

## Defence spending in Europe: Can we do better without spending more?

Fabio LIBERTI

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## Presentation of the project: "How to spend better together"

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EULALIA RUBIO, *NOTRE EUROPE*

The negotiations of the post 2013 EU Multi-Annual Financial Framework take place at the moment when many member states are making extraordinary efforts of fiscal consolidation. In these circumstances, it is not surprising that calls for “applying austerity” at the European level resurge with force. And yet, due to its limited size (1% of the EU GNP and 2,5% of European public spending), we cannot expect major savings from cutting spending at the EU-level.

A more intelligent response to the austerity challenge is to look at what we spent in aggregate terms –that is, at both national and EU level- and to explore whether we can have efficiency gains by re-organising spending tasks or better coordinating national and EU spending.

This is the purpose of the series of publications that Notre Europe launches under the title “How to spend better together”. The analysis undertaken in these publications is original in at least three respects:

- First, the papers do not narrowly focus on what happens at the EU level but take into account what is spent in aggregate terms –that is, at both national and EU level- and explore potential synergies between EU and national budgetary interventions.
- Second, each paper focuses on a particular policy domain and it is written by an expert of this policy domain.
- Finally, the analysis goes beyond the question of “spending more or less” to address the question of “spending better”. Thus, rather than focusing on the amount of euros spent or potentially saved, the authors reflect on the appropriate design of budgetary interventions in a given domain and the merits of public spending *vis-a-vis* other types of public interventions.

## **1 - The aggregate approach: an intelligent response to the austerity challenge**

As said above, one element that characterises these publications is the adoption of an aggregated approach to study ways of improving the efficiency of public finances in Europe. Thinking in aggregate terms means having a broad picture of how much it is spent at the EU, national and sub-national levels in a given policy domain, as well as on how these different levels of spending interact between them.

*As explained by Amélie Barbier-Gauchard in her contribution to this project<sup>1</sup>, adopting an aggregated vision of public finances in Europe has multiple advantages. In discussions about the EU budget, it is common to treat EU spending in a quasi-exclusive manner. Thus, it is for instance frequent to criticize the current profile of EU spending on the grounds that it does not adequately reflect the hierarchy of challenges and policy priorities set up*

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1. Barbier Gauchard, Amélie (2011), *Thinking the EU budget and public spending in Europe: the need to use an aggregate approach*, Notre Europe.



by the EU authorities. These types of comments disregard the fact that EU spending represents only 2,5 percent of all public expenditures in Europe. As Barbier Gauchard rightly points out, a broader picture allows us to make more well-founded judgements on the hierarchy of resources devoted to different policy priorities in Europe. It also enables us to compare the composition of public spending in Europe with that observed in other confederal or federal entities (such as the USA).

But the aggregate approach can be also very useful to improve the efficiency of public spending in Europe. As said above, the EU budget is very small. It amounts to 1 percent of the EU GDP, while national spending in the EU-27 account in average for 50% of national GDP. Reducing the EU budget will thus not be the ‘panacea’ to redress national public finances. A more promising approach is to explore whether we can have efficiency gains by re-organising spending tasks between the EU and the national level or better coordinating national and EU budgetary actions.

Re-organising spending tasks is in fact about asking one of the eternal questions in EU budgetary debates: “who should do what?”. Many studies have addressed this question before. What distinguishes our exercise is that we focus on particular policy areas. Thus, rather than identifying the policy domains in which more supra-national action seems desirable, we try to identify, for one particular policy area (see §-2), which concrete spending tasks would be better carried out at the EU level than at the national level.

As concerning coordination, one should note that most EU spending is carried out in fields of competence ‘shared’ with Member states, and/or submitted to national co-financing. In these circumstances, improving the efficiency of EU spending depends very much on our capacity to organise in an efficient manner the overlapping involvement of EU and national spending action.

Finally, we believe there is a need for a serious reflection on ways to improve horizontal coordination between national budgetary actions. As pointed out by Barbier-Gauchard, we frequently hear about the need to use the EU budget to implement the EU2020 strategy, but we should not forget that implementing this strategy is mostly a national responsibility. Until recently, national efforts to achieve the EU2020 goals have been coordinated through the so-called Open Method of Co-ordination, but it is time to incorporate more explicitly the spending element in these efforts of coordination, including the national one. Beyond the framework of EU2020, coordination of national spending actions might also provide important efficiency gains in other policy fields characterised by large cross-country externalities or economies of scale (i.e. security and defence, immigration, etc.).

## **2 - The sectoral approach: bringing technical expertise into EU budget debates**

Another characteristic of this project is the fact that each publication focuses on a specific policy area and is written by an expert on this policy area. Our choice for a sectoral approach is based on various considerations.

First of all, EU spending debates are too much focused on numbers and money and very few on the content and design of the policies financed at the EU level. By offering a sector-based analysis, we aim to reverse this logic, that is, to put more emphasis on the rationale, goal and design of public interventions at both the EU and national level, and less on how much do they cost. In other words, we want to move beyond the question of “spending more or less” to address the question of “how to better spend”. Notice that, by emphasizing the quality of spending over the amount of spending, we do not under-estimate the magnitude of the austerity

challenge to which we are confronted. We see ‘better spending’ as a more sustainable and sophisticated EU response to the ‘austerity challenge’ than generalized cuts in EU finances. Unlike cuts, better public spending translate into better results in terms of growth, cohesion, security, welfare ...which eventually turns into less spending needs in the future and, therefore, more sustainable public finances.

Another reason why we privilege the sectoral approach is that we believe the assessment of the fiscal federalism criteria needs sectoral expertise. Identifying spillovers from policies or the existence of economies of scale is not easy. A good knowledge of the public challenges and the nature of public interventions in a given domain is required in order to assess whether there are cross-national challenges requiring action at the supra-national level, whether public interventions are characterized by increasing returns to scale or what is the degree of heterogeneity in policy preferences among member states.

Finally, while we think sectoral experts provide an interesting insight to debates on EU spending, we are also aware of the limits of their analysis. Policy experts are not necessarily versed in issues of public finance. They may not know in detail the functioning and outcomes of EU spending programs. Our main goal hence is not to deliver precise propositions for the forthcoming EU financial perspectives, but rather to provide some reflections and general recommendations which can differ from those that circulate among EU budgetary experts.

### **3 - The enlarged approach: looking beyond the EU budget**

Lastly, while the project aims to contribute to current debates on the post 2013 EU financial perspectives, the analysis is not confined to the EU budget. The latter is treated as one amongst a broad spectrum of policy

instruments available at the EU level, including political and regulatory interventions, but also other types of EU financial interventions taking place out of the budget.

Adopting an enlarged approach is important for two reasons: first, we believe that there is a scope to improve the efficiency of national spending through EU non-budgetary interventions (i.e. by removing barriers to competition or by strengthening the coordination of national budgets). By including non-financial EU action into the analysis, the authors can reflect on these other ways of improving the efficiency of public spending.

Second, contrary to what many people think, the EU budget is far from being the only tool used to finance EU actions. A non negligible part of EU-level spending takes place out of the EU budget, be in form of funds or programs managed by EU institutions but not included into the EU budgetary process – such as the European Development Fund, providing assistance for the so-called ACP countries, or the Athena mechanism, financing joint military operations - or in form of programs created by intergovernmental agreements - such as the OCCAR, an intergovernmental mechanism financing joint programs on military research and equipment (Barbier Gauchard and Bertoincini 2008)<sup>2</sup>. To these various programs and funds, one should add the use of other EU financial instruments, such as the loans provided by the European Investment Bank (which amounted to 72 billion Euros in 2010) or the more recent “Marguerite Fund”, a Pan-European equity Fund launched in 2010 to finance long-term Energy, Climate Change and Infrastructure investments in Europe. To have a complete picture of these various ways of ‘pooling resources’ at the European level is too important, as each type of instrument has ad might be more appropriate in different domains.

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2. Barbier Gauchard, Amelie ; Bertoincini, Yves ; *Rating Watch No. 105 (July 2008) - Analysis: European non-EU spending: a substantial reality and become? Centre d'Analyse Stratégique, La Note de Veille n..105, Juillet 2008.*

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## Introduction

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Intellectual and political circles have been debating the potential advantages of European states' joint action in the area of defence for a number of years. The first attempt to bring together European armed forces within a European defence community came in the 1950s but was rejected in the very country that had made the proposal, namely France. The idea was neglected for over forty years before returning to the limelight, both in political and academic circles, since the end of the Cold War. Forms of industrial and operational cooperation have in fact been set up more frequently among European Union member states since the early 1990s. A common policy, the Common Security and Defence Policy (CSDP) was launched<sup>1</sup>.

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1. The origins of the CSDP can be traced back to the Franco-British Summit in Saint Malo in December 1998. Back then, the President of the French Republic, Jacques Chirac, and the British Prime Minister, Anthony Blair, agreed on a joint declaration in favour of the birth of an autonomous European defence policy. On 3 and 4 June 1999, the Cologne European Council took over this declaration to declare the birth of the European Security and Defence Policy (ESDP), renamed as the Common European Security and Defence Policy (CSDP) by the Treaty of Lisbon.

However, despite notable progress, to date there is no ‘European’ expenditure or European defence budget. The CSDP continues to be a completely intergovernmental policy with the European Commission not playing any role in it. Meanwhile, the new institutions provided for by the Treaty of Lisbon, i.e. the permanent Presidency of the European Council and the post of High Representative for Foreign Affairs and Security Policy, and the people who have been chosen to take up these posts, are finding their feet in terms of bringing the foreign and defence policies of member states together.

Given the current economic climate, especially in terms of the consolidation and cleaning up of public finances, as well as a particularly unstable international context, European states should nonetheless feel that it is very much in their interests to ‘Europeanise’ policies in which the benefits of joint spending has no equivalent in terms of what can be done at the national level.

In this sense, some member states are timidly starting to look to optimise their defence spending. The best example of this kind of policy is the Franco-British Defence Treaty, signed in November 2010 by Nicolas Sarkozy and David Cameron. Via 17 agreements ranging from strengthening the common training of officers to the establishment of a common air and sea group, the treaty sets out a major consolidation of bilateral cooperation to obtain better efficiency from national military capacities and more integration of the armed forces of the two countries to implement possible task-sharing decisions between the two countries. This bilateral treaty was agreed outside the EU framework. Shortly after the Franco-British initiative, at the end of November 2010 Germany and Sweden proposed, via a food for thought paper entitled ‘European Imperative. Intensifying Military Cooperation in Europe’, setting up a policy to pool and share military capacities in the EU to make up for cuts in the defence budgets of different European countries via more cooperation.



Examples of pooling and sharing capacity already exist, such as the European Air Transport Centre in Eindhoven, which was born out of the pooling of fleets of strategic transport planes from some European countries. This Germano-Swedish initiative comes under the ‘Ghent framework’ heading, i.e. the result of an informal meeting between the defence ministers of the 27 member states of the EU which set conditions to reach concrete results in terms of pooling and sharing capacity from the end of 2011. France, Poland and Germany decided to confirm their support for the development of a CSDP via a third initiative, dubbed the ‘Weimar letter’, sent on 6 December 2010 to the EU’s High Representative for Foreign Affairs and Security Policy. However, praiseworthy as these initiatives are, they come up against a series of problems, in particular political ones but also industrial, technological, financial and strategic ones, which make any progress pretty difficult and allow a series of redundancies and inefficiencies reducing the effectiveness of EU member states’ defence spending to continue. This policy paper seeks to explain, in an articulated way, the blockages that are preventing more efficiency in defence spending in Europe and to propose solutions to improve it.

It will therefore go back over the difficult early stages of the CSDP before looking at the state of national defence budgets in Europe and the consequences of the current situation on the European Defence Technological and Industrial Base (EDTIB). Recommendations will then be put forward as to actions to be taken at the European level to improve the efficiency of military spending in Europe through a possible ‘Europeanisation’ of the latter. We will also analyse both the technical and political reasons for the blockages, which have so far prevented more integration in the area of defence.



## I - The difficult history of the concept of European defence

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### 1.1 - The failure of the EDC (1954)

After the end of the second World War, European countries saw their hegemony over international affairs come to an end. The atrocities, human losses and destruction of armed forces suffered during the war radically changed the international environment of the European continent. In some cases, the very foundations of states had to be reconstructed, as was the case for Germany and Italy. In others, a strong foreign military presence limited countries' ability to exercise national sovereignty from the end of the war (especially in central and eastern European countries).

From 1947, Bernard Baruch, a former economic advisor to US President Roosevelt, used the expression 'Cold War' to describe the situation of the European continent after the vote, by the US Congress, of aid measures for Greece and Turkey, both in the midst of insurgency movements. On 5 March 1946, in a famous speech at Fulton University, Winston Churchill had already denounced the 'iron curtain' that was coming down over Europe.

The creation of the North Atlantic Treaty Organisation (NATO) by the Washington Treaty on 4 April 1949, the crystallisation of the Soviet occupation of central and eastern European countries ‘froze’ the situation in Europe up until 1989. The hardening of relations between the two blocs, illustrated by the Korea war, was to have major knock-on effects for European defence. Called on to send a significant number of soldiers to the Korean peninsula, the USA were keen to send a signal of strength in Europe to the Soviet Union to avoid any military action while they were engaged in Korea. That is why the US proposed to western European countries that they strengthened their military presence on European soil while asking the latter to contribute to some burden sharing for the first time. This amounted to nothing more nor less than asking for west Germany’s status to be normalised and for it to be integrated into NATO<sup>2</sup>. Faced with the spectre of German rearmament, perceived as a diplomatic defeat in Paris, the French government led by René Pleven and backed by Jean Monnet, presented a project to create a European Defence Community (EDC) to the French national assembly on 24 October 1950<sup>3</sup>. It amounted to nothing more nor less than creating a “Political Europe”, a progressive Union of European states that would have started with the fusion of the armed forces of member states, with armed forces that would have been directed by a European defence minister, who would have in turn been accountable for his actions before a European parliamentary assembly. The treaty setting up the ECD was signed by six countries<sup>4</sup> on 27 May 1952.

The ratification process, which was finalised in the other founding member states, came to an abrupt halt in the French national assembly on 30 August 1954, when French MPs refused to ratify the treaty. The death of Stalin in 1953, the crisis of the colonies and the fear of a German economic renaiss-

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2. From September 1950, the US Defence Secretary Dean Acheson had said he wanted to see “Germans in uniform in the autumn of 1951”.

3. On the episode of the origins and failure of the ECD, see Bino Olivi and Alessandro Giaccone, ‘L’Europe difficile’ [Difficult Europe], Folio Histoire, Gallimard, Paris 2007.

4. German Federal Republic, Belgium, France, Italy, Luxembourg and the Netherlands.

sance (when the ECD project was meant to serve precisely to «control» German rearmament) had convinced a number of French MPs that a Union of the armed forces of western Europe would not have served French interests. Moreover, one should not underestimate the importance of the feelings of MPs of the time, in the context of the beginning of the Cold War and closely following the end of the second World War, as a fusion of armies of western European countries was revolutionary in many respects.

The failure of the ECD had fundamental consequences for the European defence project. The latter was quite simply abandoned for several decades. During the drafting of the Rome Treaty, Article 223<sup>5</sup> explicitly excluded armament activities related to production, sale and acquisition from the European community integration process. Throughout the process of continental integration, this provision was to present a formidable barrier to the ‘Europeanisation’ of the production of armaments, facilitating the development of ‘watertight’ national industrial subsidiaries that suited strictly national logics. In the same way, the very idea of ‘Europeanising’ defence policies disappeared from the political agenda of western European countries. Even today, the CSDP is a fully intergovernmental policy, which makes it difficult to elaborate and accept any enlargement of the policy area.

The rejection of the ECD by the French national assembly therefore practically ruled out any progress in the integration of defence policies as well as national defence industries throughout the Cold War. The consequence of this lack of European cooperation has been the total dependence of western European countries on the US military umbrella, symbolised by NATO. One might well think that, even if US aid was essential to protect western Europe from a possible Soviet invasion, better coordination of

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5. This article was ‘confirmed’ in the Treaties that followed the Treaty of Rome, to become Article 296 of the Treaty establishing the European Community, then Article 346 of the Treaty on the Functioning of the European Union.

European countries would have made it possible to increase the military effectiveness of European armies and put Europe in a position to play a more major role within NATO. In reality, the Alliance has been largely dominated by the Americans.

At the end of the Cold War, while European countries made savage cuts to their national defence budgets to benefit from 'peace dividends' (see part 2), the US reorganised their strategic industry and, by maintaining an equipment budget for its armed forces with considerable funding, injected huge investment into the field of defence to encourage the application of new information and communications technologies in the battlefield. US armed forces adopted the information-centred war concept (network centric warfare), exploiting their technological advantage to improve the efficiency of armaments systems. Meanwhile, European countries discovered that new theatres of intervention, new types of conflicts and new threats were taking shape. Western Europe perceived its technological lag behind US armed forces during the Iraq conflict in 1991. Throughout the 1990s, in Bosnia first and then in Kosovo, European armed forces were unable to resolve crises that broke out in the very heart of Europe and only through US intervention was it possible to resolve these conflicts. With armed forces designed to fend off a possible Soviet invasion, European countries discovered a new concept of war in the 1990s and found themselves engaged in peacekeeping operations requiring military capacities very far from those available for the defence of national territory and developed in large quantities to respond to Cold War challenges.

The 1990s were therefore a time when there was overall awareness on a European scale of the need to undertake drastic reforms within the armed forces and within European defence industries.

## 1.2 - The Franco-British summit in Saint-Malo (1998)

In this respect, the Franco-British summit in Saint-Malo, in December 1998, is historic. France and the UK, the only European military powers with a nuclear weapon and permanent members of the United Nations Security Council, put aside their differences on defence issues to launch the European Security and Defence Policy (ESDP), which was to become the CSDP after the Lisbon Treaty<sup>6</sup>. These differences had emerged with the Suez crisis in 1956 and had led to France's independent posture and to a Great Britain strengthening its 'special relationship' with the US.

In the final declaration of the Saint Malo summit, Tony Blair and Jacques Chirac declare that «the Union must have the capacity for autonomous action, backed up by credible military forces, the means to decide to use them, and a readiness to do so, in order to respond to international crises»<sup>7</sup>.

## 1.3 - From the Cologne Council (1999) to the ESDP

Pulled forward by the EU's two main military powers, other member states agreed to take over this declaration during the European Council in Cologne on 3 and 4 June 1999, announcing that they would put in place ESDP instruments.

The end of the 1990s were therefore packed with initiatives to facilitate better integration in defence. This was the time when some industrial armament sectors were restructured from a transnational perspective, with

6. The drafters of the Lisbon Treaty wanted to mark the progress of integration in this area with the word 'Common'. However, whilst the Treaty offers major instruments to strengthen the integration of national defence policies in a 'common' sense, they have, for now, either not been used or not been used much by member states.

7. The full declaration can be consulted at the following web address: [http://www.ena.lu/declaration\\_franco\\_britannique\\_saint\\_malo\\_decembre\\_1998-010008195.html](http://www.ena.lu/declaration_franco_britannique_saint_malo_decembre_1998-010008195.html)

the birth of European industries in aeronautics, helicopters, defence electronics and missiles.

This restructuring was done at the behest of public authorities as states were major shareholders in the armaments industry at the time (in France and Italy, Thales, EADS, Finmeccanica just to cite a few examples) and still are in many cases today or else were indirectly controlled via special rights, such as a ‘Golden Share’.

The ‘Golden Share’ allowed a state to steer a company’s strategy (although it was from the private sector) and to prevent any control from being taken of its shareholdings that would not be accepted in advance by the incumbent government, as is the case in the UK.

Similarly, as states were the only clients of armaments companies and as they financed the development of defence products (often designed thanks to coordination work between the armed forces and industry in advance) via their national research and equipment budgets, a close relationship between a state and «its» defence industries is normal and specific to this market, which is in no way comparable to other markets in the civilian sector.

The 2000s would, unfortunately, not live up to the hopes generated by this period. Intra-European discord during the second Iraq conflict in 2003, the interminable institutional quarrels about the Nice Treaty and then on the one setting up a Constitution for Europe and finally on the Lisbon Treaty, and, today, the budgetary crisis, have cooled European passions for better integration of national defences. The European restructuring of defence companies has also come to a halt.

And yet, a gradual Europeanisation of policies and of military and industrial capacities in this area has never been so urgent.



The ESDP/CSDP have been around for over ten years now. Over 20 military, civilian or civil-military missions have been launched. One could cite the Atalanta counter-piracy mission, the missions in Chad, in the Democratic Republic of Congo and Bosnia as ones that have certainly been a success. However, the ESDP/CSDP instruments have only been used for so-called 'low intensity' missions. For major crises in the 2000s, other instruments were used, as for example in Afghanistan, where the European contribution comes under the NATO ISAF mission heading or in Lebanon, where European countries form the backbone of the UNIFIL (United Nations Interim Force in Lebanon) 2 mission without it being a European mission. At the time when this text was being finalised, whilst Libya is in a state of civil war and the international community debates the need for military action, the European option does not seem to be seriously taken into account.

Using instruments put in place for the ESDP/CSDP only for «minor» missions can be explained by the novelty that is the European defence policy, a policy that is after all pretty young as we have already observed. However, no change in the role of European defence policy is visible in the near future, with the danger that the CSDP will be limited to a role as an instrument for intervention in low intensity crises when no other actor wants to be involved in a theatre of operations.

Restructuring defence industries from a European perspective after the birth of four big European players mainly in defence electronics and aeronautics, (EADS, BAE Systems, Thales and Finmeccanica) was never completed. The industries manufacturing armaments for the army (mainly, but not only, tanks) as well as military naval shipyards remained essentially national, giving rise to absurd situations, such as the development of 16 armoured fighting vehicles or 11 different frigates in the 27 member states. Here, each state was trying to develop national capacities out of concern for security of supply as well as to ensure that they secured work that was essential for the survival of companies that would not be viable if

there was even just a minimal amount of competition at the European level and certainly not if the competition conditions were similar to those in a market economy.

Driven on by some member states and thanks to the work of the Greek presidency of the European Union in 2003, European heads of state and government decided to give birth to the European Defence Agency in 2004 to respond to this huge number of challenges. The Agency, whose creation was set down in the draft Treaty establishing a European Constitution, had seen its «birth» anticipated by a decision of the European Council of Thessaloniki in June 2003. The Agency's main aim is to help member states in the development of their military capacities through actions promoting the emergence of major cooperation in R&T, through the launch of new cooperation programmes and also through actions facilitating the birth of a European defence equipment market. These are tough missions and all the tougher given that as we will see, the Agency has a budget which is pretty limited to accomplish them.

## **1.4 - The Treaty of Lisbon (2007): a Treaty that opens up the range of options**

The adoption of the Treaty of Lisbon made new instruments for the development of the CSDP available. Provisions on Permanent Structured Cooperation<sup>8</sup> allow member states who want to cooperate more by coming out of the 27-country format and the rule of unanimity to improve military defence capacities. The context of budgetary crisis and the uncertainty about the criteria to be retained for the launching of this Permanent Structured Cooperation make its adoption in the near future pretty unlikely despite the fact that it was put forward by the EU presidency trio made

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8. On this issue, see Sven Biscop and Joe Coelmon 'Permanent Structured Cooperation: in defence of the obvious', Policy Paper, EGMONT Institute, June 2010.

up of Belgium, Hungary and Poland. However, the very existence of these provisions leaves the door open to a possible acceleration of cooperation between member states in the framework of the European institutions.

Separately, the creation of new stable institutions and the European External Action Service (EEAS) should enable more coherence in the conduct of the CSDP and favour a gradual Europeanisation of national defence policies. Even if progress in this area continues to be unsatisfactory, the basic dynamic in favour of integration is to be underlined.



## II - European defence budgets: State of play and evolution in a context of budgetary restrictions

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### 2.1 The fall of European defence budgets

**A**t the end of the Cold War, European countries cut, sometimes radically, their defence budgets. Faced with peace on the continent, heads of state and government thought that they could finally benefit from ‘peace dividends’ and could reallocate precious resources to other areas of public spending, which were electorally more promising. Thus, whilst on average western European countries spent 3.1% of their Gross Domestic Product on defence<sup>9</sup> between 1985 and 1989, this figure had fallen to 1.7%<sup>10</sup> in 2008, and this was before the budgetary crisis that has hit European countries.

9. This figure, as well as the following tables, are from statistics on defence budgets produced by NATO in the document ‘Financial and economic data relating to NATO defence’, PR/CP press release (2009)009, 19 February 2009

10. However, this significant comparison takes account of two different spheres of countries. The percentage expressed for the period 1985-89 includes only western European countries that were members of NATO at this time, the 2008 percentage covering all European states who were members in 2008, so after NATO’s enlargement to central and eastern European countries.

Over the same period, the US has seen its defence budget fall from 6% to 4% but this last figure does not take account of expenditure on operations in Iraq and Afghanistan nor the budget for the Homeland Security Department, the US internal security ministry created after the September 11 attacks and whose budget partly goes to the development of technologies also exploited by US armed forces.

**TABLE 1- PUBLIC DEFENCE SPENDING (IN % OF GDP)<sup>11</sup>**

COUNTRY	AVERAGE 1985-1989	2008
GERMANY	2.9	1.3
BELGIUM	2.7	1.1
BULGARIA	NOT KNOWN	2.6
CZECH REPUBLIC	NOT KNOWN	1.4
DENMARK	2.0	1.3
SPAIN	2.1	1.2
ESTONIA	NOT KNOWN	1.9
FRANCE	3.7	2.3
GREECE	4.5	2.8
HUNGARY	NOT KNOWN	1.2
ITALY	2.2	1.3
LATVIA	NOT KNOWN	1.7
LITHUANIA	NOT KNOWN	1.1
LUXEMBOURG	0.8	0.4
NETHERLANDS	2.8	1.4
POLAND	NOT KNOWN	1.9
PORTUGAL	2.5	1.5
ROMANIA	NOT KNOWN	1.5
SLOVAKIA	NOT KNOWN	1.5
SLOVENIA	NOT KNOWN	1.5
UNITED KINGDOM	4.4	2.2
AVERAGE FOR EUROPEAN MEMBERS OF NATO	3.1	1.7
UNITED STATES	6.0	4.0

**SOURCE: NATO (2009)**

11. 'Financial and economic data relating to NATO defence', PR/CP press release (2009)009, 19 February 2009

## 2.2 The slow adaptation of European defence capacities

In the US, the end of the Cold War was the chance to restructure the national industrial and technological defence base. The US government encouraged national defence industries to consolidate by playing with its influence as the best client and support for exports of companies. The process of industrial concentration that followed gave birth to five big industrial players capable of managing complex programmes and benefiting from a rich and protected internal market and US influence to export their products<sup>12</sup>.

In Europe, this restructuring was only partially done. In the same way, as we have underlined, the necessary adaptation of the armed forces of EU member states to the new types of conflict that broke out throughout the 1990s and then the 2000s drained a significant share of resources, which were already limited, from defence budgets. European armies were more designed to fend off a Soviet invasion and therefore structured around heavy military capacities (combat tanks, interceptor planes). It was necessary to make deep-seated changes, moving from the paradigm of conscription to professionalisation and by revolutionising their capacities. This shed light on some alarming shortfalls in the areas of strategic transportation, communication, intelligence, logistics and satellites, requiring the implementation of costly reforms in terms of resources.

The professionalisation of armed forces also drained resources in countries like Italy, Spain and central and eastern European countries and will do so in a country like Germany where the process has just barely been set in motion. If we look more closely at European defence budgets, we see that the percentage of expenditure earmarked for staff is over 50% in almost all European countries against barely 30% in the US while

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12. The five big industrial companies are Lockheed Martin, Boeing, Northrop Grumman, General Dynamics and Raytheon, ranked according to a ranking of defence industries in the world by turnover done by the website [www.defensenews.com](http://www.defensenews.com) in first, third, fourth, fifth and sixth places respectively in 2008. Second place went to the British company BAE systems, which generates a very high percentage of its turnover on the US market.

spending on investment (research and technology, research and development, acquisition of new equipment) does not exceed 20% in the best case (table 2). We could add to that the fact that in the US they talk of a federal budget with an overall conception that favours coherence whilst in Europe we analyse 27 sovereign countries, protecting their national industries out of concern for being independent and to protect skilled jobs and therefore with major redundancies. Finally, everything seems to indicate that, based on equal spending, every euro spent in Europe on defence is less effective than the equivalent euro spent in the US.

As Nick Witney has stressed (2008)<sup>13</sup>, national defence budgets in Europe still serve to maintain 10,000 tanks, 2,500 fighter planes, and 1.8 million soldiers. The economic and budgetary crisis will at least have the merit of speeding up the retirement of some equipment that is not suited to the current reality, we can hope for a reduction of these figures in the coming months and years. Similarly, only 5% to 6% of these 1.8 million soldiers are equipped and sufficiently trained to be able to be deployed in crisis theatres (Witney 2008, Lamassoure 2010)<sup>14</sup>. In summary, European states spent 200 billion euro<sup>15</sup> for their defence in 2008 (i.e. 1.63% of their GDP), of which only 40 billion euro in spending on investment and to be capable of deploying only 80,000 to 100,000 soldiers out of 1.8 million.

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13. Nick Witney, Re-energising Europe's Security and Defence Policy, Policy Paper, European Council on Foreign Relations, July 2008.

14. Alain Lamassoure, Budgetary Crisis: how can we protect the future of Europe?, Fondation Robert Schuman, Policy Paper, European Issue n°181, 4 October 2010.

15. European defence facts and figures 2009, available at: [www.eda.europa.eu](http://www.eda.europa.eu)



**Box 1: The US, A Model for Europe in terms of Defence?**

IN THIS PAPER, WE ARE USING THE COMPARISON WITH THE **US** TO CARRY OUT SOME 'BENCHMARKING' WITH THE COUNTRY UNANIMOUSLY CONSIDERED AS THE GLOBAL POINT OF REFERENCE FOR MILITARY CAPACITIES. THAT DOES NOT MEAN THAT WE CONSIDER THE **US** TO BE THE MODEL TO BE FOLLOWED FOR EUROPE IN TERMS OF DEFENCE. INDEED, IT WOULD BE AN ILLUSION, AND PROBABLY USELESS, TO IMAGINE A EUROPEAN UNION THAT DEVELOPS A DEFENCE POLICY ACCORDING TO THE MODEL OF **US** POLICY OR AS A RIVAL TO **US** POLICY. THAT SAID, THE IDEA PUT FORWARD BY A LARGE NUMBER OF POLITICIANS AND INTELLECTUALS OF A EUROPEAN UNION EQUIPPED WITH AN ESSENTIALLY NORMATIVE POWER (THE 'SOFT POWER' DESCRIBED BY JOSEPH NYE(2004)), AND THEREFORE HAVING INFLUENCE ON THE INTERNATIONAL STAGE ONLY BY THE FORCE OF IDEAS IS NOT FULLY CONVINCING EITHER. ON THE ONE HAND, TO STATE THAT THE EUROPEAN UNION SHOULD BE EQUIPPED ONLY WITH A NORMATIVE POWER, POSSIBLY COUPLED WITH CIVIL-MILITARY CAPACITIES LIMITED TO CRISIS MANAGEMENT DOES NOT TAKE ACCOUNT OF THE COMMITMENTS OF **EU** MEMBER STATES THAT ARE ALSO PART OF **NATO**. THE NORTH ATLANTIC TREATY STIPULATES THAT MEMBER STATES WILL STAND TOGETHER IN THE EVENT OF AN ATTACK ON ONE OF THE MEMBER STATES AND MUST THEREFORE HAVE ADEQUATE MILITARY TOOLS. THE NATIONAL MILITARY CAPACITIES DEVELOPED FOR THIS PURPOSE STAY NATIONAL AND ARE POSSIBLY MADE AVAILABLE TO **NATO** WHERE NEEDED (OR AT THE DISPOSAL OF THE EUROPEAN UNION IN THE EVENT OF THE LAUNCH OF A EUROPEAN MILITARY MISSION). TO STATE THAT AS A CONSEQUENCE THE **EU** SHOULD BE EQUIPPED WITH A SOLELY NORMATIVE POWER IS NONSENSE AS EUROPEAN COUNTRIES ARE COMMITTED BY THE **NATO** TREATY TO HAVE DEFENCE TOOLS. THE CONTRARY WOULD AMOUNT TO CLEARLY STATING THAT EUROPEAN COUNTRIES ARE DELEGATING DEFENCE OF THEIR TERRITORY TO THE **US**, A POSITION WHICH WOULD NO DOUBT BE CONSIDERED UNACCEPTABLE IN WASHINGTON. ON THE OTHER HAND, IT IS IMPOSSIBLE TO RULE OUT THE INCIDENCE OF AN INTERNATIONAL CRISIS DURING WHICH THE **US** COULD NOT OR WOULD NOT WANT TO INTERVENE TO PROTECT EUROPEAN INTERESTS. IN THIS CASE, IT WOULD BE ESSENTIAL FOR EUROPEAN COUNTRIES TO HAVE SUFFICIENT MILITARY CAPACITIES TO CARRY OUT A MILITARY OPERATION THAT COULD BE OF A MAJOR SIZE. FINALLY, THE SAME JOSEPH NYE WHO CAME WITH THE CONCEPT OF 'SOFT POWER' THINKS THAT A STATE WANTING TO HAVE THE STATUS OF A POWER CANNOT DO SO WITHOUT HAVING 'HARD POWER' TOOLS.

**TABLE 2- SHARE OF PUBLIC EXPENDITURE ON DEFENCE BY CATEGORY (2008)**  
(IN % OF TOTAL PUBLIC DEFENCE SPENDING)

COUNTRY	PERSONNEL EXPENDITURE (WAGES AND OTHER EXPENDITURE)	EQUIPMENT EXPENDITURE (R&T, R&D, PURCHASE OF EQUIPMENT)	EXPENDITURE ON INFRASTRUCTURE (BARRACKS, MILITARY AIRPORTS)	OTHER EXPENDITURE (EXPENDITURE ON MAINTAINING IN OPERATIONAL CONDITION, TRAINING)
GERMANY	53.6	18.1	4.2	24.1
BELGIUM	72.5	9.3	2	16.2
BULGARIA	58.9	21.4	0.7	19.1
CZECH REPUBLIC	50.2	16	3.9	29.8
DENMARK	49	19.9	3	28.2
SPAIN	53.7	22.5	2.3	21.5
ESTONIA	32.8	10.6	16.5	40.2
FRANCE	56.9	21.7	3.8	17.5
GREECE	74.1	16.4	0.4	9.1
HUNGARY	48	15	2.6	34.4
ITALY	73.5	13.6	1.7	11.1
LATVIA	46.3	14.9	13.6	25.1
LITHUANIA	55.1	18.6	3.5	22.8
LUXEMBOURG	49.4	32.2	2.7	15.7
NETHERLANDS	50.9	18.4	3.1	27.7
POLAND	54	17.6	8	20.3
PORTUGAL	71.7	13.5	0.9	13.9
ROMANIA	69.6	16.7	1.4	12.2
SLOVAKIA	51.9	15.1	4.4	28.5
SLOVENIA	62	7.4	4.9	25.6
UNITED KINGDOM	40.7	23	2	34.3
UNITED STATES	29.9	27.3	1.8	41

**SOURCE: NATO (2009)**

**TABLE 3 - ARMED FORCES (2008) - ANNUAL PERSONNEL<sup>16</sup>**

COUNTRY	MILITARY PERSONNEL (THOUSANDS)
GERMANY	252
BELGIUM	38
BULGARIA	29
DENMARK	18
SPAIN	129
ESTONIA	5
FRANCE	347
GREECE	134
HUNGARY	19
ITALY	195
LATVIA	5
LITHUANIA	10
LUXEMBOURG	0.9
NETHERLANDS	44
POLAND	150
PORTUGAL	38
ROMANIA	62
CZECH REPUBLIC	24
UNITED KINGDOM	173
SLOVAKIA	14
SLOVENIA	7
EUROPEAN UNION	1,800
UNITED STATES	1,326

**SOURCE: NATO (2009)<sup>17</sup>**

16. We should underline, however, that European countries have set in motion a process to reduce their armed forces for some years. Here the figures for 2008 are presented, a date chosen for the presentation of the table because of the availability of figures for all the EU and NATO member states. In 2010, however, France had a staff of around 300,000. EU member states have seen their number of soldiers go from two million in 2006 to 1.8 million in 2008 to 1.668 million in 2009.
17. In terms of the CSDP, this only covers 26 countries as Denmark obtained an opt-out for this policy at the European Council of December 1992 by making its non-participation in the CFSP (Common Foreign and Security Policy) / ESDP a prior condition for ratifying the Maastricht Treaty. The figure of 1.668 million soldiers comes from the European Defence Agency publication facts and figures 2009, available at [www.eda.europa.eu](http://www.eda.europa.eu)

In addition, while the current state of defence budgets in Europe is already critical, prospects for the future look pretty bleak against a backdrop of budgetary austerity. As Jean-Pierre Maulny has underlined (2010)<sup>18</sup>, the main member states of the Union are making major cuts to their defence budgets as an emergency measure and without any concern for Europe-wide coherence. Thus, as from 2011, the UK will reduce its defence budget by 8%. France is likely to proceed to cuts equivalent to 3.5 billion euro between 2011 and 2013<sup>19</sup> after having already got rid of 54,000 jobs within its armed forces following the production of a new White Paper on National Defence and Security in 2008. In countries such as Spain, Ireland and Portugal and even countries from central and eastern Europe, the situation looks like being even more difficult. These reductions will lead to a slowdown in the modernisation programmes of the armed forces, increasing the incoherence of defence instruments in Europe and making European countries lose control of key sovereignty technologies (Maulny 2010).

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18. Jean-Pierre Maulny, 'L'Union Européenne et le défi de la réduction des budgets de défense' [The European Union and the challenge of falling defence budgets], Policy Paper, Notes from the Institut de Relations Internationales et Stratégiques (IRIS) [Institute for International and Strategic Relations], September 2010.

19. Jean-Pierre Maulny (2010) page 4.

### **III - How can one increase the efficiency of public defence spending in the EU? Action underway and prospects for the future**

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The situation of defence capacities in Europe is pretty dire. As we have underlined, the budgetary crisis that is afflicting member states of the Union is likely to mean more cuts in national defence budgets. The issue of improving the efficiency of spending in defence is therefore one that is being raised with a certain amount of urgency. This subject, which has been widely addressed by the scientific research community<sup>20</sup>, is becoming a hotter and hotter topic with member states, the Commission and the European Parliament in the middle of tackling talks on the 2014-2020 financial framework. Member states are coming to the talks practically sure that there will be no increase in the European budget.

There are obstacles to a Europeanisation of defence budgets in Europe. Without raising the idea of creating a European armed force, which is a real utopia at this stage, or a Europeanisation of all defence investment spending, concrete actions are needed to improve the current situation.

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20. To cite just one piece of work, see Dr. Hartmut Küchle, 'The cost of non-Europe in the area of security and defence', Study for the European Parliament, June 2006

There are obstacles and yet the urgency of the current situation should prompt member states to show political courage and long-term vision.

We can cite in particular the lack of a real Europeanisation of the member states' foreign policies as among these obstacles. Whether it is about relations with the US, relations with Russia, the perception of the Israel-Palestinian conflict, there are as many positions and nuances as there are EU member states. The European Security Strategy, which should be the common backbone of European Foreign Policy, has never been able to establish anything other than a list of general objectives. The will to reform this strategy, asserted by the French presidency of the EU in the second half of 2008, buckled in the light of differences between member states.

In addition to the differences in geopolitical interests, another obstacle to Europeanisation is the will of member states to keep a firm hand on everything relating to their defence capacities. That is clear from their refusal to increase the European Commission's role, the lack of will to increase the EDA's budget, efforts to protect national industries and the defence of national interests in the context of cooperation programmes to establish only a partial list of national manoeuvres that are preventing any attempts to European defence budgets.

However, against this pretty gloomy backdrop, there are aspects that generate optimism.

At least in terms of their oratory, the US are calling for European defence capacities to be strengthened after having been long suspected of being one of the elements blocking the emergence of a European defence policy. Since 2008, Victoria Nuland, the Bush administration's ambassador to NATO, has communicated the US administration's wish to see the European Union play a more major role in defence, thus lifting a reluctance towards the Europeanisation of defence policies that has dated back

several decades. The central and eastern European countries, which have long been suspected of extreme pro-Atlanticism and of being blocking elements in terms of possible major progress on CSDP, have moved their position considerably. The best example of this change in attitude comes in the form of the Chobielin Initiative of the Polish Foreign Affairs Minister Radoslaw Sikorski in July 2009<sup>21</sup> or the Polish participation in drafting the ‘Weimar letter’ mentioned in this text.

The economic and budgetary crisis could also facilitate better integration of European policies, along the lines of what is being done in terms of economic governance.

Going into the technical details, there are four tracks that seem to emerge that could facilitate a better use of national defence budgets. These four tracks are, respectively:

1. The removal of obstacles to the achievement of a European defence equipment market, an option which does not require the transfer of budgetary competences and which would lead to more competition between defence companies in Europe and therefore, theoretically, to more efficiency in spending. This Europeanisation of the market should be accompanied by the establishment of a European industrial policy, which would require, as a minimum, coordination of the practices of member states up to a transfer of national competences in this area to the European Commission or to the European Defence Agency. When one addresses the subject of a ‘European armaments market’, one needs to bear in mind that the design of a market applying

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21. By sending a ‘non paper’ to his French counterpart, Mr Sikorski proposed several notable advances in terms of CSDP, namely the creation of a deputy to the High Representative for the EU’s Foreign and Security Policy, who would be responsible for progress in the area of the CSDP; setting up an integrated civil and military European headquarters, the creation of ‘European stabilisation forces’ (civil-military forces that would be made up of elements of armed forces, national police and border guards); temporary exchanges of units in the context of operations under the auspices of the EU; more common exercises; and launching new European industrial projects.

to armaments issues cannot be equivalent to one that can be found in the civil sector.

2. A ‘Europeanisation’ or ‘communitarisation’ of part of defence budgets, in particular in the area of military research financed by countries, in order to take advantage of economies of scale and to avoid redundancies and duplication, which generate a lack of efficiency. Here, we understand by ‘Europeanisation’ expenditure made in common by two or several European countries, preferably within the framework of the EU, for example steered by the European Defence Agency. We understand by ‘communitarisation’ joint management led by the European Commission.
3. ‘Communitarisation’ for funding military missions, currently financed according to the intergovernmental principle, to better take account of positive externalities that these actions generate for countries who do not have the military capacities to carry them out.
4. ‘Pooling’ or ‘sharing’ military capacities by putting in place a policy along these lines at the European level for current capacities via the launch of new cooperation programmes on a European scale.

### **3.1 - Creating a European defence equipment market**

The European Commission has often been marginalised by member states in its efforts to improve the efficiency of defence spending in Europe. Article 346 of the Treaty on the Functioning of the European Union (TFEU) stipulates that the areas of production and export of armaments are excluded from the creation of a common market where the essential strategic interests of a member state were under threat<sup>22</sup>. The guardian of

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22. Article 346 was already in the Treaty of Rome in 1957 and stipulated as follows: 1. The provisions of this Treaty shall not preclude the application of the following rules:

- (a) No Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security;
- (b) Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions



the Treaties and tasked with putting in place a common market across the EU, the Commission's efforts to partially open national defence markets to competition were until 2009.

The defence market is, at all levels, a particular market to which the rules of competition applying to civil markets are not suited. Issues of security of supply, confidentiality, control of foreign investment and control of the shareholding of defence companies are much more significant than in other economic sectors. However, member states have widely abused provisions of Article 346 of the TFEU to protect their national markets and to thereby artificially support a large number of companies which would not be very viable financially on open or even partially open markets. This is the case despite the European Commission's efforts to restrict the scope of application of the article to the most «strategic» cases<sup>23</sup>.

Even in a strategic area such as the manufacture and export of armaments, there is a differentiation of scenarios. For technologies that have reached a high degree of maturity, protecting them on a national basis and ensuring that one's national industry has this technology at any price neither serves the national nor the European interest. While defending a national company can be justified by the desire not to lose skilled jobs or not to use a national budget to buy a foreign product, over the long term it damages the competitiveness of the European Union and its member states, both from the point of view of military capacities and from the industrial and economic perspectives.

The key issue today for member states and the EU seems to be how to have military technologies generating the most high performance defence equipment at a reasonable price, without being dependent on a foreign

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and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes.

23. The European Commission had adopted an 'interpretative communication on the application of Article 296 of the Treaty in the field of defence procurement' on 7 December 2006.

source for one's strategic supplies and while having control of technologies that can move towards turning the European economy into a knowledge economy. Thus, for some technologies (linked to the development of the atomic weapon in France or in the UK for example) it is quite conceivable that governments only have recourse to national companies or to companies of countries with which a very close strategic proximity is considered as a given as seems to be the case with the US for the UK. Meeting criteria such as the protection of classified information and security of supply etc... In other areas, shutting off any kind of competition seems to jeopardise the possibility of obtaining the best military capacities at the best possible price and which can guarantee the technological development of the member states of the Union. This creation of a European armament market (that one could term as partial or tailored to the defence sector) should be accompanied by the creation of a European industrial policy in this area. Even by classifying defence technologies into three categories: very sensitive (to be controlled nationally), sensitive (to be controlled in a European or NATO framework for example) or not very sensitive (technologies for which member states could resort to the global market), an agreement at the highest of European political levels would be necessary.

In order to understand what is at stake, let us look at the difference between what happens in the US and in Europe in terms of production and sale of military equipment.

The US protect their national defence companies via provisions such as the 'Buy American Act', indicating the minimum percentage of components made on US soil so that a piece of equipment can be bought by the Pentagon. The US applies very strict control of technologies developed on their soil through legislation on the control of armaments exports, the ITAR (International Traffic in Arms Regulations) legislation, which is extraterritorial and which guarantees control by the US of a piece of defence equipment

or even of a component of that throughout its life and everywhere where the equipment may go during its lifecycle. The US uses its political, diplomatic and military muscle to support defence equipment exports made by its national companies.

By contrast, in cases where European states do not buy a piece of US or foreign equipment off the shelf and develop a programme with their national companies instead, they are in fact developing redundant technologies. And, even when they cooperate with each other, they then often end up in competition on export markets (such as was the case for France and Spain with the Scorpène submarines or with Italy and France with the FREMM frigates).

But let us go back to the idea of creating a European industrial policy in defence. What would that be all about? First of all, the heads of state and government of the EU would have to determine what the key technologies to master are by 2020 or 2030 so that the EU has high performance technological and military capacities capable of responding to strategic European needs (while having first agreed on the joint foreign policy imperatives). Then, it would be necessary to equip oneself with the means to make a success of such a strategy through an industrial policy that could be led by the Commission, or by the Commission in tandem with the European Defence Agency. This industrial policy should facilitate crossborder cooperation and create towers of technological excellence on a European scale by investing in pre-existing industrial and technological clusters of excellence. A policy of common control and support for arms exports would complement the establishment of this industrial policy.

For now, in 2009, initial progress has been made in the creation of a single armaments market. For the first time, the European Commission has managed to legislate on an issue tied to the defence policy of member states via the so-called ‘defence package’ accepted in 2008 under the

French presidency of the EU. Tabled in 2009, this ‘package’ contains two directives designed to improve the economic efficiency of the defence sector in Europe regarding two sensitive issues.

#### **Box 2 THE DEFENCE PACKAGE OG 2009**

THE FIRST OF THESE DIRECTIVES, **DIRECTIVE 2009/43/EC** SIMPLIFIES THE CONDITIONS FOR THE TRANSFER OF A DEFENCE-RELATED PRODUCT IN THE EUROPEAN COMMUNITY. IT IS MEANT TO FACILITATE THE RESTRUCTURING OF DEFENCE COMPANIES IN EUROPE IN A CROSSBORDER WAY.

CURRENTLY, EACH MEMBER STATE HAS ITS OWN LAW ON THE CONTROL OF ARMAMENTS EXPORTS. THESE LAWS MAKE NO DISTINCTION BETWEEN STATES THAT ARE MEMBERS OF THE EU AND THOSE THAT ARE NOT. THUS, A EUROPEAN COMPANY THAT IS ACTIVE IN SEVERAL MEMBER STATES IS OBLIGED TO SYSTEMATICALLY ASK, FOR EACH COMPONENT, A SPECIFIC WAR EQUIPMENT EXPORT AUTHORISATION IF IT WANTS TO MOVE PARTS OR COMPONENTS TO OTHER COUNTRIES BY VIRTUE OF A COOPERATION AGREEMENT BETWEEN SEVERAL COMPANIES FROM DIFFERENT STATES FOR EXAMPLE. THIS OBLIGATION LEADS TO ADDITIONAL COSTS AND A CONSIDERABLE LOSS OF EFFICIENCY.

THE PROVISIONS OF THE DIRECTIVE SHOULD ALSO FACILITATE THE PROCESS OF RESTRUCTURING EUROPEAN DEFENCE COMPANIES, FACILITATING THEIR SIMULTANEOUS ESTABLISHMENT IN SEVERAL MEMBER STATES AND CREATING THE EMBRYO OF AN INTRA-COMMUNITY DEFENCE EQUIPMENT MARKET.

THE SECOND DIRECTIVE, **DIRECTIVE 2009/81/EC**, COVERS DEFENCE AND SECURITY PROCUREMENT TENDERS AND SETS RULES FOR OPENING UP DEFENCE MARKETS TO COMPETITION. IN MOST CASES, THIS DIRECTIVE IN PARTICULAR FORCES MEMBER STATES TO PUBLICLY ANNOUNCE THAT THEY ARE HOLDING A TENDER FOR DEFENCE EQUIPMENT. IT THEREFORE PUSHES MEMBER STATES TO OPEN UP THEIR MARKETS TO COMPANIES FROM SEVERAL NATIONALITIES SUCH AS TO AVOID NATIONAL COMPANIES BEING USED SYSTEMATICALLY WHATEVER THE CONDITIONS AND CREATING COMPETITION IN THE DEFENCE MARKET.

These two directives, which are in the midst of being transposed into the national law of member states so as to be in force as from mid 2011, mark the entry of the European Commission into the regulation of the defence market and are therefore a key first step in this area. It therefore seems necessary to accompany it, as we stress, with a second pillar, namely the acceptance by member states of the supranational development of an industrial policy in the armaments sector to take account of the specificities of the sector. What is more, there is still the possibility of significant

differences in the transpositions by member states, which would reduce the expected benefits of the reform.

The establishment of a European defence equipment market together with the establishment of an industrial defence policy would be historic. European countries have a long tradition of nervousness when faced with the prospect of seeing the Commission regulate in the defence market. While member states have always chosen to prioritise intergovernmental cooperation in this area (before the acceptance of the Defence Package in 2008 under the French presidency of the EU), the opposition has sometimes gone beyond this level. Some member states put the brakes on when faced with the prospect of an increase in cooperation, even in the intergovernmental area.

The European Defence Agency, which was set up to help member states improve their defence capacities by working to establish a European defence equipment market, by launching new cooperation programmes as well as promoting R&T in defence cooperation, often runs into difficulties related to «ill» will by some of its member states. It was equipped by member states with a budget of only 29.1 million euro in 2009<sup>24</sup>, a figure that one could contrast with the 200 billion euro spent by member states for their defence budgets or to the two billion euro of the Atlantic Alliance's operating budget. Such a disparity between the aims and means allocated makes one wonder about the real political will of member states in this area.

The Agency can launch ad hoc research programmes by states who want to take part in them. These programmes, so-called 'category B' programmes, are thus funded by the countries who volunteer and by the industries concerned. In 2009, 12 programmes of this type, worth 40.9 million euro,

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24. For more details, consult the EDA's financial report for 2009, available at: [www.eda.europa.eu](http://www.eda.europa.eu)

were launched. However, since the birth of the European Defence Agency, no major cooperation programme has been launched, apart from the 'Force Protection' programme<sup>25</sup>, which is still considerably smaller than programmes such as the A400M military transport plane programme.

### **3.2 - Europeanise or communitarise the R&D part of defence budgets**

We are still a long way, conceptually and pragmatically, from the communitarisation of the armaments market or the creation of European budgetary instruments. The Commission is being blocked by member states from any kind of funding of defence equipment in Europe. The only instrument that could serve as a contribution of the community budget to the improvement of future European defence capacities, the Framework Programme for Research and Development (FPRD), is up against a formal ban by some member states from creating a 'defence' dimension. The FPRD is the main funding instrument for civil research in Europe. Faced with the weakness of financial flows allocated to research in defence in Europe (member states devote nine billion euro per year to it against 54 billion euro in the US<sup>26</sup>), and given that military research can have significant positive benefits for the civilian market (just think about the cases of ARPANET (Advanced Research Projects Agency Network)<sup>27</sup> / internet or the civil use of the GPS signal), the use of a part of the FPRD budget to finance military research in Europe (which would not mean, of course, reducing funding allocated to civil research) could both boost economic growth in Europe and allow for the development of military capacities in Europe. To cite just one example,

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25. This is a research programme aiming at studying new technologies in terms of protecting deployed soldiers, a programme which makes sense if we consider the difficulties encountered in recent years by European soldiers in urban type theatres or against threats of a new kind such as 'improvised explosives'.

26. European Defence Agency (2008)

27. Arpanet was the original name of the internet. It was originally a military programme designed to build up communication infrastructure to connect up the nerve centres of the US administration in case of Soviet nuclear attacks. Arpanet has subsequently become the internet.

the development of three fighters in Europe (the Rafale in France, the Gripen in Sweden and the Eurofighter created by a consortium bringing together Germany, Spain, Italy and the UK) has generated significant duplications in spending - both in terms of research and equipment - to arrive at similar results. In the current budgetary and economic context, it is totally obvious that it will not be possible to have such duplication in the future. The same thing can be said for the development of other equipment (frigates, tanks) for which we see fairly significant duplication.

For the period from 2007 to 2013, the Commission was nonetheless able to create a 'security' dimension to the FPRD, equipped with about a billion euro and intended to boost European research in security. The technologies developed in this framework can be useful in defence but the security dimension of the FPRD continues to be merely the 'embryo' of a European research budget in a highly strategic area and has limited funds (the FPRD having 50 billion euro as a whole, such that only 2% of this budget is allocated for security). Similarly, once technological demonstrators have been produced thanks to the funds from the FPRD, the risk is of developing technologies that will never have concrete applications, as the Commission does not have the competence or the funds to launch equipment programmes. Better articulation between member states, the Commission and the European Defence Agency seems important, so that these research activities are channelled towards the real needs of countries.

This is all the more true as the Treaty of Lisbon (2007) seems to allow use of the community budget to finance research in defence. On the one hand, the fusion of the EU's pillars' structure, brought about by the Treaty of Lisbon, includes defence as a full competence of the Union in a legal sense (Article 24, TEU). Thanks to this competence, the Union would have the necessary legal basis to support research, also in defence, through the FPRD via Article 179 of the Treaty. Similarly, member states could, according to Article 184 of the TFEU, establish, including in the areas of

CFSP and ESDP, “complementary programmes and in variable geometry” in research by creating a common R&T programme in the area of defence between countries volunteering to be part of that<sup>28</sup>. Of course, the creation of a framework programme of research in defence is a decidedly political issue and the modalities for implementing it should be closely studied<sup>29</sup>.

But, specifically, the Treaty of Lisbon makes the possibility of achieving enhanced cooperations concrete in defence too and, beyond those offered via Permanent Structured Cooperation, the possibility for a limited number of countries to boost their integration in research without waiting for consensus among all 27 EU member states to be found. Up until now, member states have preferred to restrict their joint actions in defence research to the intergovernmental domain, be that via bilateral agreements (such as the new Franco-British Defence Treaty drawn up on 2 November 2010) or via an institution such as the European Defence Agency (EDA), by Europeanising expenditure (even if this term seems not to fit the Franco-British Treaty very well, as it is sometimes perceived in Europe as being

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28. On this issue, see the work of Patrice Cardot, 2009, Conseil Général de l'Armement [General Armaments Council], and in particular the article « UE : l'intérêt du PCRD pour la défense » [EU: the importance of the Framework Programme for Research and Development for defence], which can be consulted at <http://www.regards-citoyens.com/article-union-europeenne-l-interet-du-programme-cadre-de-rdt-pcrd-pour-la-defense-40057131.html>

29. On this issue, see the study entitled 'Study on the industrial implications in Europe of the blurring of dividing lines between Security and Defence', done for the European Commission by a consortium of European research institutes led by the Istituto Affari Internazionali [Institute of International Affairs] and including the Institut de Relations Internationales et Stratégiques [Institute of International and Strategic Relations]. This study put forward the proposal of the creation of a research programme in defence (understood as linked to the tasks included in the Petersberg missions), led by the European Commission, the European Defence Agency or by a partnership between the two, but also the possibility of creating a limited research programme in the civil components of CSDP missions. The study underlined the advantages and disadvantages of different players in leading such a programme, the European Defence Agency already having rules in terms of intellectual property rights suited to defence technologies, necessary rules for security of information and knowledge of the "needs" expressed by member states in terms of defence capacities. By contrast, management by the Agency could be problematic to the extent that Denmark, an EU member state which asked for and secured an opt-out in the area of CSDP, is not part of the Agency. Financing activities open to 26 countries with the community (at 27) budget would require the definition of a technical arrangement. In addition, the UK does not take part in some Agency activities (category A programmes). The management of such a programme by the Commission by contrast would require the establishment of security agreements and adapted rules in terms of intellectual property rights. In addition, while the civil activities of the Framework Programme for Research and Development are open to third countries, such an opening up in defence does not seem to be something that could be envisaged. Summing up, there are technical obstacles whichever solution one chooses but these obstacles do not seem to be insurmountable if there is strong political will.



anti-European rather than as representing real progress) but while avoiding communitarisation.

However, while the EDA's purpose is to develop joint research, it continues to depend on the will and funding of member states, with some stepping aside from its functioning purpose or preventing the EDA from having a multiannual budget, thus hampering its long-term visibility. By contrast, by using the provisions of the Treaty of Lisbon, one could imagine a strengthening of synergies between the EDA and the Commission, or in any case the launch of joint research activities managed by the Commission, the EDA or the two together. The objections that are most often put forward by some member states not to assign the FPRD a role in defence (lack of legitimacy, legal impossibility, risk of violating intellectual property rights<sup>30</sup>), do not seem to constitute insurmountable obstacles if there is strong political will.

### 3.3 – Communitarise the funding of joint military operations

Even in military operations (CSDP missions launched by the European Union), there is no communitarisation of spending. The basic principle applied to the financing of these missions is that “costs lie where they fall”. This principle does not encourage the commitment of member states to EU military missions. It means that a state volunteering to send soldiers on a peacekeeping mission decided on by the EU would have to take on the cost of its contribution nationally. Under a principle of solidarity and efficiency, the community budget would take on these expenses at least in part. In this way, a country that does not have the appropriate military

30. The UK in particular has always refused the use of the Framework Programme for Research and Development in defence. As the Framework Programme for Research and Development is funded by all member states, the benefits of possible innovations stemming from the use of these funds benefit all member states, even non-community ones if they take part in a research programme via bilateral agreements. The UK, which has the highest research budget in defence in Europe, considers that its technological lead in defence would be cut through taking part in the Framework Programme for Research and Development as other states, who do not finance defence research much or at all benefit from British expertise in the rules on specific intellectual property rights.

capacities could at least make a financial contribution to an EU military mission. In the same way, we can assert that communitarising the payment of European military operations would make it possible to share the burden of an action which creates positive externalities for the EU fairly by avoiding the phenomenon of free riding: an EU member state can indeed benefit from military operations that stabilise the near neighbourhood of the EU without taking part in the mission in terms of military capacities or in budgetary terms.

In terms of efficiency, the very fact that some military missions which could stabilise crisis theatres, avoid loss of human life and the destabilisation of countries with direct effects on member states (in terms of migration for example, but also of supply of raw materials), are not carried out in theory because of lack of means, should encourage reform in a community sense.

Nothing of this kind exists for the moment in the community institutions. One single mechanism, known as the 'Athena mechanism', was put in place in 2004. According to this mechanism, only 'joint' spending (about 10% of the cost of an operation) is subject to joint financing approved unanimously by the Council, according to a distribution calculation that takes account of the GDP of member states. This mechanism has only been used for three CSDP missions: EuforAlthea, Eufor DRC (Democratic Republic of Congo) and Eufor Chad/CAR (Central African Republic)<sup>31</sup>. Putting in place the 'Athena mechanism', managed by the Council, was the translation of member states' wish to ensure joint financial coverage of some costs generated by the EU's external operations (for example in the Balkans). It is mainly about organising the payment of 'joint costs' of an operation (transport, accommodation etc.) in order to ensure better coordination and economies of scale, with the remainder of costs picked up by the

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31. For more information on the Athena mechanism, see information note number 9 of the European Assembly of Security and Defence on 'Financial aspects of the management of crises by the EU: the ATHENA mechanism' at: [http://www.assembly-weu.org/fr/presse/fiches-information/9F\\_Fact\\_Sheet\\_ATHENA.pdf?PHPSESSID=c74843f1168286db17620a5ec218d1cc](http://www.assembly-weu.org/fr/presse/fiches-information/9F_Fact_Sheet_ATHENA.pdf?PHPSESSID=c74843f1168286db17620a5ec218d1cc)

countries concerned directly. While these joint costs never exceed 10% of the spending generated by an external operation, member states took part in the normal functioning of Athena to the tune of 46 million euro in 2007, on a pro rata basis based on their level of wealth and on that of the operations based on their degree of involvement. It is to be noted that coverage of some costs considered as national (and therefore paid by the countries concerned in the end) is also administered by Athena for reasons of efficiency. The amount of these came to 74 million euro in 2007.

Aware of the importance of bridging this gap, member states have inserted in the Treaty of Lisbon a provision envisaging the setting up of a start-up fund to finance preparatory activities for EU military operations, with states remaining solely responsible for paying the cost of sending their soldiers. The reform of the mechanism had not yet been approved by the Council when this text was being finalised (March 2011).

### **3.4 – Pooling military equipment more**

After barely a few decades of cooperation, mainly in the 1970s and 1980s when we witnessed the launch of several European programmes, progress seems to have come to a halt. Since realising big programmes such as the Eurofighter, the FREMM frigates and the A400M, no big cooperation programme has been launched in the 2000s.

While these programmes have allowed member states to equip themselves with capacities that they probably would not have been able to acquire on their own, due to their high costs, they have also exposed obvious limits related to the protection of national industrial interests. Due to the distribution of the workload strictly according to the national contribution to a programme, and without taking account of the industrial and technological capacities of the countries taking part, these programmes have often given rise to slippages in terms of budgets as well as major delivery delays. The

example of the A400M, which was all over the newspapers in 2009-2010, is particularly revealing in this respect.

The creation of OCCAR (the joint organisation tasked with cooperation in armaments), which was intended to manage armaments cooperation programmes, has only had a limited impact. The founding member states of the organisation (Germany, France, Italy and the UK in 1998) had noted that, faced with the increase in the number of cooperation programmes concerning them in an almost systematic way, it could be useful to create an organisation to become a centre of competence in terms of managing programmes (up until then, each programme was accompanied by the creation of an ad hoc intergovernmental structure to manage it).

OCCAR was also meant to resolve the issue of industrial return or 'fair return', limiting the economic efficiency of cooperation programmes<sup>32</sup>. During the launch of a programme, countries have systematically tended to exaggerate either their needs (by, for example, ordering a number of items which bore no relationship with their real needs) or their technological competences so as to obtain more of the industrial work so safeguard their strategic industries and therefore skilled jobs and to obtain control of strategic technologies. This *modus operandi* is largely responsible for the excess costs and delays of the main cooperation programmes. OCCAR introduced the principle of multiannual and multiprogramme fair return. The industrial return was to be calculated as a whole on the programmes managed by the Organisation so as to make their execution more flexible. Unfortunately, this provision has not been able to avoid the intrinsic slippage in cooperation programmes linked to national egos.

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32. On the issue of the problems related to cooperation programmes, see the report of a task force of European research centres, led by IRIS, 'Lessons Learned from European defence equipment programmes', a study done for the European Defence Agency, 2006, available in number 69 of the Occasional Paper collection of the Institut d'Etudes de Sécurité de l'UE [EU's Institute of Security Studies].

If we take, for example, the case of the A400M military transport plane, this programme, estimated at 20 billion euro, will end up costing the taxpayers of member states of the consortium more than 30 billion euro and will be delivered three years late. In this case, the type of contract signed between the lead company EADS and member states already contained the seeds of slippage that have been a hallmark of the programme. OCCAR, which was called on to manage a programme according to conditions specified in the contract, was able to improve the situation. Some member states of the consortium had considerably overestimated their volume of orders, i.e. their technological capacities for a programme of this size. In addition, countries had demanded, and industry had accepted, totally unrealistic specifications for this programme.

In a context of budgetary austerity and of an increase in the costs of programmes that had already been launched, member states of the EU seem to be more and more nervous about the possibility of launching new cooperation programmes which could weigh down budgets in the years ahead.

Thus, cuts in budgets are leading to a rescheduling of programmes, with a reduction of volumes ordered and delays in deliveries. The recurrent difficulties with cooperation programmes reduce margins for manoeuvre for European governments subsequently (the unitary cost of an A400M has practically doubled in a few years due to difficulties with the programme).

Aside from the 'new programmes' to equip armed forces with the necessary capacities for the future, urgent action should be taken from today to improve the efficiency of existing capacities. The political initiatives of EU member states, on a bilateral or multilateral scale (Ghent Framework, Franco-British Defence Treaty, German-Swedish initiative) all stress the urgent need to put in place a pooling or sharing policy for defence equipment<sup>33</sup>.

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33. Fabio Liberti, Jean Pierre Maulny 'The mutualisation (or pooling) of EU member states assets in the

The principle of this kind of policy is straightforward. Either you put national defence capacities into a ‘common pot’ (pooling) or you share the roles and capacities to improve the efficiency of existing and future capacities. While pooling preexisting capacities does not commit to any ‘Europeanisation’ or ‘communitarisation’ of spending, pooling a capacity via a joint purchase or sharing a role at the European level would necessarily imply the creation of joint budgetary instruments (let us imagine a country carry out security and surveillance for the airspace of other member states in return for financing an air squadron or contributing to the costs of purchasing interceptor planes) . To push this reasoning to its logical conclusion, the Treaty of Lisbon stipulates that, when member states so decide, the European Union carries out military missions via the Common Security and Defence Policy. If gaps in capacities were to prevent member states from carrying out missions which were nonetheless provided for by the Treaty, and supported by European public opinion, would the use of the European budget to make up for these gaps be absurd?

The risk that EU member states and the EU itself is running today is that of a loss of strategic autonomy because of the reduction in European military capacities, even the irreversible loss of competences, due to the decline of the European armaments industry if the current situation should continue over the medium and long term. Given the difficulties of cooperation programmes, governments of EU member states with a relatively minor armaments industry would tend to have, in the short term, an interest in buying defence equipment «off the shelf» (i.e. ready for use, having already been developed by another state), produced by a non-EU country rather than developing European programmes and supporting a European research effort. As for countries that have the main elements of industrial competence in defence (Germany, Spain, France, Italy, Sweden and the UK have 90% of the EU’s industrial capacities between them), they are likely to

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implementation of ESDP<sup>1</sup>, Study for the European Parliament, December 2007.

be no longer able to launch new equipment programmes in the near future. Faced with US industries with a huge and protected market and faced with the emergence of new players in the armaments market, such as the industries of the BRIC countries<sup>34</sup>, European industries risk being marginalised on the international stage. Without a competitive armaments industry, it will become impossible to equip European armed forces with competitive products, implying a loss of autonomy and even risks in terms of security of supply that would undermine the independence of the foreign and defence policy of member states.

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34. This acronym refers to Brazil, Russia, India and China.





## Conclusion

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**T**he difficult situation referred to in this policy paper could have drastic consequences for the role of European countries on the international stage.

We are undoubtedly witnessing a multipolarisation of international relations that is moving their centre of gravity. Formerly a central strategic theatre for international relations, Europe is suddenly finding itself ageing, outmoded and without much real influence on the international scene. This assertion goes well beyond the sphere of defence issues alone, but European inaction in this area is contributing to this declining influence. The difficult economic and social situation, a consequence of the financial, then economic and finally budgetary crisis that has gripped Europe since 2008, is contributing to European public opinions taking more distance from the European integration project, which is increasingly regarded as something abstract without any direct connection with people's daily concerns.

In this context, European decision-makers have a lot of responsibility. With the financial perspectives for the period 2014-2020, they can send a strong signal about relaunching the process of community integration. This relaunch needs to be carried out by the sectors in which the advantages of integration are the most significant. The defence sector could play a role as the perfect candidate. There are lots of difficulties for better European integration in the area of defence and they are widely addressed in this policy paper. However, acting in this area is urgent. Whether it is about creating a real European defence equipment market, sharing and pooling military equipment, increasing the role and remit of the European Defence Agency, this policy paper seeks to explore some pathways to improve the efficiency of spending in this area, both within member states and the European institutions. In the context of the budgetary restrictions in Europe, looking down these pathways is essential as more efficient spending would allow the EU to play a major role on the international scene, a factor which could facilitate a soothing of relations between national public opinions and the European institutions.

From a more pragmatic point of view, as no European defence budget exists for the moment, some measures should be put in place to improve the efficiency of European spending in this area:

- The eighth FPRD, which will run from 2014 to 2020 and whose budget will depend on the current negotiations on the future budget of the EU, should include a clearly established defence element. The reluctances of some member states should be bypassed either by new rules with regard to intellectual property rights or by excluding these states from the process. Nothing would prevent one from conceiving the defence FPRD as a flexible mechanism of research with funds that would be used to finance research programmes to be managed jointly by the Commission and the EDA with participation from interested states according to the model of EDA category

B programmes. The creation of such a mechanism would favour, as is the case currently with the security dimension of the FPRD, a rapprochement between European industries, in difficulty because of the weakness of national research budgets.

- The European Union policy in terms of creating a European defence equipment market and the crossborder restructuring of the European armaments industry must be pursued, strengthened and integrated with the establishment of an industrial policy in the armaments areas. This industrial policy together with a strengthening of the European industrial base and the partial opening up of markets of member states would put the European DTIB in a position to be able to be competitive on global markets. A real European policy of control and support for exports in terms of armaments would avoid fratricidal competition between European companies and would make it possible to avoid any exporting to countries ruled by governments unworthy of the trust of governments and European public opinions. For want of harmonisation of European «demand» (creation of a European defence ministry setting the capacity needs and therefore those in terms of EU equipment), a harmonisation of the «supply» by industry could only have beneficial consequences in terms of de facto solidarity between European countries in defence. In some ways, integration would come once again from the market for want of political leadership.
- In the same way, an embryonic European defence budget now seems possible. The Treaty of Lisbon increases the powers of the European Parliament in terms of budget, *via* the codecision procedure. The Parliament's Security and Defence Subcommittee should propose the creation of a budget to be able to fill the capacity gaps that we can observe during the force generation process ahead of the launch of a CSDP mission. As the Treaty of Lisbon stipulates that the EU has competence in terms of peacekeeping missions on the inter-

national stage, it seems logical that the Parliament and Commission are interested in these provisions being respected. A purchasing decision, even the use of defence equipment by the Parliament would raise legal issues as to the property of the equipment and the legal responsibility of the use of this same equipment in a theatre of operations. Similarly, European countries who are net contributors to the European budget do not look on this kind of possibility kindly. However, these real obstacles can be surmounted with firm political will. In the same way, member states should think about creating common budgetary instruments linked to putting in place a pooling and sharing strategy for defence equipment. Ideally, some military capacities which are high cost for one member state and which meet the needs and interests of all member states would be pooled at the European level, along the lines of the Galileo system. One can imagine a European fleet of transport planes or military refuellers along the same lines, managed by a European budget, with member states having the ability to draw on them depending on their contribution. Similarly, a pooling or sharing capacity strategy would make it possible to interest the largest number of European countries in the industrial aspects of the CSDP. Most European countries have niche capacities in the industrial or military domain. This means that their contributions, if spread to all 27 member states, would make it possible to develop poles of industrial excellence spread out over Europe and would raise the awareness of countries that today buy foreign equipment off the shelf about the importance of an industrial policy in the area of defence. Countries with more major industrial capacities could in turn optimise their defence spending via sharing or pooling. With the same budget, the military capacities of the EU would be considerably better. This path, which France and the UK committed to at their summit in London on 2 November 2010, is undoubtedly the one to pursue as it makes it possible to have equiv-

alent military capacities against a backdrop of budget reductions. However, this type of decision and strategy needs to be put in place within the European integration process to maximise the benefits of it.

These concrete measures would allow the EU to equip itself with an embryonic European defence budget as from 2014, allowing member states to optimise their spending and to improve their military capacities in a difficult budgetary climate. Continuing along the current path would, in the medium term, mean confirming the loss of influence of member states and the EU on the international stage in as strategic an area as defence.



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