

## The EU's Permanent Structured Cooperation, NATO, and the US: beyond a zero-sum game

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### Executive Summary

- > The European Union's Permanent and Structured Cooperation (PESCO) understandably captures the attention of policymakers and experts due to the engagements member states committed to and the consequences for the EU's defence architecture in terms of defence capabilities and defence industry.
- > One of the most important challenges that PESCO poses concerns the EU's relationship with NATO and the US. Concretely, PESCO is feared to "produce duplication, non-interoperable military systems, diversion of scarce defence resources and unnecessary competition between NATO and the EU" (Chazan & Peel, 2019).
- > In contrast to these concerns, this brief argues that PESCO may actually do the opposite: it can potentially enable further transatlantic cooperation, strengthen the EU defence industry, and foster better relations with NATO.
- > To realize these synergetic effects, however, the EU must spell out its priorities in the wake of current global challenges and pledges for a reformed and strategic approach. This entails clarifying the role of PESCO to attain those goals, promoting cooperation with the Alliance, welcoming third-party participation in PESCO, and striving for a fairer transatlantic defence market.

The defence policy of the European Union (EU) currently seems to be at a turning point. Among the most recent developments in this policy area – the creation of the European Defence Fund (EDF), the Coordinated Annual Review on Defence (CARD) and the Military Planning and Conduct Capability (MPCC) –, PESCO understandably captures the attention of policymakers and experts. This

is due to its potential long-term impact on the European capacity-building and defence architecture. While the EU may thus be durably redesigning its defence set-up, the discussions on a renewed EU-NATO cooperation have also been ongoing since the 2016 and 2018 Joint Declarations. Both Declarations emphasized the mutual benefit of stronger cooperation between the European Union and the Alliance, striving to define a new partnership able to tackle the ever more complex contemporary challenges (Tardy & Lindstrom, 2019). To date, however, the relationship between the EU and NATO is not a perfect match, and the absence of a clear division of labour, coupled with the uncertainty concerning the EU's 'strategic autonomy', have been hampering the rapprochement between the two partners (Tardy, 2021; Biscop 2021). These dilemmas have paved the way for mistrust and reciprocal suspicion within the transatlantic community, especially in the US, which thinks bitterly of the 'strategic autonomy' rhetoric.

In this context, PESCO is likely to play a key role for the future of transatlantic affairs: by pursuing the enhancement of the Common Security and Defence Policy (CSDP), it potentially challenges NATO's leadership and the US position in the defence market. This policy brief argues that, in spite of certain quarrels, PESCO may actually act as a driver to boost transatlantic solidarity and to combine European and American resources in view of reinforcing the transatlantic defence architecture within EU-NATO cooperation. It proceeds as follows: first, it provides a brief introduction to PESCO; then, it will illustrate the interoperability dilemma with NATO and the points of contention with Washington; finally, it advances four recommendations to the EU on how to turn PESCO into a motor of better EU-NATO and transatlantic relations.

### The origins and nature of PESCO

To fully grasp the significance of PESCO as a new capacity-building initiative, we must return to the adoption of the

Lisbon Treaty. Article 42(6) TEU first introduced the concept of establishing a “permanent structured cooperation within the Union framework” for those Member States who wished to enrol in it. Yet, no concrete advances were made in the following years and it was only at the end of 2017 that we saw the birth of PESCO.

Three main phenomena triggered its launch (Fiott, 2017: 20). First, the new security challenges the Union has been facing contributed to reflections on PESCO. They include the decline of the rules-based international order, exemplified by the annexation of Crimea in 2014, and the subsequent reappearance of the long-forgotten ‘territorial defence’. The instability of the Eastern neighbourhood is matched by ongoing conflicts in the South, especially in Libya and Syria. Added to this is the threat of terrorism, particularly after the attacks in Paris and Brussels in 2015 and 2016 respectively. Second, the unexpected result of the 2016 EU membership referendum held in the UK enabled discussions about PESCO. Brexit undermined the EU’s defence capabilities and deprived it of a strong and experienced military. It therefore questioned the nature of European defence, practically calling for a renovation of its architecture. Third, the election of Donald Trump and the fact that the “U.S. administration clearly does not want to pay for its empire any longer” also played a role (Azeem, 2019: 2). This realization sparked serious debates among EU policymakers on the future of the transatlantic defence relationship and the value of NATO.

Embedded in the EU ‘strategic autonomy’ rhetoric, the structured cooperation seeks to “jointly plan, develop and invest in shared capacity-building projects, and enhance the operational readiness and contribution of their armed forces” (Council of the EU, 2017) through the launch of defence packages based on voluntary (although legally binding) mechanisms. The final aim is to be able to deploy national and multinational missions and operations. In that way, PESCO should play the role of ‘facilitator’, with the purpose of harmonising the processes, equipment, and capabilities of European armed forces. PESCO presents thus a ‘stick’, via the legally binding mechanism together with the assessment procedure undertaken by the Council to detect any shortfall in the compliance of Member States, balanced by a golden ‘carrot’: the European Defence Fund, €7 billion allocated from the EU budget to support EU defence programmes.

### **The leopard never changes its spots, yet...**

25 countries engaged in PESCO and its capacity-building programme with, currently, 46 projects launched. Nonetheless, sceptics argue that PESCO would be merely another attempt in a series of EU-defence initiatives. Indeed, over the span of two decades, the EU has striven to boost its defence capabilities multiple times, yet with

limited results. PESCO shares the negative aspects of many of these other EU defence initiatives: the absence of European strategic culture; the risk of duplications; and the tendency to reach agreements based on the least common denominator among participants. For one, the absence of a clear list of priorities in the Union’s strategy prevents a real ranking among possible projects (Biscop, 2018). The already visible duplications make the situation even more convoluted. For instance, despite the Franco-German launch of the Crisis Response Operation Core (CROC), which focuses on forcing generation in expeditionary operations, Berlin is simultaneously involved in the NATO Framework Nations Concept (FNC) aimed at achieving similar goals. In turn, the Elysée had no qualms about initiating the European Intervention Initiative (E2I), pursuing the creation of a joint European intervention force and a shared strategic culture among its members. Finally, consensus remains the cornerstone of PESCO decision-making process, thus “we are back to square one” (Interview with PSC Ambassador, Bruges, 24/September/2020). The need for an agreement between all member states chains PESCO to CSDP limits, such as meagre resources, lack of focus and accountability.

However, despite these constraints, PESCO is moving forward and the Commission’s new role, coupled with the qualitative differences with previous EU defence schemes such as the provision of EU resources via the EDF, prefigure a possible success. To realize it, doubts and suspicions about it have to be overcome. One such concern is that PESCO encourages to pool capabilities and resources outside of NATO. A first hurdle to tackle is thus to demonstrate the compatibility of PESCO with NATO.

### **EU interoperability versus NATO standards**

The recent EU-NATO Joint Declarations are laced with the ‘burden-sharing’ narrative to enhance interoperability and complementarity (Tardy & Lindstrom, 2019: 5-7). At first sight, however, PESCO seems to go against that process. Indeed, PESCO ultimately poses the question of ‘interoperability’, that is, the extent to which standards developed within the EU framework would be compatible with those of NATO. In reaction to this challenge, the EU has established that PESCO capabilities can be envisaged in precise operational theatres, including NATO operations: it encompasses “a coherent full spectrum force package in complementarity with NATO, which will continue to be the cornerstone of collective defence for its members” (Council of the EU, 2017). Nonetheless, “some NATO officials also worry that [other initiatives] could duplicate the alliance’s work and discriminate against non-EU members” (Chazan & Peel, 2019). They are equally concerned about the implications of the EU’s strategic autonomy for NATO – autonomous from whom? From the Alliance’s perspective, the efficiency of its military

instruments depends on the assets and troops provided by the Member States along with their level of interoperability. As such, separate and autonomous EU projects could indeed create internal barriers which could in turn hamper NATO effectiveness. Accordingly, “it is vital that independent EU initiatives like EDF and PESCO do not detract from NATO activities and NATO-EU co-operation” (Chazan & Peel, 2019).

Crucially, however, for NATO International Staff “strategic autonomy is not a constraint per se, though it is a political issue” (Interview with NATO HQ official 2, Brussels, 23/February/2021). By consequence, NATO staff will possibly look askance at any initiative meant to pursue that end (Interview with NATO HQ official 1, Brussels, 18/February/2020), unless the dispute at the political level will be sorted out and it will be ensured that those capabilities will be made available to the Alliance as well. As a matter of fact, when backed by political will, PESCO has been already used as a hub wherein Europeans and NATO engage and reach common capacity goals. Military Mobility perfectly embodies this trend. Being one of the cooperation engagements listed in the Joint Declarations, this highly strategic and politically sensitive project has led both organizations to cooperate. Consequently, NATO welcomed this PESCO project and the European Commission’s support (Interview with NATO HQ official 1, Brussels, 18/February/2020). Military Mobility thus represents a constructive precedent able to break with previous taboos.

From these observations, three conclusions arise: politically, PESCO is not a priori unacceptable for NATO as long as it satisfies both organisations’ spectrum of needs; second, PESCO may potentially fit an EU-NATO common capacity-building scheme for enhanced European interoperability and complementarity; third, the boost generated by the EDF makes cooperation more attractive.

Cooperation such as that around Military Mobility can be reproduced in other crucial areas, for instance in the cyber domain, concretely within the Cyber Threats and Incident Response Information Sharing Platform (CTIRISP) PESCO projects. For a safer, better integrated, and efficient Euro-Atlantic area, the establishment of synchronised defence planning between the NATO Defence Planning Process (NDPP) and the Coordinated Annual Review on Defence (CARD) could serve as a first step to allow the two organisations to develop an integrated list of targets and boosting a more efficient European interoperability.

Despite these opportunities, the options for cooperation collide with the absence of a standing political dialogue and with the fact that defence-industrial coordination has not materialised yet (Fiott, 2019a: 49, 51). On top of that,

non-EU NATO members, first and foremost the US, fear being side-lined.

### **Making an omelette without breaking eggs: US opposition**

The 2017 ‘Reflection Paper on the Future of European Defence’ adequately illustrates the current state of affairs across Europe regarding defence procurement: duplications, wasted resources and national protectionism immediately catch the eye (European Commission, 2017a: 9). Comparing the EU to the US, there are 178 different European defence systems against 30 in the US army. This practically means that Europeans operate parallel and competing projects while disposing of limited resources. Indeed, if the overall US military spending is up to €730 billion, on the Old Continent it amounts to only €247 billion. Besides, 80% of procurement and more than 90% of R&T occur at the national level within the EU (European Commission, 2017b). Although it might be argued that the European ecosystem may lead to increased competition and therefore greater efficiency, the reality is somewhat different. Overall, it is estimated that the annual cost for the lack of cooperation in the European defence industry is between €25 and €100 billion (European Commission, 2017c).

In the framework of the strategic autonomy narrative, PESCO is thus meant to address a reorganisation of this system and streamline resource allocation, a process further fuelled by the EDF. However, you cannot make omelettes without breaking eggs. North Atlantic countries, including Canada, argue that strategic autonomy undermines transatlantic solidarity and cohesion. Washington also remains deeply concerned that PESCO would shut out the American defence industry operating throughout Europe. The US voices scepticism about an architecture which seems likely to “produce duplication, non-interoperable military systems, diversion of scarce defence resources and unnecessary competition between NATO and the EU” (Chazan & Peel, 2019).

Those concerns hide a harsh reality: the US defence market regulations, coupled with Donald Trump’s ‘America First’ policy, had further undermined the already historical hurdles to a European presence in the US market, increasing asymmetries. First, between 2014 and 2016, American industries exported \$62.9 billion to Europe whereas only about \$8 billion made the opposite journey. These numbers illustrate how far European firms are underrepresented in the US market. Second, entry barriers greatly differ and, even though the EU market is relatively open, Washington’s web of laws remains rigorous. The long-standing US protectionism and the leverage held by the American government clearly affect

potential competitors, which are mainly from Europe. Finally, US legislation gives the government power of discretion over possible or ongoing defence exports, primarily through the International Traffic in Arms Regulations (ITAR) (Fiott, 2019b: 2-4). As such, the US' stance on PESCO seems to be questionable at best.

Although the election of Joe Biden has reinvigorated transatlantic bonds, the asymmetric treatment of non-US defence industries persists. If Europeans want an efficient and integrated defence industry – the omelette – they should consider possible retaliation from the US – the broken eggs. Indeed, Washington could easily become a tough and resilient competitor, as the launch of the European Recapitalisation Incentive Programme (ERIP) illustrates. This effort is just a taste of Washington's capabilities in terms of competing with Europeans in their own backyard. ERIP entails an investment defence programme in those countries dependent on Russian and Soviet-legacy equipment and replaces them with American defence articles. This practically safeguards US interoperability in such areas and prevents Europeans to further penetrate those markets.

Therefore, Europeans should ponder what they want to 'actually cook' and if the ends justify the costs. However, other variables tip the scale. An excessive reticence from the US side to accept the rise of a European autonomous defence market is counterproductive. First, the US should seize this opportunity since "the United States is safer when Europe is prosperous and stable, and it can help defend our shared interests and ideals" (The White House, 2017: 48). This statement's significance has even increased given the stark competition between Washington and Beijing and the US pivot to Asia – and it perfectly fits NATO burden-sharing narrative. Second, NATO may play a central role in bridging the EU-US gap, and the Alliance is likely to soften the US opposition. Indeed, NATO advocates the inclusion of non-EU allies into EU-NATO defence programmes (NATO Reflection Group, 2020: 56). In this respect, the more integrated EU and NATO defence planning is, the less the US will be left aside. Once again, enhanced EU-NATO cooperation seems to be decisive, and the EU should strive for a stronger PESCO in partnership with the Alliance.

### **How to practically overcome the impasse: policy recommendations**

American concerns indirectly prove that PESCO has great potential to offer Europeans an efficient and effective defence instrument. Despite this optimism, PESCO's broader repercussions on transatlantic relations should not be underestimated since it could not only jeopardize a vital EU-US partnership, but also isolate Europeans. Nevertheless, as NATO most recently emphasized its

willingness to develop stronger relations with the EU (NATO Reflection Group, 2020: 53), the structured cooperation may also represent a tool to encourage it while safeguarding its goals and EU priorities.

In this context, Brussels could rely on PESCO to develop a stronger complementarity with NATO and strengthen the partnership with the US. To do so, the EU is well-advised to address the following, four recommendations:

#### *Clarifying what 'strategic autonomy' entails*

From NATO's perspective, PESCO becomes a challenge to the extent that it is conceived as being in competition with NATO. Against this backdrop, the European Union should better explain the significance of the EU's strategic autonomy, its goals and in which way PESCO is meant to pursue them. The EU Strategic Compass seems to provide a first step in that direction. This process should shed some light on the EU's priorities and the role of the structured cooperation. The reflection represents the prerequisite for developing new bonds with NATO and seeking synchronized programmes beyond NDPP and CARD.

#### *Breaking the cycle of mistrust*

Recently, NATO Secretary-General Stoltenberg participated in a European Council meeting, an unprecedented event that suggests the willingness to create closer ties with the EU. To avoid losing this momentum, the EU should, first, strengthen the political dialogue and, second, foster good practices with NATO and break the existing cycle of mistrust. In this context, the Military Mobility experience can serve as a blueprint for inter-organizational staff arrangements and future cooperation in other fields. The continuation of these dynamics in other crucial areas, such as cyber-security, would allow for assimilating common practices, enhancing transparency, and encouraging the creation of inter-organizational thematic working groups. This in turn may promote cooperation and a stronger security community.

#### *Promoting third countries' participation in PESCO*

The participation of third states in PESCO represents a major possible link for the future transatlantic relationship, as it could be a tool to bring together the US and the EU. Indeed, despite EU-NATO cooperation, the latter remains confined to both organizations' members, partially engaging non-EU NATO countries. PESCO has never been conceived as a project limited to Europeans only. The US, Canada and Norway recently joined the Military Mobility Project (Reuters, 2021) and the EU should encourage Washington to participate in other projects. The Union should seize this opportunity to soften critical attitudes, and the Commission's proposal for the EU-US Security and Defence Dialogue seems to go in the right direction. American and European firms have already

reached a high level of cooperation in joint defence programmes. Partnerships through PESCO would definitely be beneficial to both the EU and the US, and this political window should therefore not be wasted. Co-owned projects sow the seeds for an integrated transatlantic defence industry.

#### *Promoting reciprocity of market access*

The aforementioned trend should be balanced by increased accessibility of the US defence market. Indeed, the US participation in PESCO projects would potentially jeopardize the European defence market, probably leading to even more dependence on the US, which could harm the EU defence programme. As such, an increased openness from the United States in their procurement

process would partly narrow down the asymmetry with Europeans. To avoid that PESCO becomes a Trojan horse for the US to penetrate the EU defence market, rules regarding barriers and market shares should be set.

In conclusion, quarrels regarding NATO standards versus EU interoperability as well as the US reticence vis-à-vis a stronger European defence market should be overcome and concrete steps forward should be taken to ensure a more united EU-North Atlantic cooperation to face pressing global challenges. The starting point for turning PESCO into a motor of EU-US integration rather than a zero-sum game, however, remains the need for an EU reflection about its role and objectives in the international and defence arenas.

## Further reading

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