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WORKING DOCUMENT

From: Presidency
To: Working Party on defence industry (DIWP)

Subject: Proposal for a Regulation on establishing the European Defence Industry Programme (EDIP)
- Budgetary aspects of the 'Ukraine Support Instrument'

Delegations will find attached a note on the budgetary aspects of the 'Ukraine Support Instrument'.

THE “UKRAINE SUPPORT INSTRUMENT” AND “ADDITIONAL FINANCIAL RESOURCES”

BACKGROUND

- The EDIP proposal of March 2024 did **not** foresee a **dedicated financial envelope** for the “Ukraine Support Instrument” (USI). In its stead, it came in particular with a **clause** (Art. 6(2) of the initial Commission proposal) providing for the possibility to channel “*additional amounts received under relevant Union restrictive measures*” (read: **proceeds from Russian immobilised assets**) to the USI as “*external assigned revenue*” (EAR), in line with Art. 21(5) Financial Regulation.
- On 14 June, **G7** countries reached a political agreement to mobilise proceeds from Russian immobilized assets to make available approximately **US\$ 50 billion in funding to Ukraine**. Based on that political agreement, the **European Council**, in its conclusions of 27 June (doc. 15/24), invited the Commission, the High Representative and the Council “*to take work forward [...] in order to provide additional funding for Ukraine by the end of the year in the form of loans serviced and repaid by future flows of the extraordinary revenues with a view to reaching approximately EUR 50 billion together with G7 partners*”.
- In implementation of this **EUCO tasking**, the **Commission proposed a Regulation** establishing the **Ukraine Loan Cooperation Mechanism (ULCM)** and providing exceptional macro-financial assistance (MFA) to Ukraine on 20 September. The text of the proposal (doc. 14083/24) provides, in Art. 12, that the “*Commission shall agree with Ukraine [an MoU] on **policy conditions** to which the Union’s exceptional [MFA] is to be linked. [...] The policy conditions in the MoU **shall additionally include a commitment to promote cooperation with the Union on the recovery, reconstruction and modernisation of Ukraine’s defence industry, in line with the objectives of the European Defence Industry Programme (EDIP) and other relevant Union programmes.**” The Regulation (doc. 14083/24) is expected **to be adopted as proposed by the Commission** and enter into force by the end of October, subject to finalisation by legal-linguistic experts¹.*
- Considering the above, it appears **unlikely** that there will be any **EAR for the USI** in form of proceeds from Russian immobilised assets, at least **directly in the way envisaged in the Commission proposal for EDIP**. Instead, there is a **prospect** that the future MoU between the EU and Ukraine on the policy conditions for the implementation of the ULCM will provide Ukraine with the opportunity to possibly channel **some part of the MFA to EDIP**.

¹ The reference to EDIP might still be deleted during legal-linguistic revision, given that there is no EDIP Regulation yet. Instead, a more generic reference to “*Union programmes supporting cooperation for common procurement of additional quantities for Ukraine and aiming at the recovery, reconstruction and modernisation of the Ukrainian Defence Technological and Industrial Base*” could be added. This is without prejudice to the general idea of making MFA available for dedicated Union programmes like EDIP, however.

PROPOSED WAY AHEAD

- It is against this backdrop that the Presidency proposed to **delete paragraph 2 of Article 24** in the 4th Presidency compromise proposal (WK 7226/24 REV3) and introduced, instead, a **placeholder** for EAR that could be made available to the USI by the exceptional MFA loan. The Presidency will propose to **revert** to that **placeholder once there is more clarity on this matter**.
- Meanwhile, it is recalled that Art. 4(2) on the **possibility to re-allocate of up to 20%** of the amount available for the Programme (Heading 5) to the USI (Heading 6²) has remained in the text of the fourth Presidency compromise proposal.
- The Presidency therefore considers that it would be **premature** to introduce a **dedicated financial envelope** for the **USI at this stage**.
- In preparation of future discussions on that topic in the DIWP, delegations are encouraged to reach out to their national counterparts in the Budget Committee. Delegations are also invited to **communicate any possible questions and/or comments in writing** in advance of the DIWP meeting on 15 October.

² Based on the Financial Programming attached to the Draft Budget 2025, the unallocated margin underneath the ceiling (roughly EUR 16 billion) of for Heading 6 - Neighbourhood and the World, averages annually 2025-2027 EUR 88 million. It is within the remit of the Budgetary authority to mobilise this margin. The USI will have to compete with established instruments such as Humanitarian Aid (also used for UA) or Pre-Accession Support.