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WORKING DOCUMENT

From: Presidency
To: Delegations

Subject: Proposal for a Regulation as regards incentivising defence-related investments in the EU budget to implement the ReArm Europe Plan:
- Second Presidency compromise proposal

Delegations will find attached the second Presidency compromise proposal on the 'Mini-Omnibus'. A document with track changes vis-à-vis the previous version (WK 8668/25 INIT) is distributed separately.

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulations (EU) 2021/694, (EU) 2021/695, (EU) 2021/697, (EU) 2021/1153, (EU) 2023/1525 and 2024/795, as regards incentivising defence-related investments in the EU budget to implement the ReArm Europe Plan

(Text with EEA relevance)

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 Articles 164, 172, 173(3), Article 175, third paragraph, Articles 177 and 178, 182(1) and (4), 183, 188, second paragraph, 192(1) 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 Committee¹,

Having regard to the opinion of the Committee of the Regions²,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The unprecedented geopolitical instability and the rapid deterioration of regional and global threat levels require an urgent and significant step up of the Union spending on research, development and innovation, industrial capacity and development of infrastructures connected with security and defence. As identified in the Joint White Paper for European Defence Readiness 2030, the Union should do more to support the urgent need to increase European defence-related investments with the Union budget.
- (2) The Strategic Technologies for Europe Platform (STEP) established by Regulation (EU) 2024/795 of the European Parliament and of the Council³ is an initiative aimed at boosting Union competitiveness by mobilizing funds from 11 existing Union programmes towards critical technologies in 3 strategic sectors: digital technologies and deep tech innovation, clean and resource-efficient technologies, and biotechnologies. As such, it is a good vehicle to mobilise, in a coordinated and synergetic manner, Union resources towards defence, including key digital frontier technologies required for the development of defence products and technologies.
- (3) While support to technologies having defence implications is possible today under the 3 existing strategic sectors identified in STEP, it appears necessary to increase the potentialities

¹ OJ C , , p. .

² OJ C , , p. .

³ Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: <http://data.europa.eu/eli/reg/2024/795/oj>)

of development of research, industry and innovation in the defence area by setting out a fourth strategic sector in STEP focussed on defence technologies. This new strategic sector should ensure that the STEP incentives are used to increase Union funding in defence technologies and contribute to European competitiveness in line with STEP objectives. Defence technologies should be understood as those necessary for the development and manufacturing of defence products, including those defence-related products referred to in the Annex to Directive 2009/43/EC. As regards artificial intelligence, AI Gigafactories should become key infrastructures to expand rapidly the power of AI in defence technologies.

- (4) In addition, in order to optimise the capacity of the programmes covered by STEP to mobilize Union's resources towards defence, it is necessary to clarify that these programmes can pursue objectives and activities that are related to improving the competitiveness of the European Defence Technological and Industrial basis (EDTIB) as well as research and development activities in the defence field.
- (5) Horizon Europe established by Regulation (EU) 2021/695 of the European Parliament and of the Council⁴ is the Union's funding programme for research and innovation. The European Innovation Council (EIC) Accelerator established by that Regulation provides support, in particular, for innovations with breakthrough potential and of a disruptive nature with scale-up potential that may be too risky for private investors. SMEs operating within the defence sector require financing for the commercialization of innovative products. However, these companies face higher barriers to access finance compared to SMEs in other sectors. Whereas the support to defence research and development is done through the European Defence Fund (EDF), which is a specific programme of Horizon Europe, it is appropriate to open the EIC Accelerator for actions with potential dual-use applications. Support to scale-up under the EIC Accelerator should also be extended to non-bankable SMEs, including start-ups and non-bankable small mid-caps, including entities which have already received support from the Accelerator carrying out breakthrough and disruptive non-bankable innovation in critical technologies with a focus on defence applications. This justifies a targeted exception to the principle set out in Article 7(1) of Regulation (EU) 2021/695 of the European Parliament and of the Council according to which research and innovation activities under Horizon Europe have an exclusive focus on civil applications while not undermining the objective of ensuring unnecessary duplications.
- (6) Moreover, to ensure that appropriate resources are directed to the funding of dual-use and defence projects under Horizon Europe it is appropriate to derogate to Article 212(3) of the Financial Regulation in order to ensure that repayments, including reimbursed advances, revenues and unused amounts net of fees and costs of EIC blended finance investment component of the EIC pilot under Horizon 2020 are not directed to the Union budget but reinvested in the EIC Fund in order to finance additional projects in dual-use and defence benefitting from the amended scope. The timeframe set out in Article 212(3) of the Financial Regulation should also be adapted, by inserting a derogation, to allow for that possibility.
- (7) The European Defence Fund (EDF) set out in Regulation (EU) 2021/697 of the European Parliament and of the Council⁵, is the leading programme for enhancing the competitiveness, innovation, efficiency and technological autonomy of the Union's defence industry. The EDF also aims at supporting actions that are conducive to developing disruptive technologies for

⁴ Regulation (EU) 2021/695 of the European Parliament and of the Council of 28 April 2021 establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination, and repealing Regulations (EU) No 1290/2013 and (EU) No 1291/2013 (OJ L 170 12.5.2021, p. 1, ELI: <http://data.europa.eu/eli/reg/2021/695/2024-03-01>)

⁵ Regulation (EU) 2021/697 of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund and repealing Regulation (EU) 2018/1092 (OJ L 170 12.5.2021, p. 149, ELI: <http://data.europa.eu/eli/reg/2021/697/2024-03-01>).

defence. In order to better address the specificities of such actions, such as their small scale or their need for a quick support, it is appropriate to simplify the procedures to decide on the support of these actions while in the same time framing the conditions for the decision on such a support in the work programme.

- (8) It is also necessary to exploit synergies between EDF and other Union programmes. To that purpose, it should be possible for Member States, European Union institutions, bodies and agencies, third countries, international financial institutions or other third parties to provide voluntary contributions to the Fund, as external assigned revenues. Voluntary transfers of resources allocated to Member States in shared management to the EDF and the combination of contributions from EDF with other Union programmes for specific actions should be possible, provided that the cumulative Union support does not exceed the total eligible costs of the action.
- (9) The Digital Europe Programme (DEP) established by Regulation (EU) 2021/694 of the European Parliament and of the Council⁶ aims to support and accelerate the digital transformation of the European economy, industry and society and to improve the competitiveness of Europe in the global digital economy. In this context, the programme should also aim at supporting, in particular, projects, services and competences with potential dual-use application under all its specific objectives.
- (10) To enhance technological sovereignty and competitiveness, the Union needs the computing, cloud and data infrastructures that AI leadership requires. As part of the AI Continent strategy, the AI factories and Gigafactories are essential for the Union to be able to compete on the global level and ensure its strategic autonomy and competitiveness in science, research with dual-use potential and in critical industrial sectors, including the defence industry. Such next-generation models require extensive connected computing infrastructure for breakthroughs in specific domains including defence. It is therefore appropriate to add, in the Specific Objective 1 – High Performance Computing of DEP, a supplementary operational objective dedicated to the deployment and operation of AI Factories and new generation of AI Gigafactories specialised in developing, training, and running the most complex, very large, AI models and applications, including hardware and software necessary for such deployment.
- (11) In the specific Objective 5 of DEP – Deployment and Best Use of Digital Capacity and interoperability, it is also necessary to add, in the operational objective defined to support the public sector and areas of public interest, a reference to defence in order to clarify that the financial contribution of the Union under such an Objective can be extended to that sector.
- (12) It may also be necessary to adapt, in the work programme of DEP, the eligibility rules in specific and duly justified cases so that it is possible to provide that legal entities established in associated countries and legal entities that are established in the Union but are controlled from third countries are not eligible to participate in all or some actions focused on technologies with dual-use potential under any specific objective. Provision should therefore be made to allow for such a possibility. In such cases, calls for proposals and calls for tenders should be restricted to legal entities established or deemed to be established in Member States and controlled by Member States or by nationals of Member States.
- (13) *[deleted]*

⁶ Regulation (EU) 2021/694 of the European Parliament and of the Council of 29 April 2021 establishing the Digital Europe Programme and repealing Decision (EU) 2015/2240 (OJ L 166 11.5.2021, p. 1, ELI: <http://data.europa.eu/eli/reg/2021/694/2023-09-21>)

- (14) The Connecting Europe Facility (CEF) set out in Regulation (EU) 2021/1153 of the European Parliament and of the Council,⁷ aims to accelerate investment in the field of trans-European networks, enabling synergies between the transport, energy and digital sectors. In order to support the connected computing infrastructure required by defence products and technologies and beyond these areas, the objectives of the CEF digital sector within that Regulation should be extended to the deployment and provision of digital capacities such as cloud, AI and AI Gigafactories.
- (15) Military mobility is also one of the objectives of the CEF programme. The Joint White Paper for European Defence Readiness 2030 recognised military mobility as an essential enabler for European security and defence and stressed the Union added-value in supporting dual-use infrastructure for mobility. The mid-term review of the European Regional Development Fund (ERDF) and the Cohesion Fund both established by Regulation (EU) 2021/1058 of the European Parliament and of the Council⁸ introduced the possibility to invest in defence or dual-use infrastructure to foster military mobility benefiting from a pre-financing of 20% of the amounts programmed and the possibility to apply a Union financing increased by 10 percentage points above the co-financing rate applicable, not exceeding 100%. In cases where Member States transfer resources allocated to them in shared management to CEF they should benefit from the same conditions on pre-financing and co-financing rates for dual-use transport infrastructure projects as introduced in the ERDF and Cohesion Fund. In such a case, these amounts should be reserved to projects developing the Military Mobility corridors as identified by the Member States in Military Requirements for Military Mobility within and beyond the Union as well as digital connectivity and capacities.
- (16) Regulations (EU) 2021/694, (EU) 2021/695, (EU) 2021/697, (EU) 2021/1153, (EU) 2023/1525 and (EU) 2024/795 should therefore be amended accordingly.
- (17) Given the urgent need to enable crucial investments in defence in the context of pressing geopolitical challenges, this Regulation should enter into force on the day following that of its publication in the Official Journal of the European Union.
- (18) Since the objective of this Regulation, namely to strengthen research and development activities in dual-use and defence, improve the competitiveness of the Union's defence industry and therefore contribute to the Union's defence readiness by refocusing investments of these critical priorities, 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 to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EU) 2021/694 [Digital Europe Programme] is amended as follows:

- (1) in Article 3 (1), second subparagraph, the following point is added:
'(c) support dual-use projects, services, competences and applications.';

⁷ Regulation (EU) 2021/1153 of the European Parliament and of the Council of 7 July 2021 establishing the Connecting Europe Facility and repealing Regulations (EU) No 1316/2013 and (EU) No 283/2014 (OJ L 249 14.7.2021, p. 38, ELI: <http://data.europa.eu/eli/reg/2021/1153/2024-07-18>)

⁸ Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund (OJ L 231 30.6.2021, p. 60, ELI: <http://data.europa.eu/eli/reg/2021/1058/2024-12-24>)

- (2) in Article 4 (1) the following point is added:
‘(d) deploy and operate AI Factories and new generation AI Gigafactories specialised in developing, training, and running the most complex, very large, AI models and applications, including hardware and software necessary for such deployment.’;
- (3) in Article 8 (1), point (a) is replaced by the following:
‘(a) support the public sector and areas of public interest, such as health and care, education, judiciary, customs, defence, transport, mobility, energy, environment, cultural and creative sectors, including relevant businesses established within the Union, to effectively deploy and access state-of-the-art digital technologies, such as HPC, quantum, AI and cybersecurity.’;
- (4) in Article 12, paragraph 5 is replaced by the following:
‘5. The work programme may also provide that legal entities established in associated countries and legal entities that are established in the Union but are controlled from third countries are not eligible to participate in all or some actions under Specific Objective 3 and in actions focused on technologies with dual-use potential under any specific objective for duly justified security reasons. In such cases, calls for proposals and calls for tenders shall be restricted to legal entities established or deemed to be established in Member States and controlled by Member States or by nationals of Member States. Such restrictions may be applied to access to the capacities deployed under such calls.’

Article 2

Regulation (EU) 2021/695 [Horizon Europe] is amended as follows:

- (1) In Article 46, the following paragraph 4a is inserted:
‘4a. By derogation from Article 212(3) of the Financial Regulation, repayments including reimbursed advances, revenues and unused amounts net of fees and costs of EIC blended finance of the EIC pilot under Horizon 2020 shall be considered to be internal assigned revenues in accordance with Article 21(3), point (f) and Article 21(4) and (5) of the Financial Regulation and the time restriction of two years set out in the second subparagraph of Article 212(3) of the Financial Regulation shall apply as from [date of entry into force of this Regulation].’
- (2) Article 48(1), second subparagraph is amended as follows:
 - (a) in point (a), the following sentence is added:
‘As an exception to Article 7(1), such support may include potential dual-use applications.’;
 - (b) in point (b) the following sentence is added:
‘As an exception to Article 7(1), such support may include potential dual-use applications.’;
 - (c) in point (c), the following sentence is added:
‘As an exception to Article 7(1), such support may include potential dual-use applications.’;
 - (d) in point (d), the following sentence is added:
‘As an exception to Article 7(1), such support may include innovation in critical technologies with focus on defence applications.’;

Article 3

Regulation (EU) 2021/697 [European Defence Fund] is amended as follows:

- (1) Article 6 is replaced by the following:

'Article 6

Support for disruptive technologies for defence

1. The Commission shall, by means of implementing acts, award funding to support actions that are conducive to developing disruptive technologies for defence in the areas of intervention defined in the work programmes referred to in Article 24. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 34(2).
 2. The work programmes shall lay down the most appropriate forms of funding, selection and award criteria and procedures, and implementation for disruptive technologies for defence.';
- (2) the following Article is inserted:

'Article 8a

Cumulative funding and transfers of resources

1. An action that has received a contribution from another Union programme may also receive a contribution under the Fund, provided that the contributions do not cover the same costs. The rules of the relevant Union programme shall apply to the corresponding contribution to the action. The support from the different Union programmes may be calculated on a pro-rata basis in accordance with the documents setting out the conditions for support.
2. Resources allocated to Member States under shared management may, at the request of the Member State concerned, be transferred to the Fund subject to the conditions set out in the relevant provisions of Regulation (EU) 2021/1060. The Commission shall implement those resources directly in accordance with point (a) of the first subparagraph of Article 62(1) of the Financial Regulation or indirectly in accordance with point (c) of that subparagraph. Such resources shall be used for the benefit of the Member State concerned.
- 2a. Resources transferred in accordance to paragraph 2 of this Article may, by derogation from Article 13(2) of this Regulation, be used for the purpose of contributing to the funding of eligible actions referred to in points (e), (f), (g), and (h) of Article 10(3) of this Regulation up to 100 % of the eligible costs.
3. Where the Commission has not entered into a legal commitment under direct or indirect management for resources transferred in accordance with paragraph 2 and at the latest by 30 September 2027, the corresponding uncommitted resources may be transferred back to one or more respective source programmes, at the request of the Member State concerned, in accordance with the conditions set out in the relevant provisions of Regulation (EU) 2021/1060.
4. Member States, European Union institutions, bodies and agencies, third countries, international organisations, international financial institutions or other third parties, may provide additional financial contributions to the Fund. Such financial contributions shall constitute external assigned revenue within the meaning of Article 21(2), points (a), (d), or (e) or Article 21(5) of the Financial Regulation.';

Article 4

Regulation (EU) 2021/1153 [Connecting Europe Facility] is amended as follows:

(1) Article 3(2) is amended as follows:

(c) point (c) is replaced by the following:

‘(c) in the digital sector: to contribute to the development of projects of common interest relating to the deployment of and access to safe and secure very high capacity networks, including 5G systems, to the set-up and deployment of digital capacities such as cloud, AI and AI Gigafactories, to the increased resilience and capacity of digital backbone networks on Union territories by linking them to neighbouring territories, as well as to the digitalisation of transport and energy networks.’;

(2) in Article 8(4), the following point (f) is added:

‘(f) projects of common interest contributing to the set-up and deployment or significant upgrade of digital capacities, including cloud, AI and AI Gigafactories shall be prioritized according to the extent they significantly contribute to improve the performance, resilience and security of transport, energy and digital infrastructures that are critical for the proper functioning of the internal market.’;

(3) in Article 9(4), the following point (f) is added:

‘(f) actions supporting the set-up and deployment of digital capacities in cloud, AI and AI Gigafactories.’;

(4) in Article 15 (2), the following point (ba) is added:

‘(ba) Subject to the transfer of the necessary resources to the CEF in the context of the mid-term review of programmes supported by the European Regional Development Fund and Cohesion Fund [add legal reference to Regulation adopted pursuant to COM(2025)123, 2025/0084 (COD)], pursuant to Article 4(13), for works relating to the specific objectives referred to in Article 3(2), point (a)(ii), the following conditions apply:

- (i) co-financing rates may be increased by 10 percentage points above the co-financing rate referred to in point (b);
- (ii) actions are entitled to a pre-financing payment representing at least 20% of the amount allocated in the grant agreement;
- (iii) actions shall be located on one or more of the four EU Priority Military Mobility Corridors identified by Member States in Annex II to the Military Requirements for Military Mobility within and beyond the Union, as approved by the Council on [18 March 2025 and with reference ST 6728/25 ADD1] and shall comply with the infrastructure requirements as set out in Commission Implementing Regulation (EU) 2021/1328.

Article 5

[deleted]

Article 6

In Article 2(1), point (a) of Regulation (EU) 2024/795, [Strategic Technologies for Europe Platform (STEP)] the following point is added:

‘(iv) defence technologies necessary for the development and manufacturing of defence products, including those defence-related products referred to in the Annex to Directive 2009/43/EC;’

Article 7

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 the Member States in accordance with the Treaties.

Done at Brussels,

For the European Parliament
The President

For the Council
The President