in the common procurement if strict conditions relating to the security and defence interests of the Union and its Member States, as established in the framework of the Common Foreign and Security Policy pursuant to Title V of the Treaty on European Union (TEU), including in terms of strengthening the European Defence Technological and Industrial Base, are fulfilled.

(18) Furthermore, the common procurement procedures and contracts shall also include a requirement for the defence product to not be subject to control or restriction by a non-associated third country or a non-associated third country entity.

(19) Grants under the Instrument may take the form of financing not linked to cost based on the achievement of results by reference to work packages, milestones or targets of the common procurement process, in order to create the necessary incentive effect.

(20) Where the Union grant takes the form of financing not linked to costs, the Commission should determine in the work programme the funding conditions for each action, in particular (a) a description of action involving cooperation for common procurement with a view to addressing the most urgent and critical capacity needs, (b) the milestones for the implementation of the action, (c) the rough order of magnitude

expected from the common procurement and (d) the maximum Union contribution available.

(21) To generate the incentive effect, the level of Union contribution may be differentiated based on factors such as (a) the complexity of the common procurement, for which a proportion of the anticipated size of the procurement contract, based on experience gained in similar actions, may serve as an initial proxy, (b) the characteristics of the cooperation, such as joint usage, stockpiling, ownership or maintenance, which are likely to induce stronger interoperability outcomes and long-term investment signals to industry, and (c) the number of participating Member States or associated countries or the inclusion of additional Member States or associated countries to existing cooperations.

(22) Member States should appoint a procurement agent to conduct a common procurement on their behalf. The procurement agent should be a contracting authority established in a Member State or an associated third country, including Union bodies or international organisations, such as the Organisation Conjointe de Coopération en matière d'ARmement (OCCAR).

(23) In accordance with Article 193(2) of the Financial Regulation, a grant may be awarded for an action which has already begun, provided that the applicant can demonstrate the need for starting the action prior to signature of the grant agreement. However, financial contribution should not cover a period prior to the date of submission of the grant application, except in duly justified exceptional cases. In order to avoid any disruption in Union support which could be prejudicial to the interests of the Union, it should be possible to provide in the financing decision for financial contributions to actions that cover a period from the 24 February 2022, even if they have started before the grant application was submitted.

Regulation (EU, Euratom) No 2018/1046 (the 'Financial Regulation') applies to this Programme. It lays down rules on the implementation of the Union budget, including the rules on grants.

(25) This Regulation lays down a financial envelope for the Fund, which is to constitute the prime reference amount, within the meaning of point 18 of the Inter-institutional Agreement of 16 December 2020 between the European Parliament, the Council and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources[2] (Interinstitutional Agreement of 16 December 2020), for the European Parliament and for the Council during the annual budgetary procedure.

(26) In accordance with the Financial Regulation, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[3], Council Regulation (Euratom, EC)

[2] OJ L 433I, 22.12.2020, p. 28.

[3] Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999,(OJ L248, 18.9.2013, p. 1.

No 2988/95[4], Council Regulation (Euratom, EC) No 2185/96[5] and Council Regulation (EU) 2017/1939[6], the financial interests of the Union are to be protected through proportionate measures, including the prevention, detection, correction and investigation of irregularities and fraud, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, the imposition of administrative sanctions. In particular, in accordance with Regulation (EU, Euratom) No 883/2013 and Regulation (Euratom, EC) No 2185/96 the European Anti-Fraud Office (OLAF) may carry out investigations, including on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union. In accordance with Regulation (EU) 2017/1939, the European Public Prosecutor's Office (EPPO) may investigate and prosecute fraud and other illegal activities affecting the financial interests of the Union as provided for in Directive (EU) 2017/1371 of the European Parliament and of the Council[7]. In accordance with the Financial Regulation, any person or entity receiving Union funds is to fully cooperate in the protection of the Union's financial interests, to grant the necessary rights and access to the Commission, OLAF, the EPPO and the European Court of Auditors (ECA) and to ensure that any third parties involved in the implementation of Union funds grant equivalent rights.

(27) Pursuant to Article 94 of Council Decision 2013/755/EU[8], persons and entities established in overseas countries and territories (OCTs) are eligible for funding subject to the rules and objectives of the Instrument and possible arrangements applicable to the Member State to which the relevant overseas country or territory is linked.

(28) Since the objectives of this Regulation cannot be sufficiently achieved by the Member States but can rather be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 TEU. In accordance with the principle of proportionality as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives.

HAVE ADOPTED THIS REGULATION:

*Article 1*
*Subject matter*

This Regulation establishes the European Defence Industry Reinforcement through common Procurement Act (the 'Instrument').

[4] Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.95, p.1).

[5] Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L292,15.11.96 , , p.2).

[6] Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO') (OJ L283, 31.10.2017, p.1).

[7] Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (OJ L 198, 28.7.2017, p. 29).

[8] Council Decision 2013/755/EU of 25 November 2013 on the association of the overseas countries and territories with the European Union (Overseas Association Decision) (OJ L 344, 19.12.2013, p. 1).

*Article 2*
*Definitions*

For the purposes of this Regulation, the following definitions apply:

(1) ‘**common procurement**’ means a cooperative procurement jointly conducted by at least three Member States;

(2) ‘**control by a non-associated third country or by a non-associated third country entity**’ means the ability to exercise a decisive influence on a legal entity directly, or indirectly through one or more intermediate legal entities;

(3) ‘**executive management structure**’ means a body of a legal entity, appointed in accordance with national law, and, where applicable, reporting to the chief executive officer, which is empowered to establish the legal entity’s strategy, objectives and overall direction, and which oversees and monitors management decision-making;

(4) ‘**non-associated third-country entity**’ means a legal entity that is established in a non-associated third country or, where it is established in the Union or in an associated country, that has its executive management structures in a non-associated third country;

(5) ‘**procurement agent**’ means a contracting authority established in a Member State or an associated country designated by at least three Member States to conduct a common procurement on their behalf, including Union bodies or international organisations;

(6) ‘**third country**’ means a country that is not member of the Union.

*Article 3*
*Objectives*

1. The Instrument has the following objectives:

   (a) to foster the competitiveness and efficiency of the European Defence Technological and Industrial Base (EDTIB) for a more resilient Union, in particular by speeding up, in a collaborative manner, the adjustment of industry to structural changes, including ramp-up of its manufacturing capacities;

   (b) to foster cooperation in defence procurement process between participating Member States contributing to solidarity, interoperability, prevention of crowding-out effects, avoiding fragmentation and increasing the effectiveness of public spending.

2. The objectives shall be pursued with an emphasis on strengthening and developing the Union defence industrial base to allow it to address in particular the most urgent and critical defence products needs, especially those revealed or exacerbated by the response to the Russian aggression against Ukraine, taking into account the work of the Defence Joint Procurement Task Force.

*Article 4*
*Budget*

1. The financial envelope for the implementation of the Instrument for the period from the entry into force of this Regulation to 31 December 2024 shall be EUR 500 million in current prices.

2. The amount referred to in paragraph 1 may be used for technical and administrative assistance for the implementation of the Instrument, such as preparatory, monitoring, control, audit and evaluation activities including corporate information technology systems.

3. Resources allocated to Member States under shared management may, at their request, be transferred to the Instrument subject to the conditions set out in the relevant provisions of the Common Provisions Regulation for 2021-2027. The Commission shall implement those resources directly in accordance with point (a) of the first subparagraph of Article 62(1) of Regulation (EU, Euratom) No 2018/1046 (the 'the Financial Regulation'). Those resources shall be used for the benefit of the Member State concerned.

4. Budgetary commitments for activities extending over more than one financial year may be broken down over several years into annual instalments.

*Article 5*
*Third countries associated to the Instrument*

The Instrument shall be open to the participation of Member States and members of the European Free Trade Association which are members of the European Economic Area (associated countries), in accordance with the conditions laid down in the Agreement on the European Economic Area.

*Article 6*
*Implementation and forms of EU funding*

1. The Instrument shall be implemented in direct management in accordance with the Financial Regulation.

2. The EU funding shall incentivize the cooperation between Member States to fulfil the objectives referred to in Article 3. The financial contribution shall be set up taking into consideration the collaborative nature of the common procurement plus an appropriate amount to create the incentive effect necessary to induce cooperation.

3. Where necessary for the implementation of an action, financial contributions may cover a period prior to the date of the request for financial contributions for that action, provided that the action has not started prior to the 24 February 2022.

4. Grants implemented under direct management shall be awarded and managed in accordance with Title VIII of the Financial Regulation.

*Article 7*
*Eligible actions*

1. Only actions fulfilling all of the following criteria shall be eligible for funding:

   (a) the actions shall involve cooperation for common procurement of the most urgent and critical defence products between eligible entities implementing the objectives referred to in Article 3;

   (b) the actions shall involve new cooperation or an extension of existing cooperation to new Member States or associated countries;

   (c) the actions shall be carried out by a consortium of at least three Member States;

   (d) the actions shall fulfil the additional conditions as set out in Article 8.

2. The following actions shall not be eligible for funding:

   (a) actions for common procurement of goods or services which are prohibited by applicable international law;

   (b) actions for common procurement of lethal autonomous weapons without the possibility for meaningful human control over selection and engagement decisions when carrying out strikes against humans.

*Article 8*
*Additional funding conditions*

1. Member States or associated third countries shall appoint a procurement agent to act on their behalf for the purpose of the common procurement. The procurement agent shall carry out the procurement procedures and conclude the resulting agreements with contractors on behalf of the participating Member States.

2. The procurement procedures referred to in paragraph 1 shall be based on an agreement to be signed by the participating Member States with the procurement agent under the conditions set out in the work programme referred to in Article 11.

3. Common procurement procedures and contracts shall include participation requirements for contractors and subcontractors involved in the common procurement as referred to in paragraphs 4 to 10.

4. Contractors and subcontractors involved in the common procurement shall be established and have their executive management structures in the Union. They shall not be subject to control by a non-associated third country or by a non-associated third country entity.

5. By way of derogation from paragraph 4, a legal entity established in the Union or in an associated third country and controlled by a non-associated third country or a non-associated third country entity may participate as contractor and subcontractor involved in the common procurement only if it provides guarantees approved by the Member State or associated third country in which the contractor is established.

6. The participating Member States shall provide to the Commission a notification from the procurement agent on the guarantees provided by a contractor or subcontractor involved in the common procurement that is established in the Union or an associated third country and controlled by a non-associated third country or a non-associated third country entity. The guarantees and related provisions in the procurement contract shall be made available to the Commission upon request. The guarantees shall provide assurances that the involvement of the contractor or subcontractor involved in the common procurement does not contravene the security and defence interests of the Union and its Member States as established in the framework of the CFSP pursuant to Title V of the TEU, or the objectives set out in Article 3.

7. The guarantees shall in particular substantiate that, for the purposes of the common procurement, measures are in place to ensure that:

(a) control over the contractor or subcontractor involved in the common procurement is not exercised in a manner that restrains or restricts its ability to carry out the order and to deliver results and;

(b) access by a non-associated third country or by a non-associated third-country entity to sensitive information is prevented and the employees or other persons involved in the common procurement have national security clearance issued by a Member State.

8. The infrastructure, facilities, assets and resources of the contractors and subcontractors involved in the common procurement which are used for the purposes of the common procurement shall be located on the territory of a Member State or of an associated third country. Where no competitive substitutes are readily available in the Union or in an associated third country, contractors and subcontractors involved in the common procurement may use their assets, infrastructure, facilities and resources located or held outside the territory of the Member States or of the associated third countries provided that such use does not contravene the security and defence interests of the Union and its Member States and is consistent with the objectives set out in Article 3.

9. Common procurement procedures and contracts shall also include a requirement for the defence product to not be subject to a restriction by a non-associated third country or a non-associated third country entity.

10. For the purposes of this Article, 'subcontractors involved in the common procurement' means all of the following:

(a) subcontractors with a direct contractual relationship to a contractor;

(b) other subcontractors to which at least 10 % of the work share is allocated;

(c) subcontractors which may require access to classified information in order to carry out the common procurement.

*Article 9*
*Eligible entities*

Provided that they comply with the eligibility criteria set out in Article 197 of the Financial Regulation, the following entities are eligible for funding:

(a) public contracting authorities or contracting entities as defined in Directives 2014/24/EU[9] and 2014/25/EU[10] of the European Parliament and of the Council;

(b) public authorities of associated third countries.

*Article 10*
*Award criteria*

The Commission shall evaluate the proposals submitted on the basis of the following award criteria:

1. The contribution of the action to strengthening and developing the Union defence industrial base to allow it to address in particular the most urgent and critical defence products needs as referred to in Article 3, including with respect to procurement procedure and delivery lead times, replenishment of stocks, availability and supply;

2. the contribution of the action to competitiveness and adaptation of the EDTIB, including through the envisaged ramp-up of its manufacturing capacities, reservation of manufacturing capacities, its reskilling and upskilling, and overall modernization;

3. the contribution of the action to strengthening cooperation among Member States or associated countries and interoperability of products;

4. the number of Member States or associated countries participating in the common procurement;

5. the estimated size of the common procurement and any declaration by the participants that they will jointly use, stockpile, own or maintain the procured defence products;

6. catalytic effect of Union financial support through demonstration of how the Union contribution can overcome obstacles to common procurement;

7. quality and efficiency of the plans for carrying out of the action.

---

[9] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC (OJ L 94, 28.3.2014, p. 65).

[10] Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC (OJ L 94, 28.3.2014, p. 243).

*Article 11*
*Work programme*

1. The Instrument shall be implemented through a work programme as referred to in Article 110 of the Financial Regulation.

2. The Commission shall, by means of an implementing act, adopt the work programme referred to in paragraph 1. The implementing act shall be adopted in accordance with the examination procedure referred to in Article 14 paragraph 3.

3. The work programme shall set out the minimum financial size of the joint procurement actions and determine the indicative amount of financial support for actions carried out by the minimum number of Member States as referred to in point c) of Article 7 paragraph 1 as well as incentives for procurement of higher value and inclusion of additional Member States or associated countries.

4. The work programme shall set out the funding priorities in line with the needs referred to in Article 3 paragraph 2.

*Article 12*
*Monitoring and reporting*

1. The Commission shall draw up an evaluation report for the Instrument not later than 31 December 2024 and submit it to the European Parliament and to the Council. The report shall evaluate the impact and effectiveness of the actions taken under the Instrument.

2. The report shall build on consultations of Member States and key stakeholders and shall, in particular, assess the progress made towards the achievement of the objectives set out in Article 3.

*Article 13*
*Information, communication and publicity*

1. The recipients of Union funding shall acknowledge the origin and ensure the visibility of the Union funding (in particular when promoting the actions and their results) by providing coherent, effective and proportionate targeted information to multiple audiences, including the media and the public.

2. The Commission shall implement information and communication actions relating to the Instrument, and its actions and results. Financial resources allocated to the Instrument shall also contribute to the corporate communication of the political priorities of the Union, as far as they are related to the objectives referred to in Article 3.

*Article 14*
*Committee procedure*

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. The European Defence Agency shall be invited to provide its views and expertise to the committee as an observer. The European External Action Service shall also be invited to assist in the committee.

3. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

*Article 15*
*Entry into force*

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

| | |
|---|---|
| *For the European Parliament* | *For the Council* |
| *The President* | *The President* |

# LEGISLATIVE FINANCIAL STATEMENT

## 1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

### 1.1. Title of the proposal/initiative

| |
|---|
| Proposal for a Regulation of the European Parliament and of the Council establishing the European defence industry Reinforcement through common Procurement Act. |

### 1.2. Policy area(s) concerned

| |
|---|
| Union defence industrial policy |

### 1.3. The proposal/initiative relates to:

☑ **a new action**

☐ **a new action following a pilot project/preparatory action**[11]

☐ **the extension of an existing action**

☐ **a merger or redirection of one or more actions towards another/a new action**

### 1.4. Objective(s)

*1.4.1. General objective(s)*

| |
|---|
| The Instrument has the following objectives:<br><br>See attached proposal for legal act. |

*1.4.2. Specific objective(s)*

| |
|---|
| N/A |

*1.4.3. Expected result(s) and impact*

*Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.*

| |
|---|
| <u>Expected results:</u><br><br>The Instrument will help to reinforce and developp the Union defence industrial base to allow it to address the industrial gaps relative to the most urgent and critical defence products needs especially those revealed or exacerbated by the response to the Russian aggression against Ukraine.<br><br>The financial contribution of the EU should contribute to unlock a number of common procurement actions which otherwise would not be started considering the risks and complexity involved in common defence procurements. |

[11] As referred to in Article 58(2)(a) or (b) of the Financial Regulation.

The increased cooperation is expected to provide greater value for money, enhance interoperability and avoid that the most exposed EU Member States face an impossibility to obtain what they need, because of conflicting demands on the defence industry, which is not tailored for such a demand surge.

Expected impacts:

A Union contribution of EUR 500 Million would allow for a appropriate incentive for Member States to induce them to procure in common. EU common procurement should become the norm rather the exception. Additionally the instrument will foster an agile and competitive EDTIB. On a longer term, it is expected that additional investments in the EDTIB bring benefits as regards jobs creations and skills and enhance security of supply.

*1.4.4. Indicators of performance*

*Specify the indicators for monitoring progress and achievements.*

Taking into consideration the short period of implementation, the results and impacts of the Instrument will be assessed under retrospective evaluation at the end of the programme implementation.

The Commission will ensure that the necessary indicators used for the monitoring of programme implementation will be put in place by the entity entrusted with the programme implementation. These will include:

- number of common procurement actions implemented

- total value of common procurement actions implemented

- number of Member States involved as consortium members

- the fact that Member States openened existing cooperations to new members

**1.5. Grounds for the proposal/initiative**

*1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative*

The Regulation will be implemented through direct management. The Commission will need to be staffed with the appropriate experts in order to monitor effectively the implemention.

1.5.2. *Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

While cooperation presents several obvious advantages (increased interoperability, reduced unit and maintenance costs) EU Member States continue procuring defence systems in a mostly national manner. This has led to a highly fragmented market with national industrial silos and a corresponding multitude of defence systems of the same kind, often not interoperable amongst each other. In the same time, the current defence market context, marked by an increased security threat and the realistic prospect of a high intensity conflict, sees Member States rapidly increasing their defence budgets and aiming at similar equipment's purchases. This results into an amount of demand which overcome EDTIB manufacturing capacities, currently tailored for peacetime.

Consequently, strong price inflation can be anticipated, as well as longer delays in delivery time, potentially harming the security of EU citizens. Defence industries need to secure the production capacity necessary to process orders, as well as critical raw materials and sub-components. In this context, defence manufacturers might privilege major orders, potentially leaving exposed most vulnerable countries, lacking the critical size and financial means to ensure large orders. Incentivising joint procurement is therefore a necessity, and would present the advantage of ensuring that, while the defence industry can more rapidly adapt to current market structural changes, national Armed Forces would obtain better conditions and delivery timeline by cooperating in the acquisition phase. On top of this, cooperation in the field of acquisition would result into diminished costs in terms of exploitation, maintenance and retreat of the systems (costs estimated at 55% of the total cost of an equipment).

Consequently, the current situation requires a policy intervention at EU level to improve the current state of level of cooperation by incentivising financial cooperation between Member States in the defence procurement process. Such intervention is beneficial for the security of EU citizens as well as for the EDTIB.

1.5.3. *Lessons learned from similar experiences in the past*

N/A

1.5.4. *Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments*

The Instrument will complement existing EU programmes such as the European Defence Industrial Development Programme and the European Defence Fund as well as EU defence initiatives such as the Permanent Structured Cooperation (PESCO). It will also generate synergies with the implementation of the Strategic Compass for Security and Defence and other EU programmes.

*1.5.5. Assessment of the different available financing options, including scope for redeployment*

| |
|---|
| N/A |

1.6. **Duration and financial impact of the proposal/initiative**

☑ **limited duration**

– ☑ in effect from 2022 to 31/12/2024

– ☑ Financial impact from 2022 to 2024 for commitment appropriations and from 2023 to 2027 for payment appropriations.

☐ **unlimited duration**

– Implementation with a start-up period from YYYY to YYYY,

– followed by full-scale operation.

1.7. **Management mode(s) planned**[12]

☑ **Direct management** by the Commission

– ☑by its departments, including by its staff in the Union delegations;

– ☐ by the executive agencies

☐ **Shared management** with the Member States

☐ **Indirect management** by entrusting budget implementation tasks to:

– ☐ third countries or the bodies they have designated;

– ☐ international organisations and their agencies (to be specified);

– ☐ the EIB and the European Investment Fund;

– ☐ bodies referred to in Articles 70 and 71 of the Financial Regulation;

– ☐ public law bodies;

– ☐ bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;

– ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;

– ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

– *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

12 Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx

| |
|---|
| The instrument shall be implemented in direct management in accordance with the Financial Regulation. |

## 2. MANAGEMENT MEASURES

### 2.1. Monitoring and reporting rules

*Specify frequency and conditions.*

In accordance with article 13 of the Instrument the Commission will draw up an evaluation report not later than 31/12/2024 for the instrument and submit it to the EP and Council. The report shall evaluate the impact and effectiveness of the actions under the Instrument.

To this end, the Commission will put in place necessary monitoring arrangements to ensure that relevant data are collected reliably and smoothly.

### 2.2. Management and control system(s)

#### *2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

The Commission would have overall responsibility for the implementation of the Instrument. In particular, the Commission intends to implement the Instrument in direct management. The use of direct management mode clarifies the responsibilities (implementation by authorising officers), shortens the delivery chain (reducing Time To Grant and Time To Pay), avoids conflicts of interests and reduces the implementation costs (no management fees for an entrusted entity). The Commission should define the funding priorities and conditions through one multi-annual work programme. The definition of priorities should be supported by the work of the Defence Joint Procurement Task Force. A Programme Committee of Member States should be established, to which the European Defence Agency shall be invited to provide its views and expertise to the committee as an observer, and the European External Action Serviceshall be invited to assist in the committee. The Commission would adopt the multi-annual work programme following the opinion of the committee under the examination procedure.

The funding under the Instrument will mainly take the form of grants. The financial contribution shall be set up to take into consideration the collaborative nature of the common procurement plus an additional amount to incentivize the cooperation between Member States to procure together.The Commission may use financing not linked to cost, to reduce the administrative burden for the beneficiaries and put the focus on achieving the desired objectives, thus increasing the effectivenes and efficiency of the Union support.

The payment modalities will remain similar to the modalities experienced in EDIDP and EDF, i.e. three payments for each grant (including at least one pre-financing). The payment forecast will be prepared based on the beneficiary’s proposal, in order to allow the beneficiary to effectively manage the procurement and avoid any treasury issue. The Commission keeps the authority when approving a payment, in particular having the legal right to reduce it should the conditions to release the payment are not met (milestones not achieved, devliverables not produced on time).

The control strategy that will be defined in the grant agreement will be built around the modest experience acquired in the EDF, and its precursor programmes, EDIDP and PADR, where grants using simplified cost options (lump sum contributions) have been used. In particular, the Commission intends to use financing not linked to costs, where the grant amount is determined ex ante based on the fulfilment of certain conditions (including eligibility of costs) and disbursed on the basis of deliverables (reports) demonstrating that the expected results defined in the grant agreement (technical annexes) are met.

2.2.2. *Information concerning the risks identified and the internal control system(s) set up to mitigate them*

The Instrument is meant to support cooperation in the procurement of the most urgent and critical defence products. Thus the main risk identified are: Timetable Risk: Schedule issue, delays in implementation, Governance risk: Lack of cooperation between Member States and/or national industry leading to delays of inefficient implementation, Financial risk: Cost management, Low absorption (delays), etc. Technical risks: Difficulties in specific development; Technical issues; Lower performance level. The Commission would therefore implement the Instrument in direct management building on the expertise gained in implementing the European Defence Fund, prepare and adopt only one multi-annual work programme, shorten the time to grant and apply financing not linked to costs.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The budget of the programme will be under direct management. Based on the Commission experience on grant management, the overall control costs of the Instrument by the Commission are estimated at less than 1% of the related funds managed.

In terms of expected error rate(s), the aim is to maintain the error rate below the threshold of 2%. The Commission considers that the implementation of the programme in direct management, with trained (experienced staff, possibly recruited as from Member States Ministries of Defence) and well-staffed teams acting under delegated authorising officers, applying clear rules and making an appropriate use of output based instruments (i.e. financing not linked to costs) will maintain an error rate below the 2% materiality threshold.

**2.3. Measures to prevent fraud and irregularities**

*Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.*

The European Anti-Fraud Office (OLAF) is competent to carry out investigations on operations supported under this initiative. Agreements resulting from this Regulation, including agreements concluded with international organisations, shall provide for supervision and financial control by the Commission, or any representative authorised by it, and audits by the European Court of Auditors, the European Public Prosecutor’s Office (EPPO) or OLAF, if necessary on-the spot. Commission's officials who have the required security clearance, can also make on site visits.

## 3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

### 3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines (see table under section 3.2)

*In order of multiannual financial framework headings and budget lines.*

| Heading of multiannual financial framework | Budget line | Type of expenditure | Contribution | | | |
|---|---|---|---|---|---|---|
| | Number | Diff./Non-diff.[13] | from EFTA countries[14] | from candidate countries[15] | from third countries | within the meaning of Article 21(2)(b) of the Financial Regulation |
| | [XX.YY.YY.YY] | Diff./Non-diff. | YES/NO | YES/NO | YES/NO | YES/NO |

- New budget lines requested

*In order of multiannual financial framework headings and budget lines.*

| Heading of multiannual financial framework | Budget line | Type of expenditure | Contribution | | | |
|---|---|---|---|---|---|---|
| | Number | Diff./Non-diff. | from EFTA countries | from candidate countries | from third countries | within the meaning of Article 21(2)(b) of the Financial Regulation |
| 5 | 13.0106 | Non-Diff | YES | NO | NO | NO |
| 5 | 13.06 | Diff | YES | NO | NO | NO |

13 Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.
14 EFTA: European Free Trade Association.
15 Candidate countries and, where applicable, potential candidates from the Western Balkans.

## 3.2. Sources of financing for the proposal

### *3.2.1. Source of financing of appropriations under the proposal*

| Contribution from margins and special instruments of the MFF | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total |
|---|---|---|---|---|---|---|---|---|
| Marrgins of Heading 5 | | 83.700 | 44.900 | 32.100 | 1 | | | 160.700 |
| Special instruments of the MFF | | | 111.400 | 227.900 | | | | 339.300 |
| Total | | 83.700 | 156.300 | 260.000 | | | | 500.000 |

### *3.2.2. Summary of estimated impact on operational appropriations*

– ☐ The proposal/initiative does not require the use of operational appropriations

– ☑ The proposal/initiative requires the use of operational appropriations. as explained below:

EUR million (to three decimal places)

| **Heading of multiannual financial framework** | 05 | Security and Defence – Cluster 13 Defence | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | ***Post 2027*** | **TOTAL** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 13.0601 Operational appropriations STI defence products | Commitments | (1) | | 83.700 | 156.300 | 260.000 | | | | | **500.000** |
| | Payments | (2) | | | 72.000 | 174.000 | 104.000 | 72.000 | 78.000 | | **500.000** |
| 13.016 – Support expenditure | Commitments = Payments | (3) | | | p.m.. | p.m. | | | | | **0** |
| **TOTAL appropriations for the envelop of the programme under heading 5** | Commitments | =1+3 | | **83.700** | **156.300** | **260.000** | | | | | **500.000** |
| | Payments | =2+3 | | **0** | **72.000** | **174.000** | **104.000** | **72.000** | **78.000** | | **500.000** |

| **Heading of multiannual financial framework** | **7** | ‘Administrative expenditure’ |
|---|---|---|

This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the Annex to the Legislative Financial Statement (Annex V to the internal rules). which is uploaded to DECIDE for interservice consultation purposes.

EUR million (to three decimal places)

| | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | ***Post 2027*** | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Human resources | | 0.961 | 1.831 | 1.831 | 1.517 | 1.517 | 1.187 | | **8.844** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Other administrative expenditure | | | 0.047 | 0.279 | 0.279 | 0.067 | 0.057 | 0.057 | | **0.786** |
| **TOTAL appropriations under HEADING 7 of the multiannual financial framework** | (Total commitments = Total payments) | | **1.008** | **2.110** | **2.110** | **1.584** | **1.574** | **1.244** | | **9.630** |

EUR million (to three decimal places)

| | | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | ***Post 2027*** | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL appropriations **across** HEADINGS of the multiannual financial framework | Commitments | | 84.708 | 158.410 | 262.110 | 1.584 | 1.574 | 1.244 | | **509.630** |
| | Payments | | 1.008 | 74.110 | 176.110 | 105.584 | 73.574 | 79.244 | 0 | **509.630** |

### 3.2.3. *Summary of estimated impact on administrative appropriations*

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– ☑ The proposal/initiative requires the use of appropriations of an administrative nature. as explained below:

EUR million (to three decimal places)

| Years | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| HEADING 7 of the multiannual financial framework | | | | | | | | |
| Human resources | | 0.961 | 1.831 | 1.831 | 1.517 | 1.517 | 1.187 | **8.844** |
| Other administrative expenditure | | 0.047 | 0.279 | 0.279 | 0.067 | 0.057 | 0.057 | **0.786** |
| Subtotal HEADING 7 of the multiannual financial framework | | **1.008** | **2.110** | **2.110** | **1.584** | **1.574** | **1.244** | **9.630** |
| Outside HEADING 7 of the multiannual financial framework | | | | | | | | |
| Human resources | | | | | | | | |
| Other expenditure of an administrative nature (former BA lines) | | | | | | | | |
| Subtotal outside HEADING 7 of the multiannual financial framework | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| TOTAL | | **1.008** | **2.110** | **2.110** | **1.584** | **1.574** | **1.244** | **9.630** |

The administrative appropriations required will be met by the appropriations which are already assigned to management of the action and/or which have been redeployed, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of existing budgetary constraints.

3.2.3.1. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– ✓ The proposal/initiative requires the use of human resources. as explained below:

*Estimate to be expressed in full time equivalent units*

| Years | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|
| • Establishment plan posts (officials and temporary staff) **for DG DEFIS** | | | | | | | | |
| Headquarters and Commission's Representation Offices | | | 5 | 10 | 10 | 8 | 8 | 7 |
| Delegations | | | | | | | | |
| Research | | | | | | | | |
| • External staff (in Full Time Equivalent unit: FTE) **- AC. AL. END. INT and JED for DG DEFIS** Heading 7 | | | | | | | | |
| Financed from HEADING 7 of the multiannual financial framework | - at Headquarters | | 2 | 3 | 3 | 3 | 3 | 1 |
| | - in Delegations | | | | | | | |
| Financed from the envelope of the programme | - at Headquarters | | | | | | | |
| | - in Delegations | | | | | | | |
| Research | | | | | | | | |
| Other (specify) | | | | | | | | |
| TOTAL | | | **7** | **13** | **13** | **11** | **11** | **8** |

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints."

Description of tasks to be carried out:

| | |
|---|---|
| Officials and temporary staff | 5 FTEs (5 AD) will be required to ramp-up the Instrument in 2022 and to start up the first activities, 10 FTEs (7AD and 3 AST) to implement the activities. and reduced to 7 (5 AD and 2 AST) in 2027 to ensure the work programme adoption; management of the evaluation and the operational. financial and legal monitoring of the implementation of the projects. |
| External staff | 2 FTEs to start the activities (2 SNE). increasing to 3 (1 AC and 2 SNE) reduced to 1 in 2027 (1 AC) to ensure the the operational. financial and legal monitoring of the implementation of the projects. |

### 3.2.4. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

– ☐ can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).

– ☑ requires use of the unallocated margin under the relevant heading of the MFF and/or use of the special instruments as defined in the MFF Regulation.

| |
|---|
| Margin of Heading 5. See details in section 3.2 |

– ☐ requires a revision of the MFF.

| |
|---|
| Explain what is required. specifying the headings and budget lines concerned and the corresponding amounts. |

### 3.2.6. *Third-party contributions*

The proposal/initiative:

– ☑ does not provide for co-financing by third parties

– ☐ provides for the co-financing by third parties estimated below:

Appropriations in EUR million (to three decimal places)

| | 2023 | 2024 | 2025 | 2026 | 2027 | Total |
|---|---|---|---|---|---|---|
| | | | | | | |
| TOTAL appropriations co-financed | | | | | | |

### 3.3. Estimated impact on revenue

– ☑ The proposal/initiative has no financial impact on revenue.

– ☐ The proposal/initiative has the following financial impact:

☐ on own resources

☐ on other revenue

please indicate. if the revenue is assigned to expenditure lines ☐

EUR million (to three decimal places)

| Budget revenue line: | Appropriations available for the current financial year | Impact of the proposal/initiative[16] | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Year **N** | Year **N+1** | Year **N+2** | Year **N+3** | Enter as many years as necessary to show the duration of the impact (see point 1.6) | | |
| Article …………. | | | | | | | | |

For assigned revenue. specify the budget expenditure line(s) affected.

[…]

Other remarks (e.g. method/formula used for calculating the impact on revenue or any other information).

[…]

16 As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 20 % for collection costs.