

Is a transatlantic defence industry increasingly on the cards?



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PROGRAMME

SESSION 1 – ARE WE ENTERING A NEW ERA OF TWO-WAY TRANSATLANTIC ARMS PROCUREMENT?

What are the prospects for increased two-way trade across the Atlantic in defence equipment and technologies? The EU's efforts to further a new European Security and Defence Identity, and at the same time revitalize its flagging defence industries, has been seen by some analysts as a move towards a 'Fortress Europe' that would be to the detriment of US suppliers. How open does still largely closed US defence procurement need to become if a mutual and balanced market access is to be established? How do major US defence companies assess the outlook for their sales to European governments? Does the winning of the \$6bn US Navy helicopter contract with a British-Italian product promise a new era of openness in transatlantic arms sales?

Moderator: Giles Merritt, Director, Security & Defence Agenda

Panellists:

- Pierre Chao, Director, Defense Industrial Initiatives, Center for Strategic and International Studies (CSIS)
- Alberto de Benedictis, President US and UK Operations, Finmeccanica
- Derek Marshall, Director Aerospace and Homeland Security, Society of British Aerospace Companies (SBAC)
- Colonel Michael Ryan, Representative of the US Secretary of Defense, Mission of the US to EU

SESSION 2 – ECONOMIC AND POLITICAL IMPLICATIONS OF TRANSLANTIC PROCUREMENT POLICIES

The US-EU diplomatic impasse over Europe's declared intention of lifting its China arms embargo is seen by some Brussels analysts as a test case for future transatlantic relations. If European defence companies had more than a tiny share of the Pentagon's defence contracts, the argument runs, then Washington would have much greater leverage with EU procurements. On both sides of the Atlantic there is also growing awareness that successive defence industry rationalisations have reduced defence markets to just a handful of competitors. Would market forces not ensure better value for taxpayers if both US and EU governments were to call for tenders from a wider transatlantic industry, especially with items like software and biotechnology likely to be of increasing impact?

Moderator: Pierre Chao, Director of Defense Industrial Initiatives, Center for Strategic and International Studies (CSIS)

Panellists:

- Robert Bell, Senior Vice President European Business, Science Applications International Corporation (SAIC)
- Andreas Hammer, Vice President, Director for EU Defence Policy Affairs/NATO, European Aeronautic Defence and Space Company (EADS)
- Scott Harris, President, Continental Europe, Lockheed Martin
- Alain Picq, Armaments Counsellor, Delegation of France to NATO

EXECUTIVE SUMMARY

Setting the scene, CSIS's Pierre Chao explained that although figures could be used to prove anything, it was a fact that Europe's direct sales accounted for less than 1% of the total US defence market. Taking an optimistic spin, he said the trend was in the right direction over the past few years, primarily as an increased focus on "systems of systems" meant the origin of all components was less relevant. This meant there would be an element of natural growth for European suppliers.

The US presidential helicopter contract was used as an example of successful transatlantic cooperation by Lockheed Martin's Scott Harris and Finmeccanica's Alberto de Benedictis. Harris explained that Lockheed Martin had been familiar with the chosen platform and had backed it by its own knowledge of the US market. Alberto de Benedictis had seen a level playing field and argued that the best platform had won.

That was an example of how the US market was restricted to purely non-US suppliers. And ITARs were one of the main topics of the day. SBAC's Derek Marshall wanted technology transfer's "burdensome controls" to be lifted as they denied economies of scale to the defence industry. Thales' Edgar Buckley saw too much regulation on both sides of the Atlantic, while the US Mission to the EU's Michael Ryan said impediments (on the US side) were due to a lack of agreement on the threat. The US would not risk sensitive technology falling into the wrong hands. Buckley disagreed, saying that ITARs were all about maintaining technology in the US for US purposes.

Regardless of the reason, EADS' Pierre Sabatié-Garat saw nothing happening in terms of improved transatlantic cooperation and he was backed by several speakers. Harris felt that military reform could be the answer, but he saw little chance of that, as there was a "lack of political energy and leadership" on both sides of the Atlantic.

SAIC's Robert Bell emphasised the role played by NATO procurement and how it could lead to improvements in transatlantic cooperation. His recommendation was for it to utilise more the "best value" procurement bidding processes as opposed to "lowest cost" bidding which had been generally used in the past.

Alain Picq, from the French Delegation to NATO, wanted real and meaningful transatlantic cooperation, but he saw no evidence of it. He argued that the main reason was the lack of a European defence market, as it took two to tango.

Chao wanted concrete actions to result from the session. Harris and Buckley produced a solid "wish list", headed by the need to streamline US and European regulatory restrictions, while EADS' Andreas Hammer warned that real progress could take decades. He saw the EDA as the answer, but was concerned that national governments were reluctant to relinquish control as they were worried by the EDA's rapid progress. Picq closed the session by foreseeing a lot of work in the next 10 years for both NATO and the EDA. But the next debate could not wait for 2016!

DEBATE HIGHLIGHTS

TRANSATLANTIC COOPERATION IS NECESSARY

- The US marketplace is the only growing market
- The supply chain is becoming increasingly global, especially regarding software
- High investment is needed in new technologies (e.g. NATO-type projects)
- Joint development, as in the MEADS project, could prove beneficial at a later date

HOW TO GET THERE

- A step-by-step approach, which could include parallel activities
- Enhancement of the niche areas
- Greater emphasis on interoperability that would lead to better cooperation
- Complete a fundamental reform of export licenses (the PDD-19)
- Breathe life into the LOI process in Europe
- Link the two processes and develop cooperation where they overlap
- Have the EU make more use of the Berlin Plus agreements and avoid moving the Petersberg tasks into the high end
- Have the US and European nations undertake an exercise to identify industries that support key, strategic, asymmetric military capabilities. By definition the number of strategic industries should be very small in number and be fully supported by their defence budgets. Areas not deemed to be strategic should be open to competition on a transatlantic basis
- Establish NATO and DARPA/EDA prizes for the development of cutting edge technologies or to solve critical capability gaps – any company or combination of companies in NATO, the US or the EU can pursue and win these prizes. The prizes should be technical in nature (design a UAV that can stay aloft for a month for example) to eliminate the politics
- Europe should take actions to strengthen its defence capabilities and industries, but within a transatlantic context

IF A MAGIC WAND EXISTED....

- Eliminate the “buy US” discussion
- Streamline the US technology export regime
- Allow the European defence industry to run like a business (less government interference)
- Streamline European regulatory affairs
- Introduce more transparency in the whole process, preferably via the EDA; for example, no one knows how much is spent on R&T and by whom
- Develop targets for joint cooperation programmes

SESSION I: ARE WE ENTERING A NEW ERA OF TWO-WAY TRANSATLANTIC ARMS PROCUREMENT?

Opening the latest debate of the Security & Defence Agenda, Giles Merritt referred to a recent Economist article claiming that the British were totally disenchanted with the lack of technology transfer between the transatlantic partners on the Joint Strike Fighter (JSF) project.¹ Merritt felt that the article reflected the overall position as many observers and practitioners were commenting that the relationship was not making sufficient progress. The SDA Director hoped therefore that the day's debate would bring insights into what was happening below the surface.

Pierre Chao, Director, Defense Industrial Initiatives, Center for Strategic and International Studies (CSIS)

Opening up the session, Pierre Chao was optimistic, "prospects for two-way trade are looking good." He had to back up his words and

Table 1: Defence spending - transatlantic trade in the past 12 months

- The US defence market: +/- \$150 billion per annum
- The European market: +/- \$40 billion per annum
- European sales to the US have doubled to \$1 billion per annum
- The ratio of US-Europe: Europe-US sales has gone from 5:1 to 3:1

this he did with the aid of statistics (see table 1). Admitting that such figures could be used to prove anything, Chao commented that those in favour of opening markets further were saying that European sales were still less than 1% of the market, while the protectionists looked at the relative market sizes and said 3:1 (the current figure for transatlantic trade ratios) was about right.

Overall, Chao felt the trend was headed in the right direction, as the growth was certainly there. He argued that it was driven by two key factors:

1. Government behaviour: governments are tending to buy larger, more complex integrated "systems of systems". This is driving the (government-industry) discussions up to a higher level, so that it is more difficult to identify the detailed sourcing of the supply chain and hence vulnerability. However, it gives more freedom to industry to select from a global supply chain.
2. Governments are continuing to look for value for money. They do this by "creating or looking for competition"² in order to drive down prices, as money is getting tighter.



“Most of the emphasis on protectionism is on mature technologies; while the newer technologies are being born as global industries.”

Pierre Chao

It was therefore imperative to determine the strategic elements of defence and security, and here he had praise for the UK's recent Defence Industrial Strategy (DIS) document (December 2005). As for the political situation, Chao had seen little change in the past year. He did, though, find it ironic that most of the protectionism (on both sides of the Atlantic) was related to mature technologies rather than their 21st century counterparts (including network centric warfare) which were inherently more global.

¹ "Keeping secrets: Signs of Anglo-American strain in the world's biggest defence contract." The Economist. January 26, 2006.

² As examples, Chao said that Northrop Grumman International was now in the tanker business and Lockheed Martin, by leveraging foreign technology, was now a player in helicopters.

Alberto de Benedictis, President, US and UK Operations, Finmeccanica

Alberto de Benedictis used the US presidential helicopter contract as an example of transatlantic cooperation. It had been awarded to the Finmeccanica helicopter (whose helicopter unit is AgustaWestland), following that company's partnership with Lockheed-Martin. Alberto de Benedictis said the platform had been the key. It had been a politically-charged decision and the best platform had won. Expressing some surprise that there had been a level playing field, he admitted that Finmeccanica had learnt several lessons:

- in order to take part in bids of that kind, you have to be prepared to reorganise your company's processes
- timing is important, but the potential is there if Europe has a good product
- you should invest in the US with a long-term view, and use partners as necessary to meet niche requirements



Alberto de Benedictis summed up his views by insisting that there was no two-way street, it would continue to be an uphill battle to sell into the US defence market and that Europe was probably not the highest priority for the US. He saw a world that had other geo-political priorities and European companies therefore needed to take a pragmatic view.

“The US has lost a degree of interest in Europe in the past 5-10 years, as there are other geo-political priorities.”

Alberto de Benedictis

Derek Marshall, Director, Aerospace and Homeland Security, Society of British Aerospace Companies

While Derek Marshall saw huge potential for trade and cooperation, he argued that this could only be achieved if regulatory controls were relaxed. Commenting on NATO's regular reports that recommended the need for increased transatlantic trade and cooperation, Marshall said he had seen little change in the regulatory environment. Progress was blocked and the defence industry was being denied economies of scale. Marshall wanted technology transfer's "burdensome controls" to be examined to see what was driving them and what they were achieving. A cost-benefit analysis could help, although Marshall acknowledged that political considerations lay behind some decisions.



“There are regulatory problems in Europe as well as in the US, and progress is blindingly slow.”

Derek Marshall

He agreed with Chao that with the mixture of ownership, it was extremely difficult to identify where individual components were sourced. That meant that terms such as "Buying British" had less and less meaning. Marshall welcomed Chao's positive comments about the UK's Defence Industrial Strategy (DIS) document, and described it as a beginning. Hard work had to be done and any focus on "fortress UK" was wide of the mark. It was intended to open up trade and investment options for the UK, and Marshall felt that the rest of Europe could learn from that approach and from the US' ways of encouraging trade.

Colonel Michael Ryan, Representative of the US Secretary of Defense, Mission of the US to the EU



Michael Ryan argued that the US aimed to spread stability, ensure security and develop an effective international system, based on an agreement (by the allies) on shared threat perceptions. He wanted the transatlantic arms business to contribute positively to these aims by creating a system that strengthened the bonds between the “greatest natural allies on the planet.”

These shared threat perceptions – developed using better intelligence sharing - should be based on an agreement on the threat facing the allies (the US and Europe) and they should drive transatlantic procurement so that it was based on what was needed and not on local priorities, such as “defence spending for social welfare.”

Ryan answered the question on many people’s minds – and the one posed by Marshall - by stating that many of the regulatory impediments (between the US and Europe) were caused by a difference in opinion as to existing threats. Making his point strongly, Ryan said the US did not want technology to fall into the wrong hands, thereby causing combat advantages to be lost.

Ryan’s common threat assessment would lead to the creation of rules that defined technology transfer, including third party transfers. This, he reasoned, would lead to a more open internal transatlantic market. This, in turn, would produce greater profits and a decreasing need for companies to sell arms to less stable nations of the world. Finally, Ryan suggested rules could be established for trade outside the transatlantic area, once a common understanding was reached, as that would be a powerful tool for combating weapons proliferation – “a contributing factor to global insecurity.”

“Many regulatory impediments stem from a difference of opinion as to the threats faced.”

Michael Ryan

Table 2: Michael Ryan’s “effective international system”:

- Based on a common threat assessment, we can discuss common approaches, and then how to use common tools, so that common decisions can then lead to common execution
- Such a needs-based approach would drive the allies to buy the best product on the transatlantic market at the best price regardless of its point of origin

Ryan saw a world where allies needed to deliver the best products, on time and on budget. That would be based on a transatlantic conversation, ahead of any discussions about national or organisational considerations. Ryan wanted an “effective international system”, built on a common threat assessment that would build trust between allies. It had to focus on results, protect the intellectual property rights of the innovators and the physical property rights of the “doers”. Political inputs to the process could be minimised by a collective focus on a common need.

Session I – Q&A

REGULATORY POSITION AND ITAR³ - THE SITUATION

During Michael Ryan's opening remarks, he described global security as the main reason for technology transfer restrictions. Thales' Vice President for Marketing, Edgar Buckley disagreed, stating that ITARs were all about keeping technology in the US for US purposes. Buckley added that many US companies he had spoken to also disliked the effects of ITAR.

“ITAR restrictions are nothing to do with security; they are about keeping US technology in the US for US purposes.”

Edgar Buckley



Buckley argued that both Europe and the US needed to reduce the amount of regulation. He wanted negotiations within Europe and with the US, to simplify trade as red tape was hugely expensive.

EADS' Senior Advisor Pierre Sabatié-Garat reported that approximately 60 cooperative programmes were being blocked by ITAR. Although these regulations might have been implemented for security reasons, he argued that they were being seen increasingly as commercial weapons. It was causing uncertainty and Sabatié-Garat could not share Chao's optimism in regard

³ International Traffic in Arms Regulations (ITAR): See the US State Department's site (http://pmdtc.org/consolidated_itar.htm) for a description of the consolidated ITAR, i.e. a version of ITAR that contains all the amendments that have appeared in Federal Register notices throughout the year.

to the exchange of the newer – more global – technologies.

“Uncertainty is the rule and very little balanced transatlantic co-operation is happening.”

Pierre Sabatié-Garat

According to the Western European Union's Assistant Secretary to Defence Committee Paolo Brito, Europe wanted “balanced and fair” access to the US market. The current restrictions were causing problems on the JSF project, where for example, the UK needed more technical information to be released so it could set up assembly lines. Brito commented that the subject of ITAR had been raised many times in many forums, but nothing was happening.

Pierre Chao had argued that such restrictions were often used in relation to mature industries. Lockheed Martin's Scott Harris disagreed and argued that these restrictions were mainly used to protect sensitive leading-edge technologies.

HOW TO IMPROVE THE SITUATION

For his part, Alberto de Benedictis had not experienced problems during the bidding process on the US presidential helicopter, as Lockheed Martin had applied for the necessary licenses. He did acknowledge the problem of uncertainty, as Licensing and Technical Assistance Agreements were required for every element of a program, with no guarantee that they would be renewed or new ones issued for program developments over time. As one way of improving things, de Benedictis wanted more joint development programmes between the US and Europe and he called on industry to stimulate opportunities.

Marshall saw regulatory constraints as one of the major problems facing industry, as they affected all countries – it was not just a US problem. Seeing progress as “blindingly slow”, Marshall was hoping for a breakthrough from the European Defence Agency (EDA).

As for a way forward, Buckley argued that many ITAR restrictions were applied incorrectly and he used his work with the network centric warfare consortium to back his arguments. Such restrictions had to be questioned. Chao was in agreement, saying that defaulting to ITAR was an easy option in the absence of an articulation of what is strategic and should be protected versus not. Picking up Buckley's point, Chao argued that it was impossible to discuss the creation of network-

centric developments on a national basis. The need to identify strategic priorities was backed by de Benedictis who agreed that ITAR often had the wrong focus.

THE DECLARATION OF PRINCIPLES FOR DEFENSE EQUIPMENT AND INDUSTRIAL COOPERATION

Alexandra Ashbourne, Director of the eponymous consulting organisation, reminded the meeting that February 5 would be the sixth anniversary of the Declaration of Principles for Defense Equipment and Industrial Cooperation, signed by the US and the UK⁴. Ashbourne had seen very little progress since then and remained pessimistic.



Sabatié-Garat agreed, adding that he could see “nothing happening” in terms of transatlantic cooperation. In response, Marshall noted that the declaration was rarely mentioned in the UK. He wanted Europe to give priority to making solid investment in its own industry capabilities.

THE US PRESIDENTIAL HELICOPTER CONTRACT (THE US101- NOW DESIGNATED THE VH-71)

Ashbourne wanted to know if a European company would have been likely to win the bid if it had not been partnered, or rather “led” in many observers’ opinions, by a US prime. She added that many US companies had seen the winning bidder as being a US programme.

That argument did not impress de Benedictis, who regarded the “flag / ownership” issue as irrelevant. It had been a “politically-charged campaign” but it was a very professionally run competition by the US Navy. He said the trade would be good for the US and for Europe and it would be seen as a tri-nation helicopter (Italy, UK and US).

Chao reasoned that in the event that the “flag” of the bid did not matter (as there would be increased trade and jobs for the European partners), then many problems would disappear. However, if the identity of the prime contractor was important, then Chao argued that the whole need for common threat assessments (as outlined by Ryan) would be on the table ... and would not go away.

Defense News’ Correspondent Brooks Tigner asked for clarification on that, as surely it was better to manage 100% of a programme as opposed to, say, 50%. Chao saw the argument differently as it was really a choice of 50% of a programme (i.e. go with a US prime), or nothing. Ashbourne and Tigner felt relieved, as that had been the point they were making.



In response to Chao’s comments that Lockheed Martin were newcomers in the helicopter business, Harris later insisted that this was not the case. He commented that Lockheed Martin had selected the AgustaWestland helicopter, as it was familiar with the programme. And of course, Lockheed Martin had the ability to get into the US market - those factors were examples of how industry could forge programmes.

THE NEED FOR GOOD TECHNOLOGY

Being pragmatic, Buckley reasoned that the US would not be opening up its defence market in the near future. He therefore identified the need to improve and sustain Europe’s technology base, as this would increase both the chance of US sales and the possibility for increased cooperation with the US.

Agreeing, de Benedictis said Europe could be as good as the US, but there was a lack of focus and money. There was a need to organise resources and leverage Europe’s capabilities in its relationship with the US.

⁴ See the US Defense Department’s website at (http://www.defenselink.mil/releases/2000/b02082000_bt_055-00.html) for more details of the declaration.

WHAT WAS THE DEFENCE INDUSTRY FOR?

Merritt set out the reasons for the existence of a healthy defence industry. He saw three categories, which were:

1. as a cutting-edge multiplier for advanced industries (to spin-off new technologies)
2. as a direct result of “pork barrel politics⁵”, which was alive and well in Washington - less so in Europe – many local constituency jobs are dependent on the industry
3. to protect global security (as outlined by Ryan)

Chao saw pork barrel politics alive and well on both sides of the Atlantic, in particular related to old technologies and mature industries. In one sense, de Benedictis wanted a little more pork barrel politics in Europe, as the benefits for the European economy were being seriously underplayed.

Ryan still argued that global security was the main reason for a healthy defence industry, as without it, the other two reasons would cease to exist. He insisted that the US wanted Europe to be a strategic partner but faced a conundrum: The US wants Europe to produce credible capabilities while at the same time wanting to play an appropriate economic role in the acquisition of those capabilities. Resolving this perceived conflict should be an important goal of US policy.

WAS THE GAP WIDENING?

Merritt also wanted to know if the technology gap was widening and if it was time that Europe raised its political profile and started playing “hardball” with the US.

Ryan said the gap is not increasing along a straight-line, therefore, we should be more reasonable in our projections. He cited more need for low-end civil–military technology, as seen in Sudan, the Congo and in the Palestinian Territories. Chao agreed and foresaw a bigger piece of the cake for Europe as more “light technologies” were used in peacekeeping operations. As for playing hardball, de Benedictis said this would only be possible if someone was listening.

Speaking in the later session, EADS’ Director for EU Defence Policy and NATO Andreas Hammer looked at the potential of European and US “fortresses” and the need for hardball. He dismissed it and argued that if the EDA played its cards right, they would be equal partners in a negotiating phase.



⁵ Pork barrel, in a literal sense, is a barrel in which pork is kept, but figuratively is a supply of money; often the source of one's livelihood. In politics, a pork barrel (or pork barrel politics) is a term describing government that is intended to benefit constituents of a politician in return for their political support (Wikipedia).

SESSION 2: ECONOMIC AND POLITICAL IMPLICATIONS OF TRANSATLANTIC PROCUREMENT POLICIES

CSIS's Pierre Chao moderated the afternoon session that looked at the various perspectives of an improved transatlantic marketplace.

Andreas Hammer, Vice President, Director for EU Defence Policy Affairs/NATO, European Aeronautic Defence and Space Company (EADS)

Andreas Hammer viewed the transatlantic defence marketplace from a historical perspective and reasoned that most decisions had been taken based on "cause and effect" (the US reaction to a perceived fortress Europe, for example) and on attempts to get the two sides back in balance. He added that national interests had also played a role.

“European governments are worried about letting the EDA have too much leeway as it is making too much progress.

Andreas Hammer

Outlining the vast imbalance between the US and Europe in terms of development budgets, research expenditure and the respective volumes of transatlantic trade, Hammer reasoned that the US does not depend on armaments cooperation. Furthermore, interoperability might best be achieved, from a US viewpoint, by following a "Buy-US" policy.



Looking at the overall political implications of US procurement policies, Hammer concluded that they had fuelled defence integration in Europe. The open question was to what extent the EDA would succeed in its various missions, some of which depended on member states ceding an amount of sovereignty to the Agency.

Scott Harris, President, Continental Europe, Lockheed Martin

Scott Harris outlined his reasons why transatlantic cooperation was necessary and desirable. They were because:

- the US marketplace was the only growing market
- the supply chain was becoming increasingly global, especially regarding software
- high investment was needed in new technologies (e.g. NATO-type projects)
- joint development, as in the MEADS project, could prove beneficial at a later date



Harris had concerns, though. He saw a European defence industry that lacked money, as there were too few new programmes. Military reform could be the answer, but he saw little chance of that happening, as there was a "lack of political energy and leadership" on both sides of the Atlantic. In addition, with offsets becoming increasingly draconian (from the Baltics to the Balkans), Harris regarded the latest Commission initiatives on the defence market and the EDA's agenda as too inward-looking.

“Military reform is the answer but there's a lack of political energy and leadership.

Scott A. Harris

Moving to the topic of ITARs, Harris had not seen them as a barrier to progress – certainly not on the JSF project. Using MEADS as an example, Harris claimed that technology sharing was being seen at rates never seen before. Meeting ITAR requirements was labour intensive, but the transfers were happening. Harris remained optimistic but progress depended on political leadership and sustained attention.

Robert Bell, Senior Vice President European Business, Science Applications International Corporation (SAIC)

Robert Bell looked at the role played by NATO procurement and how it could lead to improvements in transatlantic cooperation. Bell explained that for many US companies – certainly for those outside the top ten – NATO was attractive as it was seen as “less foreign” (with English as the common language and the US seen to be the key member state) and it had a highly transparent procurement process.



With contracts worth €2.5 billion to be awarded for many of the C4ISR programmes, such companies saw NATO and US Department of Defense contracts (in support of military bases in Europe) as take-off points for the development of a transatlantic structure. However, Bell insisted that it could not be taken for granted that US companies would cross the Atlantic for NATO business. He therefore stressed the advantages of the “best value” procurement bidding processes as opposed to “lowest cost” which had been generally used in the past. With the more technical C4ISR projects, where requirements were harder to define, Bell said “best value” was the preferred route and it would prove to be beneficial for NATO, Europe and for the taxpayer.

Alain Picq, Armaments Counsellor, Delegation of France to NATO

Alain Picq made the case for a real and meaningful transatlantic cooperation. However, he could see no evidence of it in the current climate. It existed in niche areas, such as Airbus and ACCS, but further extensive cooperation was not possible due to the budgetary gap (as outlined in the morning session). Picq called for:

- a step-by-step approach, which could include parallel activities
- enhancement of the niche areas

- greater emphasis on interoperability that would lead to better cooperation

“There is no real transatlantic cooperation because there is a budgetary gap ... and no European market exists.”

Alain Picq

Emphasising the role of the EDA, Picq said it should focus on a consolidated marketplace via the establishment of a European Defence Equipment Market (EDEM). This would make Europe a real transatlantic partner and hence produce a balanced relationship. Returning to the lack of transatlantic co-operation, Picq argued that the main reason was that there was no European defence market - two partners were needed for a real relationship.

Session 2 – Q&A

TOWARDS TRANSATLANTIC COOPERATION

Paolo Brito argued that sovereignty was important, so Europe had to develop its own industrial base (systems integration and technology) and improve its fragmented marketplace. He wanted a common strategy and agreed that a joint threat assessment would be beneficial.

Edgar Buckley agreed but he didn't want the European focus to have priority over transatlantic co-operation – both could progress in parallel. He also supported Harris's call for more programmes – both in the UK and in Europe – as that was the only way forward.

Alain Picq was also in line with Buckley's call for progress in Europe and on a transatlantic basis, and he wanted more programmes. But the prerequisite was a common language and common policies – as an example, Picq said that in the Unmanned Aerial Vehicle (UAV) projects, there were separate paths being taken by Germany, France and the UK. Showing some frustration, Picq said that common programmes had been discussed for 20 years but nothing was happening. On the issue of UAVs, Chao warned that chasing economies of scale (and hence removing competition) too early in the development of the technology could lead to a lack of innovation.

NATIONAL INTERESTS?

On the acquisition of Atlas Elektronik, Alexandra Ashbourne wanted to know how EADS had got the deal when it had made a bid that was reportedly considerably lower than Thales.

Andreas Hammer explained that several factors led to this positive outcome. In this respect, national consolidation in the naval sector was seen as a prerequisite for further steps at an European level. Ashbourne added that it was one of the few occasions when EADS was seen to be a German company.

NATO, COMPETITION FROM THE EDA?

Brooks Tigner returned to the issue of the EDA's future. He reasoned that the combination of the EDA, the ESDP and the EU itself would forge strong competition for NATO in, say, 20 years time. Tigner wanted to know what repercussions this would have on NATO funding.

Robert Bell could see no evolution of the EDA that would impact the national funding of NATO's military budget. Picq agreed that would be the case for the next few years, as overall spending would increase at NATO. He saw the Agency focusing on a political role as it would be impossible to launch major programmes without first developing a common language and common policies.

WHO TAKES THE LEAD – THE NEXT STEPS?

Fleishman-Hillard's Michael Berendt could see problems with the EDEM, as he did not know who would be negotiating on Europe's behalf. He therefore wanted industry to take the lead and find ways of co-operation.

Pierre Chao saw two scenarios; either governments would take the lead to establish the correct environment or industry would lead. As an example of the latter, Chao argued that industrial leadership might be needed to keep the AGS programme alive and kicking. Given these scenarios, Chao asked how deep the integration could be and who should take the next steps.

Scott Harris wished he had a "magic wand" and explained that if he had, he would:

1. eliminate the "buy US" discussion
2. streamline the US technology export regime
3. allow the European defence industry to run like a business (less government interference)

Buckley added a few items to Harris' list:

1. streamline European regulatory affairs (as well as the US)
2. introduce more transparency in the whole process, preferably via the EDA; for example, no one knows how much is spent on R&T and by whom
3. develop targets for joint cooperation programmes

Hammer said that whatever happened, progress would take decades. He had seen many developments but governments were still taking the initiative. They had to relinquish control and allow the EDA to take decisions. He reasoned however, that governments were worried by the EDA's fast progress and were reluctant to give it an operational budget. Europe needed a consolidated market and the EDA was the only mechanism for providing it.

As President Bush had put NATO back into the heart of US policy, Bell had some deliverables in that area:

- complete a fundamental reform of export licenses (the PDD-19),
- breathe life into the LOI process in Europe
- link the two processes and develop cooperation where they overlap
- have the EU make more use of the Berlin Plus agreements and avoid moving the Petersberg tasks into the high end

Whatever was done, Picq wanted to avoid duplication and he saw a lot of work in the next 10 years for both NATO (with its transatlantic operational programmes such as AGS and ACCS) and the EDA in its development of the EDEM.

Pierre Chao identified three actions that would allow progress to be made on transatlantic defence trade:

1. Have the US and European nations undertake an exercise to identify industries that support key, strategic, asymmetric military capabilities. By definition the number of strategic industries should be very small in number and be fully supported by their defence budgets. Areas not deemed to be strategic should be open to competition on a transatlantic basis.
2. Establish NATO and DARPA/EDA prizes for the development of cutting edge technologies or to solve critical capability gaps – any company or combination of companies in NATO, the US or the EU can pursue and win these prizes. The prizes should be technical in nature (design a UAV that can stay aloft for a month for example) to eliminate the politics.
3. Europe should take actions to strengthen its defence capabilities and industries, but within a transatlantic context.

IS A TRANSATLANTIC DEFENCE INDUSTRY INCREASINGLY ON THE CARDS?
SDA ROUNDTABLE REPORT



CSIS' Pierre Chao and EADS' Pierre Sabatié-Garat discuss after the event



Pierre Chao, Bill Giles and Edgar Buckley



Participants at Bibliothèque Solvay



Bill Giles, Frans Picavet, Martin Hill and Pierre Chao



Networking during the break



First panel in the morning



SDA Members' Lunch



Northrop Grumman's James Moseman and TIP's Hartmut Bühl

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IS A TRANSATLANTIC DEFENCE INDUSTRY INCREASINGLY ON THE CARDS?
SDA ROUNDTABLE REPORT

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IS A TRANSATLANTIC DEFENCE INDUSTRY INCREASINGLY ON THE CARDS?
SDA ROUNDTABLE REPORT

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ABOUT THE SECURITY & DEFENCE AGENDA

The Security & Defence Agenda, formerly the New Defence Agenda (NDA) has become established as the only regular Brussels-based forum where political figures and journalists gather to discuss the future of European and transatlantic defence and security policies.

The aim of the SDA is not to replicate more academic research-based projects but to give greater prominence to the complex questions of how EU and NATO policies can complement one another, and how transatlantic challenges such as terrorism and WMD can be met.



La Bibliothèque Solvay

Bringing clarity and new ideas to the rapidly-changing defence and security policy scene has been the SDA's aim from its beginning. SDA's activities range from monthly roundtables and international conferences to reports and discussion papers, all of which attract high-level speakers and authors and institutional, governmental and industry support.

One of our prime objectives is to raise the profile of defence and security issues among the Brussels-based international press. To encourage more in-depth coverage of these topics, the SDA holds regular, informal dinners for journalists with high profile decision makers.

Recent speakers and participants include

Gijs de Vries, Counter-terrorism Coordinator, Council of the EU; Richard Falkenrath, Research Fellow, Brookings Institution and former Deputy Homeland Security Advisor to the US President; Franco Frattini, Commissioner for Justice, Freedom and Security, European Commission; Bill Giles, Director General, Europe, BAe Systems; Vecdi Gönül, National Defence Minister, Turkey; Scott A. Harris, President, Lockheed Martin International; Patrick Hennessey, Director, DG Enterprise, European Commission; Hilmar Linnenkamp, Deputy Chief Executive, European Defence Agency; Alessandro Minuto Rizzo, Deputy Secretary General, NATO; Sergei Ordzhonikidze, Director General of the United Nations Office in Geneva; Zonghuai Qiao, Vice Foreign Minister, Ministry of Foreign Affairs, China; George Robertson, Former Secretary General, North Atlantic Treaty Organisation; Gary Titley, MEP, Committee on Industry, External Trade, Research and Energy, European Parliament; Michel Troubetzkoy, Senior Vice President, Director for Relations with European Institutions, EADS; Günter Verheugen, Commissioner for Enterprise and Industry, European Commission; Antonio Vitorino, former Commissioner for Justice and Home Affairs, European Commission; Karl von Wogau, Chairman, Subcommittee on Defence and Security, European Parliament, Geoffrey van Orden, Vice-Chairman, Committee on Foreign Affairs, European Parliament



"[NATO] An Alliance in which Europe and North America are consulting every day on the key security issues before them. Acting together, in the field, to defend our shared security... Because in a dangerous world, business as usual is not an option"

NATO Secretary General Jaap de Hoop Scheffer, Annual Conference 17 May 2004

"Homeland Security = a concerted, comprehensive and nationwide effort to prevent future terrorist attacks, to protect the most vulnerable targets against future terrorist attacks and to be ready to respond against possible attacks and minimize loss of life and damage if such attacks occur" Richard Falkenrath, former Deputy Assistant to the President and Deputy Homeland Security Advisor, 17 November 2003 Annual Conference



"The agency should generate ideas and speak the truth to defence ministers."

Nick Witney, Chief Executive, European Defence Agency 28 April 2004 Press Dinner



"There is an opportunity for Europe to take advantage of the US's investment by issuing collaborative programmes – paid for to a certain extent by the US taxpayer. The European Defence Agency could foster transatlantic cooperation rather than follow more traditional approaches"

Scott Harris, President Continental Europe, Lockheed Martin, 28 April 2004 Press Dinner



ACTIVITIES

MONTHLY ROUNDTABLES

SDA's series of Monthly Roundtables are attended by some 70+ defence and security experts who participate actively in the debates. Their discussions are summarised in concise reports that are circulated to a wide range of stakeholders across the globe. Roundtable topics include:

- Is the transatlantic defence marketplace becoming a reality?
- Defence aspects of EU and NATO enlargements
- What policies will create effective peacekeeping?
- Strategic priorities for protecting Europe's infrastructure against terrorism
- Will the EU get tough on opening-up national defence procurement?
- The powers and responsibilities of the European Defence Agency
- Europe's drive to implement an anti-terrorist strategy
- On the eve of Istanbul – Can NATO become a motor for reform?
- Does Europe need a Black Sea security policy?
- Is maritime security Europe's Achilles' heel?
- Space and security in Europe

REPORTS on Monthly Roundtables discussions are available on the SDA website. The SDA also published a Discussion Paper 'Fresh Perspectives on Europe's Security' in 2004 and its Bioterrorism Reporting Group has published three in depth analyses on bio threats and our responses.



INTERNATIONAL CONFERENCES

The SDA organises a number of major conferences with partners, in Brussels and elsewhere. Conferences gather 200+ senior defence and security policymakers, industrialists and media to discuss current policies and decision-making.

- Towards an EU Strategy for Collective Security, Feb 2005
- Defending Global Security: The New Politics of Transatlantic Defence Cooperation, May 2004
- Towards Worldwide Security: Building the Transatlantic Agenda, Nov 2003
- Reinventing Global Security, June 2003
- The Relaunching of Transatlantic Relations and Anti-Terrorism Cooperation, May 2003
- How credible are Europe's Anti-Terrorism Defences?, Oct 2002

PRESS DINNERS

Correspondents of top European newspapers take full advantage of these rare opportunities to explore in informal circumstances the thinking of senior MEPs, industry executives, ambassadors and EU and NATO officials. Recent press dinners featured Nick Witney, Chief Executive of the European Defence Agency (EDA) 'Powers and Responsibilities of the new European Defence Agency (April 2004); Erkki Liikanen, EU Commissioner for Enterprise, 'Europe's Defence and Security Research' (November 2003); General James L. Jones, Supreme Allied Commander SACEUR, NATO 'NATO's Transformation Process and Cooperation with the EU in the future' (October 2003); Margot Wallström, EU Commissioner for Environment 'Civil Protection and Bioterrorism' (May 2003); and Robert Cooper, Director General for External & Politico-Military Affairs, Council of the EU (Oct 2002)



General James L. Jones, Supreme Allied Commander, NATO with Thomas Enders, Executive Vice President, EADS April 2004 Press Dinner

BIOTERRORISM REPORTING GROUP

Following the interest generated in past SDA events, the SDA decided to create a venue for more focused discussions on the area of bioterrorism. The Bioterrorism Reporting Group meets every three months and will allow the discussions not only to be tailored to the evolving developments in the biological field but most of all, the resulting reports will act as a catalyst for the political world.

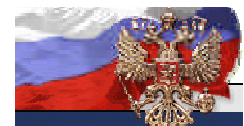
- 21 June 2004 'Countering Bioterrorism: Prevention and Protection'
- 18 October 2004 'Countering Bioterrorism: Science, Technology and Oversight'
- 25 January 2005 'Next Generation Threat Reduction: Bioterrorism's Challenges and Solutions'
- 25 April 2005 'Countering Bioterrorism: How can Europe and the United States work together?'



THE SECURITY & DEFENCE AGENDA (SDA) WOULD LIKE TO THANK ITS PARTNERS AND MEMBERS FOR THEIR SUPPORT IN MAKING THE SDA A SUCCESS



Ministry of National Defence, Turkey



Mission of the Russian Federation to EU

SDA IN 2006

19 JANUARY 2006
Book presentation

UTILITY OF FORCE: THE ART OF WAR IN THE MODERN WORLD
WITH GENERAL SIR RUPERT SMITH AND JAVIER SOLANA



30 JANUARY 2006
Monthly Roundtable

IS A TRANSATLANTIC DEFENCE INDUSTRY INCREASINGLY ON THE CARDS?



20 FEBRUARY 2006
Monthly Roundtable

CHARTING THE DEVELOPMENT AND USES OF NETWORK CENTRIC CAPABILITIES



UPCOMING ROUNDTABLES

MAKING SENSE OF THE CHINA ARMS EMBARGO ISSUE
BORDERS & PEOPLE: THE LIBERTY AND SECURITY BALANCE

30 MAY 2006

Annual Security Conference

DEFENDING EUROPE: HIGH-TECH OPTIONS FOR ENHANCING ANTI-TERRORISM PROTECTION IN THE EU

RECENT SDA ACTIVITIES



General Sir Rupert Smith, former NATO DSACEUR, Giles Merritt, SDA Director and Javier Solana, EU's High Representative for CFSP at the 19 January book presentation



Press dinner with Robert Stevens, CEO, Chairman and President of Lockheed Martin, 29 September 2005



Michèle Alliot-Marie, French Minister of Defence, and John Reid, British Secretary of State for Defence at an evening debate organised with Fondation Schuman, Friends of Europe and Hans Seidel Stiftung on 21 November 2005



Turkish Defence Minister Vecdi Gönül and NATO Secretary General Jaap de Hoop Scheffer at the 'Reinventing NATO: Does the Alliance reflect the changing nature of transatlantic security?' 24 May 2005