Revisiting NATO-ESDP relations

Part II

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Introduction

by Giles Merritt

This is the second part of an SDA Discussion Paper on NATO-ESDP relations in which representatives of the defence industry, academics and experts from both sides of the Atlantic examine the challenges NATO and ESPD have to face – both together and independently. At the end of April, both parts of the discussion paper will be published in a single booklet.

In her article, **Alyson Bailes**, a former British diplomat who until recently headed SIPRI in Stockholm and is now at the University of Iceland, illustrates an important parallel between intra-European and transatlantic developments. She highlights similarities in the evolution of contemporary approaches and, more importantly, in the pivotal challenges both NATO and the EU have had to cope with in recent times. Highlighting the fact that 'newer new threats' such as energy security and relations with Russia cannot be addressed militarily, she recommends that it is more urgent to find an adequate response to the new security environment than focussing on the nature of the NATO-EU relationship.

Julianne Smith, from the Centre for Strategic and International Studies (CSIS) identifies three scenarios which could signal a way out of the current impasse regarding NATO-EU cooperation: an operational crisis that spurs action; the use of current operations to test best practices for cooperation; and a change in leadership. More importantly, she deplores the situation in which the nature of the NATO-ESPD relationship is only dealt with in restrained or hermetic circles, missing the linkage with a wider public.

In his critique of the current state of the ESDP, **Yves Boyer** from the Fondation pour la Recherche Strategique (FRS) in Paris pushes the argument even further. He denounces the paradox of conducting international military missions to spread democracy while lacking the public support for these missions back home. He is convinced that either a prescient military situation or the looming economical crisis will raise political awareness and further

the push for change.

When **Rafael Bardaji** from the Madrid-based Fundación para el analisis el estudios social (FAES) asks what the EU and NATO can do for each other, he finds that the most pressing issue is whether the European member states of both organisations need to increase their defence budgets . According to him, this is particularly true if the European Union seriously intends to develop its international political profile.

A short-list of the EU's top security priorities is presented by **Roberto Menotti** from Aspen Institute Italia. He emphasises the need for the European Union to assume its responsibilities in the Balkans, while conceding that there is a risk of operational overstretch. He reiterates that a prerequisite of a more effective and secure Europe is genuine solidarity, noting that currently, there is not enough of it within the EU.

Derek Marshall and **Tim Williams** from the Society of British Aerospace Companies (SBAC) analyse the different approaches that the European Defence Agency and the European Commission are adopting to reform the regulatory outline of the European defence market. Welcoming the apparent intention to break up the protectionist shield that encumbers the development of a competitive European defence industry, they believe that for the reforms to be effective they must be properly directed and industry concerns should be fully considered.

Giles Merritt
Director
Security & Defence Agenda

NATO and the EU: Why we should beware tidy solutions

by Alyson Bailes

Analysts may dislike untidiness, but policy practitioners often see it as a warm and nurturing jungle in which they can survive. That which is tidy is finite and hard to adjust, while what is roughly defined or ambivalent still has possibilities for growing in several directions. From the analyst's point of view, the clarity of NATO-EU relations (or for that matter, the relations of either institution with the OSCE) is more important than their quality. For good policy-making, and especially for the capacity to adjust to Europe's rapidly shifting security landscape, clarity might not even be particularly desirable if only the 'mood music' of the relationship could improve.

The EU and NATO have experienced broadly comparable arcs since 2001. Both have had to adjust simultaneously to the challenge of major enlargements, and the demands of a new security agenda in the wake of 9/11. The latter brought a greater emphasis on internal security and a new interventionism geared to non-traditional, including non-state, threats. In political terms, after the splits and traumas over Iraq of early 2003, the EU sought to reinvent itself through a new constitution containing some simplication strides forward in the security field. NATO sought redemption with its focus on the Afghanistan operation where, unlike in Iraq, all the Allies could come on board and contribute according to their means.

There then followed the secondary trauma where the EU's initial therapy in the shape of a constitution collapsed. The EU's setback over the constitution was clear, but NATO was also plagued by increasing doubts about the 'winnability' of the Afghan campaign, with the even greater spectre in the background of the bankruptcy of US policy on Iraq. Small wonder that the shrillness of mutual criticism between the US and Europe died down even as the grounds for criticsm became more obvious; neither side wanted to unbalance its own fragile situation by lashing out too strongly at the other. And a lot of sensible transatlantic cooperation

in the headlines on less militarised approaches to the new threats - notably, anti-terrorism and anti-proliferation measures - was building up, even though almost exclusively through the EU.

The broad parallel between the intra-European and transatlantic arcs continues. The EU has some new leaders, and has laboriously won a fresh start with its Reform Treaty. The US is preparing to elect a new President. How these opportunities are used will have to involve something more than just a third try at accommodating the lessons of 9/11. Other issues have bounced back to confront NATO, the EU and individual countries. They are not really new, of course, but were relatively neglected in the opening years of this century. Russia and Turkey are the most egregious examples, but good and sustained policymaking has also been lacking on the Middle East conflict or conflicts; on neighbourhood strategies especially the future of the post-Soviet space and on North Africa, as well as on non-terrorist-related functional challenges

like disease pandemics, the environment and energy management. True, these issues are now all over the media and not in that sense 'neglected'.

But political and institutional responses to them hardly hint at far-sighted and effective policies that would command a large Western consensus and give leverage with the emerging powers. And there are some issues where the media has yet to wake up to the true enormity of the consequences of failure – notably the stalled Doha trade liberalisation round.

A further point about this list of 'newer new threats' is that none of them has much to do with overseas operations. ESDP is not the framework to solve the problem of the West's long-term co-existence with Russia, any more than NATO will be able to find many military options that do more than briefly and locally palliate the energy supply challenge. Afghanistan and Iraq are not solving any of these worries, but rather draining resources away from other possible initiatives in a way that the new US

President may well find frustrating. Here lies the real pity of the procedural and political blockages that have presented the EU and NATO communities – most of which are the same countries – from holding a shared review of the challenges to their interests and values. The institutions are inter-blocking not inter-locking.

It should be clear from this that it's easier to identify what would *not* solve the problem, rather than what would. Some kind of EU-NATO concordat on dividing up operational tasks would not last long in face of both external and internal pressures for change, and would only be marginal to the overall re-think of political goals and security priorities they each institution needs now to tackle. The issue cannot be simplified by saying that the EU will do soft tasks and the US or NATO harder ones. This is because the maturing of each institution depends *inter alia* on learning the logic of both kinds of response – and their interdependence – much better than in the past. Grand designs to bring together the whole assemblage of NATO and EU assets and competences under a single institutional umbrella simply do not work because the nature and legal ownership of the assets and the general governance of each institution is so different.

Boringly enough, the answer is probably 'It's politics, stupid'. Nation states created these supranational institutions, and so are still the best experts on how to sabotage their workings. If instead of trench warfare at institutional level, Western leaders (and their voters) could switch to thinking first about what answers the new challenges need, and second about which institution (s) to use as vehicles for them, the tidiness and consistency of solutions would matter less than how well they did the job. There would be more than enough for both NATO and the EU to do, and space to create something new for those parts that maybe neither institution can reach.

Alyson Bailes currently is a visiting professor at the University of Iceland and was formerly Director at SIPRI

Protecting the energy supply chain is a new security threat that neither NATO nor ESDP can genuinely cope with. According to the International Energy Agency, global energy demand will raise between 50 to 60% by 2030. The picture shows a Chevron Refinery in Capetown.

© Roger-Viollet / Reporters

Finding a way out of the impasse of EU-NATO cooperation

By Julianne Smith

The EU-NATO relationship has been a source of heated transatlantic debate for over a decade. EU and NATO officials regularly sound-off about their inability to share information, complaining of unhealthy competition, and the high levels of mistrust that plague their relationship. Even in the face of ongoing missions in the Balkans and Afghanistan that provide ample evidence of the need for greater EU-NATO cooperation, neither organisation has yet managed to find a way to end the impasse.

Think tanks, NGOs, and universities on both sides of the Atlantic have tried to lend a hand by hosting countless seminars and publishing dozens of reports outlining innovative solutions that might allow these two mammoth bureaucracies to foster greater unity of effort. There have been proposals for creating an EU-NATO Long-Term Vision Working Group, enhancing cooperation between the European Defence Agency and Allied Command Transformation, and expanding a series of informal dinners among NATO and EU

foreign ministers to include defence ministers. But these ideas have so far failed to produce a solution, leaving many on both sides of the Atlantic exasperated.

Why hasn't the transatlantic community, either in government or outside, been able to craft a viable way to bring together two organisations that share so much in common? There are a number of answers. First, certain EU and/or NATO member states have outlined specific requirements that would need to be met before anymore can move forward. Notably, Turkey, Cyprus, and Malta have spun a web of stipulations not only around each other but also around NATO and the EU. This has paralysed the process and left many Europeans and Americans sceptical of a breakthrough. Some EU members, worried about the long-term effect that closer EU-NATO cooperation might have on the EU's capacity to conduct autonomous military operations, are also actively blocking proposals that advocate closer ties.

Those countries that support greater EU-

NATO cooperation appear to lack the time, clout, or energy to push more vigorously for change. The United States, well-known (but not always well-liked) for promoting bold policies vis-à-vis NATO and NATO's relationship with non-NATO countries and institutions, is currently pre-occupied with its ongoing missions in the Middle East, and is also absorbed by this year's presidential election. The result is that the US is unable and unwilling to dedicate significant intellectual or political resources to this particular issue.

Because this is an issue that rarely enters the public discourse or makes headlines, NATO and EU member states are under no pressure from public opinion or the press to find ways to strengthen EU-NATO ties. Instead, the EU-NATO debate is largely reserved for a rather small community of political elites, as well as those operating in conflict zones where both institutions are present. It is an issue they may well irritate or even infuriate foreign policy experts in the United States and Europe, but it simply doesn't register in the minds of the average citizen in Chicago, Milan, or Hamburg.

Does all this mean that greater EU-NATO cooperation is destined to remain a topic to be explored only at high-level conferences, without much prospect of resolution for another decade? Not necessarily, as there are three scenarios under which one could envision some progress.

First, an operational crisis of some kind could spur action and highlight the dangers of continued stagnation in EU-NATO relations. Short of wishing for a crisis that could potentially harm NATO and EU personnel, it might be beneficial for opponents of EU-NATO cooperation to witness the consequences of a continued stalemate. If, for example, European forces were to encounter unforeseen circumstances during an operation, non-EU forces would likely be asked or expected to come to their aid. But without advance transparency and information-sharing, doing so could be fraught with difficulties.

Second, even without a crisis, the EU and NATO could simply use current and future operations to quietly test "best practices" for cooperation. This is already happening in places like Darfur and the Balkans, where EU and NATO personnel sometimes break down official barriers without first securing the blessing of their leaders back in Brussels. Assuming the EU and NATO will continue to deploy to the same regions and hot spots in the years ahead, the day-to-day operators will eventually find their own ways around the longstanding impasse.

Peackeeping forces of the African Union embark on a NATO airlift carrier in Darfur.

© NATO

The third scenario that might produce results is a change in leadership. To date, the EU-NATO relationship has lacked a champion or a country that was willing to make strengthening EU-NATO ties a top priority. With this year's presidential election in the United States, we might see the arrival of a leader willing to commit himself or herself to EU-NATO cooperation. That person, or group, if European leaders were also to seize the opportunity, would need to significantly widen the debate to alert the public and the media about the consequences of inaction. They would also need to work with leaders on both sides of the Atlantic (especially in Turkey and Cyprus) to build the political capital to foster real change.

None of these scenarios are ideal. The first pre-supposes operational difficulties. The second, while much more benign than the first, could take years to yield concrete political results back in Brussels. And the last one is betting on leadership that simply isn't in sight at the moment. But after years of attempts in and out of

government to find a solution, this is, sadly, what it has come down to.

Neither the EU nor NATO lacks fresh ideas for launching a re-defined and stronger partnership. It is their member states that lack the will to use those ideas to alter the *status quo*. Fortunately, change will come at some point. The two organisations' over-lapping interests and growing interdependence make it both illogical and impossible for NATO and the EU to limit the relationship to a few key issues.

Julianne Smith is Director of the Europe Program at the Centre for Strategic and International Studies (CSIS) in Washington

ESDP is badly damaged but it's far from dead

by Yves Boyer

There are perturbing signs of growing discrepancies between reality and appearance within the transatlantic community. Is this a symptom of NATO's own mutation, or of worrying divergences between the political leaders of its member countries and their public opinions?

Afghanistan is a good example of that phenomenon. When asked if the war against "militants" in Afghanistan has been a success or a failure, 63% of the French and British people polled, 66% of Italians and 69% of Germans thought it has been a failure. Fighting Al-Qaeda in Afghanistan to prevent terrorism in Europe (according to the Leitmotiv "*The Hindu Kush is our first line of defence against terrorism*") is difficult to sustain in the face of growing scepticism of Western public opinion and an awareness that Muslim extremists who have perpetrated bombing attacks in Europe were in fact European citizens and the sons of second or third generation immigrants. Yet NATO's political leaders continue to highlight the risk of the alliance

falling apart if some European countries do not meet the demands for reinforcements in Afghanistan coming both from SHAPE and the Secretary General, Jaap de Hoop Scheffer. It is an old refrain that has long punctuated life in the alliance, but who now remembers events like the euromissile crisis of the early 1980's when the collapse of NATO was also said to be looming?

In its own way, the NATO-ESDP relationship is also unable to escape this sort of shadow boxing. According to the EU's 1992 Maastricht treaty, the new European Security and Defence Policy was supposed to be the armed branch of the European Union helping to transform it into a political entity on the international scene. Despite making this commitment, it is a vision that has been adamantly resisted by a significant number of EU member states because they considered it would result in a divorce from the US as Washington would never tolerate such an open display of "independence".

The balance of power has currently shifted

to the side of these countries as European weakness is doing little to establish the EU as a pole of power in today's emerging multipolar world. The ESDP is therefore only a shadow of what would have been possible if the dynamics of the Franco-British defence agreement almost 10 years ago or Saint-Malo had not been struck down by the divisions within Europe of the Iraqi crisis, and then by the reluctance of most EU members to upgrade their military forces.

The result is that support in most EU countries for their armed forces is increasingly eroded. There is no longer a correlation between soldiers being sent to Afghanistan (or in Iraq) and their country of origin: they all are, with the exception of US personnel, NATO or "coalition" soldiers. This new style of anonymity severs the fundamental link between armed forces and their own country. Now a further step in this gradual process has been set in motion: the chain of command will ultimately pass out of European hands because military concepts and doctrines

(as exemplified by the concept of "transformation") are increasingly developed outside of Europe. Finally, for most Europeans (with the exception of the UK and the US) the language used in military exercises and combat missions is a foreign language. More and more international aspects of security and defence are seen through the prism of American ideas and perspectives.

These remarks should not be misinterpreted; it would be all too easy to dismiss them as a form of anti-Americanism, and thus disregard the wider argument. This analysis is, in essence, the result of a depressing look at the present state of most European countries' armed forces. Of the 27 EU countries, only six – France, Germany, UK, Italy, Spain and the Netherlands – accommodated for 82 % of all EU defence spending. Put another way, 21 of the Union's member states contribute between them a mere 18% of EU defence expenditure. There is thus a growing disparity between different nation's

military know-how and capabilities that makes the positive development of ESDP more and more difficult. NATO is in a better position because its structures are already in place, and its US leadership is not only indisputable but also carries out the main bulk of defence activities in terms of thinking, defining new concepts and taking charge of overall organisation. In the case of ESDP, though, almost everything has yet to be imagined, created and implemented. This pre-supposes real know-how in operational and strategic military affairs that has already vanished in most European countries.

How much longer will the present situation last? It is difficult to predict but three points at least are worth making. First, the EU – however reluctant most of its members may be – will certainly find itself in situations where it will have to assert, if not defend, its interests even though the US will either not be concerned itself or will already be engaged elsewhere. ESDP will then have to make a necessity out of virtue. Second, a long period of economic growth in the US has enabled America to invest heavily in defence spending and this has had positive "collateral "effects for Europe too. But now looming economic recession will have a serious impact on US defence priorities, and will compel the Europeans to rationalise their own defence efforts in favour of ESDP. Third, new types of threat combining both instability linked to climate change and the greater assertiveness of the major Asian powers will have a different impact on Europe than on North America. This will force Europeans to invent their own responses to this new "disequilibrium", including in the realm of defence. And in all these cases, "the clock is ticking" for we Europeans, and so ESDP may not yet be irreversibly dead!

Yves Boyer is the deputy director at the Fondation pour la Recherche Stratégique (FRS) in Paris

The production of illicit drugs in Afghanistan and the instability caused by criminal networks surrounding drug trafficking poses a serious threat to the success of NATO's engagement in the country. According to the UN's latest annual report on drugs, the Helmand province is on the verge of becoming the world's biggest drug supplier.

© Courtesy of The Senlis Council

What the EU and NATO can do for each other

by Rafael L. Bardaji

The best contribution the EU and NATO can and should make to one another is to put their respective houses in order. Any organisation's strength is a reflection of the will and commitment of its members, so it is impossible to have a strong NATO – or EU for that matter – if its member states are themselves weak or lack the necessary resolve to tackle the problems.

NATO today is suffering from a severe cohesion crisis in Afghanistan, while the EU suffers from a structural lack of military capability. It is therefore imperative that their respective member states should address both organisations' impotence. To start with, either within NATO or through the more palatable option of the EU, Europeans should urgently increase their defence expenditure. The world's security problems, and our own, are simply too demanding for average defence budgets to remain far below 2% of GNP. At the same time, NATO should be encouraging defence money to be spent more wisely, nurturing a transformation of military establishments that in Europe lag so far behind the Americans.

Second, up until now the most frequently asked question was "what assets could the EU borrow from NATO?" And now that the alliance has reached the point of serious overstretch, I believe the question should now be the opposite: "What is the EU able to offer NATO to ensure it succeeds in its missions?" NATO is a military organisation that has developed a comprehensive concept by integrating military and civilian capabilities, but the real soft power actor is the EU as long as what their representatives are saying is true. So with almost everyone arguing that there is no military solution to the problems of Afghanistan or Iraq it is the efforts the EU could offer to NATO that might have the most impact.

Finally, although institutions are important, they are rarely the solution. The EU has in the last few years developed excellent

decision-making capacities on security issues, yet in operational terms remains almost impotent. What has so far been accomplished in terms of military missions in Congo or Chad has been indistinguishable from a French deployment. It will be nice for the EU to have a "Foreign Affairs minister", but there is no point in that until there will also be an agreed foreign and security policy. Kosovo is the latest example of how divisive foreign and security policy is for the Europeans.

So, if in military terms we want to be serious, Europe must in future do its home work. If we draw comfort from being able to mount small scale peace operations in benign environments, we risk becoming too complacent to bother with other that will involve actual combat action. In my view, unless the EU is willing to give serious consideration to helping NATO solve the security problems we all face, in a practical and reversed "Berlin Plus" way, then we should leave the two

organisations to ignore each other, at least for a while. Both have too much work of their own to risk getting entangled in other's politics.

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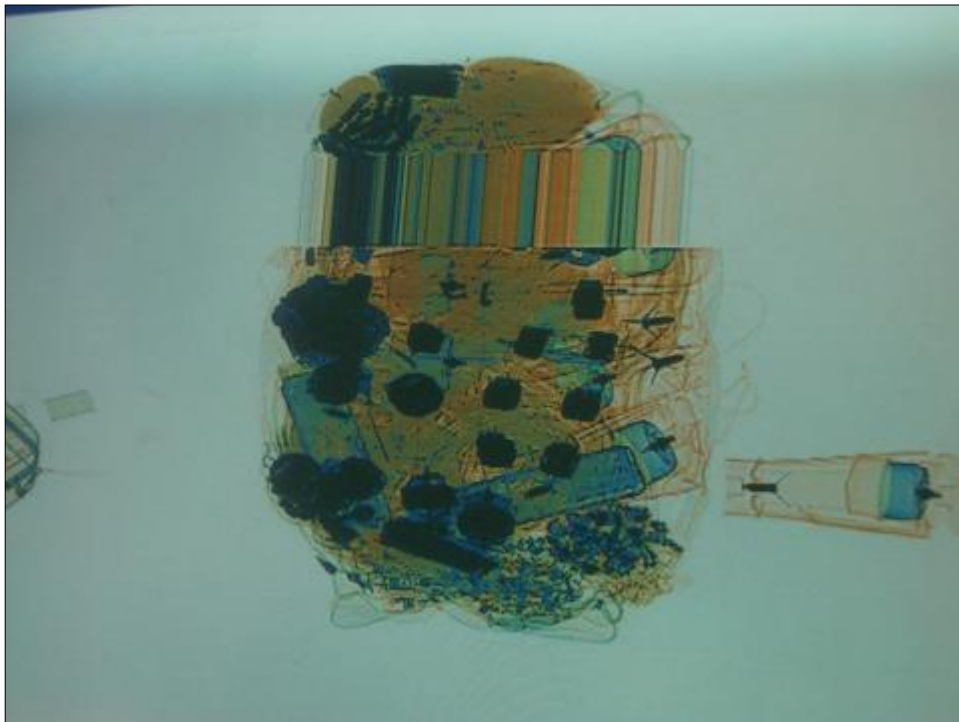
The European Union has 3 EDSP missions and a plethora of community crisis response projects running in the Middle East. Intra-Palestinian frictions forced the ESDP mission at the Rafah border crossing between Israel and Egypt to suspend its activities. The picture above is an x-ray scan at from the Rafah security checkpoint.

© European Union Border Assistance Mission to Rafah

A short-list of the EU's top security priorities

by Roberto Menotti

Setting priorities means making painful choices and accepting that some goals, however important, will at least for the time being have to become secondary. Here then is a short list of what the EU just cannot afford to ignore or postpone in the field of security and defence policy.

The EU needs in the months ahead to make sure that all the means at its disposal – including CFSP and ESDP – are mobilised to tackle its responsibilities in Kosovo. The precise requirements will in part depend on evolving conditions on the ground, but a general point ought to be clear: overall political credibility will only be built by meeting the EU's stated goals in the region. Kosovo's way to independence may or may not be unique, but its importance certainly is because of the Europeans' formative experience in managing the collapse of Yugoslavia. And given the rather uncertain climate in relations with Russia, Europe's every move will be watched carefully as a guide to its future stance as the key continental stabiliser when put under pressure. Striking the right balance between firmness and tactical flexibility vis-à-vis all parties involved will be essential in setting the tone for the EU's role in the region.

In a broader perspective, it could be devastating for the EU if it is seen as ducking its responsibilities in the western Balkans, and also in Afghanistan. It should not be forgotten that Europe is running a police operation there under its ESDP mandate, and has made significant financial commitments alongside the contributions of its individual member states to the ISAF mission. The one in Afghanistan is a long-term collective engagement that is likely to become more challenging before it becomes less so: European political leaders should be very explicit about this when shaping public opinion. In other words, the distinctive European interest in contributing to ISAF is often left unclear or implicit, which in turn makes it harder to justify costs and risks. No one possesses the perfect recipe for

transforming Afghanistan into a stable self-sustaining country, but Europe can yet make a substantial contribution to the search for that solution.

Against this backdrop of extensive commitments, it is equally important for the EU to be selective and resist the temptation to add new ambitions to an already lengthy list of lofty foreign policy objectives. Humanitarian crises on the African continent are certain to be particularly challenging in this regard, as they will probably demand Europeans' continuous attention. The EU should limit itself to playing a supporting role for missions of limited duration, unless it believes that an emergency intervention can make a decisive and lasting difference on the ground and that no other actor is up to the task. Humanitarian hot spots in the vast region centered on Sudan probably do fit this definition, and clearly, the pressure to "do something" may become very strong elsewhere. Yet, a serious failure to fulfil formal obligations, either because of a lack of resources or of

political will may turn out to be very damaging for all future ESDP operations, possibly undermining the entire CFSP edifice. The next few years should mainly be devoted to fulfilling the commitments made at the launch of ESDP and with the publication of the EU's 2003 European Security Strategy (ESS). These are both bottom-up and top-down commitments, demanding much political attention, intellectual clarity and material resources.

A related priority is to ensure that the revised and updated ESS (presumably to be drafted during the French presidency in the second half of 2008) reflects a strong consensus on the deep and necessary link between the EU and NATO. The EU should propose that the efforts to adjust and refine the ESS be explicitly tied to the early phase of discussions on a new NATO Strategic Concept. This would be the best channel to put practical and constructive proposals on the table in case the next US administration engages in an open-ended dialogue on the future of the Alliance – one that is worth having at this stage if the

Europeans can move it beyond mutual recriminations on transatlantic burden-sharing.

The key to a more effective and secure Europe is genuine solidarity, and currently there is not enough of that within the EU. One way to address this problem is to thoroughly reassess the funding mechanisms of ESDP operations with a view to moving beyond the current system mirroring NATO's "costs lie where they fall". Some form of common funding would better reflect real political solidarity: this would happen by rewarding those countries that contribute more to EU operations, and encouraging the others to at least share the financial burden when they do not take military and political risks.

Insisting on the need to allot more resources to defence has proved ineffective with most European countries, and in any case does nothing to solve the political problems surrounding risk-sharing among EU members. And full EU backing is becoming increasingly important as a form

of reassurance and insurance against worst-case scenarios once a mission is launched.

The very volatile situation in which national European contingents are pursuing their UNIFIL II mission in Lebanon should be a sharp reminder of the high risks involved in interposition missions. It would be wise to think of possible future deployments in the Middle East region as ESDP operations – especially if and when Israeli-Palestinian negotiations reach a positive turning point. Having spent quite some time and effort to develop specialised structures for missions of this kind, Europeans should get accustomed to using such structures as a first choice.

Roberto Menotti is Senior Research Fellow at the Aspen Institute Italia in Rome

Dos and don'ts for Europe's defence procurement reforms

by Derek Marshall & Tim Williams

Europe's defence equipment industry is in no shape to compete successfully in the global market, or even within the EU. One of the problems is that a loophole in EU rules allows countries to protect their defence industries from competition. The EU countries spend 200bn EUR a year on defence equipment. Almost a quarter of this, 45bn EUR, is spent by Britain. UK industry is a key supplier both inside and outside Europe, its aerospace and defence companies having won sales of more than 13bn EUR in 2006. The UK government's working relationship with the defence industry continues to improve, and the purchasing system for defence equipment has been speeded up.

But Britain's defence industry does not exist in a bubble because the days when national defence industries served and were often sustained by the domestic government are long gone. In part this change is simply attributable to globalisation but another factor is the rising costs of defence equipment, increasing in real terms by 10% a year and causing a doubling of price every seven years. Many countries now find it is cheaper to buy abroad and sales to foreign markets give firms improved economies of scale.

But while some defence markets in Europe are open to competition – such as the UK's – others are not. In some senses opening a defence market to competition is simply a question of political will but defenders of protectionism have a useful weapon in article 296 of the EC Treaty. Dating from the 1950s, this allows a member government, for reasons of national security, to disregard EU procurement when buying defence equipment.

When the European Defence Agency (EDA) was formed in 2004 it tried to inject competition into the areas of the defence market covered by article 296 by introducing transparency, and with it peer pressure, into procurement. Its code of conduct, issued in July 2006, said governments should publish defence procurement opportunities on EDA's

online Bulletin Board and contract awards should be made primarily on economic grounds. The EDA promised regular reports about the effectiveness of the code and these indicate that about 10bn EUR of defence business is now captured by the Bulletin Board. The European defence equipment market is worth about 35bn EUR, about half of which is covered by the article 296 opt out so approximately 60% of the target market is appearing on the Board.

At present the majority of contracts are still placed with national suppliers but, at this early stage, that is to be expected. The code of conduct is intended to take effect gradually, as governments are encouraged by their peers to place defence contracts on a purely competitive basis. Realistically, the EDA's initiative cannot succeed overnight because the development of a European defence equipment market will require real changes in thinking at national level, and no doubt brave political decisions. The difficulties are compounded by the fact that there is still a reluctance

among European governments – in contrast to the US – to give defence spending priority over other areas of the budget. But the EDA recognises that the changes might take time, and industry has been supportive of its efforts.

The European Commission has been taking a close interest in the EDA's efforts because it favours a rather different approach – an enforced Commission-regulated European defence market. In December 2006, the Commission published a document that exploits existing case law to limit the potential use of article 296. In the coming years the Commission is expected to take more cases to the European Court of Justice to further limit the possible application of article 296. And just before Christmas the Commission published its long-promised draft defence directive which applies Community procurement rules (adapted to take account of the specificities of the defence sector) to those areas of the market not covered by article 296. The Commission seems determined to deal with

protectionism but will its approach help to make the European defence industry more competitive and better able to compete in a global market? Well, possibly.

The general aims of the Commission – to limit protectionism and encourage rationalisation – are wholeheartedly supported by the defence industry. EDA's own initiatives are unlikely to produce dramatic results in the near term, so the Commission's rather tougher approach is justifiable even if it might ruffle a few feathers. But some possible problems with the defence directive have already been identified. For example, it is unclear whether the directive will create a level playing field across Europe or whether it could be ignored by some governments while others place their industry at competitive disadvantage by implementing it? The rather uneven adherence to community law across the EU does not, unfortunately, inspire confidence.

More specifically, industry wants defence research and development to be clearly excluded from the terms of the defence

directive. Without such an exclusion Europe's defence technological and industrial base could begin to decline as companies are dissuaded from investing in R&D – at a time when there is a desperate need for increased investment. This is a particular concern to the UK, which accounts for about 40% of the EU's total spending on R&D.

The Commission also published a directive on defence transfers within the Community in December and feelings about this are similarly mixed. While reform of export controls is long overdue, a "one-size-fits-all" approach does not seem to be appropriate. Some trading partners outside the EU, such as the United States, might view one European country differently from another and EU governments tend not to see one another as equals when it comes to defence exports.

So what can we conclude from all this? The good news is that we are at last seeing real action. Reform of the defence procurement environment in Europe is

more than a decade overdue and the Commission measures under consideration could build on and accelerate the work of the EDA. But the European Council and Parliament must ensure that the Commission's intervention reinforces EDA initiatives and is not driven by a desire to increase Commission competence.

European defence industry is under enormous competitive pressure from the US. The American defence market is by far the largest in the world, the US procurement budget is approximately double that of European governments' combined spending, and the US level of R&T investment is about six times Europe's. European defence industry has a very small share of this huge US market and, unless European companies can achieve Europe-wide economies, they are unlikely to remain competitive with US counterparts. Reform of the regulatory framework is therefore essential, but if that reform is to be effective it must be

properly directed and industry concerns should be fully considered.

Derek Marshall is Director and Tim Williams is a Policy Advisor for Aerospace Defence & Homeland Security at the Society of British Aerospace Companies (SBAC) in London

About the Security & Defence Agenda

The Security & Defence Agenda (SDA) is the only specialist Brussels-based think-tank where EU institutions, NATO, national governments, industry, specialised and international media, think tanks, academia and NGOs gather to discuss the future of European and transatlantic security and defence policies in Europe and worldwide.

Building on the combined expertise and authority of those involved in our meetings, the SDA gives greater prominence to the complex questions of how EU and NATO policies can complement one another, and how transatlantic challenges such as terrorism and Weapons of Mass Destruction can be met.
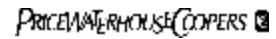
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