

Joint public procurement as a tool for European Union industrial policy

Francesco Nicoli and Roel Beetsma

Executive summary

Francesco Nicoli (francesco.nicoli@bruegel.org) is a Visiting Fellow at Bruegel and Professor of Political Economy of Europe at Politecnico di Torino

Roel Beetsma is Dean of the Faculty of Economics and Business and Professor of Macroeconomics at the University of Amsterdam

Joint procurement is an important tool that is currently under-exploited at European Union level. It can greatly enhance the effectiveness of public spending in Europe, achieving greater coherence between spending across different countries, exploiting monopsony power, producing economies of scale, reducing downward competition between public authorities, improving the single market and producing a degree of solidarity without resulting in redistribution between EU countries. The EU has already implemented several joint-procurement projects, including for COVID- vaccines, gas supplies and ammunition for Ukraine.

These previous experiences can work both as a blueprint and as a pilot for larger-scale actions. Joint procurement could be particularly relevant in sectors with substantial economies-of-scale and industry-government ties, such as defence. Despite some degree of political opposition, experimental public opinion studies have shown consistently that joint procurement in such areas can strongly improve public support for EU-level action.

Measures that could expand European joint procurement in a politically sustainable way include the use of framework contracts, which allow for *ad-hoc* commitments tailored to the needs of different EU countries; reporting by countries of their future large public procurement plans as a part of the European Semester so that the European Commission could propose coordinated actions if necessary; and the use of staggered contracting and multiple-award strategies, which can ensure a level playing field among companies of similar market power, promoting market-building and supporting the entry of new competitors.

The authors would like to thank the following people for their helpful comments: [...] and [...] for their helpful comments.

Recommended citation: Nicoli, F. and R. Beetsma (2024) 'Joint public procurement as a tool for European Union industrial policy', *Policy Brief* 18/2024, Bruegel





1 Introduction

The European Commission under Ursula von der Leyen has spearheaded a controversial pivot towards a more assertive, European Union-led industrial policy that combines public funding for large-scale industrial projects, a relaxation of certain state aid rules and more assertive oversight of Europe's economic interactions with the rest of the world. By adopting such a coordinated approach to industrial policy, the EU seeks to leverage its collective strength to foster innovation,

- Centrally negotiating framework contracts on behalf of member states, even though the actual purchases are then left to member states at the price-points and contra clauses resulting from the common negotiation;
- Joint procurement proper, whereby the central level – the EU through the European Commission – directly purchases goods and services on behalf of the member states.

Section 2 discusses economic arguments in favour of joint public procurement. Section 3 presents three examples of joint procurement already under way. Section 4 makes use of a set of original survey data from 2020 and 2022 to assess the level of public support (and, hence, potential political feasibility) for joint procurement policies. A substantial part of the discussion focuses on the defence industry, but we also demonstrate support for a role for joint procurement in the areas of energy and medicines.

2 The economic added value of joint European procurement

2.1 Advantages of joint procurement

From a conceptual and theoretical perspective, jointly procuring certain goods and services at European level has a number of potential benefits, including economies of scale, monopsony power, avoidance of downward competition, single market enhancement and reinforced solidarity.

2.1.1 Economies of scale

2.1.2 Monopsony power

Scale matters not only for efficiency reasons, but also because it allows stronger negotiating positions. By pooling demand, the EU can exploit its role as prime or even sole buyer, approaching a condition of monopsony (the opposite of a monopoly). Concentrated purchasing power allows the EU to influence market conditions, dictating more favourable procurement terms, including lower prices and better contract conditions. This can be particularly advantageous in markets where suppliers possess significant market power or in sectors critical to

emergence of any meaningful competition. Moreover, they are often so entwined with policymakers and institutions that they can exert influence on regulatory or financial measures to their advantage or to detriment of competitors.

With joint EU-level procurement, the EU can create meaningful competition between large industrial players that dominate their respective markets but are locked-out from meaningful access abroad. If appropriately designed, joint procurement helps to safeguard

solidaristic objective, although not strictly required for joint procurement to work, might provide a degree of political justification for joint procurement, as detailed below.

2.2 Limitations on joint procurement

First, joint procurement would not be deployable in all possible policy areas. It leaves limited room for differences in preferences across countries and should focus on areas where there is little variation in those preferences. This is straightforward when it comes to a vaccine, for example, for the most relevant feature is its ability to protect against a virus. However, other products might have multiple characteristics that appeal to different countries or groups. This further implies an inherent tension – which in fact characterises all sorts of procurement or purchasing – between prices and quality. This conflict can be particularly problematic in the context of joining otherwise independent purchasing.

Second, monopsony power on the side of the Commission (acting for the EU) could

3 Current joint procurement initiatives

Joint procurement has already been a core part of the EU response to three major crises: the COVID-19 pandemic, the energy crisis and the full-scale Russian invasion of Ukraine. Table 1 provides an overview of EU joint procurement actions undertaken in the last five years.

Even though joint R&D is not new for the EU, and joint procurement was envisaged as one of the main goals of the European Defence Agency since its inception, the genuine added value of EU-level procurement initiatives became apparent only after the EU put in place the 2020 EU Vaccines Strategy. This included centralised EU financing for vaccines development with a series of industrial partners, an expedited regulatory and approval framework and the introduction of the advance purchase agreements (AMAs) for vaccine doses, which allowed member states to signal their interests in purchasing COVID-19 vaccine doses and allowed the Commission to negotiate favourable quotas given the pooled demand (Beetsma *et al.*, 2021).

Table 1: Joint procurement in response to crises, 2020-2024

Sector / type	Research and Development	Contract negotiations on behalf of member states	Direct purchases
Pharma	EU Vaccines Development Strategy (June 2020)	COVID-19 advance purchase agreements (June 2020)	
Defence	European Defence Fund (2017; 2021)	Collaborative ammunition procurement (2023)	Collaborative ammunition procurement (up to €1 billion) (2023)
Energy		EU Energy Platform (2022); AggregateEU & Joint Purchasing Mechanism (2023)	

Source: Bruegel.

The creation of a joint procurement initiative to respond to the 2022 energy crisis was complicated by the inherently geopolitical nature of energy relations, by the general limited available supply within the European Economic Area (with only Norway and the Netherlands having sizeable gas reserves) and by the fact that public authorities are often not responsible for actual gas

dedicated private service provider appointed by the European Commission⁵. However, to ensure minimum levels of stock relling, the platform is mandatory for 15 percent of the national storage capacity of natural gas, ensuring a minimum amount of joint procurement and therefore achieving, on its own, a sizeable price effect (Nicoli *et al.*, 2023a).

Finally, joint procurement is taking place in the context of stopping the Russian invasion of Ukraine. As mentioned, joint development and purchasing of military goods has a long history in joint weapons programmes and associated framework contracts, both within Europe, such as the Euro fighter programme, and transnationally, as in the case of the F35 fighter jet. NATO has dedicated provisions to that end, and joint procurement constitutes one of the missions of the European Defence Agency (EDA) (Caranta, 2023), even though the impact and scale of these activities remain limited. Furthermore, the EU has had since 2017 a dedicated instrument to jointly finance defence R&D, the European Defence Fund with an €8 billion endowment (about €1.1 billion/year over the 2021-2027 EU budget cycle). These various activities, summarised in Figure 1 provide foundations on which a European defence industry could be built, if political resistance can be overcome.

Figure 1: Joint procurement initiatives in EU defence

Source: Bruegel. Note: The EDA and the European Peace Facility have much broader mandates and more activities than procurement. The figure reports only those activities involving procurement.

The full-scale Russian invasion of Ukraine represented a watershed moment. Joint procurement became a tool not just to secure a certain amount of industrial orders for the development of new armaments, as was typically the case in the past, but also to procure and deliver standard products such as 155mm artillery shells, which Ukraine desperately needs. Once again, the Commission proposed a two-level process. The EDA is in charge of negotiating framework contracts with industry partners on behalf of member states, which can commit their own finances to purchase ammunition either for themselves (to replenish stocks) or for Ukraine. Furthermore, the EU, through the European Peace Facility, reimburses purchases of ammunition for Ukraine up to €1 billion

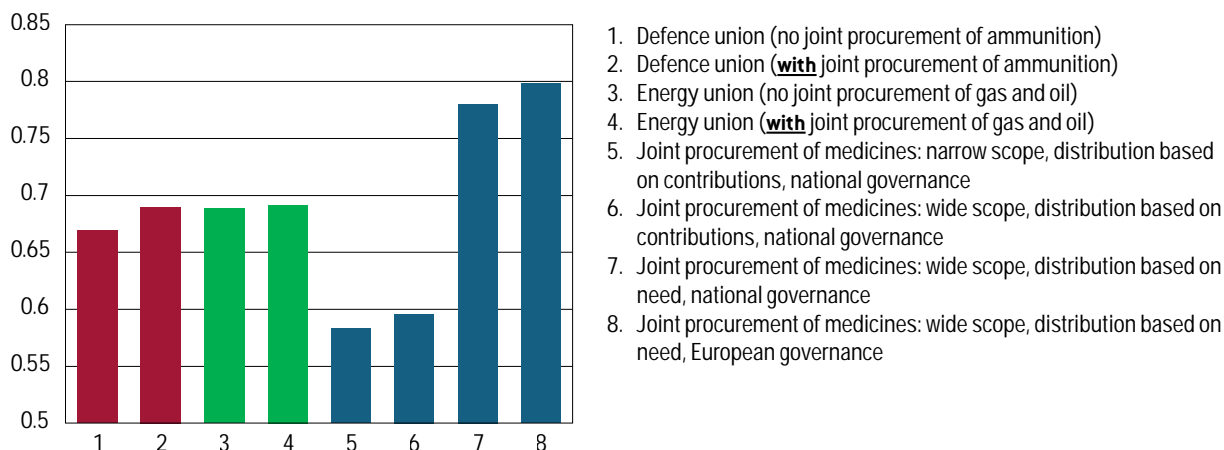
helped in the gas markets⁷, while the ammunition plan has fallen short of the initial ambition.



the Council to decide “in order to address severe difficulties in the supply of certain products, which was then implemented starting with Council Regulation (EU) 2022/2576. Finally, in the field of defence, the EU role in joint procurement finds a legal basis in Article 45.1(c, e) of the Treaty on EU, which establishes the European Defence Agency with the goal of pursuing joint projects and implementing measures to strengthen the European military-industrial base.

All in all, the somewhat liberal use of Articles 122 and 168 TFEU indicates that, whenever the political will is present among enough EU countries, the legal bases provided in the Treaty in its current form suffice to pursue joint procurement, especially if this is done on a voluntary basis. In principle, joint procurement could be deployed to pursue the various objectives listed under Article 3 TFEU, including peace, security and the safeguarding of the internal market, as long as it can be shown that joint procurement as such contributes to better fulfil-

Figure 2: Level of public support for policies including joint ammunition, energy or medicines purchases (% of respondents)



Source: Bruegel. Note: Defence union and energy union refer to EU level governance and policy integration. Different options were proposed to survey respondents, covering criteria including governance mechanisms, financing alternatives, opt-outs and degree of centralisation/decentralisation. For details see Burgoon *et al* (2023) (defence) and Nicoli *et al* (2023) (energy). For details of the health union survey see Beetsma *et al* (2021). Defence/energy union survey data collected in November 2022; health union survey data collected in March 2020.

In relation to joint procurement of medicines, there is substantially more support for ‘solidaristic’ models (the two right-hand columns in Figure 2): solidarity-based models are nearly 20 percentage points more supported than packages including pre-allocated stockpiles depending on contributions¹². There is also a preference for a shift towards institutional coherence, with EU-level procurement decisions accompanied by EU-level allocation decisions (right-hand column of Figure 2).

All in all, public opinion data suggests that there is substantial public support for joint procurement policies at the EU level, that this support cuts across policy and industrial areas, and that – at least in the case of joint medicines procurement – citizens recognise all three fundamental rationales for joint procurement: efficiency, consistency and solidarity, with the latter playing an overwhelming role in determining public support¹³.

¹²A. Burgoon, M. G. Nicoli, and M. P. Beetsma, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>. N. Nicoli, M. P. Beetsma, and M. G. Nicoli, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>.

¹³C. Burgoon, M. G. Nicoli, and M. P. Beetsma, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>. E. Nicoli, M. P. Beetsma, and M. G. Nicoli, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>. F. Burgoon, M. G. Nicoli, and M. P. Beetsma, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>.

²²M. G. Nicoli, M. P. Beetsma, and C. Burgoon, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>. D. Burgoon, M. G. Nicoli, and M. P. Beetsma, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>. I. Burgoon, M. G. Nicoli, and M. P. Beetsma, ‘The Health Union: A Survey of Public Support for Joint Procurement of Medicines’, Bruegel Working Paper 2023/01, Bruegel, 2023. <https://www.bruegel.org/publications/working-papers/2023/01/the-health-union-a-survey-of-public-support-for-joint-procurement-of-medicines>.