
**European Defence Economy
Affected by the Crisis**

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Introduction

The European defence sector generates €86 billion annually – and that is only taking into account the 2009 turnover of the European defence industry for the three areas - aeronautics, land forces and naval forces. It is also a sector that creates some 400,000 direct jobs to which must be added 1.8 million jobs in the armed forces. Direct jobs in the defence industry and armed forces in Europe therefore amount to around 2.2 million. Exports to third countries account annually for around €40 billion, and defence activity represents approximately €240 billion annually at Union level, which feeds the economy through sub-contracting, operating expenditure and household spending in employment basins. To be complete, one must add the indirect impact on the economy of a vast range of intervention activity (security, rescue, disaster relief, etc.) and the effect of external operations, whether these are conducted on a national basis, as part of the Union framework, or within NATO, the United Nations or a coalition.

Without going as far as to reiterate what Serge Dassault said, when speaking of the European defence technological and industrial base in Salon de Provence early September, that one should stop *“crowing over things that don’t exist”*, it has to be admitted that one can only speak of a European defence economy once there is a true European defence market and industrial policy, as set out in the Treaty of Lisbon.

For the time being, despite a few more or less successful examples of transnational projects or industrial players, what we have is an extremely fragmented market which has already allowed and continues to allow – but for how long? - certain companies to survive outside the traditional rules of competition and competitiveness. To a certain extent, this fragmentation – with all the different interests of industrialists, including the military and political decision-makers – nurtures an often misguided perception of capability needs in terms of differences, and a genuine ineptness when it comes to cooperation. To sum up, we still remain faced with an extremely deep cultural problem after over 50 years of European unification – the inability to conceive interdependency and to organise it to the benefit of all. This is all the more absurd as, in reality, in the theatre of operations, this interdependence works on a daily basis. To this must be added the *“porosity of the European market”* to defence goods of American

origin, which can only be matched by an equivalent “*impermeability of the American market to European products*”.¹ Finally, industrial and economic reasoning differs considerably. There is practically only in France - and this is something that struck me during the last summer university – that one speaks of a “*sovereign*” industry. The reaction of a British parliamentarian speaks volumes. As far as I remember he said that, if there is a particularly competitive Indian product, he sees no reason not to acquire it.

But let us get to the heart of the matter by looking at the not altogether rosy picture of the state of the European defence industry and forces and the risk that the crisis could have on technological and capability development. I shall then speak of the possible remedies and the instruments available in the short term.

¹ Charles Edelstenne during the Summer Defence University, 14 September 2009, in Marseilles.

Lacklustre European Forces

In the European Union, we have a total of around 1.8 million servicemen and women, of whom only 4% are effectively deployable on theatres of operations for reasons relating to the lack of equipment, insufficient training, force structures that maintain high levels of red tape in military staffs, recruiting difficulties which, in some countries, lead to an increased average age of the forces and, naturally, political considerations on the use of forces, their cost, and the low rate of tolerance (either real or presumed) that the public feels for losses.

State of forces

Figures speak for themselves. Over recent years, if we add the 27 EU defence budgets together, we have spent around €200 billion annually (i.e. \$260 billion), while our American ally has devoted over \$500 billion to defence (\$710 billion in 2010). Defence has therefore cost every European €400 per year on average, hardly more than one euro per day or, if we take it month by month, €33 per month, which amounts to less than a full tank of petrol or a subscription to the internet. In addition to intervention in foreign parts as in Afghanistan or action to combat piracy off the coast of Somalia, these €33 have been used to ensure air defence missions, mountain rescue or rescue at sea, security or relief and assistance in the wake of natural disasters. However, one has to admit, this investment is very unequally broken down. The British, Greek, French and Estonians pay far more than €33 per month while, at the other end of the scale, the Belgians, Spanish, Hungarians, Lithuanians, Latvians, Luxembourg nationals and the Maltese pay less than half that. In 2009, the share of Greek GDP dedicated to defence was above 3%. The United Kingdom was still above the 2% mark and France, Bulgaria and Estonia were around 1.6%, if one deducts pensions and the share of the budgets devoted to police missions. Outside pensions, this percentage falls very fast. I shall not cite all the countries but Poland stands at about 1.5%, other countries of Central Europe at 1.4%, Germany, Italy, the Netherlands and Denmark at 1.2%, and Belgium, Spain and Hungary at 1%. It is not only obvious that a country like Greece can no longer allow itself to spend more than the others, but it seems to go without saying that there is no reason why the British and the French should pay for the defence of the Germans or the Belgians – especially if one remembers the reticence of our German neighbours to show solidarity with the Greeks at the beginning of the year.

Out of these €200 billion (if referring to the latest data compiled by the European Defence Agency for 2008), €106.2 billion (53.1%) were devoted to personnel costs, €43.3 billion (21.6%) to operations and maintenance and €41.9 billion (20.9%) to investment in equipment, including €8.6 billion for research and development. This last amount includes R&T spending which is essential for safeguarding and developing technological competence, but which hardly reaches €2.5 billion for all 27 EU member states. In just ten years, the total budget allocated to research has been cut by half!

At European level, the most frequently cited problems that need correction affect interoperability, in particular that of command, control and communication systems, strategic transport and airlift. But that is just the tip of the iceberg. One could just as well mention the accumulated delay in space situational awareness or drones. Even collectively, we do not have air, maritime or electronic warfare capability that is likely to guarantee access to a territory.² To end my illustration, I believe it is useful to recall that British military regularly complain of the state of their equipment in Afghanistan and that Her Majesty's government has, on several occasions, had to carry out emergency procurement to complete their equipment, that France is condemned to salvage what it can from its old Pumas in order to extend the life of a few helicopters, not to mention the regular unavailability of its one and only aircraft carrier, and, if I am to believe the report by the Jean Gol Centre published in July this year³, the state of the Belgian armed forces is not much better. I quote: Land component: in-adaptation of artillery to meet theatre needs, recruitment limits well below the threshold of viability, foreseeable total of just 138 armoured troop carriers in 2015 and units which, today, only have vans, and a total of 8 NH-90 helicopters once they have been delivered. Air component: F-16 which are coming to the end of their life, whose maintenance will become increasingly expensive and with no replacement in sight. Naval component: insufficient recruitment, old material, Godetia built in 1965, mine hunters built between 1985 and 1990, and even the frigates bought off the Netherlands already have 18 years of service behind them.

These few examples are a good illustration of the state of our defence. And that is how things looked before the crisis! If I were a doctor, I would say the patient was suffering from a serious chronic illness and that, unless treated urgently, it might just polish him off.

² Corentin Brustlein, *Vers la fin de la projection de forces?* Focus stratégique N°21, May 2010.

³ Le monde change, la Défense aussi (www.cig.be).

New budgetary cuts

Let us now look at the effect of the crisis as things stand at present. Political decision-makers say defence has traditionally been the balancing item, and the indications available to us today show that, once again, they are ready to ignore the operational consequences – as well as the industrial, technological and employment consequences – of severe cuts in defence budgets.

The new budgetary cuts will be all the more dramatic as European countries have reached a critical threshold below which they will no longer be able to maintain certain capabilities, or even preserve the technological competences essential for their autonomy. As the NATO secretary general said just a few days ago, you can cut away the fat but we have reached the stage when we must be careful not to cut into the muscles and bone also.⁴

Such budgetary reductions will inevitably lead to the cancellation or holding up of programmes. Delays affect not only the immediate operational nature of the forces but also mean that equipment does not meet the longer term needs. To this must be added a not so negligible impact on the coherence of capabilities and interoperability of forces in a European context and, it goes without saying, also within a multinational framework, whether it is a matter of a coalition of circumstance or the Atlantic Alliance. Finally, there is only one European country that has shown sufficient flexibility throughout its history allowing it to reactivate defence spending in relation to needs and funding capacity – and that is the United Kingdom. It is a constant phenomenon of the country's history. In the recent past, the fall in defence spending after the Second World War was thus succeeded by a surge in investment with the Falklands War. Elsewhere in Europe, on the other hand, one sees a continual decrease in military budgets, more or less marked depending on the country.

Although, at least in words, the spending level seems more or less upheld in France – a reduction of 3.6 billion over three years has been mentioned – the cuts operated will no doubt not be offset, as the Defence Ministry claims, by savings generated by reforms underway (54,000 posts less), which are proving in the immediate to be somewhat costly, or by the sale of family jewels (such as the Parisian mansions to house the various headquarters). Because of the crisis this has not proven as easy as hoped. When all is said and done, the 2011 defence budget (other than pensions) will be less than €29 billion. This amount was close to €33 billion in 2009, and including pensions about 10% of the state budget. The amount stated in the draft financing law has still to go before Parliament and will also

⁴ Anders Fogh Rasmussen during a German Marshall Fund conference on 8 October 2010.

be amended in the context of implementation as is customary. The same will be true in 2012 and 2013. Many programmes could suffer for this, beginning with the upgrading of the Mirage 2000D and the procurement of Multi-Role Tanker Transport aircraft.

In the United Kingdom, the defence budget, which amounted to €44.5 billion in addition to spending relating to external operations in Afghanistan and Iraq, is to be cut by 8% instead of the 10-20% initially requested by the Ministry of Finance. However, to this 4 billion cut in the 2011 budget, must be added inevitable cancellations of programmes given the lack of funding foreseen by the previous government for the 30 main procurement projects, according to a National Account Office report from December 2009. This shortfall corresponds to the equivalent of an annual budget (43.3 billion) over ten years. With a constant budget, the MoD would be forced to cancel or delay acquisitions for the sum of around €4.3 billion. We therefore arrive at around €8 billion less, with considerable consequences for the Royal Air Force. There is talk of a reduction in Eurofighter orders to 107 aircraft (instead of the 232 initially planned), a reduction in the order of JSF to 50 aircraft (instead of 138), a cut in the number of Tornado squadrons, the premature withdrawal of the Harrier that will leave the British aircraft carrier fleet without planes for ten years, and the slashing of the Nimrod MRA.4 patrol aircraft. To this must be added the hasty withdrawal, from next year (and not 2014) of the Ark Royal aircraft carrier, as well as a reduction in the number of naval vessels from 24 to 19 (6 type 45 destroyers and 13 frigates), a reduction in the number of personnel (221,000 compared to 283,000 at present, i.e. 17,000 military and 30,000 civilians less), as well as cuts in the number of armoured regiments and artillery (40% reduction of the number of Challenger tanks and 35% reduction in heavy artillery). The RAF will continue to operate 7 C17 and is to acquire 12 new Chinook helicopters (instead of the 22 initially scheduled) and 22 A400M, through early withdrawal from service of the C-130. In 2020, the Royal Navy will only have one Queen Elisabeth aircraft carrier, which will enter into service four years behind schedule to allow catapults and arresting systems to be installed. The United Kingdom in fact is giving up short take-off and vertical take-off aircraft and will only order one version of the JSF, 12 units of which will be allocated to the aircraft carrier arm. Finally, replacement of the Trident nuclear submarines has been postponed to 2015 and replacement of the Vanguard class submarines till 2028. The number of launch tubes are expected to be cut by half (eight per submarine instead of 16) and the number of nuclear warheads on submarines should be down from the current 48 to 40, with Great Britain also planning to cut to 180 the total number of nuclear warheads held, i.e. 45 fewer than at present.⁵ Finally, the United Kingdom will withdraw its 20,000 troops stationed in Germany, in two stages, by 2020.

⁵ *Janes Defence Weekly*, 27 October 2010.

In Germany, debate is raging over whether or not to abolish national service, which would reduce troop numbers from 250,000 to 165,000. Reorganisation of the German army is accompanied by a budget cut of €8.3 billion until 2015. From the €31 billion at present, the net defence budget should fall to €30 billion in 2011 and to €27 billion in 2014. Intervention and stabilisation forces would see their numbers cut by half to 54,000 (which would at best guarantee the availability of 15,000 for external operations). The number of tank companies will be reduced from 18 to 12 and the number of armoured infantry companies from 24 to 18. Among the confirmed or planned equipment reductions there are: - the NH-90 helicopter (from 122 to 80), Tiger (80 to 40), A400M (60 to 50), cancellation of the last Eurofighter delivery (i.e. 37 aircraft fewer), abandonment of the MALE Talarion drone, reduction of Puma infantry combat command vehicles to 280 from the initial 400, withdrawal from service of eight 122-type frigates as well as twelve Sea King helicopters. Only three F 125 frigates would enter into service between 2016 and 2019 instead of the four initially scheduled.

Reductions also affect Italy where the 3b section of the Eurofighter command will not be signed, making 25 aircraft fewer. In total, the Italian air force will have to be content with 96 Typhoon, compared to the 121 initially planned. For the Navy, only 6 FREMM frigates will enter into service, the four others being sold on, potentially to Brazil.

In Austria, a question mark is hanging over the military service and most of the country's tanks have been withdrawn from service. In Bulgaria, where defence spending is now below 1.4% of GDP, hardly €500 million, troop numbers are due to be scaled down by 20%. In Spain, the defence budget is being cut by 7% to exceed no more than €7 billion next year. There too, numbers are due to be reduced by 3,000 and investment spending by €220 million. In the Netherlands, there is currently talk of reducing the F-35 fighter command. The Dutch air force will have to be content with 50-60 aircraft instead of the 85 initially planned.

In Greece, the defence budget will be amputated by 10% with an equipments budget falling from €2.2 billion to €1.8 billion, just enough to buy the necessary spare parts for maintaining existing platforms in operational condition. No new acquisitions are planned. All programmes decided have been delayed and spread out over time and it seems as of now to be ruled out that any additional options appearing in the contracts will be activated. For the rest, alternative solutions are being sought such as taking over Olympic Airlines' commercial aircraft for air surveillance missions.

A few rare countries seem for now to be miraculously escaping this general trend. That at least is the case of Finland which is providing for an annual increase of 2% in defence spending between 2011 and 2015, especially to replace obsolescent equipment. The other piece of good news is from Poland where the

Ministry of Defence has called for a 7.1% rise in the defence budget for 2011, which would thus amount to about €6.7 billion. Nonetheless, the debate over whether to discard the 1.96% of GDP defence objective has resumed in Warsaw.

Even in Switzerland, savings are being made. The military will soon not exceed 80,000 men, instead of the current 120,000. At the same time, the Swiss Army will see the number of brigades and the level of technological equipment for troops decline. These measures, which should be in place as part of a reform to be undertaken as of 2012, aim not to exceed the current budgetary framework of 4.4 billion francs. On the other hand, the principle of a militia force and the obligation to complete national service will not be affected. The reduction in numbers and the need to lower operating costs to below 60% of the military budget will, as Minister Ueli Maurer points out, cause posts to be closed in the armaments industry, a fall in the level of technology and closure of military sites.

In view of this somewhat dramatic situation, what can be observed? A spontaneous movement in favour of cooperation, an effort to work together? Far from it! Each country is withdrawing into itself. Each in his own corner, is seeking to safeguard his own small capabilities, at the risk of losing them altogether at the next sound of alarm. And in this context, the so-called "large" countries have no reason to be jealous of the smaller countries. France and the United Kingdom have also pulled out of the European ensemble by giving preference to bilateral cooperation, which immediately takes the form of a catalogue of good intentions under the pretext that European cooperation would not work. The trouble is that bilateral cooperation has often been tried and it does not really seem convincing! It is now up to the two countries themselves to show that cooperation can actually work.

With the signature, on Tuesday 2 November in London, of two treaties and a series of related agreements and letters of intent, Nicolas Sarkozy and David Cameron plan to develop cooperation between their armed forces, with the sharing and pooling of equipment, consultation on acquisition procedures, and industrial and technological cooperation. A treaty on cooperation in the field of nuclear technology, signed for 50 years, organises mutual access to simulation and research installations at Valduc (France) and Aldermaston (United Kingdom). To this must be added a series of projects of varying importance: - a forum for exchange between the armed forces on operational matters; - medium-term creation (no date has yet been set) of a joint expeditionary force which will not be a standing force; - constitution by 2020 of an integrated fleet air arm based on their only two aircraft carriers (which seems to point to the second French aircraft carrier project being discarded once and for all); - the conclusion by end 2011 of a joint contract with Airbus Military concerning maintenance, logistics and training for the A400M (when it would have been warranted to involve all the countries that are to procure this capability); - launch of a joint study on the

technology needed for the next generation of nuclear submarines; - the setting in place in 2011 of a project team tasked with defining specifications for an antimine system prototype; - assessment of satellite communication cooperation potential; - reflection on possible use by France of Britain's surplus capabilities for in-flight refuelling; - assessment in 2011 of the prospects for a joint MALE UAV programme to be developed between 2015 and 2020; - and the launch, in 2011, of projects in the field of missiles, with this cooperation serving as a test for initiatives in other industrial sectors. Can such cooperation come within a broader European framework? The statement published in London makes no mention of the possibility of other European Union member states taking part in the projects set out.

The Shrinking European Defence Market

A multitude of players on a fragmented market

By excluding the micro-states which one can say do not have a defence system, there are still in Europe today over 20 defence markets organised nationally, keeping industries buoyant whose competitiveness is far from being the rule. Demand on this market is expected to plummet in coming years. As I said in my introduction, this weakness in demand is accompanied by a permeability of the market to imports and a strained export capacity caused by the lack of permeability of the US market to European products, strong competition from the United States and increasingly also other export powers, as well as export restrictions imposed by the ITAR regulation, a large number of European defence goods comprising American components. Declining orders show how fast the European defence market is shrinking today. It has therefore become illusory to want to develop competitive programmes in Europe, especially with regard to major equipment. In future there will no longer be any room for three fighters (Eurofighter, Gripen, Rafale), to which must be added the JSF. Neither will there be room for 4 kinds of tanks, 23 armoured personnel carriers and 7 models of helicopters. The same might be said for the many naval programmes, frigates and submarines and their different versions. How can one believe that 16 naval defence shipyards can survive in Europe when there are only three in the United States? Rationalisation, restructuring, consolidation of our industrial tool is essential. It is urgent. Any attempt to artificially keep production sites alive – whether these be for aeronautics, land or maritime material – will only delay the process and make costs heavier.

To date, political decision-makers have not fully calculated what is happening. And the defence industry – although one must admit that the same kind of behaviour exists in other sectors, beginning with pharmaceuticals – adopts a perfectly schizophrenic attitude consisting in hanging on to market fragmentation when everyone knows fragmentation is harmful. Some will no doubt argue that this fragmentation safeguards a form of sovereignty. This argument can be challenged for two reasons. First of all, the permeability of national markets to non-European products is obvious and dependency continues. Then, in a Europe where financial

interdependency is real (amounting to hundreds of billions of euro), the sovereignty which is attached to the industrial defence sector no longer has any reason not to be based on the same interdependency. The European Commission has sought, through its defence package, to aim at defragmentation of the markets by introducing competitive and transparent elements. However, the transposition of the directives, despite a further effort to clarify and harmonise over recent months, is now having the opposite result. Curiously, under the impact of pressure in the national context, regulatory aspects of public procurement directives and intracommunity transfers of defence goods are being strengthened outside any harmonisation. An increase in the effectiveness of the fragmented markets could result from this, which would only delay the effort of consolidation in demand and restructuring of supply.

This market fragmentation also paves the way for offsets, those famous compensations that can take several forms – the installation of production sites on the territory of the procuring country, a call for subcontractors of that state for producing the equipment sold or another defence good or compensatory civilian markets – all just as harmful to competition and market transparency. Not only do offsets regularly promote noncompetitive products and/or products that do not correctly meet military specifications, but they constitute a sort of double sanction for defence budgets in times of crisis. I mention double sanction, because defence ministers and the military that see their budgets reduced also find they are forced to buy ill-adjusted or more costly equipment to refinance the general economy.

An industry undergoing palliative care

Given the prospects of acquisition that are shaping up, if we delay in restructuring our defence industry and unless we very rapidly make an investment effort in research and technology to safeguard and develop our skills and ability, then the life expectancy of the European defence industry will no longer be beyond ten to fifteen years. Some in industry, in the political staffs, in European institutions and in particular the European Commission, already believe the defence industry has had its day and see it transformed into a security industry, a civilian industry that could provide military variants on the basis of civilian equipment. This reasoning, I believe, is based on several perfectly mistaken suppositions: - security, with civilian connotation, would be enough to face up to asymmetrical threats known today; - contrary to the reasoning of the US market where civilian products derive from military research, in Europe military equipment could derive from civilian research; - and Europe, a civilian and diplomatic power, could do without a military instrument. If I am to believe NATO, or even the EU, the global approach necessary for facing up to asymmetrical and insurrectional conflicts, and for producing the efforts of stability sought are precisely based on a

combination of civilian and military means. In the technological sphere, it is far easier to produce a degraded version based on more high tech technological development than the contrary. Finally, history teaches us that diplomatic clout is tributary to power, including the ability to use force. I do not see, in our time, any reason to question the Latin adage: *si vis pacem para bellum*. (if you want peace, prepare for war).

If we are not careful, security could swallow up defence. The pressure exerted on national defence budgets, national reticence to cooperate at European level, and infighting between institutions in Brussels - all that contributes to it. To illustrate what I am saying, I shall take two examples. The first concerns industrial policy. This can only develop on the basis of clearly identified technological priorities. The industry and its association at European level, the ASD, have expressed the hope that this work be done, but the determination of capabilities to be kept comes up against the different views of different governments. How can one invest without knowing what the priorities for the future are? From this necessarily results pointless duplication and capability shortfalls. The second example concerns research. Last spring, defence ministers meeting within the Steering Board of the European Defence Agency called on Catherine Ashton to examine the possibility of setting up a preparatory action plan on defence research, after the fashion of that which, under the impetus of Commissioner Philippe Busquin in the 6th framework programme for research, allowed us to have a thematic security research programme. Catherine Ashton therefore suggested to her colleague for industry, Antonio Tajani, that this new preparatory action be set in place. She came up against opposition from the services of DG Enterprise and her Italian colleague who replied that the current crisis did not provide any prospect for increasing the budget of the future framework programme, the 8th, and that, as a result, the creation of preparatory action for defence research would automatically have the effect of reducing funding allocated to civilian research – something which he found unacceptable. We are talking of only a few hundred million euros over seven years but, it is true, this could have escaped the control of Mr Tajani and come under that of Ms Ashton or the European Defence Agency.

One would like to believe that the reduction in internal European orders for military equipment will be offset by increased competitiveness on the export market. If we were to believe this, we would be ignoring the fact that the number of potential buyers of military equipment, and especially of major equipment requiring advanced technology, remains reduced while competition becomes increasingly fierce. This means that the volume of orders varies considerably from one year to the next. For France, forecasts for 2010 orders stand at around €5 billion but orders to date are about €3 billion. It is obvious that there has been a decline since the €8 billion worth of orders notched up in 2009. Furthermore, the lack of foreign contracts for the Rafale has an “*effect on our programming as*

*contractual provisions compel us to maintain production of eleven aircraft per year, with these aircraft being allocated to our forces as we have no customers on the export market”.*⁶

⁶ Hearing of the director general for armaments, Laurent Collet-Billon, on 20 October 2010, before the French National Assembly defence committee.

For Europeans, Unavoidable Should Not Exist

This long, though not exhaustive, description of the landscape in which defence and the defence industry operate in Europe must not lead us to believe that it is too late to put the defence instrument and the economy which it underpins back on track. It will have been understood from the preceding overview of the situation that there will have to be investment to ensure an appropriate capability level, maintain and develop technological skills, and save an industry, its sub-contractors and jobs. This is entirely possible. It is simply a matter of choice and political will.

Alongside national efforts, which are essential, at European level we have at our disposal a vast range of instruments which allow us to bring more effective, more coherent and more cost effective change to our forces. And if we abandon our constant internecine quarrelling, we also have the tools for a genuine European industrial policy.

Saving the European defence tool

Since 2004, the European Union has had a cooperation body which could prove to be invaluable in making savings of scale at European level and redirecting funding to the procurement of new capability – the European Defence Agency. This Agency remains, unfortunately, underused and underfunded. Over the course of the last three years, it has tried, with varying degrees of success, to become involved in concrete, European-dimension projects: satellite observation through the MUSIS programme; the heavy transport helicopter project; the TPLS platform (outsourcing logistical support) which made savings of €5 million in its pilot stage; airworthiness, which will allow air traffic rules to be harmonised and development of which will bring savings of 25% of purchase costs of aviation platforms (as an aside, adoption of a single certification procedure for the NH90 helicopter would have saved €5 billion); and finally the European ESCPC communications satellite purchase unit which will bring savings of the order of 10% on these communications. All this is, of course, only the beginning. Billions could be saved every year and redeployed to meet other military needs, so long as states are prepared to commit themselves to European cooperation through category A and B projects or joint

investment programmes (JIPs) which, need one point out, would deliver 100% of research findings for a 5% investment. In reality, the cost of 24 certification procedures, 20 logistical supply chains, the same number of maintenance chains, not to mention the costs of training facilities, are prohibitive and just so much unnecessary duplication of effort. Money wasted in this way could be better used elsewhere. In the area of development and procurement, the European Defence Agency now has a technical partner – OCCAR. This duo should be the central players in procurement which ought to be determined by very early joint identification of operational needs and technical specifications, involving users right from the design stage so that dissatisfaction, delay and additional costs may be avoided.

As a report from the Conseil économique de la défense in July of this year notes: “There is no credible alternative to the European Defence Agency, and that includes NATO. It must, therefore, be made more effective. For this, its powers have to be extended through ambitious development which makes full use of the opportunities offered by the Lisbon Treaty. ... The EDA must continue to pursue the process of programme generation which it has started. It must take on the role of stating military needs in coordination with the EU Military Committee and the EU military staff. ... EDA responsibilities in the area of R&T must be extended through an increase in its funding and encouragement to formalise cooperation with national research bodies. ... Account of the life cycle of programmes should be harmonised at European level. This initiative could be piloted by the EDA or OCCAR. ... The process of European standardisation should be continued, keeping it consistent with NATO’s. The Lol should become a think tank for the European Defence Agency”.⁷

For the moment, member states should take advantage of the opportunity offered by the preparation of the decision which is to replace the 2004 joint action to improve decision-making in European defence and build bridges with the other institutions, particularly the Commission, with a view to developing European capabilities and armaments policy. Unfortunately, given the draft decision on the status, headquarters and operating rules of the agency that is currently on the table, this does not look very likely. It retains the mechanism that allows a single country to block any decision it does not like. This mechanism is backed by several countries, such as Greece and Cyprus, which use it to block Turkey’s involvement, and also the United Kingdom which has made consistent use of it to block any increase in the defence budget, which stands at barely

⁷ Comment développer les programmes en coopération et améliorer leur gestion ? CED Document No 2 edited by General Jean-Paul Palomeros, Michel Scheller and Philippe Esper.

€30 million per year. In a briefing paper⁸ published at the start of the summer, Anand Menon called on the British government to rethink its relationship with the United States and to fully commit itself to European cooperation, backing the development of the Defence Agency. However, the recent British strategic defence and security review, the nature of the Franco-British cooperation and indeed the draft decision on the Agency would suggest that the recommendation has been ignored.

Alongside this existing instrument which needs to be strengthened, the Lisbon Treaty, through Articles 42 and 46 and protocol 10, offers permanent structured cooperation. It is urgent that the PSC be removed from the false debate on a fashionable neologism, “inclusivity”, which is undermining its implementation. Inclusivity cannot be an end in itself. At best it is a principle deriving from the Treaty. To reduce the level of ambition to that of the member state which devotes the least to its defence would be all the more dangerous as we would simply end up re-forming the Union inside the Union with the same unanimity rule. It would be like setting the speed of the train at that of the slowest carriage. Even worse, it would always be the same ones who would bear the brunt, an eventuality that could dissuade some from becoming involved. For PSC to be useful, then, it must respect the mechanism set out in the Treaty which makes provision for criteria which demand a minimum level of input from the start. Member states which cannot immediately meet the criteria will still be able to join the group as soon as they bring themselves up to the demands set. This is the price that would have to be paid if the PSC is to become a political instrument which can progressively lay the foundations of European defence, building on a group of forces drawn from the Euroforces (Article 42.3 of the TEU) and the creation of a planning and conduct of operations HQ, integrating the necessary civil-military dimension which makes the European Union different from the rest. At the same time, structuring the PSC establishment and operation process with these criteria and commitments, using the Economic and Monetary Union as a template, will allow force transformation on the basis of coherence, sharing, pooling, specialisation and complementarity.

Some authors – I am thinking, for example, of Jean-Pierre Maulny⁹ – argue for a European defence and security White Paper. The idea is not a new one¹⁰ and it certainly has some attractions. Nevertheless, I share the view of General Hakan Syren,

⁸ Between Faith and Reason: UK policy towards the US and the EU (www.chathamhouse.org.uk).

⁹ L'Union européenne et le défi de la réduction des budgets de la défense, September 2010.

¹⁰ André Dumoulin, *L'identité européenne de sécurité et de défense. Des coopérations militaires croisées au Livre blanc européen*, éd. Presses inter-universitaires européennes-Peter Lang, Bruxelles, 1999 et « La relance du Livre blanc européen de la sécurité et de la défense », in DSI, February 2007.

Chairman of the EU Military Committee, who stated in mid-September that, for the moment, priority must be given implementing the Lisbon Treaty¹¹. In addition to the PSC, conditions have to be decided for the application of the two solidarity clauses (Article 222 of the TEU) and mutual assistance (Article 42.7 of the TEU), a fund established to finance preparation of operations (Article 41.3 of the TEU) and the arrangement determined to allow a group of member states to undertake an operation on behalf of the EU (Article 44 of the TEU). These are all parts of the puzzle which have to be put together to form a coherent whole. Drafting a White Paper will take time. It is a complex task which involves – all 27 member states! – identifying our interests, our needs, the risks and threats and also the means that will be required to defend the first mentioned, meet the second and protect us from the others. Moreover, an initial rationalisation of our defence instrument will provide us with useful clarification to help us to carry out this work. To recapitulate, then, the White Paper should be a medium term objective of permanent structured cooperation.

Developing an industrial policy worthy of the name

Setting up an industrial policy worthy of the name is the other imperative if there is to be a genuine independent, high-performance European defence technological and industrial base. This policy must lead the restructuring our industry so badly needs. Its aims must be competitiveness, creation of a transparent and competitive market, consolidation of demand based on real operational needs, identification of clear strategic priorities that lead to efficient industrial strategies, harmonisation and simplification of procurement procedures, especially cooperative procedures, and development of a coherent and appropriately funded research and technology policy. It will also have to include politicians, industrialists and users, that is to say, the military, and also technicians and researchers. Implementation will have to involve the Defence Agency, the European Commission and the Military Committee if it is to be a coherent whole. The Lisbon Treaty provides the ideal opportunity as, in Article 42, it makes provision for a European capabilities and armaments policy and allows Community funding of defence research. For any of this to become reality, the support has to be won from the member states and the reservations of the institutions overcome, the European Defence Agency seeing this as its own private domain, and the European Commission and Parliament wanting to put the brakes on what they see as the militarisation of the Union, but which, it is clear to all, has no basis in reality.

¹¹ Interview with Europe, Diplomacy & Defence, No 349.

In the summary of the 46th national session of the IHEDN¹², one finds a very appealing idea to revive European armament cooperation and forge an industrial and technological base for a genuinely European defence: merge the EDA and OCCAR to create a new armament directorate general within the European Commission. The text reads: “The new European fighter aircraft, the drone- or satellite-based observation system, anti-ballistic missile defence, major programmes defining the architecture of the EDTIB, should be put under the responsibility of this new body. ... Only the European Commission with its massive budgets and body of binding directives, which has been able to implement the CAP and the euro, is strong enough to impose painful but essential decisions. In particular, states must no longer award contracts to European industries unless they form part of European rationalisation that has been deemed necessary.” The idea is a very attractive one. It does seem, however, just a tad premature. Let us begin by implementing the capabilities and armaments policy which the Treaty provides for by building genuine collaboration between the Commission, the EDA and OCCAR. In this context, one of the first priorities would have to be improving the management of cooperative projects and financial arrangements. This means that, once the specifications have been set, the agency (whether OCCAR or another) must have greater autonomy and more power of supervision and scrutiny of the industrial player or players so that delays and cost overruns can be avoided – the idea here is to make sure there is no losing sight of the technological goals and what I would call “industrial racketeering” – the practice of demanding extra funding as a programme is coming to an end under threat of withdrawing from the project. As it would seem unlikely that an end can be put to the concept of “fair return” any time soon, though it might be challenged to a certain extent through communitisation of the policy, greater flexibility has to be sought by building in maintenance of equipment in operational condition.

¹² Atouts et handicaps de la BITD et de la BITDE face à la crise financière et économique apparue en 2008.

Conclusion

Nothing, then, is unavoidable. Unavoidable is merely the translation into politically correct language of an extreme form of resignation in the face of budgetary difficulty. Giving up comes at a price. At best, as French minister Hervé Morin said in Ghent, Europe will become a sort of protectorate, similar to Italy at the end of the 18th and beginning of the 19th centuries, a myriad of caricatures of sovereign states, hostages to the whims of its neighbours and conflicts between rival international powers. At worst, a situation which must never be ruled out, it will have to face the much talked of strategic surprise. The price to be paid for neglecting defence could then become astronomical.

If SIPRI figures are to be believed, military spending has shot up worldwide, from \$830 billion in 1998 to \$1,531 billion in 2009. If one compares the growth rates in the various regions of the world, however, the contrast is striking (figures are for the period between 1997 and 2007): Middle East - +78%, Africa - +68%, North America - +62%, Asia and Oceania - +54%, and Europe - +13%.

We must be brave enough to face up to reality. All around us is instability. Centres of insurrection are springing up everywhere, including in our direct neighbourhood. Everywhere, including at home, there is a growing threat of violence, a trend which can only increase with the gradual disappearance of the welfare state, the rise in inequality and resurgence of social tension, populism, demands for recognition and extremism of all sorts. Without wishing to create panic, I have to say we are in a situation which closely resembles that of the 1930s, the major difference being that our growth rate is close to zero, our colonies are a thing of the past and we are no longer the centre of the world. And this unstable world, both externally and domestically, the two dimensions being intrinsically interconnected, may at any time become the theatre of a new conventional war. If, in the name of security ideology, we fail to pay sufficient attention to this possibility, we run the risk of leaving ourselves defenceless against a strategic surprise which we will have created ourselves.