

SDA Monthly Roundtable

EU-US defence cooperation



Bibliothèque Solvay, Brussels and Atlantic Council of the United States, Washington DC.



The partners would like to thank Raytheon for its support on the Washington end of the debate.

A **Security & Defence Agenda** Report

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SECURITY & DEFENCE AGENDA

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Richard Froh, Deputy Assistant Secretary General for Defence Investment of NATO
Hilmar Linnenkamp, Chief of Armaments, Permanent Representation of Germany to the EU
Michael Ryan, Defence Advisor at the US Mission to the EU
Robert Bell, Chairman of the NATO Industrial Advisory Group on Transatlantic Defence Industrial Cooperation

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Alexander Lambsdorff, German Member of the Security & Defence Subcommittee of the European Parliament
François Gayet, Secretary General of the Aerospace and Defence Industries Association of Europe (ASD)
Bruce Weinrod, US Secretary of Defense Representative, Europe
Tim Williams, Policy Advisor at the Society of British Aerospace Companies (SBAC)
Jack Gansler, Former US Under Secretary of Defense for Acquisition
Frank Kenlon, Director International Negotiations in the Office of the Under Secretary of Defense for Acquisition
Bob Kovak, Managing Director of the Directorate of Defense Trade Controls, US State Department
Beth McCormack, Director of the Defense Technology Security Agency
Vago Muradian, Editor, Defense News

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Monthly Roundtable - Monday, 14 April 2008, Bibliothèque Solvay, 12:00-16:00

EU-US Defence Cooperation

Session I

12:00-13:30

Would an EU defence budget help close the transatlantic spending gap?

Top NATO officials are broadly agreed that the alliance's long-standing "costs lie where they fall" practice, in which countries pay only for their own commitments, must be reviewed. Yet NATO member states seem firmly opposed to this proposal. As to the ESDP, France and the UK are increasingly concerned that not only are many other EU countries free-riders in terms of military capabilities and operations, but also on R&D. Would some sort of common EU defence budget address European shortcomings in both the ESDP and NATO? What contribution to the debate can be expected from President Sarkozy's recent proposal to create an elite European defence group of the six largest EU countries and a 'European pillar' within NATO?

Lunch

13:30-14:30

Session II

14:30-16:00

The question marks over export control reforms

TRANSATLANTIC SESSION VIA SATELLITE WITH WASHINGTON DC

The Bush Administration's recent decision on export control reform has been matched by a flurry of European activity on transatlantic issues. This has included the NIAG advisory group's report to NATO on closer US-European industrial cooperation, the European Commission's proposed Directive on Intra-Community Transfers, France's announcement of planned arms exports reforms and the 2007 UK-US Defence Trade Cooperation Treaty, which all attempt to tackle concerns on both sides of the Atlantic over rules on governments' defence procurement practices. However, reactions after the announcement of the US Air Force's decision to sign a \$35bn contract to supply refuelling tankers with EADS were fierce. How best can the US and EU governments create a balance between their control and support of arms exports? How wide-ranging a review of export controls and licensing procedures can now be expected in the wake of the NATO Bucharest summit?

Executive summary

Opening remarks

Security and Defence Agenda's (SDA) Director **Giles Merritt** set the scene by asking if new financial structures could be developed to ensure a more equitable system.

Major General **François Fayard**, Armaments Counsellor at the French Delegation to NATO said that the EDA has had convincing results in terms of R&T.

Richard Froh, Deputy Assistant Secretary General for Armaments at NATO, said that he did not see an EU defence budget emerging soon but that he believed anything that will provide increased capabilities for soldiers in the field is a good thing for NATO, the US and other partners.

Hilmar Linnenkamp, Chief of Armaments at the Permanent Representation of Germany to the EU, pointed to three embryonic elements of an EU defence budget: the Athena mechanism; pooling of money under the auspices of the European Defence Agency and 'permanent structured cooperation'.

Michael Ryan, Defence Advisor at the US Mission to the EU, said that to deliver usable capability, in addition to buying equipment, it is important to remember the important role of training and education in preparing forces to deliver the desired effect in today's complex operations. He mentioned Provincial Reconstruction

Teams as a good example of joint, combined, inter-agency, multi-organizational coherent integration at the tactical level. This is a training-intensive capability.

Permanent structured cooperation

Bob Draper from the US Defence Industry Forum suggested that the focus could be shifted from the spending gap towards the capability gap.

Linnenkamp suggested a discussion about equitability and about what capabilities are needed to do what. Ryan also stressed the latter point.



Hilmar Linnenkamp pointed to three embryonic elements of an EU defence budget.

Ryan insisted that NATO and EU reform efforts should take into account the capacity to work with other international actors.

For Rosiers from the Belgian defence staff, there is a need for both quality

and quantity in terms of capabilities. He believes that it would be wrong to have a club of big countries and a club of small countries after the Lisbon Treaty is agreed.

Linnenkamp doubts that the permanent structured cooperation will go ahead according to a core group model and believes that a cluster of collaborations on common projects is more likely.

Froh pointed out that all 26 NATO allies were contributing in Afghanistan and mentioned the possibility of role specialisation. “Not all nations need to do everything,” he said.

“We need to find the right groupings of Member States that develop their own limited capabilities, their niche expertise and centres of excellence.”

Hilmar Linnenkamp

Spending better

Linnenkamp stressed that there was “huge potential” for spending better.

For Froh, there is a trade-off between technology and raw military power. “Those that cannot provide quantity of forces can provide quality,” he said.

Fayard was optimistic about collaboration, pointing to cooperation with five countries on observation satellite and noting that this will be a European effort that would have been impossible to imagine a few years ago.



Richard Froh thinks that the EU should come “out to the real world sooner”.

Interoperability

For both Linnenkamp and Froh, interoperability is key. “EADS winning the air fuelling contract [in the US] may break the mould and allow true transatlantic sharing,” said Froh.

But where Linnenkamp says that the EU wants to strengthen European cooperation so that it is a better partner before it works more closely with the US and North America, Froh thinks that it could make progress by “coming out into the real world sooner”.

Pakistan’s ambassador to the EU, **Saeed Khalid**, said that capabilities build over the last 50 years or so need to be supplemented by newer technologies and capabilities to combat non-state actors. He felt that “we are now at a stage when the ESDP could be addressing these issues”.

Mr. Merritt summed up by saying that shouting at those countries that have

not made a large commitment to ESDP was not the answer and that the solution lay in persuading public opinion in different countries of the need for their commitment and for them to play to their strengths.

Transatlantic defence cooperation

Jacques Gansler, a former US Under Secretary of Defence for Acquisition and the moderator of the debate from Washington, was optimistic about the unintended consequences of US export controls, adding that the US had not caught up with the globalised world of today in that respect.

Defense News Editor **Vago Muradian** said that a lot of progress had been made in terms of transatlantic deals.

Gansler said that “there are good technology and military arguments for more cooperation but there is a lot of resistance”.

Beth McCormack, Director of the Defence Technology Security Agency said that she understood that there was frustration at the US process’ relative lack of predictability and timeliness but that work was being done to make the system as transparent as possible.

Bob Kovak, Managing Director of the Directorate of Defence Trade Controls at the US State Department, noted that the last six months had seen a lot of change, with processing time [by US authorities] cut by over 60% and the number of licences down.

François Gayet, the Secretary General of the Aerospace and Defence Industries Association of Europe (ASD), said



François Gayet said that bureaucracy can become an obstacle to international cooperation.

that he believed that the implementation of the International Traffic in Arms Regulation (ITAR) and associated bureaucracy are obstacles to broader cooperation.

German MEP **Alexander von Lamsdorff**, a member of the European Parliament’s Security and Defence Subcommittee, said that “[EU] member states are blocking the transfer of authority to the Community level so it is very difficult to envisage a way to achieve a structured European approach to dialogue with a unified partner such as the US”.

Tim Williams, Policy Advisor at the Society of British Aerospace Companies (SBAC) said that “cross-border deals are increasing in number but the regulatory environment has lagged behind the industry lead”.

EADS tanker deal

Frank Kenlon, Director of International Negotiations in the Office of the Under Secretary of Defence for Acquisition, said the deal was a good thing as it showed the willingness of the EU and US to do business together on business projects.

The tanker deal, reached in early 2008, is for 35 billion USD (around 23 billion EUR) but could be expanded to 100 billion USD. Asked if the agreement had defused EU criticism of perceived US protectionism, Lamsdorff said that the view that the US market remains closed is “pervasive” in the EU.

Robert Bell, Chairman of NATO Industrial Advisory Group (NIAG) Study Group on Transatlantic Defence Industrial Cooperation (I14), echoed Lamsdorff’s view as Europe is aware the US congress is threatening to overturn the deal. However, if confirmed, it would be a factor in changing perspectives and would make it almost impossible for the European Parliament to insert any kind of European preference requirement.

For Gansler, the defence industry needs to think more globally. The tanker deal showed that the US recognises the benefits of competition in terms of lower cost and better performance. He sees the tanker deal as a “real test for the US”. “We can’t go back 100 years when congress allowed procurement decisions for the government.”



Robert Bell underlined the importance of the EADS tanker deal for the future of transatlantic defence cooperation.

US-UK agreement relating to trade in defence

The US-UK treaty relating to trade in defence is designed to significantly relieve the administrative burden associated with applying for and processing US export licences and works with an ‘approved community’ of establishments cleared by the UK government.

Gansler enthusiastically welcomed the treaty, noted an upcoming agreement with Australia and expressed the need to expand this to other countries.

Asked if the UK-US treaty was a blueprint for how the EU and US could work together or if it was an Anglo-Saxon stitch-up leaving other European countries out in the cold, Williams said that there are “already European footprints in the UK and US defence industry”.

According to Gansler, when the trade defence and security initiative began, in

2000 the intent was to expand the arrangement to other countries. What they need to show is that the agreement will be efficiently implemented, i.e. that there will “not be any third party leakage”.

Kovak said that for the US, the issue concerns understanding the technology going out, knowing who will receive it, knowing its end use and knowing that it

“As long as there is an absence of commitment to control, the EU will probably not get anywhere.”

Bob Kovak

will be controlled at the other end. The bottom line is the end use of programmes.

Interoperability and EU-NATO relations

Bruce Weinrod, the US Secretary of Defense Representative in Europe, stressed the importance of more interoperability. In his view, both the EU and US need to make their markets and regulations as open as possible consistent with national security concerns.

Gansler stressed that export control restrictions should not have an adverse impact on the work of soldiers in operations.



The first Transatlantic Defence Dialogue in the Bibliothèque Solvay.



Hilmar Linnenkamp talking to a roundtable participant.

Session I

Would an EU defence budget help close the transatlantic spending gap?

Opening Remarks

The Security and Defence Agenda's (SDA) Director Giles Merritt

The Security and Defence Agenda's (SDA) Director Giles Merritt set the scene for the first transatlantic roundtable debate, entitled 'Would an EU defence budget help close the transatlantic spending gap?' - the first in a series of debates between the SDA and the Atlantic Council of the United States (ACUS) in Washington DC. The problem of free riders in the European

Security and Defence Policy seems to be going from bad to worse, with only 7 out of 26 NATO countries meeting the NATO goal of spending 2% of their GDP on defence. The gap in spending between France and the UK on the one hand and other EU countries has been growing wider, with Italy and Germany for example not currently (based on 2005 figures) spending the 2% of their GDP on defence. His core question is whether new financial structures can be developed so that even those not contributing forces to operations or spending on upgrading their military facilities bear a fair share of the costs of European security.

Major General François Fayard, Armaments Counsellor at the French Delegation to NATO

Fayard said that things were evolving rapidly in this area, referring to the conclusions from the Bucharest summit (2-4 April), French President Nicolas Sarkozy's statement about France's position in NATO by the time of the next summit and US President Bush's comments on the necessary reinforcement of the European Security and Defence Policy. France is working on a defence white paper, which is due to be discussed in the French parliament in the coming weeks. The white paper is likely to result in a military planning law, which will set out details in terms of human resources, equipment and support. The white paper will define five main strategic capacities:

- Knowledge and anticipation
- Dissuasion
- Prevention
- Protection
- Intervention

Fayard referred to plans to develop spatial sensors with strong European cooperation plus theatre sensors such as software radio and communication means. The latter two plans would have to be fully compliant with NATO standards.

As regards France position in NATO, he said that France already participates in major programmes, and participates more and more to C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) programmes, to reach the major target of full scale



François Fayard talked about the key element of the French defence white paper that will be published during the French EU-Presidency.

interoperability and coherence within coalitions. "France also wants to remain a lead nation," he added.

"The European Defence Agency is a strong axis of French armaments policy," said Fayard, who added that it has had convincing results in terms of research and technology, the development of a technological industrial base and its capabilities approach. Projects along the latter lines are due to emerge during the French presidency of the EU, which starts in July 2008.

As for reform of the French Ministry of Defence, the general idea is to maintain the overall effort but goals include finding money for new equipment and maintenance. The white paper will define the level of operational forces.

Richard Froh, Deputy Assistant Secretary General for Armaments in Defence Investment Division at NATO

Froh indicated that he did not see an EU defence budget emerging soon but said that anything that will provide more and better capabilities for soldiers in the field is a good thing. “If the EU can produce it, that is all to the good,” he said. His view is that this would help NATO, the US and partners that are not in the EU or NATO. For Froh, the EU-NATO relationship is crucial and it is important that there is no duplication between the two organisations, that there are high levels of transparency and that both work together towards the same goals. He noted that the Supreme Allied Commander for Europe (SACEUR) had said that the ‘costs lie where they fall’ approach, whereby countries pay only for their own commitments, needs to be reviewed.

“Enabling technologies, such as wide area, airborne ground surveillance, are so expensive or technically challenging that few member states are able to develop and field them on their own. NATO is ready to share experiences with the EU on multinational armaments cooperation.”

Richard Froh

In Froh’s view, this may have been fine in the Cold War when the emphasis was on collective defence of the member states’ own territories and we were able to rely on extensive host nation support but that things had

changed with the need for more multinational logistics when we are operating at strategic distances from NATO territory, in countries such as Afghanistan and on future crisis response tasks.

His personal view is that until Europe’s common defence policy becomes a single defence policy, defence budgets will stay national and countries will perhaps only come together on research and technology projects, on a case by case basis.

Hilmar Linnenkamp, Chief of Armaments, Permanent Representation of Germany to the EU

Linnenkamp, who was until recently the Deputy Chief Executive of the European Defence Agency, agreed with Froh that an EU defence budget was not likely to emerge soon but pointed to three embryonic elements of an EU defence budget:

Although only a small part of the cost of ESDP operations, the Athena mechanism is used to share some of the costs. This means that there are no free riders as all EU countries contribute even if they do not take part. There are discussions in the EU to expand this mechanism but they are coming up against opposition from national budgetary authorities.

The pooling of EU money in research and technology under the auspices of the European Defence Agency. Last year was the first time that a joint investment project in research and technology had been launched with 55m Euro to be spent over a three year period. Member states put money

into a pot without knowing where the money would flow to, i.e. there was no 'juste retour'.

The idea of an elite group of defence countries with the assumption being that these are ones that spend over 2% of their GDP in defence. There is an institutional element here with the idea of 'permanent structured cooperation', as under the Lisbon Treaty that is currently being ratified. The French presidency of the EU is likely to come up with ideas on how to pull member states together.

Linnenkamp is doubtful that this will go ahead according to a core group model and believes that a cluster of collaborations on common projects according to predefined criteria is more likely. This will, in his view, reinforce commonality of effort.

“We shouldn't forget that ESDP is not just about military but also non-military aspects.”

Hilmar Linnenkamp

Michael Ryan, Defence Advisor at the US Mission to the EU

Ryan said his comments were personal reflections. His focus was on training and education not equipment. "Future operating environments require multi-national, interagency, multi-organisational, military-civilian operations at tactical, operational and strategic levels altogether all the time," he said. All these areas need to work together with one another on the ground, "delivering the right tool at the

right place at the right time and starting now". It is about changing things now as you go along. Provincial Reconstruction Teams (PRTs) such as in Afghanistan are coherently integrated, multi-organisational, interagency entities working in high stress environments at distance. His view is that we need to work back from there and then permanent structured cooperation could be an opportunity to be enthusiastic about.



"We may then end up with a European defence budget" said Michael Ryan.

For him, industry needs to look at training systems and innovations that are deployable as these are not talked about enough. Having PRTs on standby and twinned with [EU] Battle groups is his view of something that would be "wonderful".

Debate

Rear Admiral Jacques Rosiers said that budgetary aims were a political decision. He noted that few countries are willing to put a lot of money into EDA instruments at the moment but added that he was optimistic as countries in the EDA's joint investment programme were not asking for a 'juste retour'. A lot needs to be done on training in his view as it is not sufficient to, for example, buy aircraft without dealing with the cost of maintenance. One of his questions was what influence the 100m euro of research and technology funding that the UK and France had agreed to spend together would have on Europe and how it would act as a motor for Europe. The UK and France reached this agreement at a recent summit in London.

Giles Merritt asked about the joint approach on the A400M military airbus, how far a helicopter deal would address the shortage of helicopters in Europe and asked about the research and joint



Michael Salvi during the general discussion in Brussels

development of a new generation of cruise missiles.

“Can we look to France and the UK to settle their differences on defence strategies and be the engine for the revival of the European defence industry?”

Giles Merritt

According to Fayard, France spends 1 billion EUR per year on research and technology, including such innovations as software radio and spatial demonstrators. France's aim is to share R&T with other countries. He contrasted the aim of working with the UK with the low level of cooperation in previous years. Fayard then referred to the six countries working together on Helios II. On helicopters, he said that this was complicated, with both the EU and NATO dealing with the shortage. NATO has provided a temporary solution by hiring helicopters. France is planning to maintain helicopters via the EDA, partly because the EDA has a good knowledge of retrofitting of ex-Soviet helicopters. For Fayard, the EU and NATO do not to work on the same topic.

Linnenkamp talked of the problem of getting member states to work together on a common European jet fighter training programme because of traditional loyalties. As an example, he said that the German air force had established training in the US with US

air forces and that this kept them from serious cooperation in Europe. Although he did not say that this was “wrong”, he feels that Europe could do much more. “It is the vested interests of existing traditions and economic factors that keep us from working together. Training is an important area for future cooperation,” he said. For him, there is too much focus on new weapons systems while the peripheral areas [such as training] are ignored more than they deserve to be.

Froh said that NATO is wrestling with the issue of what should be eligible and what not for common funding.

Bob Draper from the US Defence Industry Forum suggested that the focus could be shifted from the transatlantic spending gap towards the transatlantic capability gap. The EU and US continue to duplicate, in his view, as for example with A400M engines. “If we do things together, wouldn’t mutual capacity go up and wouldn’t we have more bang for our bucks?” he argued.

Fayard’s response was that the French position is to buy equipment in the cheapest and most efficient way.

For Linnenkamp, the transatlantic dimension of European cooperation is important, with one thing in mind, “interoperability”. “Before Europeans have close cooperation with the US or North America, we want to be a technologically and industrially more powerful partner,” he said. The EDA’s focus for its first three years was therefore on strengthening Europe’s Defence Technology Industrial Base and European cooperation so that it could become a better and stronger partner for transatlantic cooperation.

On software defined radio, he thinks that Europe should do its own thing but that it must fit into NATO infrastructure.

For Froh, interoperability is the key issue. He is “agnostic” about how we get there but the cheaper the better. “EADS winning the air fuelling contract [in the US] may break the mould and allow true transatlantic sharing,” he said. He believes that it is alright for Europe to build itself up but that it should engage others, such as NATO, sooner than later if it is to make progress .

Ryan felt that it was good to focus on the capability gap but added “the capability to do what?” Linnenkamp’s point about building up the European



“The EDA does great things but has no transatlantic element” said **Robert Draper**.

defence industry presents the US with a conundrum in his view. His personal view is that NATO and the EU are preoccupied with internal reform of benefit to NATO and the EU and do not always take into account the reality outside Brussels. “Too often the reform efforts do not take into account the capacity to work with other international actors in the future,” he said.

Pakistan’s ambassador to the EU, **Saeed Khalid**, said that Pakistan had one of the largest defence forces in the world. For him, the “challenge has changed in the last few years. The threat is from non-state actors so capabilities build over the last 50 years or so need to be supplemented by newer technologies and capabilities to monitor the activities of non-state actors”. He believes that this is an area that the ESDP could look at but pointed to the close cooperation with the US and UK in defence and relative lack of contact with other European countries. For him, the new requirements of the Pakistan army in the fight against terrorism need quick action. Although he did not know the kind of equipment and technology that might be needed to control the movement of networks across Pakistani borders or the cost of them, he feels that “we are now at a stage when the ESDP could be addressing these issues”.

Merritt asked if EU and NATO newcomers had joined NATO for security reasons or as a waiting room for the EU. His view was that we need to establish a consensus on what countries want from security architectures and asked how this discussion could be put into the public domain. “Is it not in industry’s interest to start this discussion?” he asked. The Secretary



Ambassador Khalid shares his experiences with the audience.

General of the Aerospace and Defence Industries Association of Europe (ASD), François Gayet, declined to comment on this point.

Linnenkamp said that it was Europe’s intention to increase collaborative R&T spending from 10% to 20% over time but that there was no time limit. He would expect industry to welcome such a trend. His view was that, rather than restart the boring decades-long discussion about inputs, there should be a discussion about equitability and about what capabilities we need to do what. “This could become a basis for permanent structured cooperation,” he added.

Ryan stressed the importance of having capabilities as, without them, few decisions can be made on ESDP. There are different ways to make a contribution, he pointed out, not necessarily in a military capacity. Froh pointed out that all 26 NATO allies were contributing in Afghanistan and referred to talk of role specialisation.

Froh said that the NATO response force had had trouble catching on as the NRF was something that might be needed at some point where resources were needed for other things now. He suggested other mechanisms if the existing frameworks were not working.

Merritt asked what carrots and sticks were needed to induce politicians to commit more money and political capital into new mechanisms.

For Rosiers, it is very important to have the Lisbon Treaty agreed and then the next step would be 'permanent structured cooperation'. He pointed to the need for both quality and quantity, that he had a lot of respect for the 2% criterion but that it was national choice. He noted the difficulty of bringing the prime contractors and small and medium enterprises (SMEs) together in the defence industry. For him, it would be wrong to have a club of big countries and a club of small countries after the Lisbon Treaty is agreed. France and the UK have pressed ahead on quantity.



Admiral Rosiers expresses his views on the upcoming European reforms.

“Not all nations need to do everything. Some things are core but other things are nice to have and you can rely on allies for them.”

Richard Froh

As for quality, he argued that the issue remains for what purpose the quality is required.

Fayard was optimistic about cooperation, pointing to the cooperation between five countries on observation satellites and noting that this will be a European effort that would have been impossible to imagine a few years ago. “Keeping up small companies is a concern. The European Defence Technology Industrial Base is an EDA concern and it must not just think about the big groups,” he said.

Linnenkamp stressed that spending better was “the biggest challenge in front of us” but that there was “huge potential” for this. “We need to find the right groupings of member states that develop their own limited capabilities, their niche expertise and centres of excellence to make the best use of the common foreign and defence policy”. For him, it is important to focus on ESDP capabilities.

For Froh, there is a trade-off between technology and raw military power. “Those that cannot provide quantity of forces can provide quality,” he said. “Smart people in small companies can come up with innovations. That way all can contribute to the quality and quantity of our military forces,” he said.

“None of our militaries have answers but collectively we do.”

Mike Ryan

Giles Merritt summed up by saying that shouting at those countries who had not made a big commitment to ESDP was not the solution and that the answer lay in persuading public opinion in different countries of the need for their commitment and for them to play to their strengths.



The members of the second panel in Brussels are discussing with their counterparts in Washington.

Session II

The question marks over export control reforms

Opening remarks

'The question marks over export control reforms' was the title of the transatlantic videoconference debate between the Security and Defence Agenda (SDA) and the Atlantic Council of the United States (ACUS) in Washington DC. SDA's Director **Giles Merritt** briefly set the scene, referring to the debate as the first of a series of partnership debates between the SDA and the ACUS.

Speaking from Brussels, **Robert Bell**, Chairman of NATO Industrial Advisory Group Study Group on Transatlantic Defence Industrial Cooperation (I14), said that he was very pleased with the outcome of the NATO Summit in Bucharest from a defence industry point of view. It is of particular interest to him because he is the chair of a study group, along with Mr Roche from EADS and Mr Buckley from Thales, on export control reform (licensing and technology transfer) that worked closely with François Gayet, the Secretary General of the Aerospace and

Defence Industries Association of Europe (ASD), Bruce Weinrod, the US Secretary of Defense Representative in Europe and with NATO senior officials. The NIAG had sought language in the overall Bucharest documents and in the NAC report on capabilities. Now it was time to try to operationalise the mandate from Bucharest into a work plan for the rest of the year, said Bell.

Jacques Gansler, former US Under-Secretary of Defence for Acquisition and the moderator in Washington, was next to speak. He was optimistic about the strong statements in the US about the unintended consequences of US export controls, adding that the US had not caught up with the globalised world of today in that respect. He referred to examples where Europe had won contracts in the US, including an armed reconnaissance helicopter and a refuelling tanker. In his view, congress remained in the past and was failing to recognise the globalised environment. He would push for change in this area. He wondered whether buying systems in Europe was becoming a trend, enthusiastically pointing to a US-UK treaty agreement relating to trade in defence, an upcoming agreement with Australia and the need to expand this to other countries. The US-UK treaty

agreement relating to trade in defence is designed to significantly relieve the administrative burden associated with applying for and processing US export licences and works with an 'approved community' of establishments cleared by the UK government. He also said that every study says that it is time to look at International Traffic in Arms Regulation (ITAR) as it keeps being added to but nothing is being taken away.



The American panel in Washington on the video-conference screen.

Defence News Editor **Vago Muradian** (speaking from Washington) said a lot of progress had been made as the helicopter and tanker decisions for example would not have been taken ten years ago. He believed that the reason for the slow progress was political as, to put it bluntly, "foreigners don't vote [in the US]". He pointed out that no-one had a monopoly on good technology these days. Although he noted that people are saying that the tanker decision was a crossing of the Rubicon in terms of EU-US major defence

“ There are good technology and military arguments for more cooperation but there is a lot of resistance. ”

Jacques Gansler

contracts, he added that things were getting more globalised at the level of the less major defence contracts too.

Bob Kovak, Managing Director of the Directorate of Defence Trade Controls, US State Department (speaking from Washington), said that there was justification for the export administration act as it presumes the right of the US to know where exports go and when. For him, the tanker deal showed that there was transatlantic cooperation as licences had been put in place to make it happen. He said that there was some requirement for updating the act.

Gansler stressed that there was a need for strong top-down leadership to make changes. There is recognition that the US wants its allies to have the same interoperable systems.

Beth McCormack, Director of the Defence Technology Security Agency (speaking from Washington), said that [US] processes will not change dramatically in the short term but that transparency and processes could be improved in the short term. She had tried in the defence department to work with global industry and key partners to help others understand the US system. She understood that there was frustration at the process' relative lack of predictability and timeliness but that work was being done to make the system as transparent as possible. She also stressed the importance of dialogue and referred to a recent visit she made to the French defence ministry where the two sides exchanged information about technologies where they were world leaders. An open dialogue regarding China was also important in her view.

German MEP **Alexander Lambsdorff**, a member of the European Parliament's Security and Defence Subcommittee, (speaking from Brussels) was next to speak. Merritt asked him about the EU directive on defence procurement and the possibility of 65 billion dollars of extra business if EADS (Northrop Grumman) wins the other two-thirds of contracts that the US air force is due to award. He asked if the tanker deal had defused EU criticism that the US was very protectionist when it came to European arms exports.

Lambsdorff said that there was little knowledge but lots of opinion and the view in the EU that the US market was closed off to EU products was "pervasive". The European Parliament deals with toys, cars, energy etc and defence procurement was a new area

or even "unchartered territory". The methods of security continue to be remit of member states but the single market also concerns MEPs. He added that he was the shadow rapporteur for his group on the intra-EU transfer directive. For him, it would be "premature" to say that the change in the political landscape from the tanker deal had trickled down to the European Parliament. Arguments about reciprocity and 'buying EU' were resurfacing and he hoped that these can be defused.



Alexander Lambsdorff (MEP) listening to the discussants in Washington.

François Gayet, Secretary General of the Aerospace and Defence Industries Association of Europe (ASD) (speaking from Brussels), said that political will of governments to procure defence goods from "the other side" was one factor in the further development of EU-US defence trade and that the recent decision to procure tanker aircraft

from Northrop, based on the Airbus design, and also a number of other decisions made over the last two years for systems that are based on European products, might be “good omens”. His view was that the debates concerning the tanker aircraft decision point to security of supply as being a major issue and he noted that governments need to be sure that they can be certain of “operations sovereignty” for the products that they procure.

He said that the European defence industry was fully committed to complying with the ITAR but he believes that implementation of it and associated bureaucracy are impediments for broader transatlantic cooperation, and that in fact the bureaucracy takes valuable resources away from the goal to prevent proliferation.

He described ITAR rules as an obstacle to ensuring security of supply for products that EU governments might want to procure from the US, adding that this is probably true at the systemic level and is certainly accurate when it comes to components and sub-systems. A large part of this consideration is linked to the unpredictability of the licensing process, in terms of result and duration, he added.

Gayet pointed to the growing integration of EU defence markets as envisaged by two defence directives and noted the European Defence Agency’s work in this area. He said that we should carefully consider whether today’s ITAR practice constitutes an acceptable trend in an era of increased economic cooperation and integration on a global scale. “The US ‘Coalition for Security and Competitiveness’, with strong par-

ticipation by our sister association AIA (Aerospace Industry Association) is already working on trying to achieve improvements in the present situation and we have submitted to them a list of measures that can contribute to short-term improvements,” he said.

However, he pointed out that, in the present situation, Europe will undoubtedly invest efforts to free itself from the dependency on ITAR-regulated products wherever justifiable on economic and political grounds. He added that export reform was on its way in Europe.

“The question before EU and US decision makers is: do we proceed separately and independently, or is there a way to implement balanced solutions that preserve the best of our common heritage and destiny?”

François Gayet

Frank Kenlon, Director of International Negotiations in the Office of the Under Secretary of Defence for Acquisition, said that the tanker deal was a good thing as it showed the willingness of the EU and US to do business together on defence projects. Although it is “easy” to have theoretical debates on how things should work, he believed that big projects tend to do better, for example the NATO C17 strategic airlift cooperation. In a coalition environment, it was important for the allies to work together. He was glad that some of the

products from the European marketplace are winning contracts because they are the best solution and noted that the arms export control act does drive the ITAR. Optimising how it works is what the US is working on. Whether a programme was US-led or the technology came from Europe, the aim is to try to make the ITAR and other dual-use programmes to the best effect.

For Gansler, the defence industry needs to think more globally. The tanker deal showed that the US recognises the benefits of competition in terms of the benefits from lower cost and increased performance. His view was that the European model has historically emphasised national champions and that the EU market has to open up to competition. From his discussions, he did not get the feeling that the ITAR would be changed in the next few months but that it could be a big initiative in the next US administration.

On export control reform, Muradian said that it was a very challenging system and that a better system was needed to encourage competition and cross-border competition.

Bruce Weinrod stressed the importance of more interoperability, something that is ritually mentioned in statements, including the Bucharest NATO summit communiqué. For example interoperability for troops on the ground in Afghanistan is very important and is not an abstract issue. For him, increased transatlantic cooperation is an important vehicle for this and all countries need to do all they can. Both the EU and US need to make their markets as open as possible

and their regulations as open as possible consistent with national security concerns.

Weinrod also felt that there needed to be a better working relationship between NATO and the EU. "There are limited resources so we need to avoid unnecessary duplication and make better use of these resources," he said. "NATO and the EU need to talk more in defence areas." He referred to a study that had been sent to the last administration and hoped that its recommendations would be internalised more now than they were then.



Bruce Weinrod watching the video screen.

Tim Williams, Policy Advisor at the Society of British Aerospace Companies (SBAC), (speaking from Brussels) said that “Industry is a long way down the road of globalisation and it is the regulatory environment that has lagged behind”. Transparency and competition have played an important role in the UK for a long time. For him, the European Defence Agency has done very good work on the code of conduct for defence procurement, trying to inject competition into those areas of the market covered by Article 296 [where member states can keep competition national on the basis of security interests]. The European Commission is working on the market outside Article 296. He believes that the UK-US Defence Trade Cooperation Treaty is a good example of change.

“ Change is in the air. ”
Tim Williams

Asked if the UK-US treaty agreement was a blueprint for how the EU and US could work together or if it was an Anglo-Saxon stitch-up leaving other European countries out in the cold, Williams explained that, once ratified by the Senate, the Treaty will provide government with the means to leverage UK and US defence industries more effectively. The Treaty provides an alternative to the ITAR system, making it easier to transmit technical data, software, equipment items and services that are export controlled by the US Munitions List to authorised UK-based contractors where the end-user will be the British Government. Of course, the Treaty will also work in the opposite direction, where the end-user is the US

government. The authorised contractors will comprise an ‘Approved Community,’ the Treaty allows for retransfer of articles within this Approved Community and an agreed list of projects will be drawn up to which the Treaty’s provision apply. It is designed to help defence industry in the two countries better support the front-line and will not affect the ITAR system – but merely provide an alternative export system for those items it covers.

It is not an Anglo-Saxon stitch-up in his view and is expected to carry a number of benefits for Europe. For example, according to Williams, there are “already European defence firms with footprints in the UK and US defence industry” and “it is difficult to imagine an Approved Community without them - so we very much hope that they are included”.



The panellist in Brussels and Washington discussing via videoconference.

Debate

Merritt asked if, broadly speaking, the US trusted the UK but not so much continental Europeans.

According to Gansler, when the trade defence and security initiative began, in 2000, and with the White House in the lead, the intent was to expand the arrangement to other countries. What they need to show is that the agreement will be efficiently implemented, i.e. that there will “not be any third party leakage”. He gave BAE Systems as an example of a company that had worked in classified areas. They had been checked and their controls were better than the US on many things. The same could be true for other European countries but that would need to be demonstrated.

Kovak said that the last six months had seen a lot of change, with processing time [by US authorities] cut by over 60% and the number of licences down. The basis of the treaties and export decisions is, for the US, about understanding the technology going out, knowing who will receive it, knowing its end use and knowing that it will be controlled at the other end and not slip out. That way the US would have no need to look at every export. The bottom line is the end use of programmes, i.e. that controls are implemented on cross-country exports. “The arms export control act will control the exports and is the rock on which the waves of export transfer reform will break,” he said. “As long as there is an absence of commitment to control, i.e. that there are no controls at the other end, the EU will probably not get anywhere.”

“ [EU] member states are blocking the transfer of authority to the Community level so it is very difficult to envisage a way to achieve a structured European approach to dialogue with a unified partner such as the US. ”

Alexander Lambsdorff

Merritt asked if Lambsdorff had heard anything about the idea of a joint EU-US approach to restructuring industrial dialogue on armaments trade and asked Robert Bell if the NATO Industrial Advisory Group (NIAG) study group was proposing anything.

Lambsdorff said that he had not been made aware of anything but he believed that it was a good idea.

He added that the European Parliament wanted a legally binding code of conduct on arms control but that member states were against it. He said it was a “sensitive field” and that a delicate balance needed to be struck between national security interests and ‘communitarising’ [i.e. passing powers from member state to the EU level]. “[EU-US] dialogue is useful but we should not be under any illusions,” he added.

Robert Bell, pointed to 18 recommendations from his study group. The important thing in the U.S. Defense Department's process is to add the right weighting factor for technology transfer in relation to how a given piece of equipment would help NATO in Afghanistan. A joint solution can be mapped between the EU and US but that leaves out Canada and the EU does not include all the key players in Europe. He argued that the recently expressed French and US support for strengthening ESDP meant that a joint approach was required and therefore a common forum was needed. Following US President Bush's offer to Russian President Putin on missile defence, there was a potential for sharing technology. But if there is to be cooperation with Russia in missile defence, the current system of licensing would be under a lot of stress and would need to be beefed up. Although not overly optimistic, he felt that the transformation of export controls would take place as "globalisation is an imperative that will drive reform".

“ Globalisation is an imperative that will drive reform. ”

Robert Bell

For Gansler, opening up the EU to NATO programmes and making the US and Canada part of the open bidding process for R&D in the EU "would be a big step forwards". As for BAE Systems, they are treated as if they are a domestic source now.

McCormack said that "the US and EU

are not as far apart as we think we are", citing a visit she made to France where in which the French and her defence presentations were almost identical in a number of aspects. "If we understand the technologies, are confident about where they are going, what purpose they are being used for and that they will not be diverted to others, then we should be confident and push the envelope," she said.

Gansler stressed the importance of knowing who the third parties [receiving technologies] would be and that there could be agreement on which countries are terrorist countries.

Colonel Mike Salvi, the US Air Force Chief at the Office of Defence Cooperation, asked what could be done to persuade senior Belgian personnel that they are not being punished for the policies of their politicians.

Frank Hye, who was Major General in the Belgian Army and Supreme Allied Commander Transformation Representative in Europe, asked if the cost of losing soldiers in operations because of restrictions on export controls was being calculated.

Gansler stressed that export control restrictions should not have an adverse impact on the work of soldiers in operations. He added that the export control processes needed to be accelerated in the US and stressed the importance of interoperable systems again. Kovak said that interoperability was a "two-way street", citing an example of two helicopters in Afghanistan that were interoperable and stressed the need to be cautious on that.

Speaking from Washington, Ms Sunjin

Choi from the Industry of Defence Analysis asked for more information on the intra-EU transfer directive and on Article 296.

Lambsdorff explained that the directive on defence procurement was meant to limit how member states apply the national security exemptions of Article 296, whereby they avoid the application of EU procurement law. He described the intra-EU transfer directive as a kind of “European ITAR”, adding that it was a directive not a regulation because member states wanted to have more influence.

Williams said that the Article 296 issue was outside the Lisbon Treaty process. He said that the European Commission had issued an interpretative communication using case law to define how it could be invoked. He referred to this as a crackdown on the longstanding misuse of the provision by some member states, for example putting boot orders through under Article 296. He said that the European Defence Agency’s code of conduct on defence



Tim Williams being asked a question by a participant in Washington via satellite.

procurement in Article 296 was designed to inject competition by ensuring transparency and that it was “going in the right direction and very welcome for the UK”.

Merritt asked if there was a shift in US governing circles on how to deal with Europe on arms trade issues.

Gansler said that people should be cautious about listening too much to pre-presidential election statements as they may not reflect the reality of what will happen afterwards. Politically, he sees a growing recognition of the importance of coalition operations and a desire for technology to be shared between the US and other countries. He felt that there could be a need for an initiative on the transfer of critical military technology. The tanker decision showed that people in the US were thinking broadly. However, he pointed out that congressional priorities are still local; that decisions on exports may affect local plants and that congressmen will then write articles and make speeches on this topic. This was the “price of democracy” and not something he would want to change anyway.

McCormack suggested that perhaps less emphasis should be put on why transatlantic cooperation is not happening and more on how it can happen. “Rules and regulations aside, we need to think more globally, with industry and countries working collaboratively together as a mindset,” she said.

Kenlon said he detected a vision for change in the Pentagon and state department but felt that there was less of that among congressmen.

Muradian pointed out that there were genuine concerns about China's military capacity despite the fact that it was a big and attractive market.

Williams said he believed that things were going in the right direction but that reforms in the EU and US needed to be accelerated. In his view, it is important to encourage countries to invest in R&D because spending there is insufficient.

Weinrod stressed the importance of interoperable capabilities. For him, the language in the NATO Bucharest summit declaration augurs well.

With regard to the tanker deal, Bell echoed Lambsdorff's view that the Brussels jury was out because the decision was under appeal and because congress were threatening to overturn it. If the decision is confirmed then it will be a factor in changing perspectives. It will make it almost impossible for the European Parliament to insert a European preference requirement over the objections of the Commission. Lambsdorff agreed, saying that he hoped that a European preference requirement could be fended off.

Gansler said that he sees the tanker deal as a "real test for the US". "We can't go back 100 years when congress allowed procurement decisions for the government." In his view, the USAF made a decision and it is alright to appeal but he is against congressional meddling once the appeal decision has been made. He expressed optimism about the prospects for transatlantic cooperation as the "military and economic benefits are so overwhelmingly obvious that we have to overcome resistance and move ahead".

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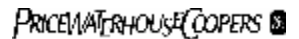
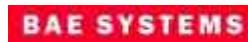
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