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Delegations will find attached document HR(2021) 108.

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EUROPEAN EXTERNAL ACTION SERVICE



GREFFE

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

of 06/07/2021

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

In launching PESCO in December 2017, 25 EU Member States undertook to advance towards further integrating and strengthening defence cooperation within the EU framework. They acknowledged the need for enhanced coordination, increased investment and more cooperation in developing defence capabilities and also in the joint operational use of those capabilities.

This third annual report on the status of PESCO implementation follows the Strategic Review exercise conducted in 2020, which completed the first initial phase of the initiative and set goals for the next phase of PESCO until the end of 2025. Looking to the future, in March 2022 the Strategic Compass will provide further political orientations for deepening defence cooperation, including capability planning and development, in order to fulfil the EU Level of Ambition.

In the context of the PESCO Strategic Review, the Council agreed that the overall aim for the second initial phase until 2025 would be to fulfil the more binding commitments which participating Member States made to one another, including by working towards a coherent full spectrum force package (FSFP) and stressed the need to deliver more concrete results in the coming five years. They acknowledged the importance of defining new incentives to help participating Member States fulfil their commitments, notably in the operational domain, and to accelerate the delivery of projects.

The findings of the first full cycle of the Coordinated Annual Review on Defence (CARD), including the actionable recommendations approved by the Defence Ministers in the EDA Steering Board last November, informed for the first time the PESCO National Implementation Plans and preparation of new project proposals.

In November 2020, the Council also adopted a decision on the general conditions under which third States could exceptionally be invited to participate in PESCO projects. This shows that we are progressing in completing the PESCO institutional framework. It enabled third States to express their interest in contributing to specific PESCO projects. This will consolidate PESCO and help develop more advanced capabilities and interoperable forces, enabling the EU to be a credible global security provider together with our key partners. Following the three requests from the US, Canada and Norway for participation in the Military Mobility PESCO project and after completing the invitation procedure in May 2021, these countries have been the first third States to be invited to join a PESCO project.

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Based on the updated National Implementation Plans submitted by the participating Member States in March 2021, these are the main assessments and recommendations put forward in the 2021 PESCO report:

Regarding the commitments: The quality of the information provided by the participating Member States in their NIP updates has improved since last year, even though reporting tends to focus on achievements rather than on plans to prepare the future. **An effort is therefore needed to enhance the forward-looking perspective, which will also enable the participating Member States to better coordinate their efforts and look for synergies and cooperation opportunities.**

Participating Member States continued to increase their defence expenditure throughout the first initial phase despite the economic downturn caused by the COVID-19 crisis. This positive trend must be confirmed in the future for participating Member States to achieve the objectives set for the second phase of PESCO. **Progress is also visible in the use of the EU capability planning and development tools and processes in the national setting** in order to overcome the capability shortcomings in a collaborative manner. In this respect, fully implementing the agreed CARD recommendations on defence spending, defence planning and defence cooperation will be crucial to prepare jointly new planning horizon beyond the mid-twenties for increased cooperation in capability development. On the use of the European Defence Fund (EDF), participating Member States involved in PESCO projects with an industrial dimension have clearly indicated their intention to further benefit from the EU funding, in line with the EDF provisions.

With regard to the operational commitments, the greatest concern still relates to the major shortfalls affecting the availability and deployability of participating Member States' forces that are necessary for the implementation of the EU CSDP military Level of Ambition, as reflected in the High Impact Capability Goals. Moreover, **there is scope for participating Member States to step up their contributions to ongoing CSDP missions and operations as well as the EUBG roster and Rapid Response Database.** The fulfilment of the operational commitments will continue to have a significant and direct impact on the EU's ability to act militarily. In this context, in view of incentivising the participating Member States to do more, **indicative measurable objectives with related progress indicators should be set by them in order to increase transparency and to provide a fair share to the respective force generation for CSDP missions and operations.**

Finally, there is still a **lack of clarity regarding the actions participating Member States are taking to improve European strategic autonomy and to strengthen the European Defence Technological and Industrial Base (EDTIB).** In the same vein, participating Member States still have difficulties to demonstrate that their current industrial policies and acquisition strategies, when in place, provide the necessary framework for the strengthening of the European defence industry.

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Regarding the projects, the overall trend is a positive one. The majority of PESCO projects continue to develop according to their roadmaps, with a significant number expected to deliver concrete results by the end of 2025. In November 2020, Ministers agreed through the Council Conclusions on the PESCO Strategic Review that 26 PESCO projects were planned to deliver concrete results before the end of the next PESCO phase in 2025. **DELETED** The assessment of the new project proposals is currently on-going and by November this year the Council will adopt the fourth wave of PESCO projects. The initial analysis shows that the pathfinder function of CARD for PESCO project proposals has been largely taken up by participating Member States.

In conclusion: Positive trends and improvements are clearly in evidence this year, though participating Member States are encouraged to maintain and further intensify their efforts to meet all more binding commitments, including the more precise objectives and progress indicators set for each commitment. To this end, the participating Member States should progress on systematically considering and making the best use of the Union's capability development tools and initiatives in their national defence planning. The second initial phase of PESCO has begun and maintaining the momentum will be decisive for its overall success. It is crucial that participating Member States now reach an agreement on the Council Recommendation specifying the more precise objectives for this phase. **DELETED** Successful implementation requires a collective and individual effort by all participating Member States. The High Representative encourages Member States to accompany their 2022 National Implementation Plan with a high-level political statement outlining their main contributions and stands ready to engage with Ministers to ensure that PESCO continues to progress.

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INTRODUCTION

1. This Annual Report on the implementation of Permanent Structured Cooperation (PESCO) (hereafter Annual Report) describes the status of PESCO implementation, including: a) the fulfilment by each participating Member State (pMS) of the commitments in accordance with its National Implementation Plans (NIPs), which have been presented to the PESCO secretariat and shared among all pMS, b) a summary of progress made during the first initial phase of PESCO implementation completed in 2020, and c) the progress made by the 46 PESCO projects in a summarized manner.
2. This Annual Report was developed in accordance with Article 6(3) of the Council Decision (CFSP) 2017/2315 establishing PESCO and is based on the assessment conducted by the PESCO secretariat on the status of PESCO implementation, using the information provided by the pMS in their updated and reviewed NIPs, which were communicated to the PESCO secretariat and to all pMS.
3. The aggregated NIPs' assessment is provided in the Annex "*Aggregated assessment of NIPs 2021*", which also includes an attachment with recommendations for each pMS ("*Assessment of the NIPs per pMS*" Restreint UE/EU Restricted).
4. This report completes the third annual PESCO cycle and marks the end of the first initial phase of PESCO implementation (2018-2020). It will serve as the baseline for the Council to review whether the pMS fulfil the more binding commitments based on the more precise objectives set by the Council Recommendation 2018/C374/01 of 9 October 2018 concerning the sequencing of the fulfilment of the more binding commitments undertaken in the framework of PESCO and specifying more precise objectives, for the first initial phase of PESCO.
5. In accordance with Council Decision (CFSP) 2017/2315, a PESCO Strategic Review was carried out at the end of the first initial phase of PESCO implementation. As a result of the review, the 2020 Council Conclusions on PESCO Strategic Review confirmed that the more binding commitments undertaken in 2017 provide a solid guideline in ensuring consistent implementation of PESCO and, therefore, remain unchanged for the next PESCO phase (2021-2025). It was decided that in 2022 and 2024, the NIPs should be accompanied by a high-level political statement in which pMS could outline main achievements and state specific national priorities and contributions. Regular high-level political discussions between the pMS and the High Representative should continue to ensure political momentum. In addition, it sets up the overall aim for the next PESCO phase (2021-2025) to fulfil the more binding commitments which pMS made one to another, including by working towards a coherent full spectrum force package (FSFP), in line with the PESCO notification, that contributes to the fulfilment of the EU LoA.
6. In November 2020, the first full cycle of the Coordinated Annual Review on Defence (CARD) was completed, and Defence Ministers approved the recommendations of the CARD Report.

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CARD is an important element in four areas of the more binding commitments and is included in several more precise objectives. Several pMS acknowledged in their NIPs the coherence of the European capability landscape as a key overarching EU principle to guide defence capability development, as the CARD Report 2020 suggested. In addition, collaborative opportunities identified by CARD and notably the focus areas are also referenced by several pMS. A first indication to what extent the pathfinder function of CARD for PESCO project proposals has been taken up by pMS may become more visible with the fourth wave of PESCO projects.

7. PMS have not yet agreed on a Council Recommendation specifying the more precise objectives, for the second initial phase of PESCO. **DELETED** Two issues still remain open and need to be addressed. First, the establishment of indicative measurable objectives (IMOs) with related progress indicators which will improve the assessment of the fulfilment of the commitments in area (c) and support pMS in the fulfilment itself. Second, the definition of the fair share principle regarding pMS contributions to the respective force generation for CSDP missions and operations.
8. Finally, throughout the last year, the PESCO secretariat conducted NIP bilateral meetings with 20 pMS, upon their request.

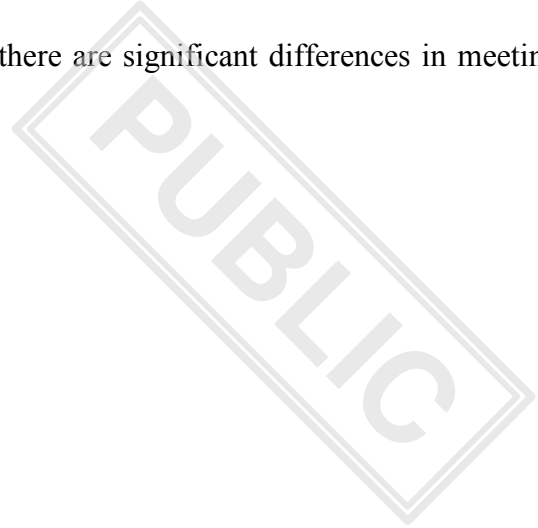
FINDINGS AND ASSESSMENT

9. Looking at the achievements of the first initial phase, the updated NIPs confirm the positive trajectory in defence expenditure and defence investment expenditure, even if the overall progress remains modest. While the uptake of EU tools in national defence planning is still considered to be at its initial stages, progress has been registered in the use by pMS of the agreed EU Capability Development Priorities and findings from the first full CARD cycle. In addition, pMS increasingly align their capability development projects that address EU Capability Development Priorities also with the related Strategic Context Cases (SCCs). On the operational commitments, the description of the status of PESCO implementation has improved compared to previous years. The overall progress though, is not sufficient and the fulfilment of the commitments of area (c) can be considered incomplete, with room for improvement as depicted in the attachment to the annex. On the use of the EDIDP (European Defence Industrial Development Programme) and of the EDF (European Defence Fund), pMS have improved the indications on their involvement and on their plans for further related engagements.
10. The more precise objectives help describe more clearly what has to be achieved to fulfil the more binding commitments. Although a progress is visible in achieving the more precise

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objectives set for the first initial phase of PESCO there are significant differences in meeting them from commitment to commitment¹,

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¹ The more precise objectives of the first initial phase of PESCO (2018-2020) met by pMS per more binding commitment: 1 (24pMS), 2 (21pMS), 3, (2 pMS), 4 (9 pMS), 5 (23 pMS), 6 (11 pMS), 7 (8 pMS), 8 (12 pMS), 9 (11 pMS), 10 (4 pMS), 11 (6 pMS), 12 (19 pMS), 13 (20 pMS), 14 (9 pMS), 15 (2 pMS), 16 (2 pMS), 17 (5 pMS), 18 (6 pMS), 19 (7 pMS), 20 (4pMS).

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14. **As regards taking concrete measures to enhance the availability, interoperability, flexibility and deployability of the forces, in particular by identifying common objectives regarding the commitment of forces including possibly reviewing their national decision-making procedures (commitments' area (c))** Overall, the information provided by the pMS is more detailed than in the previous year's showing an improvement of efforts to fulfil the commitments' area (c). However, more work is still needed. **DELETED**

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15. **Working together to overcome the shortfalls perceived in the framework of the Capability Development Mechanism (commitments' area (d))**, overall, the pMS provide sufficient indications that they are addressing the more binding commitments of this area.

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18. **Overall, it could be observed that, there is no common understanding among pMS on the impact of capability projects on improvements of European strategic autonomy and on the strengthening of the European Defence Technological and Industrial Base (EDTIB). The same seems to apply to the interpretation of what could be considered as strategically relevant from a European perspective.** The efforts undertaken to implement the CARD recommendations and notably to develop implementations roadmaps for the six CARD focus areas would contribute to improve this understanding. This would also support the joint preparation of the next planning horizon and to generate multinational project to consolidate national capability profiles taking into account the wider EU perspective.
19. As regards the **development of major joint or European equipment programmes in the framework of the European Defence Agency (EDA) (commitments' area (e))**, overall, the pMS provide again sufficient indication that they are addressing the more binding commitments in this area. Compared to last year, the pMS have slightly improved the quality of information.
20. All pMS reported on their participation in EDA projects and activities and, in some cases, provided the associated financial volume channeled through EDA. Provision of information has also improved in relation to considering the Organisation for Joint Armament Cooperation (OCCAR) as the preferred collaborative programme managing organisation.

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PESCO PROJECTS

24. The 46 projects to be developed under PESCO, in accordance with the Decisions (CFSP) 2018/340, 2018/1797 and 2019/1909, contribute to the fulfilment of the 20 more binding commitments. They aim at developing defence capabilities in line with the EU Capability Development Priorities and 32 of them can be linked to the collaborative opportunities, including the focus areas, identified by CARD. In addition, 24 out of 46 PESCO projects directly address the High Impact Capability Goals (HICGs) mitigating CSDP missions and operations critical shortfalls, while 18 of them do so indirectly.
25. In 2020, in line with the PESCO Strategic Review, no new PESCO projects were discussed or agreed. Based on the Council Conclusions on the PESCO Strategic Review 2020, new elements such as the link to the CARD focus areas, were introduced in the PESCO project proposal assessment criteria and to the progress of on-going PESCO projects.

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31. **The projects with a potential industrial dimension do consider making use of EU co-funding instruments (e.g. EDIDP and EDF).** On the basis of the data reported by the project coordinators, 32 projects seek to make use of EU funding, while 9 projects reported that EU co-funding via the EDIDP calls 2019 already supported their development efforts. In comparison to 2020 there is no change.
32. **The use of the PESCO Common Workspace (CWS) has further increased compared to last year** and currently 970 users have access to it, the most frequent users being the PESCO National Points of Contact (PoCs), the project coordinators and the project PoCs. The PESCO secretariat continues to support the pMS by providing training sessions for the PESCO CWS.
33. During the previous year, **EDA support has formally been requested for three PESCO projects.** As of June 2021, the EDA supports 5 PESCO projects. 4 of them are supported through the establishment of EDA Ad Hoc CAT B projects. Moreover, administrative support was provided by EDA to several PESCO projects, including the support to a virtual based kick-off meeting of 11 out of 13 projects of the third wave, forced by the COVID-19 pandemic that impeded the possibility of physical meetings. Furthermore, EUMS has formally been requested for its support to 3 PESCO projects increasing the total number that receive support to 4 projects.
34. Another development has been the adoption of Council Decision (CFSP) 2020/1639 of 5 November 2020 on the general conditions under which third States could exceptionally be invited to participate in individual PESCO projects. Following the requests from the United States of America, Canada, and Norway to participate in the PESCO project Military Mobility, the Council adopted three Council Decisions on 6 May 2021 that confirmed that their participation in this project meets the general conditions. Consequently, the three countries were invited to join the project, which will happen once administrative arrangements are entered into effect by the project members and these third States.

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RECOMMENDATIONS

General Recommendations

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36. The pMS are encouraged to take the findings presented in this report into account in further implementing PESCO during the second PESCO initial phase

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Recommendations related to the NIPs

38. The pMS are recommended to provide more substantiated indications, with particular emphasis on developing dedicated forward-looking plans on how they contribute to the fulfilment of more binding commitments and more precise objectives, including by benefiting from the findings of CARD.
39. PMS are encouraged to sustain the positive trend in defence expenditure and defence investment in line with the CARD recommendations and step up their efforts to achieve the agreed collective benchmarks on European collaborative defence equipment procurement and European collaborative defence Research and Technology. This entails doubling the efforts regarding the share for defence research and technology expenditure of the total defence expenditure towards the 2% collective benchmark.

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Recommendations related to the PESCO projects

46. PMS are encouraged to continue to use the EU planning and capability development tools mentioned above to identify and generate future PESCO project proposals. Therefore, CARD recommendations and findings should be used as a pathfinder to further refine project proposals, in particular with regards to focus areas and identified collaborative opportunities assessed as most pressing, most needed, and most promising, including in the operational domain.

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