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## Beyond the regulatory state? The European Defence Fund and national military capacities

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### ABSTRACT

The European Union's competences in armament policy have increased and its policy instruments have shifted towards military capacity-building. Illustrative of this, the European Defence Fund (EDF) finances cooperative research and development programmes in defence. Given military capacity-building's centrality for statehood, I investigate the EDF to analyse the extent to which it challenges national prerogatives. I argue that the EDF represents a change away from the European Union's regulatory role, and yet, does not correspond to a 'positive' supranational security state. Instead, the EDF represents a hybrid military capacity-building instrument, combining national ownership and EU (co-)financing of defence capacities. This argument builds conceptually on the state-building scholarship's distinction between the centralisation of military and financial resources and adapts it to the EU multilevel governance. Theoretically, I build on constructivist public policy and core state power scholarship and demonstrate that the EDF's hybrid design is the result of policy frame competition. The Commission-driven 'efficiency' frame, pushing for supranational centralisation of financial and military resources, was effectively tamed by member-states, whose preferences regarding defence and fiscal policies ('distribution of competences' frame) excluded EU ownership of defence assets and limited its financing role.

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## The European Defence Fund: a new EU military capacity-building instrument

The 2022 Russian invasion of Ukraine has triggered debates among European policymakers over appropriate forms of joint military capacity-building. These discussions are not new. In 2021, the European Union (EU) established the European Defence Fund (EDF). This policy instrument finances selected cooperative projects of military research and development (R&D) through the EU

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budget. Thus far, the EDF has been chiefly analysed as a case of regional security integration: neofunctionalist scholarship understands it as part of an incremental supranationalisation of the Common Security and Defence Policy (CSDP) driven by supranational entrepreneurship (Haroche, 2019; Håkansson, 2021).

The EDF is not *only* a story of further integration. It represents a *shift in EU policy instruments* from market rules in the armament sector toward financing military capacity-building. Overlooked by neofunctionalist accounts, this development is reminiscent of state-building theories' bellicist hypothesis: war-making leads political authorities to build and centralise military and related financial capacities, which in turn represents a central mechanism of state-building (Tilly, 1992). Given this centrality of military capacity-building in the emergence of modern states, it is relevant to investigate the EDF beyond integration theories (Kelemen & McNamara, 2022) to analyse how it changes *what* states and the EU do in this policy domain at the core of statehood and to look at whether the EDF illustrates a supranational challenge to this historical state competence.

To answer these questions, I investigate the EDF as a case of change in EU armament policy instruments and draw attention to the distinction between financing and owning capacities and its institutional consequences. This distinction has been overlooked in the literature so far. The regulatory/positive state literature provides an interesting starting point (Majone, 1994): it distinguishes between rule-based and capacity-based instruments, characteristic of regulatory or positive states, respectively. From this perspective, the EDF does not represent a positive EU security state, or by extension supranational state-building, since military capacities remain state-owned, and the Fund is regulatory as it relies on third-party incentivisation. Such a dichotomised perspective – between regulatory/positive instruments at *either* national or supranational levels – obscures, however, essential changes that the EDF introduces. The EU's goal has evolved, as it no longer focuses on functioning markets but on the amassment of military assets. Its policy instruments have evolved as well, from setting market rules to, for the first time, financing military projects. Therefore, the EDF represents a move beyond the EU regulatory security state focusing on market rules and yet, does not correspond to a positive EU security state. Making sense of these changes requires investigating the *varieties* of military capacity-building instruments in the EU multilevel governance beyond the national/supranational and the positive/regulatory dichotomies.

To do so, I offer as a first step a conceptualisation of the EDF as a military capacity-building instrument based on state-building theories (Tilly, 1992). EU policy instruments do not necessarily fall into either regulation or capacity categories. Following Heidbreder, the EDF can be characterised as 'regulation for capacity-buildling' at the national level (Heidbreder, 2014). Such characterisation does not say much, however, about the concrete form of regulation,



nor does it illuminate the political preferences and compromises that such an instrument represents in the broader division of labour (or the lack thereof) between states and the EU in military capacity-building.

Statebuilding theories' bellicist hypothesis offers a heuristic analytical grid to help conceptualise these instruments and locate them in relation to their alternatives. From this perspective, states have emerged from the successful concentration of military capacities and financial resources to fund said military capacities. This is insightful as it points to two interconnected prerogatives within military capacity-building: the ownership and the financing of military assets.

While states have performed both functions so far, military and financial resources need not be centralised at the national level in multilevel governance. I suggest characterising EU military capacity-building instruments depending on the extent to which they challenge the national prerogatives of owning and financing defence capacities. Contrary to national instruments involving states only, EU hybrid capacity-building instruments involve the EU in either ownership or financing of defence assets in ways that could be more (supranational) or less (intergovernmental) challenging the national competence. Supranational military capacity-building would be represented by supranationally funded and owned military assets.

The EDF constitutes such an EU hybrid military capacity-building instrument, whose design simultaneously reflects the continuity of state competence regarding ownership of military assets and the new role of the EU in (co-)financing them. This financing role is notable as it departs from historical decision-making power over financial capacities in governments' hands. How the EDF challenges the state's role in financing assets (financial concentration at the national level) must not be overstated, however. As an EU-budgeted Fund, the EDF is subject to an intergovernmental agreement over the budget, contrary to other possible supranational financing instruments, which would have curtailed states' room of manoeuvre further. Rather than more integration, explaining the EDF hence requires illuminating the choice for such a hybrid design combining maintained national ownership and new EU financing role over either the continuity of national capacity-building (national ownership and financing) or other, more supranational, forms of EU involvement.

Building on the core state power (CSP) (Genschel & Jachtenfuchs, 2014) and constructivist public policy (Jabko, 1999; Mérand, 2021; Saurugger, 2018; Smith, 2016) approaches, I argue that the EDF's design reflects compromises between different frames held by the Commission and member-states regarding EU military capacity-building. From such a perspective, policy outputs are not simply problem-driven but reflect the different understandings of the policy problem and its solution held by actors, as captured by policy frames (Daviter, 2007). Frame competition shapes the policy

negotiations and their final output: more than a functional fit, political conflicts over actors' various interests and normative positions shape instrument design. Translated onto the issue at hand, the Commission and member-states opposed their respective frames regarding military capacity-building at the EU level. Each of these frames have different implications regarding the instrument's appropriate design, i.e., the EU's role in the ownership and financing of military assets. According to the Commission-sponsored *efficiency frame*, the EU should be involved in both ownership and financing to maximise economies of scale. Their proposals based on EU ownership, and later defence bonds, rely on high levels of military and financial centralisation akin to supranational state-building. While member-states agreed that some EU involvement in capacity-building was desirable, they considered such involvement from the perspective of what it would change to EU and national competences. I label this perspective the *distribution of competences frame*. The states' preferences here are as much those in defence as in fiscal policies: governments defended the idea that the EU's military capacity-building instruments should respect state sovereignty and the EU's identity as non-militarised and complementary to NATO, as well as align with broader discussions on fiscal integration. Because EU policymaking requires consensus, especially in politically sensitive areas, the EDF reflects the compromises made between these two frames: a new EU involvement in military capacity-building is warranted in the name of efficiency, but in a more constrained fashion than what the European Commission had promoted. Governments refused EU ownership, thereby maintaining national ownership of military assets. They accepted the EU to have a financing role, albeit vetoed more supranational financial involvement such as defence bonds.

This article contributes to extant scholarship in two ways. First, in line with Kruck and Weiss' introduction to this special issue (2023), I investigate how European integration shapes the positive security state. Combining rules- and capacity-based instruments across policy levels is necessary to grasp the security state's reconfigurations. As such, this article resonates with current debates about the EU's international role and its possible militarisation. Second, speaking to the EU state-building literature, the article underlines how member-states' preferences regarding military and fiscal competences heavily constrain EU capacity-building. It shows however the heuristic value of distinguishing between the ownership and the financing of capacities across national and supranational instruments, as it reveals the varieties of capacity-building forms and the increasing – albeit indirect – role of the EU in military capacity-building.

The next section presents my conceptualisation of military capacity-building instruments, theoretical framework and methodology. The following empirical sections demonstrate how the Commission's efficiency-framed

proposals were amended by member-states' distribution of competences frame. Section 3 focuses on the original negotiations over the EU's role in military capacity-building, which excluded ownership. Section 4 zooms in on the creation of the EDF and demonstrates how it results from a compromise between two frames promoted by the Commission and member-states respectively, portraying different appropriate levels of EU concentration of military and financial resources.

## The politics of the security state in multilevel governance

This section presents a conceptual framework of military capacity-building instruments in the EU based on national and/or EU involvement in the ownership and financing of defence assets. The EDF constitutes a hybrid military capacity-building instrument, which combines national ownership and EU financing through a Fund embedded in the EU budget. This combination distinguishes the EDF from either national or supranational alternatives, as owning and financing are not performed by either national or supranational powers alone. Rather than a functional response to war-making needs, the design of capacity-building instruments is best explained by the frame competition and its impact on concrete instrument design. The EDF's design reflects compromises between varying frames actors hold vis-à-vis EU military capacity-building: While the Commission pushed for supranational involvement in both owning and financing (*efficiency frame*), member-states opposed with the *distribution of competences frame*, by which they subordinate efficiency concerns to their preferences regarding the appropriate distribution of military and financial resources across national and supranational levels.

### ***The EDF as a hybrid military capacity-building instrument: a conceptual framework***

As a new EU policy instrument, the EDF raises questions as to the nature of EU competences in military capacity-building and its implications for statehood. What kind of state functions the EU performs has been the primary focus of the Positive/Regulatory State framework (P/RS) (Majone, 1994). Kruck and Weiss (2023, p. 1211) offer a refined version of this framework applied to security. Positive states' instruments focus on the amassment of capacities, while regulatory ones rely on 'rules to steer and nudge non-state security actors indirectly'. This distinction resonates with the core state powers (CSP) literature (Genschel & Jachtenfuchs, 2014), which differentiates between EU integration through regulation or capacity-building. At first sight, this positive/regulatory state dichotomy seems well-suited for the armament sector. On the one hand, ownership of military assets is a key

characteristic of state-building (Tilly, 1992). On the other, the EU's role has been regulatory: historically, it has regulated national capacity-building through market rules pertaining to how firms produce and how states acquire weapons (Bluberger & Weiss, 2013; Hoeffler, 2019).

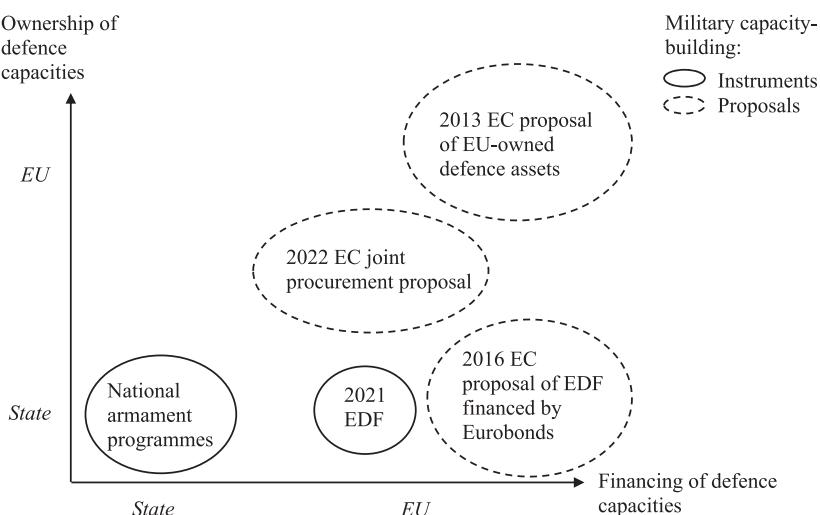
Such a perspective provides, however, ambiguous results. It clarifies what the EDF is not: because military capacities remain state-owned and the Fund relies on third-actor incentivisation, the EDF does not reflect an EU positive security state. However, imposing such a capacity/regulatory dichotomy at either national or supranational level obscures changes that the EDF brings about in the goal and form of regulation. The Commission's goal is no longer a well-functioning market only but also capacity-building. Regulation does not take the form of legal market rules but of tangible EU money.

To account for such a design, I lay out a conceptual framework of military capacity-building instruments in the EU. Capacity-building is not necessarily opposed to regulation. As argued by Kruck and Weiss (2023), capacities- and rules-based instruments can be articulated together rather than opposed. Moreover, regulation can serve capacity-building purposes: whereas market-making rules focus on a well-functioning single market, market-correcting ones align the latter with political goals (Scharpf, 1999). In multilevel governance, capacity-building can be pursued through instruments spread across states and the EU (Freudlsperger & Jachtenfuchs, 2021, p. 121). The EDF, therefore, represents a shift from 'regulation of' towards EU 'regulation for' capacity-building at national levels (Heidbreder, 2014). This concept remains, however, silent as to what the EU does, i.e., the kind of regulatory instruments adopted.

I build on this conceptualisation by including state-building theories and their bellicist hypothesis. Scholars have shown that state-building historically often results from intertwined centralisation processes. Because of war-making, political authorities build up and centralise military capacities. In practical terms, this translates into states *de facto* owning and having the right to use defence assets. This concentration of military capacities, in turn, requires the build-up and centralisation of financial resources to pay for them. The latter can be of various types, such as tax or rents, and can come from domestic and/or international sources: their differences matter as they have an impact on the political authority's ability to finance war and, therefore, on state-building (Jüde, 2022; Leander, 2004). Military capacity-building instruments can therefore be disentangled into two dimensions: the ownership of military assets and their financing. While these two functions have been historically successfully monopolised by governments, at least in the European context, they need not be in a multilevel governance system. The EU may challenge national prerogatives by playing a role in either ownership and/or financing of defence assets.

I suggest analysing EU military capacity-building instruments by distinguishing the EU's role in the ownership and/or financing of defence assets (see [Figure 1](#)). Adopting such a framework nuances the regulatory/positive dichotomy to analyse the EU's role in military capacity-building. First, it is heuristic as EU instruments may challenge states' authority differently in terms of ownership and financing, and both dimensions entail their own legal and political stakes. Second, EU instruments constrain states differently depending on their intergovernmental or supranational nature, but also on their financial importance. On ownership, for instance, intergovernmental joint procurement theoretically is less constraining for governments than potential supranational ownership of defence assets. Similarly, on financing, the use of the EU budget constrains governments less than the creation of common debt. In other words, this framework allows for identifying the many shades of EU involvement in capacity-building on a continuum between the national owning and financing of defence assets, on the one hand, and the supranational scenario of supranational ownership and financing of defence assets, on the other hand. Hybrid military capacity-building designates EU involvement in either one of them. For the sake of illustration, [Figure 1](#) locates the EDF and other proposals of the last decade based on their financing and ownership at national and/or EU levels.

Distinguishing between ownership and financing of capacities gives a more nuanced picture of the EDF. The EDF departs from state-owned and -financed military capacity-building such as national armament programmes. It does not however amount to supranational but to hybrid capacity-building as ownership remains national and the EU has a financing role. The latter is



**Figure 1.** Varieties of military capacity-building instruments in the EU.

not fully centralised into supranational hands. While funding decisions are in the Commission's hands, the EDF depends on the EU budget, which relies upon governments' approval, is limited in scope and implies less solidarity than other supranational financial instruments such as Eurobonds.

By locating the EDF among other alternatives, this conceptualisation of military capacity-building helps formulate two research questions shedding light on the EDF's hybrid design. First, understanding the EDF requires explaining the continuity regarding national ownership, i.e., why EU ownership was excluded. Second, how to account for the EU's financing role and its limitations? The next subsection presents my theoretical framework.

### ***Frame competition and the EU's role in military capacity-building***

EU capacity-building instruments seem a good fit for theories focusing on efficiency concerns. For bellicist state-building arguments, war-making makes political authorities centralise military, financial and administrative capacities (Tilly, 1992). Applied to the EU (Kelemen & McNamara, 2022), the expectation would be that, confronted with security threats, governments seek economies of scale through regional capacity-building. From a neofunctionalist perspective, supranational actors promote EU capacity-building as the most cost-efficient solution (Haroche, 2019; Schmitter, 2005).

However intuitive in cases of scarce resources and external threats, this functionalist hypothesis centred on economies of scale suffers from some limitations. It better explains the impetus towards centralisation, i.e., the Commission's role, than the concrete forms and variety of capacity-building instruments. Moreover, such an approach assumes the primacy of economic rationale and that actors share a consensus regarding what is efficient. Both these assumptions are disputable as economic calculus depends on ideational and institutional factors (Clift, 2012; Woll, 2008). In military capacity-building, member-states' preferences on defence and fiscal matters are likely to play an important role as there are no legal precedents coercing governments and spill-overs are limited. The functionalist hypothesis does not account sufficiently for those other preferences shaping capacity-building.

To explain the specific role of the EU in the ownership and financing of defence assets that the EDF combines, I advance a theoretical framework combining the CSP (Genschel & Jachtenfuchs, 2014) and constructivist public policy literatures (Mérand, 2021; Saurugger, 2018; Smith, 2016), with an emphasis on the politics of instruments (Lascoumes & Le Galès, 2004). The CSP literature has demonstrated that it is not the policy problem *per se* but how actors frame it, that explains the eventual choice of policy instruments. However, this literature has not sufficiently explained how actors' frames lead to hybridisation between regulatory and capacity-building instruments.

Constructivist public policy supplements the CSP framework by pointing to the political struggles over policy instrument design. Public policies are not about efficient problem-solving. Actors compete over different conceptions of problems and their solutions. Policy framing refers to 'the process of selecting, emphasising and organising aspects of complex issues according to an overriding evaluative or analytical criterion' (Daviter, 2007, p. 654). Policy frames can reflect actors' ideas *and* interests. The two are not opposed. While actors may pursue their interests, ideational elements such as values or policy norms define their content and the direction of action (Goldstein, 1989). Policy frames convey actors' preferences on an issue but can also be used strategically as discursive strategies to gain influence in the policy process (Jabko, 1999; Siles-Brügge, 2013). Irrespectively, frame competition influences negotiations over concrete policy proposals, as it shapes the scope of possible options (Hofmann & Staeger, 2019). This competition takes place at different levels (Howlett, 2014, p. 300): at a general level, dealing with fundamental dimensions such as the polity's identity and policy goals and at a concrete level relative to the specifics of instrument design. Policy instruments have a technical and political value: an instrument's functional fit does not determine its adoption, as instruments also convey sense-meaning and allocate benefits (Lascombes & Le Galès, 2004, p. 4). The choice of instruments is, therefore, shaped by efficiency concerns as well as their perceived legitimacy among actors.

Adapted to EU capacity-building, I expect diverse frames to influence the policy process. First, building on the functionalist hypothesis and the CSP literature, I expect supranational actors to promote capacity-building in the name of economies of scale – what I label the *efficiency frame*. From that perspective, both military and financial capacity-building should be centralised at the supranational level to maximise such economies. This frame competes with other perspectives on capacity-building. On military like on fiscal matters, governments retain influence in policymaking. For governments, while EU capacity-building may be desirable, it should not upset their preferences regarding state and EU competences in military and fiscal matters – what I label the *distribution of competences frame*. Within this frame, I expect governments' preferences regarding military and financial centralisation of assets to clash with the Commission's efficiency-oriented proposals. For governments, EU *military* capacity-building raises two main issues. First, it sits unwell with how many member-states perceive the EU's identity in defence. Atlanticist governments are likely to object based on their preference for NATO as the core security organisation. Neutral governments may oppose EU military capacity-building as a sign of its militarisation. Second, EU military capacity-building questions governments' trade-off between efficiency gains and sovereignty losses: is EU military capacity-building more cost-efficient, and if so, what is an acceptable EU instrument?

Governments are likely to object to forms of EU military capacity-building that upset their competence, both out of interest-based and symbolic reasons. Regarding the EU-level centralisation of *financial* resources, it raises questions as to member-states' preferences on fiscal integration: to what extent economies of scale justify centralised financial instruments? Here, I expect 'frugal' states, based on ordoliberal ideas (Warlouzet, 2019) and/or economic interests, to veto strong financial centralisation.

Looking at frame competition helps understand EU policymaking and its outputs: the competition between frames shapes the goal and specific instruments of EU military capacity-building. Because it traces how opposed frames shape negotiations, this perspective illuminates the intricacies of instrument design. Rather than attributing unilateral influence to one actor or one frame, such a perspective explains the final output by identifying and tracing which actors have influenced the output and how. Policy outputs reflect the process by which actors have negotiated their proposals, redefined their interests and ultimately found compromises. This is due to several factors. First, making compromises is necessary in the EU, which is characterised by a 'culture of consensus' (Kleine, 2013). The Commission is also more likely to adapt to states' preferences in politically sensitive intergovernmental policies such as fiscal and defence ones. Second, policymaking is characterised by uncertainty and bounded rationality (Cohen et al., 1972): actors do not necessarily know exactly what their best interest is and how to achieve it. Consequentially, rather than straightforward interests, policy outputs reflect reformulations, adaptations, and the need to find a consensus through familiar solutions.

In sum, I therefore argue that the EDF is the compromise between the Commission's initiatives embedded in the *efficiency frame* and the Member-states' positions embedded in the *distribution of competences frame*. These two frames compete to shape the role of the EU in both ownership and financing of defence assets. This leads me to formulate theoretical propositions related to my two sub-questions. First, the EDF represents a new involvement of the European Commission in military capacity-building, albeit one limited to financing. The exclusion of EU ownership of military assets reflects member-states' veto based on their preferences relative to the EU's military role. Second, the EDF reflects a compromise between the Commission and member-states regarding the degree of financial centralisation at the EU level necessary to achieve efficiency gains while respecting their preferences on defence and fiscal policies.

### ***Research design and methodology***

This article seeks to reconstruct the process leading up to the EDF. It first focuses on negotiations and decisions pertaining to the centralisation of

EU military capacity-building, before looking at such process over financial resources. To do so, I analyse the evolution of the European Commission's proposals from 2012 until the negotiations leading up to the EDF launch in 2021, and how governments reacted to them, to focus on how efficiency vs distribution of competences concerns play out. I collected data pertaining to various actors' positions in negotiations regarding the EDF's design, pertaining to its military and financial elements. These sources are semi-structured interviews with EU and national actors (public and private), official EU and national documents, and media outlets. In the context of this paper, elite interviews are particularly useful as they allow to reconstruct policy processes in a secretive environment (Tansey, 2007). While I rely on an accumulated knowledge about CSDP (about 100 interviews since 2008), this article quotes 21 interviews. Some of them predate the EDF, which minimises the risk of *post hoc* reconstruction by actors. I then analysed these sources to identify actors' frames and how competition between frames shaped choices relative to the EDF's design. To do so, I made use of qualitative process-centered methodologies (non-positivist process-tracing used in historical sociology). This not only helps make sense of courses of action, but also situates the course of action in relation to alternative counterfactuals and provides a plausible argument (George & Bennett, 2005).

### **More than market regulation, but less than ownership: the definition of EU's role as financing military capacity-building**

The EDF's design first reflects a distinction between national ownership and EU (co-)financing of military capacities. This hybridisation finds its roots in the Commission's turn towards capacity-building in the early 2010s: the Commission's efficiency frame translated into concrete proposals of EU financing and ownership of military assets. Governments however opposed the latter, thereby limiting the EU's role to financing.

### ***Beyond the regulatory state: the Commission's turn to military capacity-building***

Military capability-building has remained in governments' hands, either nationally or through intergovernmental initiatives. The European Commission began to show interest in armament matters in the 1990s and incrementally developed *regulation* of national capacity-building. While governments retained competence over the definition and purchase of military needs, EU regulation aimed to subject governments and firms to common rules in the production and procurement of military capacities, in the name of cost-efficiency and European firms' competitiveness in global markets. The rise

of the EU regulatory security state (Blauerger & Weiss, 2013) culminated in the adoption of the 2009 directives on transfers and public procurement.<sup>1</sup>

Two main factors pushed however the Commission to look into military capacity-building. First, in the early 2010s, member-states and Commission officials share the perception that new security threats demand that Europeans develop military capacities.<sup>2</sup> The 2012 European Council states that the international context requires the EU to increase its security and asks all actors involved, including the Commission, to come up with suggestions to develop civilian *and* military capabilities (par. 23). The Libya war demonstrates that Europeans still are suffering from military capacity gaps and from their dependence on the USA (European Commission, 2012). The 2013 Communication's first words lay out the same diagnostic for the Common Security and Defence Policy (CSDP): 'The strategic and geopolitical environment is rapidly and constantly evolving. (...) In this situation, Europe has to assume greater responsibilities for its security at home and abroad. To punch its weight, the EU needs to develop a credible CSDP.' (European Commission, 2013, p. 2)

Another reason why the Commission turned to capacity-building resided in its market regulation's limited results. The Commission was anticipating member-states to implement its public procurement directive poorly.<sup>3</sup> The financial crisis and subsequent national budget cuts (Hoeffler & Joana, 2022), too, justified looking for ways to support capacity-building.<sup>4</sup> This domain being strictly intergovernmental, the Commission took an indirect shot: it tried to introduce rules like VAT exemption for cooperative armament programmes, which, short of financing capacity-building, were supposed to make it less costly for member-states. These measures were however limited and did not fulfil the Commission's expectations.<sup>5</sup>

For the Commission, this double diagnostic justified a change of approach. While market-related goals remained important, they became subordinated to the new priority of capacity-building. In November 2011, Commissioner for Internal Market Michel Barnier, who had chaired the 'Working Group on Defence' in the 2002 Convention, created a Defence Task Force. With Commissioner for Enterprise and Industry Antonio Tajani<sup>6</sup>, the two acted as political entrepreneurs across the Directorates-General (DGs). The Task Force produced a Non-paper in 2012 and oversaw the drafting of the Commission's communication ahead of the 2013 December European Council. Both documents illustrate the focus on EU-level capacity-building.

The Commission framed EU-level capacity-building as a priority for Europe's security: 'increasing or even maintaining the *key strategic defence assets* in times of scarce financial resources will therefore be a major – *if not the main* – challenge in this policy domain' (second emphasis added) (European Commission, 2012, p. 2). Market regulation is subordinated to capacity-building: 'the importance of this industry cannot be measured only in jobs and turnover. The European Defence Technological and Industrial Base constitutes a key

element for Europe's capacity to ensure the security of its citizens and to protect its values and interests.' (European Commission, 2013, p. 1).

Efficiency concerns justify, for the Commission, EU-level military capacity-building. Supranational involvement is necessary, given the shortcomings of prior national or intergovernmental initiatives. Since the crisis-led austerity cuts, when pooling resources would have made even more sense, states had been cooperating less than before (Fiott, 2017). By contrast, the Commission affirmed that EU capacity-building would create economies of scale. In its communication 'Towards a more competitive and efficient defence and security sector', the Commission explains that:

This situation necessitates a reorientation of priorities. If spending more is difficult spending better is a necessity. There is significant scope to do so. (...) EU Member States together spent more than on defence than China, Russia and Japan together. Budgetary constraints must therefore be compensated by greater cooperation and more efficient use of resources. (...) Defence is still at the heart of national sovereignty and decisions on military capabilities remain with Member States. However, the EU has a significant contribution to make. It (...) is the best framework for Member States to maintain collectively an appropriate level of strategic autonomy (European Commission, 2013, pp. 3–4).

This framing of EU military capacity-building in terms of efficiency translated into concrete policy proposals.

### ***In the name of efficiency: the Commission's proposals for centralised EU military capacity-building***

In its 2012 Non-Paper and 2013 Communication, the Commission explored two EU military capacity-building instruments: the EU funding of national defence research and the EU ownership of defence capacities.

First, funding defence research was meant to help maintain European firms' technological edge and minimise dependence on third states. Taking advantage of civil-military synergies was not a new idea, but the involvement of the Commission in security, let alone defence, had been strongly contested both *in* the Commission and externally (James, 2018). It had however managed to include security and dual-use goods in successive EU research funding schemes since the 2000s. The success of security research made it a promising avenue for the Commission: 'This is what was done for security, with its inclusion in the 7th Framework Programme. We have the same ambitions for defence.'<sup>7</sup> The 2013 Communication suggested launching a preparation action for CSDP-related research.

Second, the Commission suggested the creation of EU-owned dual-use capacities. According to the Non-paper, 'the Defence Task Force would like to inquire (...) whether *truly European* solutions (author's emphasis) can be a more efficient alternative for consolidating the demand side (...) rather the

current purely intergovernmental pooling and sharing initiatives' (European Commission, 2012, p. 6). It then goes on asking whether 'the EU (should) explore possibilities to develop 'common assets' (...) owned by EU-related bodies but made available to the Member states' (European Commission, 2012, p. 7). The 2013 Communication specified that it would 'work with the EEAS on a joint assessment of dual-use capability needs for EU security and defence policies. (...) it will come up with a proposal for which capability needs, if any, could best be fulfilled by assets directly purchased, owned and operated by the Union' (European Commission, 2013, p. 17). This proposal did not emerge in a vacuum. Barnier had already argued for the necessity for Europeans to better pool equipment in his 2006 report on civilian crisis response capability. While focusing on voluntary pooling, it called for institutionalising mutualisation of resources at the Community level to improve existing intergovernmental instruments. Moreover, such assets already existed in other security-related areas. The Commission explicitly mentioned Galileo. Member-states also accepted Frontex to have some own resources. Security at large constituted a possible template to replicate in defence (Drent, 2013, p. 80). In the name of efficiency, the Commission suggested a centralisation of financial and military assets at EU level akin to supranational state-building.

### ***Defining the EU's role in military capacity-building: discarding ownership, settling on financing national capacities***

The December 2013 European Council acknowledged the need for more EU-supported military capacity-building. Based on issues of competences distribution, it disagreed, however, on the appropriate policy instruments to do so. Member-states supported the Commission's first proposal and agreed to the launch of a Preparatory Action on CSDP-related research. Financing research was considered of paramount importance to ensure Europeans' access to cutting-edge technologies, especially since R&D had suffered the most from national spending cuts.

The Council did not however see eye to eye with the Commission regarding EU-owned dual-use capabilities. Its section 'Enhancing the development of capabilities' does not mention the Commission's proposal and instead reaffirms the intergovernmental nature of this policy domain: as a political signal, he only mentions the (intergovernmental) European Defence Agency (EDA). The Commission's proposal was strongly opposed by Prime Minister Cameron (Prime Minister's Office, 2013), who condemned the rise of a too-powerful EU and its encroachment over state sovereignty. Cameron is said to have vetoed the initiative, but some other governments seem to have opposed it, too (Biscop, 2015, p. 177). According to a Commission official at the time, granting such military powers to the EU was



considered utterly unacceptable by national officials, whose conception of the EU relied on a rejection of military power.<sup>8</sup>

The 2013 Conclusions demonstrate how member-states shaped the EU's role and limited its ability to challenge national prerogatives in that competence at the heart of statehood. Governments reaffirmed that capacity-ownership was a national prerogative and limited the EU's role in helping finance them. According to the President of the European Council, governments agreed 'to cooperate better around defence assets. On developing, acquiring, using, and maintaining such assets. Of course cooperative approaches come in different shapes and sizes.' (European Council, 2013). Notwithstanding, the Conclusions did not specify what these intergovernmental – as opposed to supranational – capacity-building efforts would look like, thereby letting the path open for the Commission.

### **The EDF as a compromise on the perimeter and financial instrument of the EU's financing role**

While supranational involvement in military capacity-building was limited to financing, *what, how, and how much* the Commission would finance was not set in stone. The EDF results from yet another attempt of the Commission to expand its role in military capacity-building. It did so by promoting the extension of the perimeters of the EU's financial role, and by advocating highly EU-centralised financial instruments to pay for military capacities, such as common bonds. Governments, however, significantly curbed these proposals based on their competence in defence and their opposition to fiscal integration.

### ***The EDF's origins: the Commission's renewed activism in favour of EU capacity-building***

The arrival to power of Jean-Claude Juncker in 2014 constituted a game changer: the European Commission engaged with defence even more than before.<sup>9</sup> This political momentum refracted onto the Commission's work<sup>10</sup> and empowered voices promoting hands-on military capacity-building. He created the Commission's in-house think tank, the European Political Strategic Center (EPSC) and appointed Michel Barnier in 2015 as a special defence advisor who worked with the EPSC.<sup>11</sup> Created in 2015 by a merger between DG Enterprise and DG Market, DG Grow was another place furthering defence issues. There was bureaucratic continuity between the 2013 Communication's industrial policy turn and Juncker's approach.<sup>12</sup> Commissioner for Internal Market Elżbieta Bieńkowska's cabinet counted a few members particularly interested and having a background in defence and space. DG Grow was charged with the first Pilot project in defence research, which the Council had agreed on.

The political veto on EU ownership did not prevent the European Commission from looking for new capacity-building instruments expanding supranational involvement beyond the financing of R&D. Again, efficiency concerns were justifying higher levels of centralisation at the EU level. According to President Juncker, a stronger Europe required ‘at least some *integrated* defence capabilities’ (Juncker, 2014) (Juncker, 2014, p. 11, *author’s emphasis*). A 2015 EPSC note, ‘In Defence of Europe – Defence Integration as a Response to Europe’s Strategic Moment’, called for more supranational involvement in capability-building. At the 2016 State of the Union, Jean-Claude Juncker affirmed boldly that: ‘We should also move towards common military assets, in some cases owned by the EU. And, of course, in full complementarity with NATO. The business case is clear. The lack of cooperation in defence matters costs Europe between €25 billion and €100 billion per year (...). We could use that money for so much more’ (Juncker, 2016). He announced, to everyone’s surprise, the project of a European Defence Fund to support military capacity-building. Nevertheless, the proposal gave no clear indications as to how this Fund would work. His services were told to produce a concrete proposal by the end of 2016.

They produced the first draft in late November 2016, the European Defence Action Plan (EDAP), which was the basis for negotiations with member-states and led to the first EDF proposal in a Communication in June 2017, and eventually a proposal for a regulation in June 2018. Like before, the Commission justified such projects by collective gains and the necessity to pool scarce national resources given the new international environment. In the EDAP’s section entitled ‘What is the EU’s added value? Are there economic arguments for pooling some of Member States’ defence spending?’, the Commission answers: ‘Collectively, the EU is the world’s second-largest military spender, behind the US. However, because of the fragmentation of efforts, Europeans are still very much dependent (...). The lack of cooperation between Member States in the field of defence and security is estimated to cost annually between EUR 25 billion and EUR 100 billion’ (European Commission, 2016, p. 2).

The Commission entered negotiations with capitals about the concrete forms the EDF could take. Beyond agreeing on the overall goal of efficiency, the Commission and governments disagreed on the policy instrument’s concrete design. Of concern were how the EDF would impact the distribution of competences between member-states and the EU and what financial instrument should be used.

### ***The EDF as a compromise over the perimeter of EU-financed military capacity-building***

Short of getting EU ownership, the Commission tried to extend the EU’s role in financing capacity-building. The Fund was meant to provide *additional* money to cooperating actors, which was supposed to attract both state and private



actors.<sup>13</sup> For the Commission, this was a clear strategy away from its 'negative' regulatory instruments: using the directives to influence states 'was starting on defence with the stick. (...) We did not want to do that (...) because if we only use the stick, we risk political failure. So we did what we often do at the Commission: when we do not have legal competence, we put money in'.<sup>14</sup> The plan was to extend both the EU's financial coverage in terms of what was financed and how. The Commission planned for the EU to finance more than R&D and extend into later stages through a 'capacity-window'. Procurement could be financed by the EU budget whenever possible and otherwise by the pooling of national contributions. While the 2017 Preparatory Action on Defence Research had been granted €90 million for 2017-2019, the Commission convinced governments to launch a European Defence Industrial Development Programme (EDIDP), focusing on the development of prototypes, of about €500 million for 2019-2020. The EDF was supposed to replace and encompass both, with a 13 billion euros budget.

However, the Commission's plan raised political objections pertaining to the distribution of competences between the EU and governments. First, a fundamental question was about the EU's role in military matters. The EDF-led militarisation was considered problematic because of what many saw as the EU's DNA as a non-military power and its relationship with NATO. Overall, there was a strong sense that the EU should not compete with NATO.<sup>15</sup> On these issues, some governments, such as pro-Atlantist Poland and Slovakia, as well as neutral Austria and Ireland, had initially expressed reservations against the EDF plan (Beesley & Barker, 2016). The shared perceptions of security threats and of deteriorated US involvement, as well as a justification about the EDF's contribution, rather than opposition, to NATO, convinced however states to support a stronger EU role in capacity-building.<sup>16</sup> These political issues took a concrete form over the legality of such a Fund. Article 41(2) stipulates that the EU cannot finance activities having defence implications. The Commission's own legal service questioned the Fund's legality and was strongly against it<sup>17</sup>, but was overcome by the Commission's leadership. Commission officials said to have found a 'legal opportunity (...), really on the edge of the treaty'<sup>18</sup>: they framed the EDF as industrial policy rather than CSDP, which allowed them to embed it in articles 173 and 182 of the Treaty on the Functioning of the European Union (TFEU), the same as Horizon Europe or Cosme. While this solution ensured the legality of the Fund and eroded the legal objection to EU militarisation<sup>19</sup>, it has not shut down entirely political critiques against the militarisation of the EU<sup>20</sup>, which can be found in the European Parliament and NGOs (among others, ENAAT or Statewatch). A second concern with the EDF plan was how it would empower even more the Commission in this area of state sovereignty.<sup>21</sup> Some governments had questioned why the Commission should be piloting the Fund rather than the intergovernmental EDA.<sup>22</sup> Others were

reluctant because they saw the Commission as lacking experience and expertise in military capacity-building, making such centralisation not the most efficient solution.<sup>23</sup>

The EDF's ultimate design reflects a compromise with member-states' reservations pertaining both to sovereignty concerns and to this solution's claimed efficiency. First, member-states put limits on the EDF in terms of coverage and funding. The EDF covers only research and development, while the acquisition of military equipment is basically left untouched, only supported by a light administrative toolbox. Against the Commission's 13 billion euros proposal, member-states only granted it a 8 billion euros budget. Second, while the Commission gains some competence, the EDF is also considered by some governmental elites as what could be called a supranational enabler of intergovernmentalism.<sup>24</sup> The EDF is inserted in a series of intergovernmental initiatives governments have launched to facilitate cooperation throughout the capacity-building cycle: the Capability Development Plan (CDP) identifies military needs to be covered in cooperation; CARD (Coordinated Annual Review on Defence) provides information and synchronisation of national budgetary processes to identify opportunities to cooperate; PESCO (Permanent Structured Cooperation in defence) gives a concrete EU framework for projects. The EDF is supposed to fuel this intergovernmental machinery with what is lacking - money: 'the real game-changer in that scenario is the EDF. If you did not have the EDF, I don't think that PESCO or CARD in itself would change a lot of things'.<sup>25</sup> Not only does the EDF brings money, but it rewards institutional complementarity between EU financing and intergovernmental ownership of military capacities: PESCO projects that are granted EDF money receive a higher funding rate. As such, the EDF is supporting more than challenging intergovernmental military capacity-building.

### ***What kind of financing instrument? Some centralisation at the EU level, but no further fiscal integration***

Next to delimiting *what* the EU would finance, another question was through which financial instrument the EU would fund military assets. This question was highly controversial as it touched upon diverging political-economic traditions and preferences regarding fiscal integration. The Commission's first plans made several proposals, some of them aligning with the bellicist state-building hypothesis: paying for military capacities required strong centralisation of financial resources at the EU level, in the form of EU defence bonds and other supranational investment instruments. In September 2016, Jyrki Katainen, vice-president of the Commission, promoted the creation of a European treasury for defence through which participating states would tap markets and fund joint purchases of 'EU-owned assets' (Beesley & Barker, 2016) in areas such as drones, ships, space, or cyber defence.



Some of the Fund's drafters had seen in the EDF the window of opportunity for furthering ideas about Eurobonds.<sup>26</sup> The November 2016 European Defence Action Plan reiterated these suggestions. It promoted capabilities to be funded through project-related debt instruments and encouraged the use of the European Structural and Investment Funds (ESIF) and the involvement of the European Investment Bank.

Many governments opposed, however, any use of common investment instruments, let alone the creation of EU bonds. While the Commission had communicated on the idea that ambitious developments had been stalled by British obstructionism, it met resistance from other states this time. The EDF's design had received support from some states like France, which had promoted it, and Italy (Baczynska, 2016). But strong opposition came from the country that has been – until now – most opposed to the issue of common debt, namely Germany.<sup>27</sup> Reacting to the Commission's November 2016 proposal, a German CSU/EPP MEP is quoted in the press as condemning this proposal as a – poorly – hidden attempt to introduce Eurobonds (Laczynski, 2016). By that time, Eurobonds had been on the EU agenda for a while, and Germany had consistently resisted it on the account that it would create moral hazard and joint liability (Howarth & Schild, 2021). The same debate took place around proposals to loosen Growth and Stability Pact rules for defence, which notably opposed France and Italy to Germany.<sup>28</sup>

The Commission realised that this divergence over economic conceptions would lead its proposition to be vetoed: 'we see that the initial idea, 'we borrow, we create debt in common', is not going to pass the member-states. We have to readjust, and this naturally leads to a more classic approach, which is not really a fund, but which is to support projects. (...) Putting the economic discourse on top was an additional obstacle'.<sup>29</sup> More than a rational calculation of a second-best, most efficient design to achieve economies of scale, the Commission settled on a compromise with which governments were familiar: the use of the EU budget to co-finance projects. Each year, the European Commission defines priorities in agreement with member-states and issues calls for application. It assesses eligible projects and grants funding. EU budget is however still controlled by governments. Rather than more centralised financial instruments, the EDF therefore reflects a compromise between the search for efficiency and member states' preferences regarding fiscal integration. Given its limited scope and intergovernmental control over the EU budget, the EDF does not make the EU the financier of national capacities, but it gives it the role of 'financial facilitator'.<sup>30</sup>

## Conclusion

Whether for vaccines or weapons, the recent Covid-19 pandemic and the war in Ukraine have led European policymakers to redouble their efforts

concerning cooperative capacity-building. Such attempts aim for efficiency gains, all the while negotiating where to draw the line with issues of state sovereignty. The same questions lie at the heart of this article. By analysing the European Defence Fund's design, it seeks to interrogate the varieties of capacity-building in the EU and the factors shaping them. To that end, this paper makes two contributions. First, conceptually, I showed that the EDF constitutes a hybrid form of military capacity-building: it differs from existing national military capacity-building as the EU has a financing role but does not amount to supranational capacity-building because ownership is national and the centralisation of financial resources at EU level is limited. Second, I argue that the choice for such a form of capacity-building is not explained by the strength of efficiency concerns but rather by the competition between the different ways in which the Commission and member-states frame military capacity-building and the compromises found. Their various frames, embedded in efficiency or distribution of competences concerns, inform the negotiations over the policy instrument's concrete design and shape the realm of possible options. Particularly, I have shown that member-states positions regarding both defence and fiscal issues influenced the EDF's final design.

This article opens venues for further research. First, the combination of scarce national resources and growing authority of international organisations makes plausible the further development of capacity-building efforts beyond the state. It is worth investigating what forms capacity-building can take in other policy areas and in international/regional organisations that are less integrated than the EU. Second, this paper calls for a better focus on the intertwined nature of military and financial capacity-building at national and international levels and their implications for the reconfiguration of political authority. This article calls for further and more systematic research into the member states' preferences and their impact on EU military capacity-building.

## Notes

1. Interview 1, European Commission official, DG Grow, 8/01/2016 (itw#1).
2. Interview 2, EDA official, 29/03/2017 (itw#2).
3. Itw#1.
4. Itw#1.
5. Interview 3, analyst, European think tank, 22/03/2017.
6. Interview 4, former Commission official, 07/07/2021 (itw#4).
7. Itw#1.
8. Interview 5, senior official, European defence firm, 04/07/2022.
9. Itw#4 & Interview 6, French diplomat, EU military body, 15/03/2017.
10. Interview 7, Commissioner King cabinet member, 09/07/2019.
11. Itw#2.



12. Itw#1.
13. Interview 8, senior representative, ASD, 02/07/2021 (itw#8); Interview 9, senior official, French MoD, 30/01/2020.
14. Interview 10, senior official, European Commission,, 2019/07/12 (Itw#10).
15. Interview 11, Military officer, EUMS/EEAS, 25/06/2019 (itw#11); Interview 12, member of the Swedish Parliament, 04/04/2021 (itw#12); Interview, Military officer, German MoD, 05/07/2022 (itw#13).
16. Itw#11&12; Interview 14, French diplomat, Prime Minister Office, 23/06/2022.
17. Itw#1&10.
18. Itw#10.
19. Interview 15, senior advisor, French MoD, 24/06/2022 (itw#15).
20. Interview 16, policy officer, NGO, Brussels, 13/08/2018.
21. Itw#15; Interview 17, French diplomat, Prime Minister office, 27/01/2020 (itw#17); Interview 18, German diplomat, 05/07/2022 (itw#18); Interview 19, senior official, EEAS, 07/07/2019.
22. Itw#3.
23. Itw#17.
24. Itw#15&18.
25. Itw#8.
26. Itw#10.
27. Itw#15&18.
28. Interview 20, staffer, Defence Committee, French National Assembly, 07/12/2016; itw#4.
29. Itw#10.
30. Interview 21, senior representative, defence firm, 14/06/2021 (phone).

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