



Council of the  
European Union

Brussels, 25 July 2023  
(OR. en)

12112/23

**LIMITE**

**COPS 406  
POLMIL 210  
EUMC 348  
CFSP/PESC 1122  
CSDP/PSDC 584  
PESCO 13**

**COVER NOTE**

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From:	European External Action Service (EEAS)
To:	Delegations
Subject:	Report of the High Representative of the Union for Foreign Affairs and Security Policy to the Council: Annual Report on the Status of PESCO Implementation

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Delegations will find attached HR (2023) 195.

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**DOCUMENT PARTIALLY ACCESSIBLE TO THE PUBLIC (06.09.2023)**

Encl.: HR (2023) 195

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EUROPEAN EXTERNAL ACTION SERVICE



**Report of the High Representative of the Union  
for Foreign Affairs and Security Policy  
to the Council**

**of 20/07/2023**

**Annual Report on the Status of PESCO Implementation**

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### Report of the High Representative of the Union for Foreign Affairs and Security Policy to the Council

#### “Annual Report on the Status of PESCO Implementation”

##### Cover Note

Launched in December 2017, PESCO was established in a different geopolitical context. While Russia’s ongoing war of aggression against Ukraine has significant security and defence policy implications, PESCO continues to be a **crucial framework for defence cooperation** that is flexible and adaptable, while remaining Member-States driven. The recent decision of Denmark to join the initiative as the 26<sup>th</sup> Member is a clear token of its continued relevance and attractiveness.

This year’s National Implementation Plans (NIPs) underline that the participating Member States (pMS) **have stepped up their efforts** towards the fulfilment of the more binding commitments, including through PESCO projects that demonstrate progress in all domains. For example, pMS’ capabilities have been enhanced in areas such as cyber, unmanned systems and medical services. Some of these capabilities have already been used in CSDP missions and operations or in support of EU partners, including Ukraine. In addition, the 5<sup>th</sup> wave of projects has a **strong focus on critical capabilities** with a more operational impact and taking into consideration the requirements of **high-intensity warfare**. Several projects are looking into the technological **needs for future naval, air and space systems**.

While the pMS are increasingly exploring **EU collaborative options**, the NIPs also reveal a mixed picture of cooperation across the different commitments. The overall progress is still not sufficient to enhance coordination, to increase investment and cooperation in developing defence capabilities, or to improve their joint operational use.

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Furthermore, the strong focus on operational commitments, including in view of EUMAM Ukraine, or the preparation of the first EU military live exercise, needs to be complemented with further efforts in terms of availability of forces to fill the gaps in the CSDP missions and operations as well as for the EU Battlegroup roster, or needed assets, including strategic enablers.

The return of high intensity conflict in Europe highlights the need to further boost EU’s and the Member States’ capacity to act and PESCO can be the means to attain it. In facing the new geostrategic challenges and addressing long-term needs, meeting the 20 more binding commitments by 2025 is instrumental. PESCO can further contribute to the implementation of the Strategic Compass and its key objectives. With the 2023 revision of the EU Capability Development Priorities, the EU defence initiatives are now further aligning and providing functional tools to the pMS. This will offer a **renewed opportunity** to address the identified shortfalls together, converge on planning, and identify the most pertinent opportunities for cooperation that could be taken forward as PESCO projects already in the 6<sup>th</sup> wave of projects to be adopted in 2025.

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As PESCO is gearing towards the end of its second initial phase in 2025, pMS' discussions will soon start on **the upcoming PESCO Strategic Review (PSR)**, in accordance with the Council Recommendation of November 2022. The PSR, to be launched in November 2023 with a reflection phase, provides a major opportunity for the pMS to ensure that, beyond 2025, PESCO can realise its potential and emerge stronger and reinforced.

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### **Introduction**

1. It has now been a year since the last stocktaking of progress in implementing PESCO was presented to the Council. In this time, Russia's war of aggression against Ukraine has seriously aggravated the security of the EU and its Member States, whilst the PESCO framework has continued demonstrating its value in addressing the new security challenges. Denmark's participation as confirmed by the Council<sup>1</sup> in May this year is a clear expression of the continued merit of this initiative.
2. This Annual Report<sup>2</sup> considers the evolution in the efforts of the pMS to fulfil by 2025 the 20 more binding commitments, including the progress in implementing projects developed in the PESCO framework. While positive results are noted, the findings of the Report present a mixed picture as PESCO is not yet used to its full potential.

### **A continuously evolving PESCO**

3. The 2023 National Implementation Plans (NIPs) reveal that pMS' contributions to the fulfilment of the PESCO commitments begin to reflect the **implications** of the profoundly altered security environment across all five areas: spending, planning, operational dimension, addressing capability shortfalls and strengthening the European Defence Technological and Industrial Base (EDTIB). Furthermore, several pMS signal their intention to step up their **cooperation** in the PESCO framework, in light of the new reality.
4. Reflecting this urgency, the pMS are assessing the lessons observed from the on-going war of aggression, with a view to adjusting their priorities. While a major shift is not yet evident in the NIPs, the pMS are accommodating initial changes within their existing plans to secure capabilities required for **high intensity warfare**, including **strategic enablers**.
5. National defence spending continues to be on the rise and has been further spurred by the on-going war, leading to a **12% growth in 2023**, with further increases forecast in 2024-2025. **Moreover, 25% of total defence** expenditure was allocated to **defence investment** in 2022, an indication of pMS' efforts to address long-standing capability gaps. As pMS are using growing budgets to accelerate the procurement of needed capabilities and the replenishment of stocks, they are turning to off-the-shelf procurement in search of immediate solutions. This appears to come at the expense of a previously observed positive trend in defence **Research and Technology (R&T) spending** that has now **decreased from 1.7%<sup>3</sup> to 1.1%**, remaining well below the 2% collective benchmark. Despite declarations in the NIPs that boosting defence innovation is among pMS priorities in view of strengthening the EDTIB, the long-term risks related to underspending in defence R&T for the future of EU defence seem to have been set aside.

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<sup>1</sup> Denmark's participation in PESCO was confirmed by the Council on 23 May 2023 (Council Decision (CFSP) 2023/1015). This Annual Report on the status of PESCO implementation is based on the updated National Implementation Plans (NIPs) submitted by the 25 Member States participating in PESCO on 10 March 2023 (deadline to submit annual NIP updates agreed during the PESCO Strategic Review 2020).

<sup>2</sup> This Annual Report serves as a baseline for the Council to review whether the participating Member States continue fulfilling the more binding commitments, including in the context of implementing PESCO projects. The Report is developed in accordance with Article 6(3) of the Council Decision (CFSP) 2017/2315 establishing PESCO.

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6. Some pMS are signalling their intentions to adjust national **defence industrial policies** and strategies in the context of the changing security environment, amongst others to address **security of supply** and **reduce strategic dependencies**. At the same time, the majority have yet to consider such measures. Under PESCO, the pMS are committed to fostering the competitiveness of the EDTIB. To face high-intensity warfare scenarios, the reactivity and resilience of the defence industrial and technological base should also be bolstered.
7. Russia's war of aggression against Ukraine demonstrates again that **effective logistics and the secure movement of large-scale military force and equipment at short notice** is an essential component of EU security and defence. The pMS are working together to facilitate cross-border military transport in Europe, including enhanced host nation support. In line with the Strategic Compass, the Action Plan on Military Mobility 2.0 adopted in November 2022 reflects this sense of urgency and highlights the role of relevant PESCO projects to achieve a well-connected military mobility network. Cooperation in fulfilling the commitment to a **joint and shared use of capabilities** gains in importance. Accordingly, the vast majority of pMS are making their capabilities and facilities available for use of other PESCO pMS.
8. In the past year, we have witnessed the adaptability and effectiveness of PESCO as a cooperation framework, with visible progress in PESCO projects across all domains **DELETED**<sup>4</sup> **Several projects have taken proactive measures such as fine-tuning their scope, speeding up deliverables and focusing on interoperability** to rapidly improve the capabilities at pMS' disposal in the face of the challenges presented by the war against Ukraine. Countering unmanned aerial systems, medical support, and protection of maritime critical infrastructure are some of the examples. Importantly, addressing the capability areas highlighted by lessons observed from the war<sup>5</sup> is already within the remit of some of the on-going PESCO projects.

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9. Similarly, some of the 11 **new PESCO projects** adopted by the Council in May this year **aim at delivering critical capabilities with a more operational focus**, enhancing the pMS' ability to address conventional threats (countering artillery fire and ensuring effective air defence) and delivering next generation capabilities (high-end integrated Unmanned Ground Systems, helicopters and air-launched missiles). Others strengthen the protection of critical seabed infrastructure, communications and medical support tailored to the **EU Rapid Deployment Capacity** (EU RDC).
10. The agreed goals set in the Strategic Compass, including the EU RDC to be fully operational by 2025, have reinforced the pMS' efforts to take forward the **fulfilment of several operational commitments**.

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11. The pMS generally advance towards the fulfilment of the operational commitments, but more progress is needed, mainly in terms of **the availability of forces**.

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12. The pMS' **contributions to military CSDP missions and operations** have been adapted to reflect the deteriorating security situation in some theatres, including in Africa and the Western Balkans. **DELETED**

### **European collaborative approach as a solution**

13. Russia's war of aggression against Ukraine has triggered a renewed interest in European approaches to increasing the availability and effectiveness of defence capabilities. The NIPs already showcase the recently launched joint procurement activities within EDA, confirming that the **pMS are increasingly exploring EU options to address urgent needs** and recognising the **value of cooperation over individual efforts**. Furthermore, the pMS are increasingly eager to establish cooperation in the areas identified by the Council<sup>6</sup> in 2021, particularly in countering hybrid threats, maritime security and space-related aspects, and are stepping up their efforts in cyber cooperation, as prescribed by the respective PESCO commitments. These activities also serve to support the implementation of the Strategic Compass.
14. Yet, the NIPs present a **mixed picture** of pMS cooperation across the commitments and its overall progress is still not sufficient. This is demonstrated for instance in the small share of defence investment dedicated to collaborative activities and, consequently, the failure to meet the related European collaborative spending benchmarks.<sup>7</sup> In this context, projects developed in PESCO and those receiving co-funding under the European Defence Fund (EDF) are regarded as key collaborative activities despite making up only a fraction of pMS' capability development efforts.
15. In relation to commitments aimed at strengthening the EDTIB, pMS' focus is on **enabling their national industries** to take part in cross-border cooperation within the EU, particularly under the EDF. National defence industrial policies and strategies adopted by some pMS are reportedly guiding domestic industry in the development of collaborative projects that contribute to fostering its competitiveness, efficiency and innovation. At the same time, the pMS have yet to outline a clear way forward for results of projects receiving EU co-funding and their contribution to capability development efforts within the EU.
16. EU **prioritisation tools** and **defence initiatives** are considered as valuable references in national processes. Notably, the EU **Capability Development Priorities** inform national capability planners on capability requirements over time, thus supporting pMS' efforts towards converging their defence plans, where possible. According to the NIPs,

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<sup>6</sup> Council Recommendation 2021/C 464/01 of 16 November 2021 concerning the sequencing of the fulfilment of the more binding commitments undertaken in the framework of permanent structured cooperation (PESCO) and specifying more precise objectives, and repealing the Recommendation of 15 October 2018.

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however, they are not exploited to the full extent to weigh into pMS' decisions and planning. To fulfil their commitment to play a substantial role in capability development within the EU, the pMS would need to better account for the mid- to long-term impact their national decisions may have on the EU defence landscape. Improving the coherence and reducing the fragmentation of the landscape is of particular importance, as highlighted by CARD reports and reiterated in the Strategic Compass.

17. While the NIPs confirm that a European collaborative approach is not yet considered a priority in addressing capability gaps, implementing the EU defence initiatives is opening new opportunities in terms of cooperation. The PESCO projects adopted in the 5<sup>th</sup> wave are a prime example thereof as they stem from **collaborative opportunities identified by CARD**, and some intend to request co-funding in the framework of the EDF. **DELETED** Thus, the pMS indicate their willingness to better coordinate defence planning and capability development practices. **DELETED**. With the adoption of the 5<sup>th</sup> wave and the closure of three projects in May this year,<sup>8</sup> the pMS are now implementing 68 projects (Figure 2).

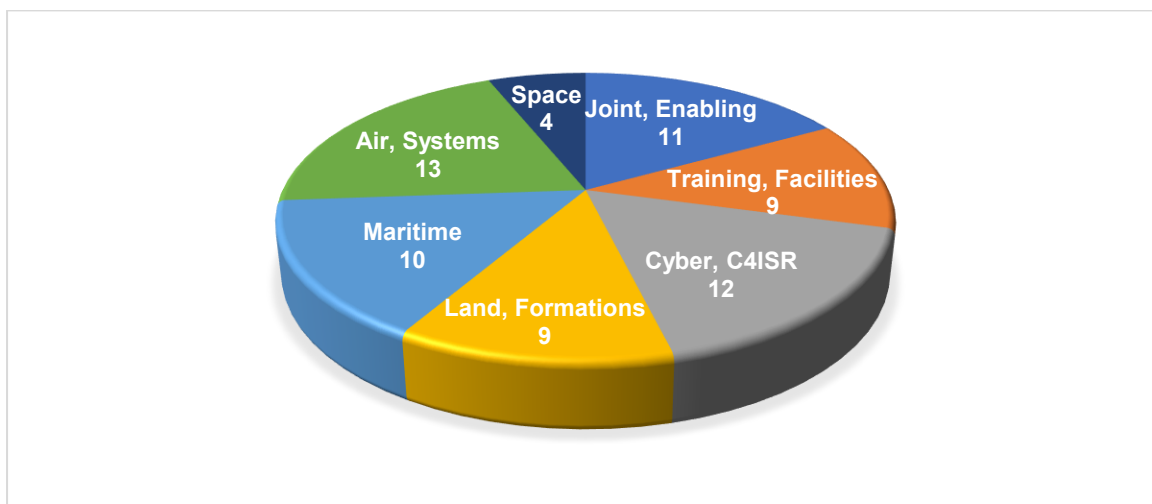


Figure 2: Distribution of PESCO projects per domain as of 22 May 2023.

18. The PESCO projects are already **producing concrete deliverables** that enhance pMS capabilities in areas such as cyber, unmanned systems, chemical, biological, radiological and nuclear surveillance, and medical services. Some of these capabilities, such as those delivered by the PESCO projects European Medical Command and Cyber Rapid Response Teams, have already been used or activated in **support of EU CSDP missions and operations** (EUMAM Ukraine and EUTM Mozambique) or EU partners, including **Ukraine**. Given these positive developments within PESCO projects, they could be seen as a means towards cultivating a collaborative culture.

<sup>8</sup> Council Decision 2023/995 of 22 May 2023 amending and updating Decision (CFSP) 2018/340 establishing the list of projects to be developed under PESCO.

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19. Several PESCO projects look into the **technological needs** for future naval, air and space systems. With the support of EDA, some projects are working on concepts of operations and the **harmonisation of requirements**, which will pave the way for the development of future capabilities. In line with the Strategic Compass objectives, these projects will help pMS make full use of PESCO in developing interoperable, high-end systems and advanced technologies.
20. While the majority of the projects are progressing, some of them require special attention or particular scrutiny, according to this year's PESCO Projects Progress Report.<sup>9</sup> Possible synergies and collaboration between different projects could also be explored with a view to further reinforcing overall effectiveness and coherence.
21. In accordance with the general conditions<sup>10</sup> on **the participation of third States in PESCO projects**, the Council adopted decisions on the participation of Canada in the PESCO project on Logistic Hubs in Europe and Support to Operations in February 2023 as well as the United Kingdom in the PESCO project on Military Mobility in November 2022. While PESCO was not designed as a partnership tool, these developments are testimony to the benefits of the projects and further strengthen the cooperation, including transatlantic, with partners on these issues.

#### **Way ahead: further boosting the EU's capacity to act**

22. As further steps need to be taken to augment Europe's ability to act, the PESCO framework continues to offer a much-needed broad approach to addressing current needs and preparing for future scenarios. The return of high intensity conflict to the European continent calls for a change of mindset and a coordinated effort to achieve more effective, efficient, and interoperable military forces, ensuring coherence of output with NATO. **Meeting the commitments by 2025** will thus be instrumental in addressing both the urgent challenges made evident by the war against Ukraine and the long-term needs. In this context, PESCO cooperation should capitalise on its **pMS-driven nature**, towards achieving strategically relevant high-end capabilities and strategic enablers.
23. To reverse the trend of investing largely nationally when closing capability gaps, the pMS should fulfil the PESCO commitments and use the additional budgetary resources available to prioritise **European collaborative solutions**. This would not only allow the more coordinated and effective use of these resources but also contribute to a more coherent EU defence landscape and to reducing technological and industrial dependencies. The recently launched joint procurement activities such as the collaborative procurement of ammunition within EDA and the EU funding tools have already made their way into pMS' NIPs and could further promote a European collaborative approach to addressing capability shortfalls.

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<sup>9</sup> **DELETED**

<sup>10</sup> Council Decision (CFSP) 2020/1639 of 5 November 2020 establishing the general conditions under which third States could exceptionally be invited to participate in individual PESCO projects (OJ L 371, 6.11.2020, p. 3).

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24. The on-going **revision of the EU Capability Development Priorities** considers the objectives of the Strategic Compass, including the requirements for the EU RDC, and the lessons observed from the war against Ukraine. Once endorsed in November this year, it will offer a renewed opportunity for pMS to address the identified shortfalls together and deliver the required capabilities. The pMS should use this occasion to converge on their planning and address the most pertinent opportunities for cooperation identified in the upcoming CARD cycle. These collaborative opportunities could be taken forward as PESCO projects already in the 6<sup>th</sup> wave of projects to be adopted in 2025.
25. To secure the needed capabilities, a **reversal of the decline in defence R&T spending** needs to rest on the combined efforts of the pMS to support their policies and strategies aimed at boosting research, technology, development and innovation with adequate financial resources. The tools established at EU level such as EDA's **Hub for European Defence Innovation and Capability Technology Groups** should aid their implementation. At the same time, it will be important to strike the right balance between investing in long-term defence innovation for future capabilities, and ensuring adequate quantities of military equipment and stockpiles.
26. **DELETED**.
27. The upcoming **PESCO Strategic Review (PSR)**, to be launched in autumn 2023 in accordance with the Council Recommendation of November 2022<sup>11</sup>, presents a major opportunity to **shape the further development of PESCO**. **DELETED**
28. The PSR should be used to ensure the PESCO framework is strengthened, so that PESCO delivers on its full potential by better supporting pMS in harmonising their plans and securing the capabilities needed, thus contributing to the agreed goals, the other EU defence initiatives and activities. The completion of the PSR on time will allow to start the **next phase of a reinvigorated and stronger PESCO as of 2026**.

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<sup>11</sup> Council Recommendation of 14 November 2022 assessing progress made by the participating Member States to fulfil commitments undertaken in the framework of the permanent structured cooperation (PESCO) 2022/C 433/02.

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