

## **The EU between Pooling & Sharing and Smart Defence**

### **Making a virtue of necessity?**

**Giovanni Faleg and Alessandro Giovannini**

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#### **Abstract**

The financial crisis has deeply affected European defence budgets and, as a consequence, the EU's capability to act as a provider of global security. This paper assesses the extent to which pooling & sharing (P&S) of military capabilities is a viable plan to boost collective capacity-building and offset the heavy budget cut-backs, drawing impetus from the NATO 'smart defence' agenda. Although multilateral cooperation is proven more efficient than the status quo through the lens of economics, and a set of external stimuli would facilitate deeper military integration, the paper acknowledges that a fully-fledged EU defence market remains difficult to attain due to short-term political and strategic considerations. However, piecemeal progress in specific areas is possible and viable, if political conditions are met. The last section of the paper offers some policy recommendations towards a pragmatic and feasible roadmap for P&S.

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# Contents

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1. INTRODUCTION.....	1
2. THE EU POOLING & SHARING: NEW LOOK TO AN OLD IDEA.....	2
3. THIS TIME IS DIFFERENT: WHY POOLING & SHARING IS NO LONGER TABOO.....	5
3.1 In times of austerity, inefficiencies are no longer acceptable.....	6
3.2 Libya, a reality check for the EU defence policy.....	10
3.3 A transformed defence industry in a multi-polar world.....	11
4. THE ECONOMICS OF EU MILITARY SPENDING.....	11
4.1 An incomplete common defence market.....	11
4.2 The demand side problems.....	12
4.3 The supply side problems.....	13
5. THE ROAD AHEAD: FROM GHENT TO CHICAGO, CAN EUROPE MAKE A VIRTUE OF NECESSITY?.....	17
5.1 Re-modulation of strategic hardware provision strategy.....	17
5.2 Designing EU common R&D programmes.....	19
5.3 Single EU defence market for non strategic equipment.....	20
6. CONCLUSION.....	22
REFERENCES.....	24

**List of Figures**

Figure 1. European historical military expenditures.....6

Figure 2. Public defence spending in the EU .....7

Figure 3. Public opinion’s view about defence expenditure policy (2011) .....8

Figure 4. Collaboration in defence equipment procurement expenditures.....13

Figure 5. US VS EU defence industry .....15

Figure 6. Defence industry in the EU: MS national companies .....16

Figure 7. Defence Budget R&D in selected countries.....18

Figure 8. European equipment procurement and R&D/R&T.....20

Figure 9. Global military spending.....22

**List of Tables**

Table 1. European defence cuts.....9

Table 2. World defence industry.....14

Table 3. Suggested policies.....21

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## **1. INTRODUCTION**

The US Defense Secretary, Robert Gates, warned in June 2011 that America could abandon NATO if current trends in the shrinkage of defence capabilities were not reversed (Traynor, 2011). European defence establishments were then faced with a momentous and difficult choice: either the continent's defence assets grow bigger, hence complying with alliance commitments, or they get smaller and cede to austerity pressures.

It goes without saying that, under the present circumstances, no leader can float a rise in military spending without facing public criticism and an almost inevitable loss of support from his/her own electorate. And why is it necessary to increase military expenditures anyway? Fears of a Soviet invasion vanished more than 20 years ago, together with the menace of a nuclear war in Europe. As for the threat posed by international terrorism, the EU's role in counter-terrorism has privileged police and justice cooperation over the military approach: overall, EU member states tended to treat terrorism as an internal affair and were highly critical of the US military-driven concept of 'war on terror' (Keohane, 2005). In other words, with Europe facing no imminent threat, political arguments for increased military spending in an age of austerity are doomed to lose ground.

On that account, significant defence cuts are not entirely surprising. In the UK, the coalition government's 2010 strategic defence and security review (HM Government, 2010) entailed the biggest defence cuts since the end of the cold war. Budget sacrifices included tough measures such as a fall in defence spending by 8% in four years, downsizing the army by around 7,000 troops, the scrapping of Harrier jump jets and Nimrod reconnaissance planes, and last but not least, the decision to decommission the aircraft carrier HMS Ark Royal well before the two new aircraft carriers under construction (HMS Queen Elizabeth and HMS Prince of Wales) will be ready to replace it. The latter measure implies that no plane will be able to fly from British aircraft carriers before 2019.

What is also not surprising is that states have sought to decrease defence costs and increase efficiency through fostering bilateral or multilateral forms of cooperation with other states. Perhaps the most remarkable example is the defence agreement signed by the UK and France in London on 2 November 2010, involving unprecedented cooperation in the field of defence, including shared facilities to test nuclear warheads, the sharing of aircraft carriers for training purposes and possible military operations, the creation of a joint expeditionary force and shared resources on training, maintenance and logistics of A400M transport aircraft. This form of cooperation, however, was not enough to prevent Europe from becoming the target of public criticism when the Anglo-French-led campaign in Libya ran out of munitions.

To fend off a European retreat on defence matters, in August 2011, NATO (Rasmussen, 2011) called for more cooperation between European member states in buying defence equipment, training and specialisation of military tasks. The underlying logic of the 'smart defence

agenda', whose implementation package will be presented at the NATO Summit in Chicago in May 2012, is straightforward: instead of pursuing costly national programmes, allies can seek more cost-effective solutions by pooling and sharing (P&S) resources.

Burden-sharing is not a new concern in transatlantic relations. Nor is the idea of pooling and sharing of military capabilities in Europe (Biscop, 2005). What the two concepts have in common, however, is that they appear to be a never-ending struggle, which has systematically failed to turn into concrete action. What is new is that the financial crisis, together with the lessons from the Libya campaign, have made it possible to link the idea of a fairer, hence more significant European contribution to NATO's capabilities development to a 'smart' way to handle defence in an age of austerity through multilateral cooperation (Giegerich, 2006 and Valasek, 2011). Furthermore, the re-orientation of the US strategic interests towards the Asian and Pacific regions is pressuring Europeans to refocus their approach towards the neighbourhood and to consider ways to upgrade and maintain hard security capacities without impacting on the fiscal deficit.

These factors have triggered a revival of the discussions on the Europeanisation of military defence in the EU, boosted by the process known as the 'Ghent Framework' (Biscop & Coelmont, 2011). Therefore, three important questions arise: first, what impact will this new transatlantic impetus have on the European Union's defence market and, more broadly, on the Common Security and Defence Policy (CSDP)? From an economic standpoint, is the current structure of the EU defence market conducive to P&S? Third, what are the real prospects for deeper cooperation in a sector where national protection tendencies and strategic interests are way too strong to allow for openness and liberalisation?

This paper provides a detail investigation into why and how the rationalisation and optimisation of EU defence spending through pooling and sharing is needed, and what are the main obstacles Europe will face to put this agenda into practice. We argue that, although structural conditions after 2008 have become favourable so as to allow the EU to make the historical move towards deeper military integration, a fully-fledged EU defence system and market remains unattainable due to political and strategic considerations. At the same time, however, piecemeal progress is possible and viable, especially if boosted by a credible NATO call for 'more Europe'.

Our analysis is structured as follows. The first section defines pooling and sharing in the framework of EU defence markets and summarises the key points of the academic and policy debate. The second section explains why current circumstances make the P&S agenda likely to be implemented now, as opposed to previous unsuccessful attempts. The third section investigates the economics of EU military spending in order to clarify why P&S is necessary and what are the main weaknesses in the current EU defence system. Finally, the fourth section makes some recommendations towards a pragmatic and feasible roadmap for P&S.

## **2. EU POOLING AND SHARING: A NEW LOOK FOR AN OLD IDEA**

The definition of P&S essentially relies upon three components: pooling of procurement of weapons and services, or joint research facilities (e.g. the A400M transport plane); sharing through the partial or total integration of force structures such as training facilities, or setting up joint units; and specialisation. There have been some practical examples of P&S in Europe already: the Franco-British treaty of November 2010, which constitutes a bilateral P&S agreement; multilateral experiences such as the Visegrad four (Czech Republic, Hungary, Poland and Slovakia) and the Weimar triangle (France, Germany and Poland), although it is more appropriate to refer to them as small-scale initiatives that partly fit into the P&S model;

and, on the capabilities side, the EU Battlegroups, which are the most prominent example of ‘pooling’ of EU member states’ troops. Notwithstanding these initiatives, however, the operationalisation of a thorough EU P&S agenda depends upon two essential factors, which have yet to materialise: first, the effective liberalisation of the European defence market, leading to more competition among defence companies (hence removing national barriers) and the Europeanisation of part of the defence budget; second, significant improvements to EU defence cooperation with the aim of getting Europe’s diversified military hardware and technologies to talk to one another.

Dating back to the 1990s, in the framework of the Western European Union (WEU), the case for deeper armaments cooperation is an old story, and definitely not a success story (Keohane, 2005). This is very much linked to three structural weaknesses of the EU defence system.

Disparities in military spending among EU member states and lack of coordination have been deeply detrimental to EU security cooperation. The UK and France alone make more than 40% of public defence investments in the European Union. Other member states’ spending is quite frivolous in terms of their contribution to the virtual EU defence capacity. Consequently, the critical mass of EU defence capabilities is not ‘big’ enough, and national capacities are still to a large extent uncoordinated, especially when it comes to the acquisition of new technologies. Furthermore, collective military capabilities developed by member states since June 2004 (adoption of the Headline Goal 2010 setting up the guidelines for capacity-building) have shown severe shortfalls and joint procurement projects have been jeopardised by national rivalries (Major & Molling, 2010). Two examples are highly significant. The EU Battlegroups, which are considered as the main success story of this process of capacity development (Lindstrom, 2007), have never been deployed and hence could not provide the operational experience (that is, a corpus of lessons learned) necessary to improve and push forward the capacity-generation mechanisms. A policy brief published by the EU Institute for Security Studies (ISS) in December 2009 (Keohane & Blommesteijn, 2010) acknowledges that, compared to 1999, a slow progress could be observed on procurement plans such as the A400M and C-17 planes, Eurofighter, Joint Strike Fighter and Rafale jets and the Galileo satellite navigation system. However, it also pointed out that a number of capability weaknesses would continue to hamper the ability of the EU to project its military force, especially as far as strategic transport assets are concerned.

Economic protectionism and geopolitical considerations also help explain the flexible geometry of defence cooperation to the detriment of defence integration, resulting in sluggish progress in terms of capabilities. “The crucial question here is what the rationale for cooperation is, and with whom. The Organisation Conjointe de Coopération en matière d’Armements (OCCAR), for instance, brings together Belgium, France, Spain, Italy, Germany and the UK to effectively manage (i.e. pool) specific collaborative armament projects, such as the A400M Tactical strategic airlifter or the FREMM programme (Fregate Europee Multi-Missione). OCCAR has only been successful in achieving limited and targeted objectives with a limited number of participating countries. A bigger organisation could be much more difficult to handle and reduce efficiency in the delivery of defence equipment.

The literature points up differences in national strategic cultures as a third ‘cultural’ hurdle, with major strategic and operational consequences. Strategic cultures affect the way national armed forces operate and underpin the military doctrines guiding different states’ approaches to operational procedures and approaches. As noted by Christoph Meyer, since CSDP quintessentially depends on cooperation between national militaries in the planning

and implementation phase of an operation, strategic incoherencies can lead to disorientation, unclear goals and hence delayed or ineffective action (Meyer, 2004). Divisions in terms of strategic cultures among EU member states revolve around three main dimensions:

- i) Atlanticists (like the UK, the Netherlands and Central and Eastern European countries) vs. Europeanists (like France, Germany, Belgium or Finland);
- ii) multilateralist countries (the vast majority of EU member states) vs. sovereignists (i.e. UK) and neutralists (i.e. Austria and Ireland) and
- iii) concerning the attitude towards military interventions, countries that are prone to the use of force (namely former colonial powers such as France or Portugal) vs. tamed, pacifist powers (such as Germany and the Nordic countries) (Cardoso, 2009).

Strategic cultures intertwine with the size and capacities of national militaries, broadening the gap between big and small member states and affecting their security interests and priorities. The European Security Strategy (ESS) (European Union, 2003) drafted under the responsibility of the EU High Representative Javier Solana and approved by the European Council on 12 December 2003, and the subsequent ESS Review (European Union, 2008) failed to lead to strategic convergence or Europeanisation, although they set the ground for identifying strategic areas of cooperation and helped 'prioritise' the security agenda of EU member states. However, both Meyer (2006) and Giegerich (2006) agree that important cultural and ideational cleavages between member state persist, namely across the Atlanticists vs. Europeanists and the pacifists vs. interventionists divide.

That being said, three important developments have reinvigorated the debate on EU military integration through pooling & sharing over the past three years.

First, the provision by the Lisbon Treaty of Permanent Structured Cooperation (PESCO) as an instrument allowing groups of member states to cooperate more closely, thus attaining objectives that otherwise would be unattainable at 27. Second, the adoption of two Directives (43/EC in late 2008 and 81/EC in early 2009) aimed at simplifying procedures for moving military goods among member states and increasing the amount of defence procurement that is open to competition across the EU. Third, the adoption of the Ghent Framework in December 2010, under the Belgian Presidency, exploring the feasibility of intensified EU cooperation and P&S regarding military capabilities in areas such as training, logistics, medical, transport and communication. This was followed by the German-Swedish joint Food for Thought paper on "intensifying military cooperation in Europe", which identifies the following areas as suitable for increased cooperation: research and development, acquisition, training and exercises, command structures and procedures, and operating costs.

The Ghent Framework is particularly important insofar as it provides the 'political umbrella' for member states to exploit the groundbreaking potential of the two legal instruments (PESCO and Directives 43/81). The Ghent Framework, in fact, reengages the debate on defence budgets in Europe by reckoning that the answer to reduced national defence budgets is sought in creating better ('smarter', to use NATO's jargon) forms of cooperation, and hence going beyond previous ad hoc and circumstantial arrangement that did not solve the strategic shortfalls of the EU at their roots. The framework aims at identifying and assessing member states' military capabilities according to three categories: i) capabilities to be maintained at the national level while at the same time ensuring increased

interoperability, ii) capabilities that offer potential for pooling and iii) capabilities that can be considered for role- and task-sharing.

At is usually the case, new developments in the policy arena have stimulated the debate within the EU security and defence expert community.

Bastian Giegerich (2010) reaffirmed the need for multinational collaboration in Europe to help manage defence in an age of austerity, drawing lessons from previous initiatives. Giegerich acknowledges that the major limitation of these collaborative projects lies in their moving at the speed of the slowest participant, as well as in the fact that concerns about the loss of national autonomy and industrial capacity stand constantly in the way. Four issues, however, are considered as making collaboration productive: transparency about project risks, a strategic approach over the lifetime of capabilities, the harmonisation of hardware requirements and depoliticised decision-making.

Biscop & Coelmont (2011) have stressed the need to use Permanent Structured Cooperation (PESCO) to implement the Ghent Framework and set up a permanent capability generation conference, with the aim of creating a durable strategic-level framework for systematic exchange of information on national defence planning. PESCO is seen here as the only instrument allowing member states willing to subscribe to the permanent process to go further without having to face stumbling blocks from those that are not. If configured in a way so as not to divide the Union, and if supported by a critical mass of member states willing to develop new collective capabilities that are currently not available to the EU, the potential of PESCO is far-reaching: it could help set new defence objectives and guidelines and even improve relations with NATO and its evolution towards a two-pillar alliance (US and EU), whereby the US loses influence but gains in terms of burden sharing.

Other authors have put the emphasis on the effective liberalisation of the EU defence market by having Presidencies bolster the implementation of Directives 43 and 81 (O'Donnell, 2011), or on the Europeanisation of part of the defence budget and the communitarisation of missions funding (Liberti, 2011). Valasek (2011) suggests the formation of "islands of cooperation", throughout the formation of multiple, regional islands whose members will partly integrate their militaries, hence developing tailored strategies for discrete parts of Europe (a geopolitical vision of the relationship between PESCO and the Ghent Framework). Finally, in terms of what capabilities are more suitable for pooling, the European Defence Agency has suggested that P&S should be enhanced particularly for dual-use (military and civilian) technologies, such as satellite communications, logistical support (i.e. naval) and medical support (EDA, 2011).

Having reviewed the key issues in the academic and policy debate, as well as the main weaknesses in the EU defence system, the next section clarifies what makes the current situation different vis-à-vis previous attempts to establish a European armaments market.

### **3. THIS TIME IS DIFFERENT: WHY POOLING & SHARING IS NO LONGER TABOO**

As the previous section has shown, three endogenous factors – the entry into force of the Lisbon Treaty, the adoption of the Ghent Framework and the two directives on the EU defence market – have led to a reappraisal of P&S. A crucial question arises as to how the current call for intensified armaments cooperation in Europe is different than the previous disappointing attempts. Is optimism justified with respect to an issue that has for a long time

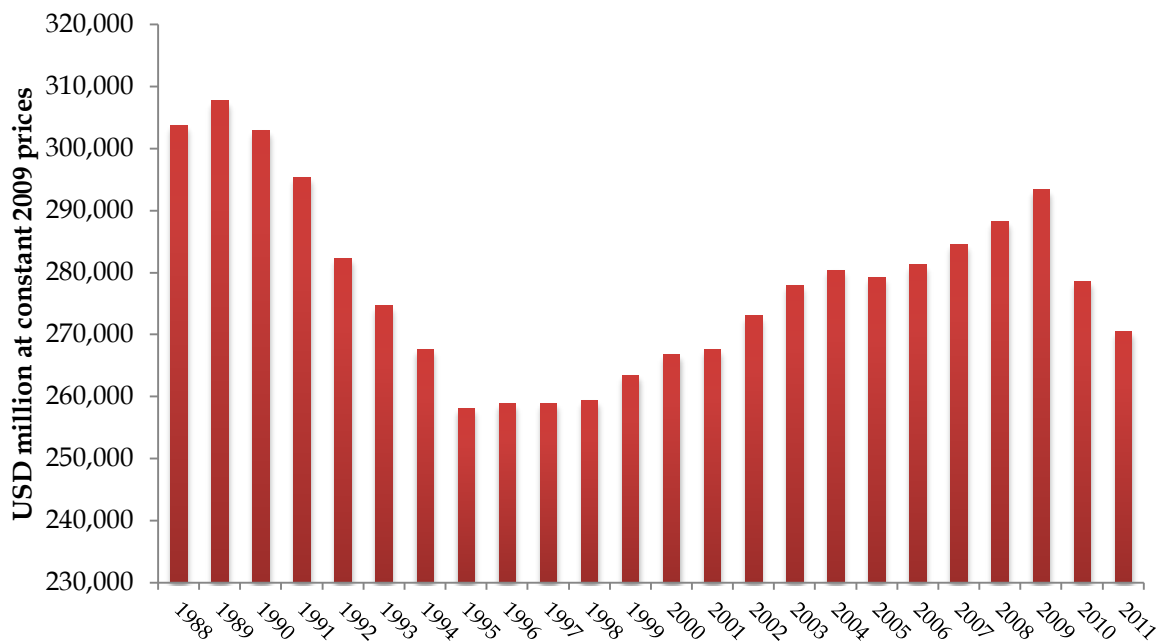


been considered as taboo? Three external stimuli support such optimism: i) the eurozone crisis and its impact on defence budgets, ii) the military lessons from Libya and NATO's (US) call for multilateral cooperation on defence capacity-building and iii) the future of the global defence industry and the transition towards a multi-polar world.

### 3.1 In times of austerity, inefficiencies are no longer acceptable

The eurozone crisis and its impact on defence budgets provide a first, major stimulus to consider P&S as an alternative to individual member states' declining military spending. The downgraded situation of EU military capacity is not a new development. Since the early 1990s, European countries started cutting dramatically their defence budgets, as shown by Figure 1. Peace was restored, the Russian menace disappeared and all countries could in the end benefit from the 'peace dividend'. European defence budgets suffered an average fall by 16% in just five years, making precious resources available for other economic sectors. From an economic point of view, there is no doubt that this process fostered growth and helped to consolidate the European liberal project, generating peace and stability in the region. This process led to a dismantling of the former military structures in favour of smaller, well-trained, more easily deployable and flexible units more adapted to the current conflicts. This resulted in a decline of military capabilities in relative terms.

Figure 1. European historical military expenditures



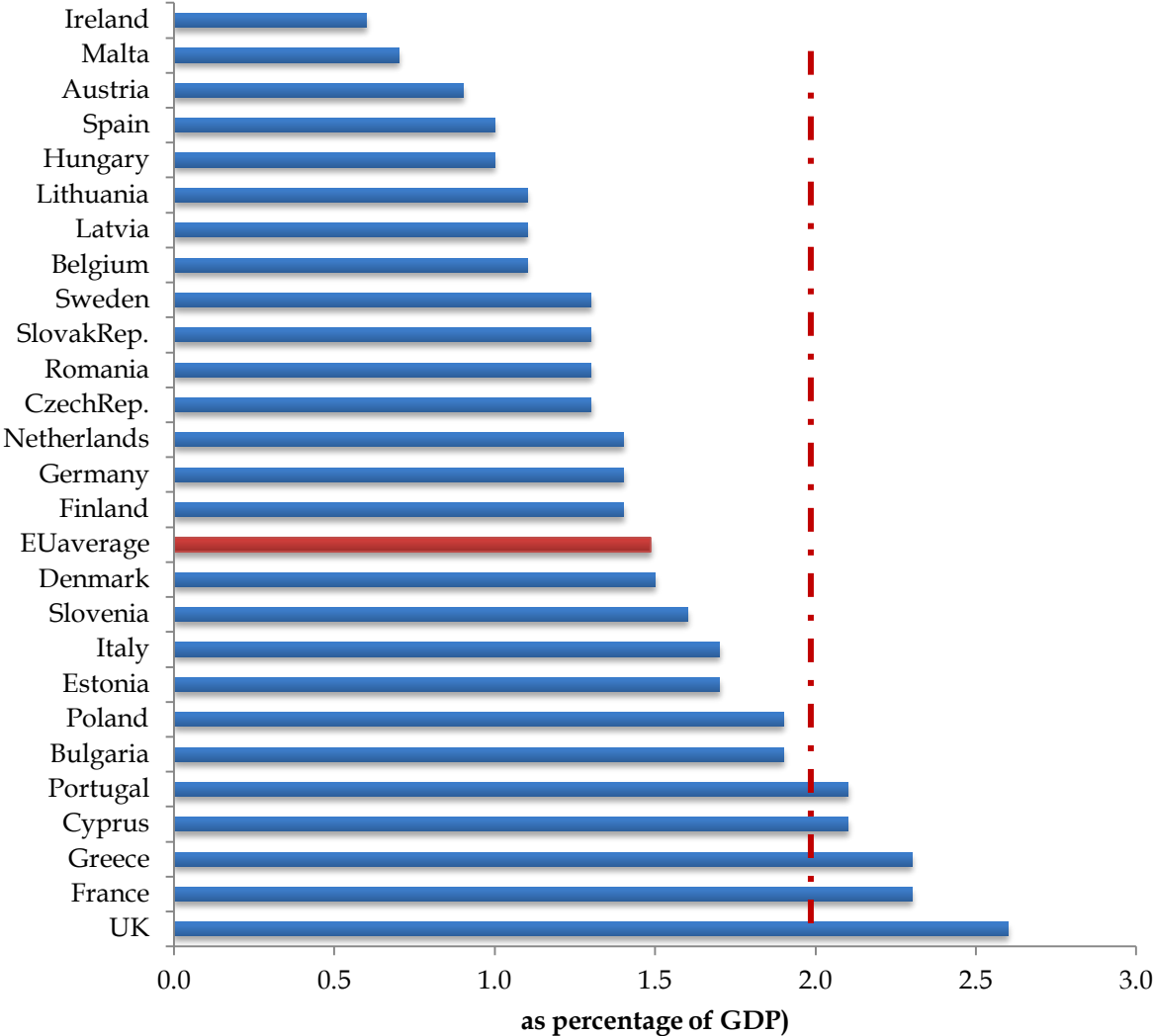
Source: SIPRI, 2012.

However, over the last decade (2000-10), military expenditures started soaring again, notably as a result of the Afghanistan and Iraq wars. Western and Central Europe (that is, the vast majority of EU and NATO members) saw an increase of 6.4% in real terms between 2000 and 2009. Although such an increase could be understood as an indicator of a renewed role of Europe in international security, the comparison with other global actors shows an opposite picture. European military expenditures are in fact rather negligible if compared with the world jump by 42.3% in real terms. During the same decade, the US and China increased their spending by 64.7% and 188.8%, respectively (only Japan reduced its expenditures by

3.1% in real terms). In 2010 US military spending represented 43% of the world total, with a military burden that amounted to 4.8% of its GDP: despite the NATO target of 2% of GDP, in 2009 only six EU countries (the UK, France, Estonia, Portugal, Bulgaria and Cyprus) were above this threshold (Figure 2).

The situation of European defence capability has seriously deteriorated after 2008, with the arrival of the financial crisis. In order to respond to the market pressures and to secure their state budgets, most European governments have been forced to reduce their spending: this trend, detectable in 2010 budgets, will continue and perhaps will deteriorate in the coming years, especially for those countries that are in the eurozone and have progressively high debt levels. The EU on the whole, but especially the eurozone countries, will face in the coming decade high pressure on public finances and slow economic growth: in a period of scarcity, resorting to defence cuts represents an easy way for the governments to cut their expenditure without impacting too much on their popularity.

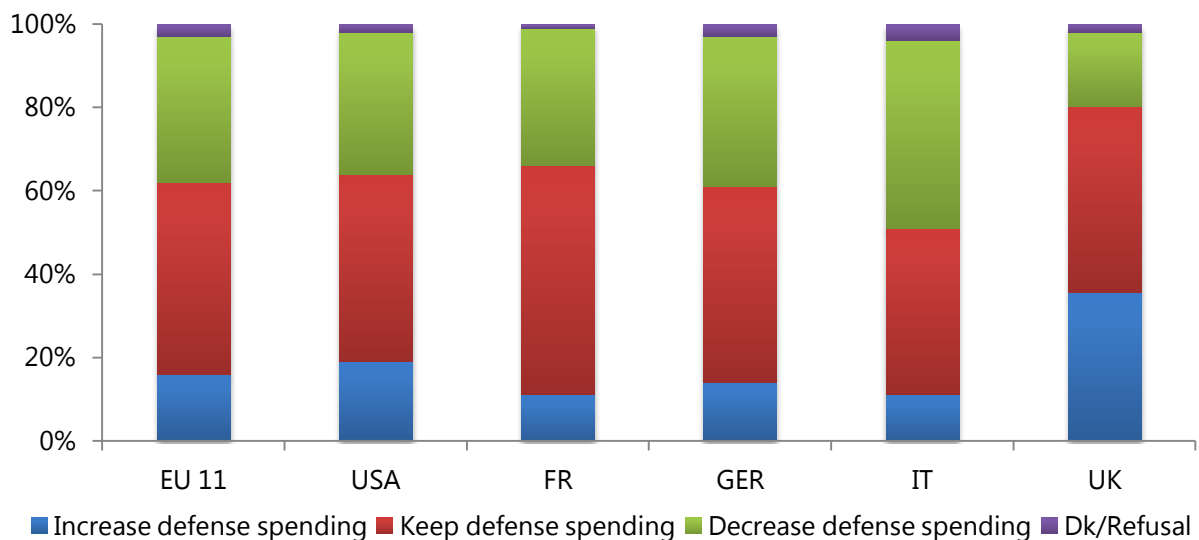
Figure 2. Public defence spending in the EU, 2010



Source: SIPRI, 2012.

An empirical demonstration of this sentiment can be found in the survey “Transatlantic Trends 2011” (Figure 3), conducted by the German Marshall Fund of the United States (GMF) and the Compagnia di San Paolo: the majority of the EU respondents were in favour of maintaining (46%) or decreasing (34%) defence spending, with a paltry 17% opting for an increase; the United States displayed a fairly similar pattern (45% maintaining, 34% decreasing, 19% increasing). Obviously these responses are informed primarily by popular sentiment rather than a precise calculation of the pros and cons of each policy option presented. For a national budget, defence is one of the few elements in which a cut in spending does not represent a hard deed, especially because most of the expenditures are devoted to investments, having deep effects only in the future. In addition, defence is often seen by the population as a remote or even unethical business: the two wars in Afghanistan and Iraq were largely unpopular in Europe: this led to the belief that it is better to deploy resources to address internal difficulties rather than sort out problems far away from one’s own country.

Figure 3. Public opinion about defence expenditure policy



Source: Transatlantic Trends (2011).

The declining trend is visible in the data shown in Table 1: this tendency appears to be very critical because defence capabilities can quickly erode, but are very slow and difficult to rebuild. Despite a common declining trend in the EU (an average of 5.9%), the impact of the budget pressures differs significantly across member states, pointing to different degrees of national importance given to defence policy. Despite the fact that defence has always played an important role in UK national policy, this relevance did not prevent the government from making strong cuts: the British defence budget will cope with 8% cuts between 2011 and 2014, implying decommissioning of aircraft carriers, the retirement of Harrier jets, delays in the modernisation of Trident submarines and the withdrawal of all British troops from Germany. Also France, despite its strong nationalist interest, had to make deep savings (roughly €3.5 billion in the period 2011-13), imposing for instance, a reduction of 8,000 employees in the Ministry of Defence and delays in the upgrading process of Mirage jets. The German Minister of Defence has implemented a €8.3 billion programme of spending cuts between 2011 and 2014, with a reduction of manpower from 250,000 to 185,000 and the abolition of conscription; at the same time, however, the number of deployable troops is envisaged to double from 7,000 to 14,000. Reductions also affected Italy, which is obliged to

cut its budget by 10% between 2011 and 2014: this cut has entailed a reduction in its Eurofighter command by 25 aircrafts (over a total of 121 jets) and in its order of frigates.

Table 1. European defence cuts: Military expenditure (% change in real terms)

	2009-10	2010-11		2009-10	2010-11
<b>Austria</b>	<b>4.4</b>	<b>-5.9</b>	Latvia	-24.2	2.7
<b>Belgium</b>	<b>-4.5</b>	<b>-1.9</b>	Lithuania	-15.8	-1.2
Bulgaria	-4.9	-19.2	<b>Luxembourg</b>	<b>N/A</b>	<b>N/A</b>
<b>Cyprus</b>	<b>3.9</b>	<b>3.3</b>	<b>Malta</b>	<b>2.6</b>	<b>0.0</b>
Czech Rep	-9.2	-9.8	<b>Netherlands</b>	<b>-3.7</b>	<b>-2.9</b>
Denmark	6.5	0.2	Poland	4.4	4.2
<b>Estonia</b>	<b>-23.1</b>	<b>1.8</b>	<b>Portugal</b>	<b>3.7</b>	<b>-11.1</b>
<b>Finland</b>	<b>-2.1</b>	<b>7.5</b>	Romania	-7.9	-6.8
<b>France</b>	<b>-8.7</b>	<b>-1.4</b>	Slovak Rep	-12.6	-14.3
<b>Germany</b>	<b>-1.5</b>	<b>-3.5</b>	Slovenia	-0.5	-13.5
<b>Greece</b>	<b>-32.1</b>	<b>4.7</b>	<b>Spain</b>	<b>-10.5</b>	<b>-5.2</b>
Hungary	-10.3	-4.7	Sweden	8.2	1.3
<b>Ireland</b>	<b>-4.7</b>	<b>-5.3</b>	UK	-2.1	-0.4
<b>Italy</b>	<b>-4.2</b>	<b>-10.1</b>	EU AVERAGE	-5.7	-3.5

Note: Countries in bold are members of the eurozone.

Source: SIPRI, 2012.

Despite a common trend of defence cuts, there are nevertheless some positive exemptions: Denmark plans to increase its military budget by 8% in the period 2010-14, the Polish government increased its 2011 budget by 7% (notably in the investment sector, with an increase of 16%) and Sweden decided to keep defence budget steady until 2014, abolishing conscription at the same time.

All three countries currently receiving international finance assistance (Greece, Ireland and Portugal) have made significant reductions in their military budgets, facing losses in their military capabilities. These cuts have a particular significance for Greece, due to the importance of defence in this country: it has, in fact, for a long time ranked first in Europe for the percentage of GDP committed to defence (3.2% in 2009) due to longstanding tensions with its rival, Turkey and, with a population of just 11 million, is the largest importer of conventional weapons in Europe. Despite the country's slide into recession, the national budget rose nominally by 5% in 2009 but then declined by 7% in 2010 and the planned reduction for the coming years amount to €330 million. The equipment budget lines up to €1.8 billion, providing just enough resources to maintain the existing efficiency, without planning new acquisitions and delaying past programmes. In a situation of growing instability in Cyprus, and especially in the face of no comparable cuts in Turkey's defence budget, the implementation of austerity measures, agreed in the international bail-out plan, appears to be politically expensive for the Greek government.

This situation is particular risky in Europe, since national defence policies are still too much tied to cold war schemes: many EU armies, for example, are based on national conscription (Austria, Cyprus, Denmark, Estonia, Finland, Greece and Sweden) or have only abolished it during the last decade or more recently (Bulgaria, Germany, Latvia, Poland, Romania, Slovakia and Slovenia). Moreover, this rigidity does not permit an operability of EU armies (less than 4% of European troops are deployed on mission, compared with 16% in the US), nor does it allow national military budgets to have the flexibility needed to answer in an efficient way to the current cuts. As a first response to the budget cuts and rigidity of

personnel expenditures, many countries cut their modernisation programmes and armaments projects, or delayed the retirement age of the current equipment programme. This practice, however suitable for obtaining quick savings, risks enlarging the present deficit in EU military workability and, at the same time, increases the maintenance costs, thus neutralising the desired long-term savings. Facing public pressure on reducing military expenditure is not an easy task for European governments, and this trend is not reversible in the medium-term. Faced with this prospect, there is little appetite for pursuing European coherence in defence capabilities, leading to an increased incoherence of defence instruments and thus undermining the creation of an integrated European military system. The risk of mounting capacity incoherence represents an essential challenge for Europe: quite often, in fact, the cuts are led only by a short-term need of economisation, without analysing the long-term implications of any specific cut in a European context. The next section will try to briefly analyse what are the main reasons behind these unsustainable incoherencies in defence policies at EU level.

### 3.2 Libya, a reality check for EU defence policy

The lessons from Libya and NATO's call for more multilateral cooperation in capacity-building constitute a second external stimulus, of a magnitude similar to that of the Balkan wars on the launch of the EU security and defence policy. It has become a widespread opinion among observers that the absence of the EU in the Libyan crisis marked the de facto end of the Common Security and Defence Policy (CSDP). This occurred less than 18 months after the entry into force of the Lisbon Treaty, whose aim was to increase the effectiveness of the EU as a global actor. As Anand Menon points out, "the European Union stood on the sidelines and watched as France and the United Kingdom, acting within a NATO framework, intervened militarily on the Union's doorstep" (Menon, 2011). Such dismay vis-à-vis the EU's incapacity to act as fully-fledged security provider is understandable. Whenever Europe displays titanic limitations in handling crises in its neighbourhood (e.g. in the Western Balkans), the EU is in the frontline of public criticism. Despite the innovations brought by the Lisbon Treaty and the experience accumulated after almost 10 years of operational experience in crisis management, the problem remains the same as it was at the outbreak of the Yugoslav wars: from a military point of view, the EU is not fit for purpose and cannot provide for its member states' security needs. As a matter of fact, as NATO Secretary General Rasmussen commented, "there is no lack of headquarters (...) what we lack in Europe is hardware". These words seem highly pertinent in light of the problems encountered by European allies during the Libya campaign.

The Libya crisis has shown that decreasing military spending and spreading competition across European states do not constitute a sustainable approach for Europe's global ambitions. The lessons to be drawn for Europe are crystal-clear: small and uncoordinated militaries should pool and specialise to make savings, avoid waste of resources and optimise capabilities in Europe's scattered defence sectors. Moreover, the US reactions in the aftermath of the NATO campaign and the new defence strategy outlined by President Obama and Secretary of Defense Leon Panetta in January 2012 confirmed that America is slowly but steadily disengaging from Europe and that future US involvement in Europe's neighbourhood is going to be limited at best (Marrone, 2012). Accordingly, as the US re-orientes its strategic military posture towards the Asian and Pacific theatres, the prospect of a shortage of conventional and tactical nuclear weapons is likely to push European leaders to consider unprecedented moves in the defence field. The Balkan wars (in particular, the 1999 NATO bombing of Yugoslavia) had marked a watershed in transatlantic relations, showing that the US would and could not look after Europe's security at any price and revealing the

painful divide between the two sides of the Atlantic, both in terms of capabilities and strategic interests. This eventually led to the adoption of the Helsinki Headline Goal (1999) – to provide the EU with a rapid reaction mechanism by 2003 – and gave phenomenal impetus to the ESDP. Twelve years later, Operation Unified Protector in Libya not only exposed the little progress made by Europeans in improving their military capacities since 1999; it also substantiated the dangerous linkage between Europe’s loss of strategic relevance and the US frustration with the drop in NATO European member states’ defence spending.

These two developments – the lessons from the Libya campaign and the US disengagement from Europe – together with the climate of financial austerity underpin NATO’s call for more multilateral cooperation to boost defence capacity-building. And since what happens in NATO is seldom without repercussions on the EU side of Brussels, the ‘smart defence’ agenda is pushing EU decision-makers to seek complementarities between transatlantic and European armaments cooperation.

### **3.3 A transformed defence industry in a multi-polar world**

Finally, change taking place at the macro-level, and resulting in the transition towards a multi-polar world, is also exerting its pressure, raising paramount questions about the future of the global defence industry and Europe’s role in it. Strong economic growth and increasing prominence in global affairs have pushed emerging powers (China, Russia, India, Brazil, Turkey and South Africa) to strengthen their military capabilities, engage in major modernisation programmes, which resulted in soaring defence budgets. Security threats or conflicts in neighbouring countries, ambition to achieve great power status, prestige and sense of vulnerability vis-à-vis competing powers are the factors justifying military modernisation. In most cases, emerging powers have also sought to develop their domestic arms industries in order to reduce their dependence on imports, besides traditional diversification of arms purchase policies. The implications of these dynamics for Europe are hence twofold: first, the defence market is becoming more competitive (Gallois, 2012), as new local industries develop and access the market: in the medium term, Western companies are likely to face mounting competition from non-Western procurement. Second, if the current trend in military spending is not reversed, European companies will be forced to increase the number of foreign contractors to whom they sell their weapon systems in order to compensate for the fall in demand for military equipment due to budget cuts.

## **4. THE ECONOMICS OF EU MILITARY SPENDING**

The likelihood of an effective change in EU defence policy is strictly linked to the economic environment in which it operates: through the lens of economic analysis, this section underlines the main weaknesses of the current European Defence Equipment Market (EDEM), which is breeding inefficiencies that now appear no longer acceptable. Improving this system represents, at the moment, the easiest and most immediate policy option aimed at allowing EU member states to rationalise their spending and obtain greater results with less (or equal) resources.

### **4.1 An incomplete common defence market**

The actual European defence market is characterised by the presence of a multitude of national industries, each with its own forms of protection and related national interests. In 2010, three-quarters of European defence investments were provided by European companies, the remaining quarter came from imports, in-house Ministry of Defence

programmes and outsourcing to the civil sector (ASD, 2010). But before analysing the elements composing this particular market (demand and supply), it is thus crucial to understand whether a 'market' really exists in Europe, that is, the conditions for a profitable exchange between demand and supply are present.

Art. 346 of the Treaty on the Functioning of the European Union (TFEU), which excludes the production and export of arms from the rules governing the common market, has represented for a long time the main obstacle preventing the creation of the EDEM, and explaining the reticence of member states in this field. Despite a precise provision in the TFEU and the express call from the European Commission to limit its application only to "strategic cases", member states have abused this option in the past, enlarging its application and thus creating artificially the conditions for the existence of a large number of exceptions that would not be financially sustainable in open market conditions. To do so, each EU member had its national regulations for defence procurement and export of arms: each member state required individual authorisation for any transnational movement of defence-related components, thus creating formal barriers that cost more than €3 billion a year, according to European Commission estimates (O'Donnell, 2009).

In recent years, however, the situation has slightly improved: in 2004, thanks to the work of the Greek Presidency of the European Union, the European Defence Agency (EDA) was set up in order to create major cooperation among member states in the defence sector and to facilitate the birth of the EDEM. In the period from July 2006 to December 2011, 700 contract offers were published on the EDA's Electronic Bulletin (the Agency's portal where European governments and industries publish their contract opportunities) (EDA, 2012). Even if it sounds impressive, most of the contracts awarded were not completed and contracts under €5.8 billion were not subject to EU competition.

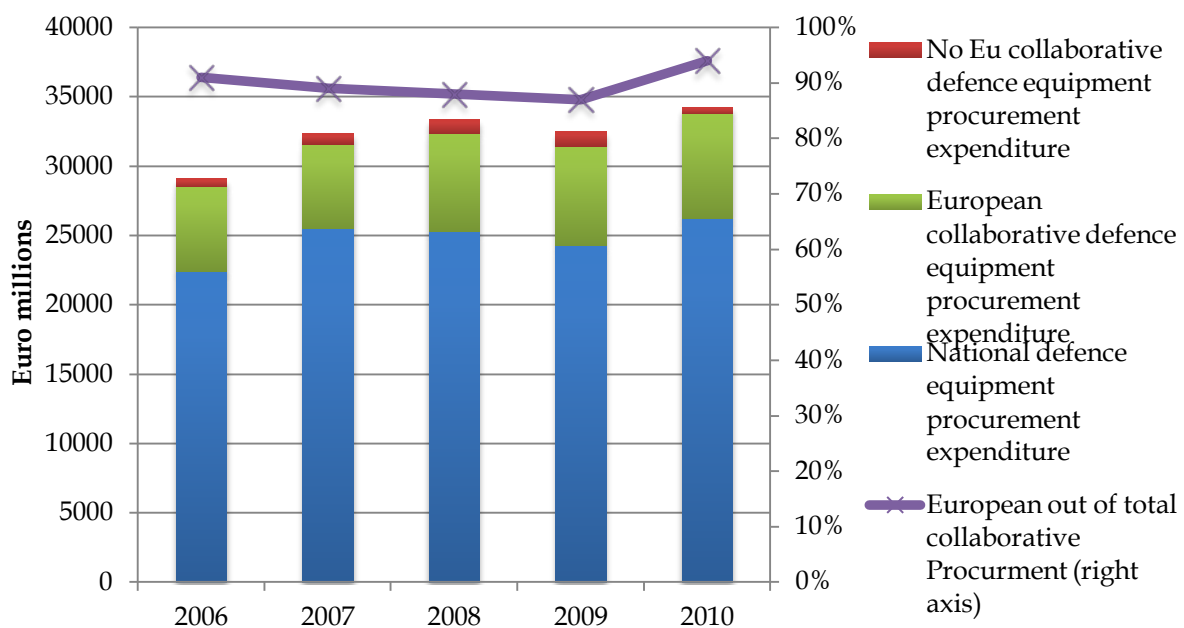
An additional bigger step forward was taken in 2009 thanks to two Directives: the Directive 2009/43/EC and Directive 2009/81/EC, both effective after August 2011. The first one simplified the rules for transferring defence-related products among EU member states, simplifying the export authorisation procedures inside the EDEM (through the creation of general licences instead of individual ones), thus aiming to restructure the defence companies in Europe in a more communitarian fashion (it should facilitate the creation of EU companies that would have production facilities located in various EU member states). The aim of the second Directive is to open the market in defence and security procurement, forcing in most cases EU Ministers of Defence to publish EU announcements for their tender, in order to reduce the exclusivity of national companies and create a common market (between 2000 and 2004, less than 13% of all opportunities to tender for European defence procurement were published (EDA, 2010). Furthermore these two Directives ratify the entrance of the European Commission (and its non-intergovernmental spirit) into the management of the defence market, after a long period in which its intervention was very limited. (It has been wary of denouncing the state in front of the Court for cases related to Art. 296).

## 4.2 The demand side problems

Having analysed the conditions and the inefficiencies in which the exchanges take place in EU defence market, we now look at the two components of this market: on the demand side, national governments represent the unquestioned leading factors in establishing expenditure policies, as shown in Figure 4 and previously discussed. Indeed, member states usually design procurement specifications with the implicit purpose to contract national defence

manufacturing industries, and maintain in this way the complete sovereign control of national knowledge in defence production. NATO, despite its primary role in international defence organisation and the provision of a platform for the cooperation of member states, has not succeeded in convincing European states to overcome or at least reduce the national political factors. Also the establishment of the European Security and Defence Policy and of the European Defence Agency have not significantly altered this structural aspect, since their impact has proved to be insufficient to generate common procedures or convergence in crucial sectors of armament cooperation, such as competition, procurement and export. Simply looking at the data shows how European collaborative procurement represents the most frequently used cooperation forum by member states, but also how this mechanism has not particularly taken off, since its share of total procurement has remained stable around 20% in last four years (Figure 4).

Figure 4. Collaboration in defence equipment procurement expenditures



Source: EDA, 2011.

Even after the EDA institution and the consequent shift from a pure intergovernmental and ad-hoc system to a more systemic and EU-managed one, the 'juste retour' (pure returns) principle has remained the main approach in the intentions of the MS; according to this principle, the industry of each participating nation would receive a share of the work that corresponds to the financial contribution of the related government. Even if this system assures, in theory, a redistribution of the activity according to the capabilities of each nation, the final result has often been quite inefficient, since it has seriously reduced the flexibility of the various programmes and, above all, since the distribution has been made not according to the capabilities, but to the political considerations, it has decreased instead of increased the efficiency of the project (Schmitt, 2003).

### 4.3 The supply side problems

This lack of consolidation on the demand side has inevitably led to a disaggregated EU industrial defence system composed of a multitude of national industries, each with their national interests (some still under the control of national governments). In this context, the



supply-side structure of the EDEM is composed of about 20 large companies (prime contractors), a second group of around 100 medium companies (usually subcontracted and specialised in subsystem components, electronics, etc.) and finally by a vast number of specialised producers of components and suppliers of services (electrical and electronic equipment, mechanical engineering, etc.) that operate at the margin of the defence sectors composed usually of small and medium enterprises. The position of the EU defence industry in the global market is certainly remarkable, placing second after the US: in 2010, 44 companies out of the top 100 arms producers are EU based, covering about 30% of the world's arms sales (excluding Chinese companies).

Table 2. World defence industry

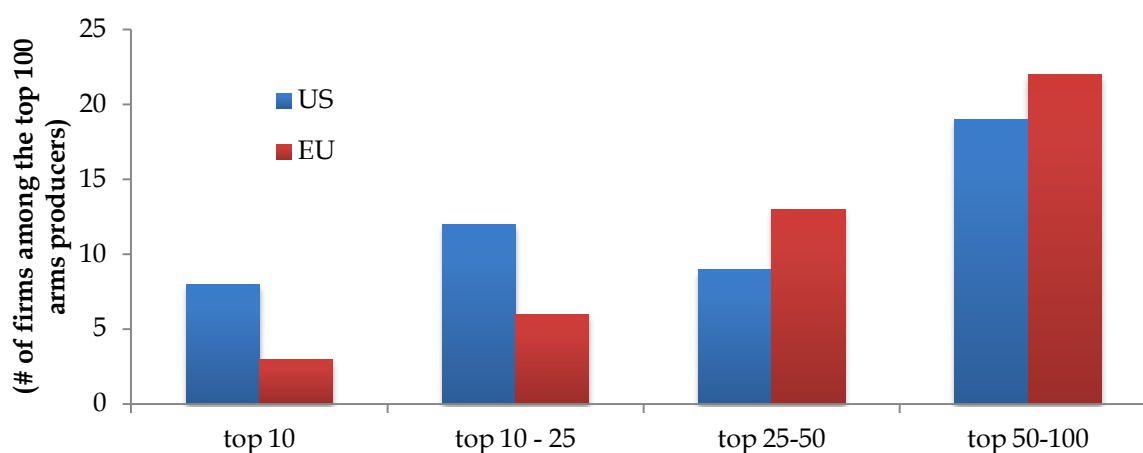
RANK	COMPANY	COUNTRY	SECTORS	ARMS SALES (\$ mil)
1	Lockheed Martin	US	Ac El Mi Sp	33.4
2	BAE Systems	UK	A Ac El MV Mi SA/A Sh	33.3
3	Boeing	US	Ac El Mi Sp	32.3
4	Northrop Grumman	US	Ac El Mi Ser Sh Sp	27.0
5	General Dynamics	US	A El MV SA/A Sh	25.6
6	Raytheon	US	El Mi	23.1
6	BAE Systems Inc.	US	A El MV SA/A	19.3
7	EADS	Trans-EU	Ac El Mi Sp	15.9
8	Finmeccanica	Italy	A Ac El MV Mi SA/A	13.3
9	L-3 Communications	US	El Ser	13.0
10	United Technologies	US	Ac El Eng	11.1
11	Thales	France	A El MV Mi SA/A Sh	10.2
12	SAIC	US	Ser Comp(MV)	8.0
13	Computer Sciences Corporation	US	Ser	6.1
14	Honeywell	US	El	5.4
15	KBR[e]	US	Ser	5.0

Key to abbreviations: A = artillery; Ac = aircraft; El = electronics; Eng = engines; Mi = missiles; MV = military vehicles; SA/A = small arms/ammunition; Ser = services; Sh = ships; Sp = space; Oth = other.

Source: SIPRI (2011).

Table 2 clearly shows how the matchless primacy is awarded to US companies, representing 60% of the world market: however, the US dominance is even more visible by comparing the number of companies in the top 25 firms, of which only 9 are not US-based (Figure 5).

Figure 5. US vs. EU defence industry



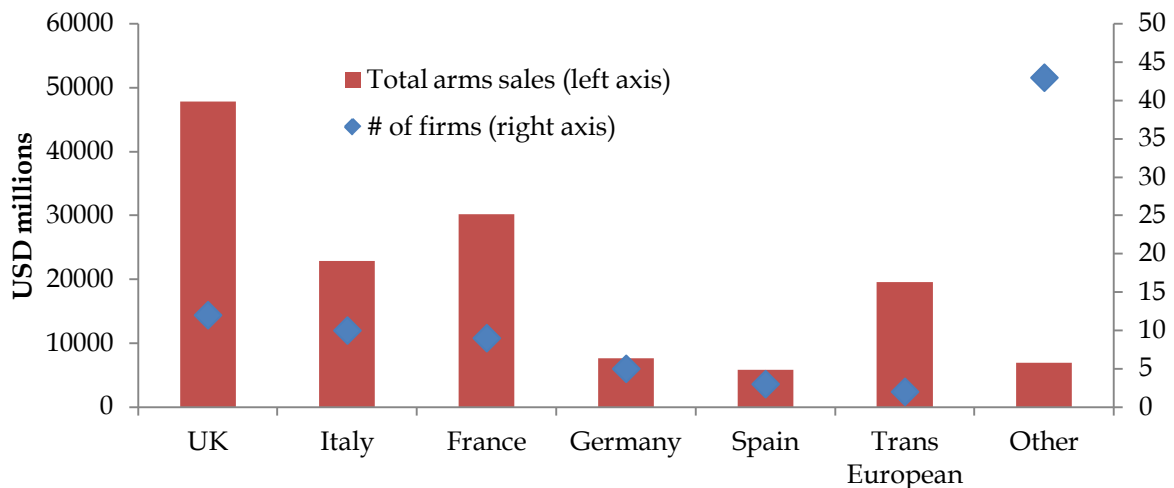
Source: SIPRI (2011).

The great relevance of sovereign interests and nationally biased preferences of MS military spending has led to a situation in which the defence industry in the EU is mainly a reflection of the size of different national military budgets (Figure 6). The big 4 national industries (UK, France, Italy and Germany) cover around 70% of the whole EU defence market (90% considering also the trans-European firms such as EADS and MBDA). This situation of high concentration, however, does not reflect a comparable concentration in the number of the firms: two-thirds of the EU defence firms, in fact, are outside these four countries, resulting in a sizeable dispersion and in a fragmented structure that is ineffective from the economic point of view. To complete the description of the situation, it must be underlined that at the moment, only considering the top 50 EU defence companies, there are 13 producers of aircrafts, 10 of missiles, 9 of military vehicles, 8 of ships. This situation appears inefficient if compared to those of the US where, with a defence market two times bigger, there are 12 producers of aircraft, 5 of missiles, 8 of military vehicles and just 4 of ships.

This higher concentration is mainly the result of a precise political choice made by the US Department of Defence in 1993, after the fall of the Berlin Wall (Edwards, 2011). In a context of planned reductions in the defence budget, the top 15 US defence firms were requested to pursue consolidating policies in order to survive, thanks to the higher economies of scale obtainable in this way.

In Europe, in the early 1990s, the consolidation process took place primarily at national level with the creation of national champions (Bergstrom et al., 2008). The resulting companies, however, now appear not big enough to compete efficiently in today's defence market; in this scenario, only EADS represent an effective product of positive efforts made by EU governments to pursue merging policies at European level. In most of the cases, in fact, when European firms decided to cooperate, the favourite strategy was to set up multinational ad-hoc consortia (Eurofighter) or joint ventures (MBDA, Agusta Westland), both of which have permitted national firms to maintain their national identity. Accepting the acquisition by another EU member state's firm has been, in fact, a quasi-unacceptable policy for most of the member states. Moreover many industries (notably Finmeccanica in Italy and Thales in France) still have the state as a shareholder, or are controlled indirectly via special rights, such as the 'golden share' in UK, allowing the national government to orient firms' strategy. In this situation of few fully consolidated EU transnational firms, a partial exception is represented by Thales, created via the merger of the French Thomson-CSF and Dassault Electronique with the British Racal Electronics.

Figure 6. Defence industry in the EU: MS national companies



Source: SIPRI (2011).

This situation is evidently justifiable from a political point of view: the loss of sovereignty over defence capabilities represents a potential high risk, since the rebuilding process of competences in this field is a costly and long activity. However, this situation is doubly uneconomical: on the one hand, it represents a strong limitation on pursuing the much-needed process of consolidation (similar to that implemented in the US after the cold war), which is fundamental in a sector with high economies of scale, and thus it prevents the creation of EU defence industrial giants able to compete successfully with US counterparts (Table 2). On the other hand, it does not even permit the exploitation of the advantages of competition created by the presence of similar industries, due to the nationally biased preferences of MS military spending.

The high fragmentation of the EU defence market leads unambiguously to the impossibility to gain from the economies of scale or scope: despite the presence of high fixed cost in the defence sector, the EU industries are not able to reduce them by increasing their production, thus generating higher profits. Table 1 shows that the situation is completely different in the US: the presence of a larger common market, in fact, allows the size of firms to increase, creating big world players capable not only of operating with higher profits, but, above all, of competing in the global defence market. At the moment, in fact, despite the relative important contribution to EU exports (the aeronautical industry represents 2.6% of the EU's total external exports), the ability of the EU defence industries to penetrate the external market is limited compared to their US counterpart. The cause of the fragmentation in the supply side is the natural result of fragmentation in the demand side of the market: the high number of national firms producing too many types of similar equipment, which are produced at too small a scale of output for each national market. This dilemma is the natural result of a market organisation that is not based at the EU level, but mainly on a national basis.

## 5. THE ROAD AHEAD: FROM GHENT TO CHICAGO, CAN EUROPE MAKE A VIRTUE OF NECESSITY?

Although national defence establishments may oppose this process to protect their short-term interests, we can expect the EU debate on pooling & sharing to intensify following the NATO impulse. This is an excellent opportunity for the Ghent Framework and the NATO smart defence agenda to cross each other's paths, especially after the North Atlantic Council Summit in Chicago (May 2012). In fact, despite the hurdles encountered on the way to implement military integration, the EU multilateral setting is well suited to address NATO's proposal for greater multilateral cooperation to solve Europe's capability problems.

To attain this target, it is all-important that the revival of the Ghent Framework respects three 'political' conditions: it must avoid politically sensitive issues, act in accordance with the transatlantic agenda and keep public expectations low.

Avoiding politically sensitive issues means that the EU P&S should not get entangled with the irksome debate over the establishment of an EU military HQ and command and control structures. Linking the two issues, in fact, would upset some member states that oppose this development and may jeopardise progress in capacity-building. Acting according to the transatlantic agenda entails the implementation of an 'EU way to smart defence' respecting the three 'D's' (no duplication, no decoupling, no discrimination) that underlie EU-NATO relations. Finally, by keeping expectations low, decision-makers must be careful not to confuse P&S with the beginning of a process leading to the creation of a European army.

If these conditions can be respected, the implementation of the Ghent Framework would go through three stages:

- ✓ Re-modulation of strategic hardware provision strategy,
- ✓ Designing EU common R&D programmes and
- ✓ Creating an effective and Single EU defence market for non-strategic equipment.

### 5.1 Re-modulation of strategic hardware provision strategy

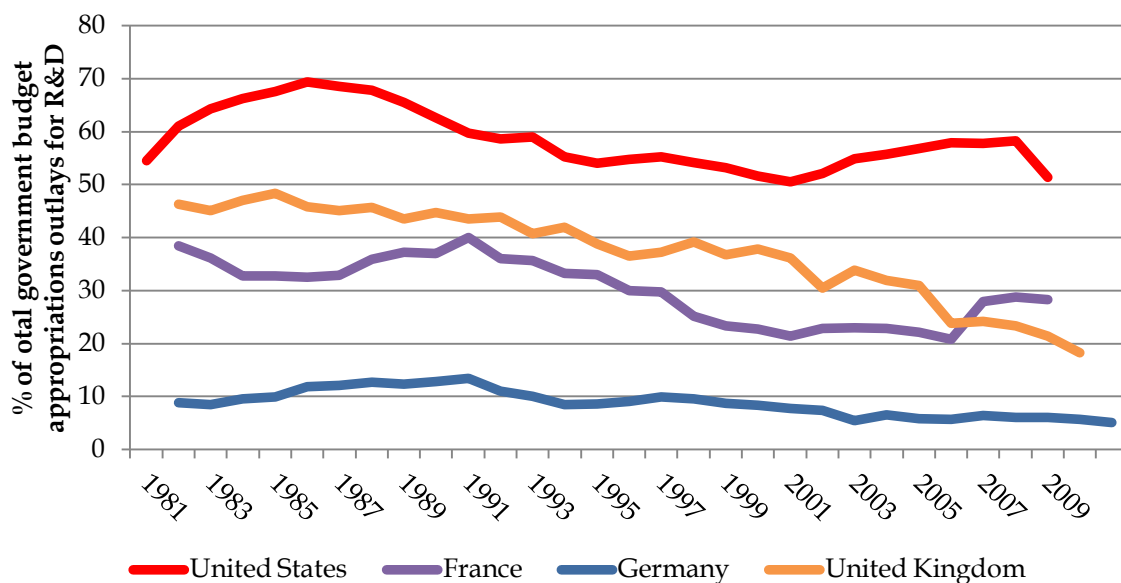
The inefficiencies of the EU defence system have a greater impact on the provision of strategic heavy weapon systems (tanks, ships, aircrafts, etc.), due to the presence of high fixed costs in the production line. However, in this sector it is highly unlikely that MS will accept putting national defence capacities into a 'common pot', which would result in an unacceptable loss of strategic autonomy (in a sector where rebuilding capacities lost would be extremely costly). Nevertheless, it is also true that defence budgetary constraints would result in reduced room for manoeuvre, this in turn generating loss of autonomy.

With regard to the demand side, the path to solving the problem has been already undertaken, even if without sufficient commitment: tighter cooperation represents the most suitable policy to maintain national strategic considerations in the defence sector and allows member states to equip themselves with capacities that they would not be able to acquire on their own at acceptable costs. However, the current cooperation fora (OCCAR, EDA, bilateral agreements, letters of intents, ad-hoc consortia, etc.) create inefficiencies and confusion. The choice of a more standardised and agreed mechanism for setting common EU instruments is thus needed: as suggested by Biscop & Coelmont (2011), the first use of the PESCO instrument provided by the Lisbon Treaty could be crucial, since it would combine the criteria of the intergovernmental approach and national considerations with those of

modularity and cooperation. Despite the view of Lt. Gen. David Leakey (former Director General of the European Union Military Staff), that “most military capabilities assigned to the existing PESCOs are minimal and do not add anything substantial to European defence” (Fiott, 2011), a more efficient use of PESCO could be found in those strategic hardware components. The window offered by Directive 2009/81/EC, in fact, allows for a wide opening of markets for such type of defence equipment procurement, thus facilitating the use of PESCO. Another step forward would be a clarification of what exactly PESCO is. Leakey argues that, despite its ambitious potential, the different forms of PESCO suggest that a clearer definition of its use could offer a more solid basis for future cooperation under this framework (Fiott, 2011).

That being said, coordination solely on the demand side would not be sufficient to obtain significant savings: the creation of EADS (and the subsidiary MBDA, Eurocopter and Eurofighter), must serve as a success story to be emulated in other defence sectors. At the moment, in fact, aerospace is the only European strategic industry characterised by decreasing costs, high R&D intensity and technology spin-offs (Ecorys, 2010). Furthermore, this sector is only partly affected by the inefficiencies afflicting a large percentage of small firms, little exploitation of economies of scale and overcapacity, as their magnitude is not comparable to other sectors. The land equipment sector, for instance, is virtually completely lacking in any joint ventures at the EU level (with the exception of the JV between Nexter and BAE), which results in the presence of as many EU producers as in the US: this has produced low R&D spending and low labour productivity (TNO, 2009). A similar situation exists in the naval sector. Despite the presence of four European firms as world top suppliers of warships, overcapacity, duplication of industrial capabilities and a high number of small firms prevent the sector from becoming competitive (TNO, 2009). Giant steps could be taken at the political level in leading a “supply consolidation process”: the lesson learned by the same American consolidation policies during the 1990s could overcome private sector resistance, for instance by exchanging consolidation with a higher percentage of contracts awarded. This would be a win-win situation, since the greater efficiency obtained through these policies would result in more economical choice for MS.

Figure 7. Defence budget R&D in selected countries



Source: OECD (2011).

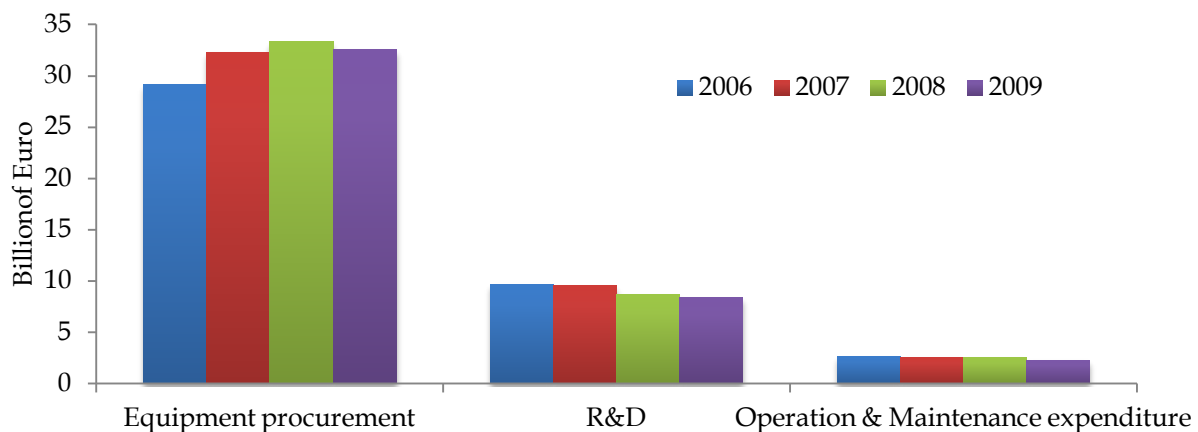
## 5.2 Designing EU common R&D programmes

Development and production of strategic hardware is linked to R&D programmes. Figure 7 and Figure 8 clearly show that the current level of R&D in the EU is insufficient and, even more importantly, highly inefficient due to the economies of scale present in this field. Moreover, since this sector is subject to obsolescence, a reduction in the public orders by EU countries resulting from budget cuts could lead to a loss of competitive skills, human capital and know-how with respect to the US industries or to those of emerging countries, hence producing negative consequences in the long term. Therefore, it appears essential to maintain the actual technological competencies, capable of assuring a strategic independence of EU defence in the coming years. More pooling of the R&D part of the defence budget is a key priority to increase the effectiveness of capacity-building.

Until now, member states have preferred to limit their joint research programmes to bilateral or multilateral (EDA) intergovernmental initiatives. A strengthening of synergies between the Commission, member states and the EDA would facilitate the launch of new joint activities and optimise resources under the umbrella of the Framework Programme for Research and Development (FRPD), which currently lacks a defence wing. For the period from 2007 to 2013, in fact, the new security budget inside the FRPD (obtained with a considerable political effort by the Commission) amounted to only 2% of the whole allocation, an almost insignificant €1 billion out of €50 billion (Liberti, 2011). The new system should be designed as follows: member states would define the top priorities for the EU in the coming years, indicating the strategic aspects to be developed. In these early stages, the Commission and the EDA should not be involved in what should remain a member state-led debate on the European security strategy, outlining the EU's role in the global security field and, as a consequence, the defence needs for the coming decade.

Once the R&D priorities are set, the EDA will make its own expertise available to define the structure of the research programmes, which will then be launched by the Commission. Thanks to its long-standing experience accumulated in the management of Framework Programmes, the Commission is certainly the best structure to ensure effective project management. In this context, the principle of 'juste retour' must be abandoned, as it would not allow the maximising of gains obtained by collaborative programmes. A possible step in this direction would be to strengthen the EDA sphere of influence, letting the EDA map member states' core competences in selected defence industries in addition to the traditional mapping of member state defence needs. Only by having this complete picture of the EU defence sector can the EDA be in a position to set up collaborative programmes that are not based on 'juste retour', but on the specialisation principle, hence obtaining gains in efficiency.

Figure 8. European equipment procurement and R&amp;D/R&amp;T



Source: EDA (2011).

### 5.3 Single EU defence market for non-strategic equipment

In contrast to strategic procurement, procurement of low-level equipment such as munitions, arms and war material (clothing, kits, personnel equipment, etc.) can be easily managed at the EU level without threatening national autonomy. The financial crisis has given some EU countries the opportunity to increase their specialisation in specific military areas, especially for middle-and-small-size countries that cannot maintain full-spectrum forces. For instance, the Czech Republic focused on NBC (nuclear/biological/chemical) protection and electronic warfare, Luxembourg increased its specialisation in reconnaissance and Latvia in medical response and engineering support (Moling & Brune, 2011). This trend could point the way towards a more efficient European provision of non-strategic equipment, in order to fully benefit from the Ricardian lesson of “mutual gains from specialisation”.

To achieve this result, it is essential that European states clearly define the nature of ‘non-strategic equipment’, leaving no room for ambiguity. In this context an important role can be played both by the European Commission through its non-governmental approach already developed in other sectors, and by the EDA. Thanks to the specific industry knowledge and the experience accumulated in recent years, the latter could obtain technical “discrimen” (i.e. distinctive features) in defining this kind of equipment. Once this was achieved, the EDA would have to boost its standardisation process in this field, thus elaborating distinctive and best features of these products in order to launch an EU common procurement initiative, or at least, institutionalise an EU common framework to which all the EU private firms could refer to in defining their bidding strategies. Especially in the non-strategic equipment sector, in fact, the Materiel Standardisation Group (composed by member states’ standardisation experts) could quickly achieve remarkable results, and perhaps much more budget savings for MoDs than long processes to define common sophisticated technical equipment. For complete success, it is crucial that this procedure shifts, more and more, from a pure intergovernmental approach to a more communitarian one, in order to reduce the national bias that could arise in the defining process. In fact, once the specification of these non-strategic products was defined (thereby eliminating the national interest), the related market could become fully EU-integrated and could apply all the basic economic rules of international trade, thus leading to gains in terms of efficiency and reduced costs for all EU countries.

To assure the effective functioning of the EDEM for non-strategic equipment, the basic steps have already been taken: the two Directives, the creation of EDA’s Electronic Bulletin Board, the elaboration of the Code of Conduct on Defence Procurement and the Code of Best Practice in the Supply Chain for industry-to-industry. Together, they provide the ground elements assuring a workable environment for these kinds of policies. Thus, the only extra element needed is the political will allowing a real and systemic functioning of these instruments: a choice perhaps that cannot be postponed due the current state of member state budgets.

Table 3. Suggested policies

SECTOR	POLICY	ACTORS
STRATEGIC EQUIPMENT	PESCO as standardised and flexible mechanism for cooperation	Member States
	Consolidation of land equipment and naval industrial sectors	Member States & private industries
R&D PROGRAMMES	Definition of the EU role in global security arena	Member States
	Mapping needs/competences of the MS in key sectors	European Defence Agency, European Commission and private industries
	Definition of common R&D programmes	
NON-STRATEGIC EQUIPMENT	Effective implementation of two directives on EU defence market	Member States
	Definition of common standards at EU level	MS, EDA, Commission
	Specialisation and greater competition	MS, EDA and private industries

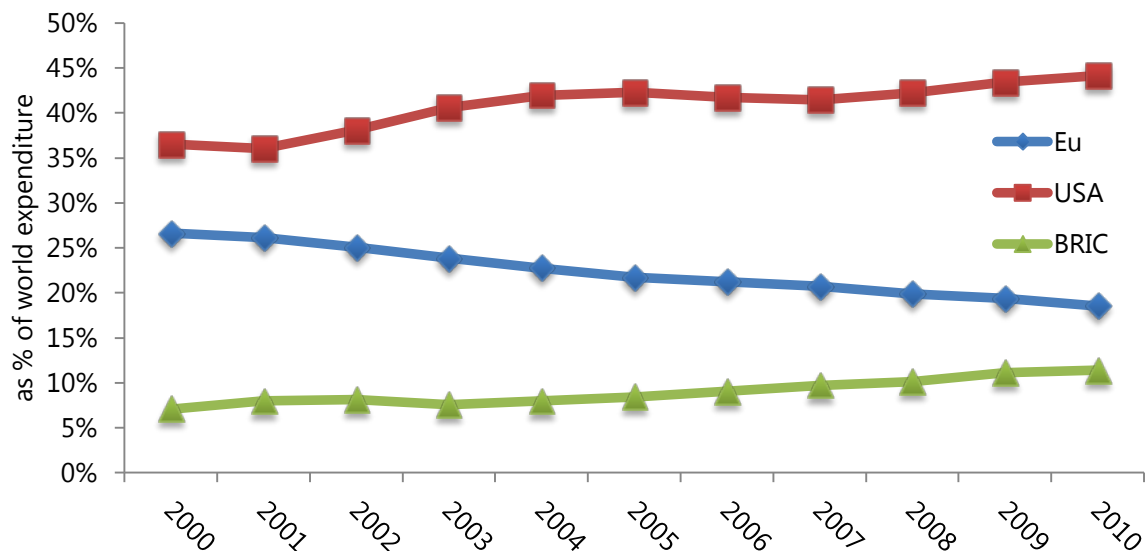
Source: Authors’ elaboration.



## 6. CONCLUSION

The distribution of power in the international system is changing: despite an unquestionable US supremacy in the defence sector (Figure 9), emerging powers are going for big defence deals and increasing their defence budgets, thus turning part of their economic outreach into force projection capacity. In this context, it has become rather clear that EU member states cannot act as global players by relying on wobbly national finances. EU countries run the very real risk of losing their strategic relevance in the coming years, since budget cuts seriously undermine their ability to meet future challenges in the defence realm. The EU should take advantage of the window of opportunity provided by the Lisbon Treaty in terms of enhanced cooperation and by the NATO smart defence approach to rationalise its defence market. A revitalisation of the Ghent Framework should lead to greater cooperation in the provision of strategic hardware, pooling of resources for R&D programmes and the effective realisation of an EDEM of non-strategic equipment.

Figure 9. Global military spending



Source: SIPRI (2011).

This paper has claimed that “this time is different” and that pooling and sharing is no longer a taboo subject due to three external stimuli: the impact of the economic crisis in the eurozone on defence budgets, the military lessons from Libya and NATO’s (US) call for multilateral cooperation on defence capacity-building and the distinct linkage between transformation in the global defence industry and the transition towards a multi-polar world. It also contended that the successful operationalisation of the Ghent Framework depends on the de-politicisation of the debate and on the link (and complementarity) with the NATO agenda. Finally, our study suggests that a roadmap for P&S should rely on essentially three pillars. In the first pillar (strategic equipment), a focus on ‘best practices’ (e.g. the role of EADS in the aerospace sector) could produce important spillovers and create emulation effects in heavy military equipment for land forces and in the naval sector. The latter, in particular, would prove most useful, as a result of EU activism, in contributing to maritime security (such as Operation Atlanta) and in light of the increasing importance of naval operations within the CSDP. In the second pillar (R&D programmes), a better division

of labour between member states (in charge of defining the 'strategic priorities' for the years ahead through the revision of the European Security Strategy), EDA (tasked with operationalising EU strategic needs through designing R&D programmes) and the European Commission (the 'project manager' or executor) could create unprecedented synergies, especially if states commit to abandon the principle of 'juste retour'. Finally, in the third pillar (non-strategic equipment), the Ricardian lesson of 'mutual gains from specialisation' could provide the EU with more efficient, cost-effective and better-integrated armies.

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