

## Cost of Non-Europe Report

# European Common Security and Defence Policy



# **Cost of Non-Europe Report**

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## **European Common Security and Defence Policy**

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**Abstract**

The report '*Preparing for Complexity - The European Parliament in 2025*', presented by the Secretary General of the European Parliament in January 2013, identified the core set of problematic issues in European defence policy as a) duplication, b) lack of a common strategic view and c) lack of a clear vision for the future<sup>1</sup>.

The purpose of this paper is to develop these considerations and to focus on the benefits of greater cooperation at European level. Setting out the economic argument of the added value of Europe in defence, and the current cost to the Member States of 'non-Europe', highlights the need to build on the structures, systems and under-utilised legal bases that have been put in place in recent years.

Cost of Non-Europe reports examine policy areas or sectors of strategic importance where the possibilities for greater efficiency or the realisation of a 'public good' through common action at EU level are potentially significant. The case for more Europe is perhaps more compelling in defence than in almost any other policy area, given that no single Member State can achieve an optimal level of security without cooperation. The costs involved go beyond the purely economic, and include political and broader opportunity costs.

## Abbreviations

ASD	AeroSpace and Defence Industries Association of Europe
CFSP	EU Common Foreign Security Policy
CSDP	EU Common Security and Defence Policy
BG	Battle group
EADS	European Aeronautic Defence and Space Company
EDA	European Defence Agency
EDTIB	European Defence Technology Industrial Base
EUROFOR	European Rapid Operational Force
JDAM	Joint Direct Attack Munition
NATO	North Atlantic Treaty Organisation
NORDEF	Nordic Defence Cooperation Organisation
OHQ	Operational Headquarters
PSC	Permanent Structured Cooperation
R&D	Research & Development
R&T	Research & Technology
SEEBRIG	South-Eastern Europe Brigade
SME	Small and Medium-sized Enterprise
TEU	Treaty establishing the European Union
UKNLAF	UK Netherlands Amphibious Force
UN	United Nations

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## Executive summary

Europe is at a **moment of definition** for the framing of its defence policy. It is a decisive moment for the military in the Member States of the EU, and for the industry which supplies the military structures.

This report sets out to demonstrate that there is a **cost of “non-Europe”**, namely a price to be paid for operating at a national rather than European level. The cost derives, in the first instance, from the **lack of integration of the military structures of the Member States**. European armed forces operate frequently as part of multi- or international armed contingents, but are still organised on a strictly national basis. Staff are trained and maintained by their Member State, just as weaponry and equipment are mostly procured nationally. The ‘go-it-alone’ approach is a source of weakness, and inevitably entails a needless multiplication in the cost of forming, maintaining and operating military forces in Europe.

Secondly, costs arise from the **lack of a truly integrated market**. The existence of twenty-eight compartmentalised national defence markets, each with their own administrative burden and regulated separately, hinders competition and results in a lack of economies of scale for industry and production.

Duplication could be perhaps considered an 'acceptable' price to pay for national sovereignty when budgets were large enough to permit wastage. The current pressure on public finances in all EU Member States makes this position no longer tenable.

Efficiency gains through cooperation	Amount in €/year (millions)
Efficiency gains in Industry	10,000
Certification of ammunition	500
Standardisation of ammunition	1,500
Offsets	6,610
Efficiency gains in land forces	6,500
Efficiency gains in infantry vehicles*	600
Efficiency gains in air-to-air refuelling*	240
Efficiency gains in Basic Logistic support*	30
Efficiency gains in Frigates*	390
<b>Total CoNE</b>	<b>26,370</b>

\*If in fully integrated model

Source: EDA et al.

The spread for the cost of non-Europe in defence is thought to range from **€130 billion**, at the higher end, to **at least €26 billion**, on a more conservative calculation. Such calculations are by definition approximations based on assumptions which are uncertain or ultimately impossible to test. While neither number can therefore pretend to scientific accuracy, it is nevertheless the case that if the EU were to operate in a more integrated manner and in conditions more similar to the United States, the Member States would need to spend significantly less than the current defence budget of €190 billion (in 2012) to achieve the same level of effectiveness.

The analysis presupposes a reasonably stable strategic environment: with no major international conflict in Europe, no direct threat on a Member state or other manifestations of the cost of non-Europe in defence that could be investigated in depth by further research. Such research could cover the cost of non-Europe in conflict prevention and the prevention of nuclear proliferation or the cost of non-Europe in non-conventional security (such as digital and new biological warfare).

In addition to the economic cost and inefficiency of 'non-Europe' in defence, there is a **political imperative**. The duplication which characterises Europe's defence capacity and production might be tolerable so long as the United States supplied what the EU lacked, and was prepared to act as a 'back-stop' when Europe came up short, but these factors are much less certain than in the past.

The European Parliament has called for **enhanced legal basis** for European Union action in the Common European Security and Defence Policy (CSDP), foreseen in the Lisbon Treaty, and notably for the unrealised potential of permanent structured cooperation (PESCO) and the start-up fund to be harnessed<sup>1</sup>.

Such a call can be answered at the highest level of policy-making in the EU.

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<sup>1</sup> PE516.824 Committee on Foreign Affairs Report on the implementation of the Common Security and Defence Policy (based on the Annual Report from the Council to the European Parliament on the CFSP) (2013/2105 (INI), Rapporteur Maria Eleni Koppa.

## Introduction

Cost of Non-Europe reports examine policy areas or sectors of strategic importance where the possibilities for greater efficiency and/or the realisation of a 'public good' through common action at EU level are potentially significant. Indeed such costs go beyond the purely economic, and include political and opportunity costs.

The case for more Europe is perhaps more compelling in defence than in almost any other policy area, given that no single member State can achieve the level of security required for its citizens by acting alone or by retreating behind national boundaries.

The report '*Preparing for Complexity - The European Parliament in 2025*', presented by the Secretary General of the European Parliament in January 2013, identified the core set of problematic issues in defence policy as a) duplication, b) lack of a common strategic view and c) lack of a clear vision for the future<sup>2</sup>.

The purpose of this paper is accordingly to develop these considerations and to focus on the benefits of greater cooperation at European level. Setting out the **economic argument** of the added value of Europe in defence, and the current cost to the Member States of 'non-Europe', can help bring home the need to build on the structures, systems and under-utilised legal bases that have been painstakingly put in place in recent years.

The context of the report is the European Council meeting devoted to Defence in December 2013 - the first since 2008. In the lead-up to this Summit meeting, which has focussed minds, the many official contributions<sup>3</sup> are increasingly structured around three inter-locking sets of arguments, viz. the so-called 'Clusters' of necessary actions defined in the European Council conclusions of 13/14 December 2012.

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<sup>2</sup> Duplication (28 ministries and headquarters, equipment linked to national industries and strategies, no standardisation of equipment);

- a) Lack of a common strategic view. Many national armed forces are still oriented toward territorial defence. There is no clear vision of the EU role on the world stage, while there is competition with NATO; and
- b) Lack of a common vision for the CSDP. These faults create financial waste by not using the budgetary resources as efficiently as possible.

<sup>3</sup> Notably the paper of the High Representative, the European Parliament's Koppa and Gahler reports, and the Franco-German proposals of July 2013.

## I. Increasing the effectiveness, visibility and impact of the CSDP

### 1. Political and strategic context

The case for an effective CSDP is stronger than it has ever been. Europe faces a wide range of threats in the form of terrorism, international piracy and regional instability on its doorstep. There are insecurities on the EU periphery, and long-term strategic issues at play in Ukraine, Turkey, the Middle East and Northern Africa. At the same time, Europe can no longer count on the United States to make up for its shortcomings. The duplication which characterises Europe's defence capacity and production was permissible so long as the United States supplied what the EU lacked, and was prepared to act as a 'back-stop' where Europe came up short. Duplication could be considered an 'acceptable' price to pay for the national sovereignty when budgets were large enough to permit wastage. The acute pressure on public finances in all EU Member States no longer makes this position tenable.

The first of the Clusters identified by the European Council relates to the effectiveness, visibility and impact of the CSDP<sup>4</sup>. It is the *politico-strategic* justification for a new policy of greater integration at European level. As the High Representative sees it, this corresponds to strategic priority-setting.

The High Representative characterizes the geostrategic position as one of "global volatility, emerging security challenges, the US re-balancing towards the Asia-Pacific and the impact of the financial crisis."<sup>5</sup> She draws the conclusion that "Europe must assume greater responsibility for its own security".

The French and German governments' contribution for the forthcoming European Council, is equally cogent: *"In today's changing world, with new centres of power and growing asymmetrical security threats, such as cyber security or terrorism, the European Union is called upon to assume increased responsibility for international*

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<sup>4</sup> European Council conclusions 13/14 December 2012:

**"Increase the effectiveness, visibility and impact of CSDP by**

- further developing the comprehensive approach to conflict prevention, crisis management and stabilisation, including by developing the ability to respond to emerging security challenges;
- strengthening the EU's ability to deploy the right civilian and military capabilities and personnel rapidly and effectively on the whole spectrum of crisis management action"

<sup>5</sup> Paper submitted for the European Council.

*peace and security in order to guarantee the safety of its citizens and the promotion of its strategic interests and values”<sup>6</sup>*

There is a sense that the policy predicament is sufficiently serious that it now needs to be addressed at the level of Heads of State and Government. Equally, there is a strong sense that the December 2013 European Council cannot be just a one-off event, like its predecessor.

The means to deal with new threats increasingly require expensive state-of-the-art technology and the use of highly mobile and well-equipped professional forces<sup>7</sup>. As a recent Green Paper<sup>8</sup> points out, the world has evolved to the point where no one country acting alone can respond adequately to the collective threats in the defence and security environment.

The consensus view is therefore that a comprehensive approach and that a long-term vision is needed to combat the challenges and threats outlined in the European Security Strategy of 2003. Past and present CSDP missions reflect the implementation of this ‘comprehensive approach’: Twelve civilian and/or military operations have been completed and sixteen on-going, and but these have been subject to significant delays in cases where there was no consensus and the instrument of the Battlegroup has yet to be deployed.

## **2. Budget**

Defence expenditure in Europe is at a critical juncture<sup>9</sup>. EU Member States spent collectively €251 billion in 2001. This fell to €205 billion in 2007. By 2012, this had further declined to **€190 billion**. Current budget estimates predict a further decrease (2012-2020) from €190 to €147 billion (-11 to -33 per cent<sup>10</sup>). In 2007, the ratio of US to EU defence expenditure was 2:1; by 2011 the gap had widened to a ratio of 3:1.

On an individual basis, Member States have decreased their budgets on defence by varying percentages, depending on the importance that national governments attribute to defence. Between 2008 and 2013 timeframe defence spending

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<sup>6</sup> Letter to the High Representative of 25 July 2013.

<sup>7</sup> Daniel Calleja-Crespo and Pierre Delsaux, BEPA.

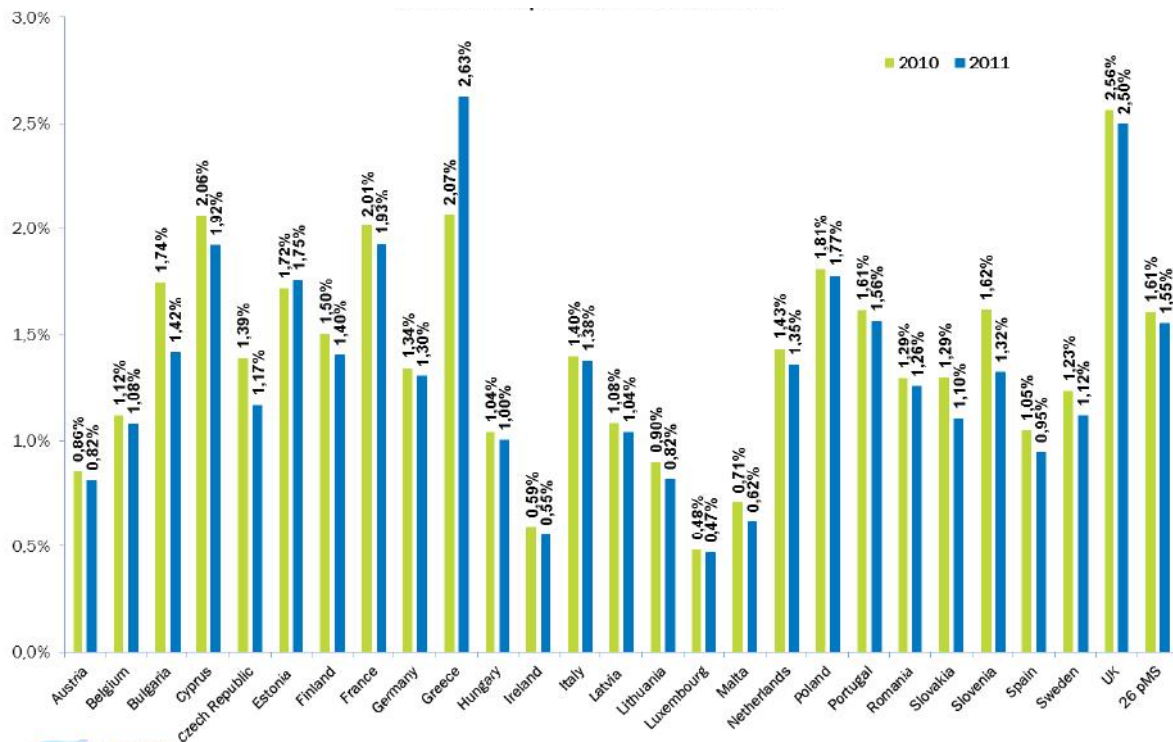
<sup>8</sup> Irish Department of Defence “Green Paper on Defence” July 2013.

<sup>9</sup> Source of the data: European Defence Agency.

<sup>10</sup> Major, C. and Mölling, C. *The Dependent State(s) of Europe: European Defence in Year Five of Austerity*, in “The state of Defence in Europe: State of Emergency?”. Egmont Paper 62, November 2013.

diverged among Member States, ranging from a 40 per cent increase to a 40 per cent decrease.<sup>11</sup> Significant cuts in defence budgets are planned or under the way in Germany and the United Kingdom. France is planning to maintain the nominal level of expenditure (equivalent to a gradual real-terms reduction)<sup>12</sup>. Some small- and medium-sized countries, such as Sweden and Poland, are recording a small growth in their defence budgets. In general, the cuts were steepest in central and eastern Member States, and among smaller countries who have carried out cuts of more than 30 per cent in certain cases. The overall average reduction in defence spending in the European Union was 10 per cent in the five years up to 2010<sup>13</sup>, with a further decline of 10 per cent expected by 2013.<sup>14</sup>

**Figure 1: Defence expenditure as % of GDP**



Source: National Defence Data 2011, published by EDA on 9 September 2013

Not only is the decline in volume of defence spending considerable according to official NATO figures, they are in the region of 0.7 per cent per annum of GDP since the fall of the Berlin Wall, but it has been taking place in an increasingly

<sup>11</sup> Ibid.

<sup>12</sup> French White Paper on National Defence.

<sup>13</sup> 'The Impact of the Financial Crisis and Cuts in Member States' Defence Budgets - How to spend better within the EU' (2011).

<sup>14</sup> European Commission: Staff Working Document SWD(2013)279 final.

demanding context. In the period when NATO Europe devoted 2.5 per cent of GDP to defence, its forces were in fact never deployed in conflict situations. Since 1990, however, these forces have been deployed almost continually, first in the Balkans and Kosovo backing up the UN, then in Afghanistan, and most recently in northern Africa.

At the same time, countries such as China and Russia have continued to increase their military spending. Paradoxically, the EU still spends more on defence than the *combined* defence budgets of China, Russia and Japan. Most of this money is, however, deployed on manpower, rather than on equipment or research.

**Figure 2: Defence expenditure as % of GDP  
and as % of Overall Government Expenditure (2012)**

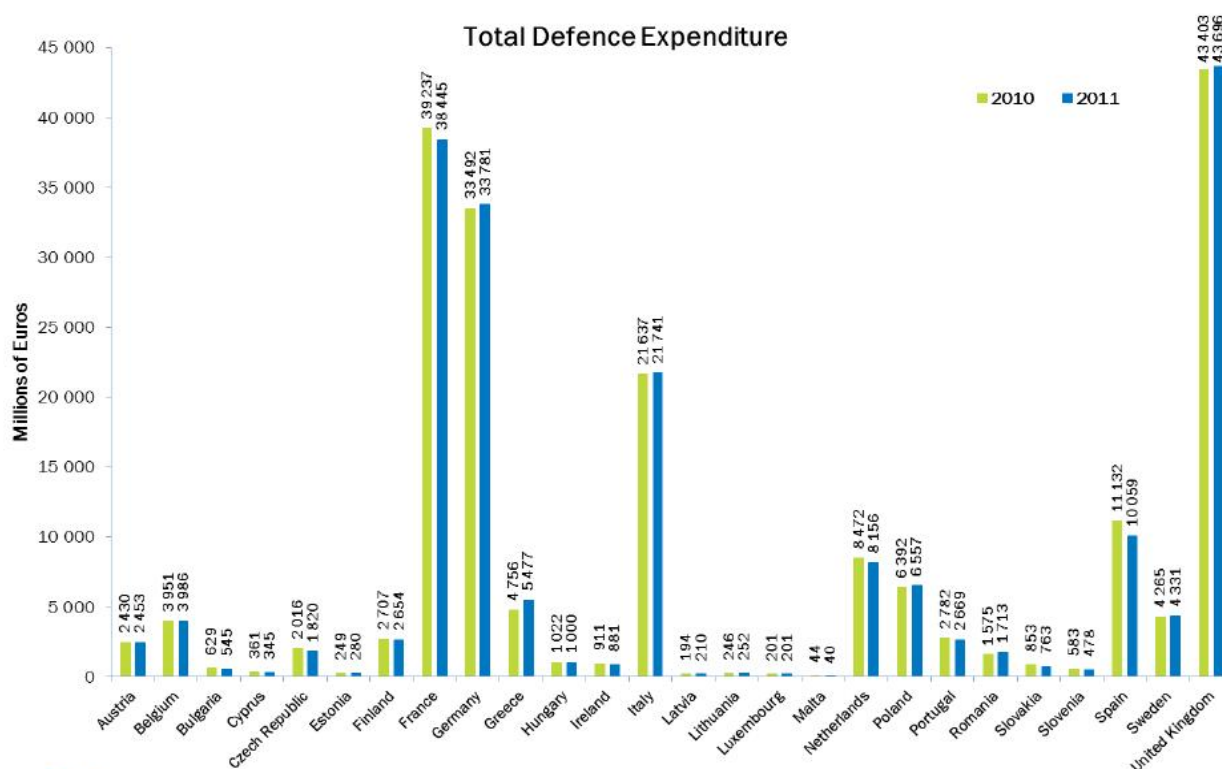


Source: EDA

Every additional percentage reduction brings the EU Member States closer to the point where their military forces and equipment fall short of true capability. This is essentially because Member States are shrinking the size of their armies but have not made corresponding increases in efficiency.<sup>15</sup>

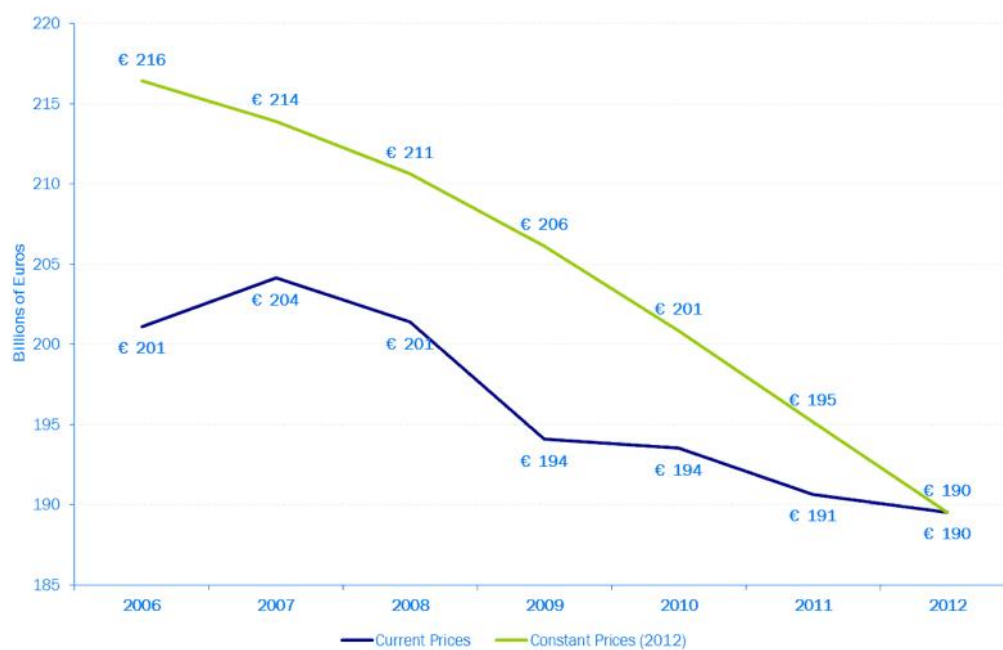
<sup>15</sup> Major, C. and Mölling, C. *The Dependent State(s) of Europe: European Defence in Year Five of Austerity*, in "The state of Defence in Europe: State of Emergency?". Egmont Paper 62, November 2013.

**Figure 3: Total defence expenditure**



Source: National Defence Data 2011, published by EDA on 9 September 2013

**Figure 4: Defence expenditure in current and constant prices**



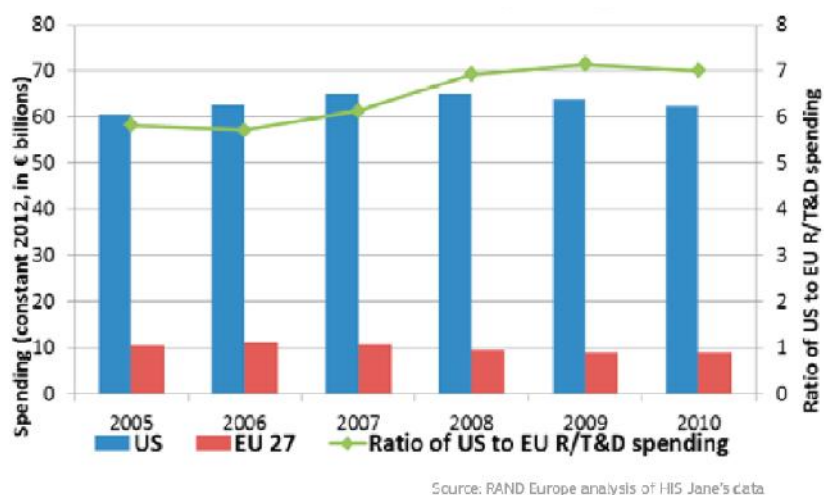
Source: EDA



Two worrying trends can be identified from the developments in defence budgets:

- a) Most of the cuts have affected investment in preparing for the future. Between 2007 and 2011, research and development (R&D) expenditure in the EU decreased by more than 19 per cent and Research and Technology (R&T) by more than 20 per cent. Between 2007 and 2012, expenditure in both fields decreased by over 50 per cent and almost 24 per cent respectively. It is to be noted that US expenditure on military R&D is seven times greater. If there is no change, by 2015 no new major programmes will be launched.<sup>16</sup>

**Figure 5: EU-US R&D/R&T spending, 2005-2010**



- b) Collaboration/cooperation remains the exception rather than the rule. 73 per cent of equipment procurement by value is still conducted on a national basis.

The downward trend in defence spending is unlikely to be reversed, so making the situation increasingly acute. Defence expenditure in Europe is projected to continue to decrease by a further five per cent by the end of 2017, equivalent to a total an overall real-terms reduction of 12 per cent since 2007. The number of military personnel, however, is unlikely to change at around 1.5 million personnel. This will put further pressure on the availability of resources for equipment and R&T.

<sup>16</sup> European Commission Communication 'A New Deal for European Defence' of 24 July 2013 COM (2013)0542 final.

**Figure 6: Number of military and civilian personnel (2012)**

### 3. Resource efficiency

*“Against the backdrop of financial restrictions and a more challenging security environment in the years to come, we must carefully examine how taxpayers’ money can best be used to meet our security needs. We must look at innovative ways to use our limited resources to maximum benefit, while further strengthening the European Union and its Common Security and Defence Policy (CSDP) as a fundamental pillar of the European project.” - Franco-German contribution to the European Council<sup>17</sup>*

The European Parliament has also called for a more resource-efficient European law- and policy-making as regards the CSDP. In the report on the impact of the financial crisis on the defence sector in the EU Member States (Lisek report)<sup>18</sup>, Parliament warns that 'uncoordinated budget cuts could result in the complete loss of certain military capabilities in Europe'<sup>19</sup> The report also points out that Member States while the EU collectively spends about a third of the US defence budget, €200 billion is still a considerable amount and includes a high cost of non-Europe in the defence area<sup>20</sup>. Wasteful overcapacities and duplications, as

<sup>17</sup> Letter to the High Representative of July 2013.

<sup>18</sup> 2011/2177(INI)), PE472.225v02-00.

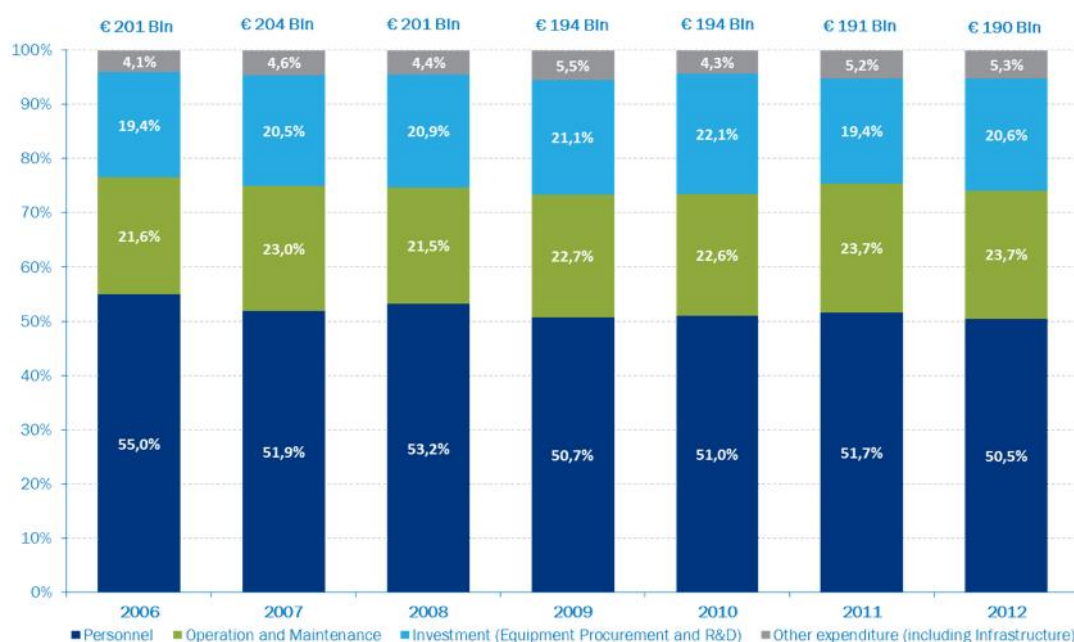
<sup>19</sup> Paragraph 2.

<sup>20</sup> Paragraph 6

well as fragmented industry and markets, prevent the EU from having the visibility it deserves and considerably reduce value for money.<sup>21</sup> In other words, the challenge is not necessarily to spend more, but to spend 'better' and spend better together, allowing economies of scale.

In the more colourful language of the press, the Member States of the EU "do not spend enough money on Defence and what they do spend is wrong, - mostly on people rather than equipment or research"<sup>22</sup>. The imbalance of budgetary allocations as between personnel and equipment is indeed a matter of concern. Since the end of the Cold War, the US has cut its military personnel by around 35 per cent, while leaving its equipment budget more or less intact, if not reinforced, thus making the US military leaner, fitter, more flexible and more deployable. While the UK and France have both moved in the same direction since the St. Malo agreement (1998), most EU Member States have not followed suit, so that while personnel numbers are some 40 per cent down since the end of the Cold War, the proportion of expenditure on personnel remains overly high and equipment budgets in many Member States have been excessively squeezed.

**Figure 7: Defence expenditure breakdown in percentages (2012)**



Source: EDA

<sup>21</sup> Paragraph 7.

<sup>22</sup> European Voice of 25 July.

In value for money terms, the EU could be said to spend some €200 billion annually in order to invest €40 billion and to be capable of mobilising 80,000 soldiers out of 1 million<sup>23</sup> Generally speaking then, as a direct result of the imbalance in budgetary allocations and selective reductions, the EU Members of NATO are now less prepared to respond to crises, just at the time that they face ever more, and more challenging and complex, responsibilities.<sup>24</sup>

Furthermore, Member states have significantly lowered their ability to deploy and sustain military forces in the last years. Shrinking forces mean also fewer operations, and, more importantly, changes in quality reduce the ability to conduct complex operations. As less and less smaller states can deploy on their own, they become even more dependent on those who can still provide an operational framework.<sup>25</sup>

### Common Vision

A consensus on the need for a strategic vision has emerged from a wide and informed academic and institutional debate, evidenced by an impressive array of think-tank reports and governmental and institutional proposals. The breadth and depth of this debate appears unprecedented in recent decades.

The objectives of efficiency, visibility and impact could best be achieved by a coherent formulation of policy such as could be set out in a **White Paper**, a strategic defence review or “**Vision for 2040**”. Such a paper could articulate core interests for Europe and core European tasks such as territorial defence, solidarity, response to threats and training. It would need to overcome difficult issues of sovereignty, perhaps by developing, in a Semester-type process, a regionally-based policy, covering inter alia the Nordic, UK-France, Benelux and Visegrad regions.

Such a common vision would define the core capabilities required to respond to defined needs of a) autonomy from the United States; b) obtaining maximum value for money and c) meeting defence requirements.

Permanent Structured Cooperation could provide the necessary legal base for policy definition and to move forward with a Solidarity Fund or a Sinking Fund which would provide the funding for any necessary deployment, in the interests of

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<sup>23</sup> Fabio Liberti: “*Defence spending in Europe: Can we do better without spending more?*” Notre Europe

<sup>24</sup> 'The Impact of the Financial Crisis and Cuts in Member States' Defence Budgets - How to spend better within the EU' (2011).

<sup>25</sup> Major, C. and Mölling, C. *The Dependent State(s) of Europe: European Defence in Year Five of Austerity*, in “The state of Defence in Europe: State of Emergency?”. Egmont Paper 62, November 2013.

all. Better planning of investment would be needed to deliver the long lead times of up to 30 years for joint military projects (such as the Joint Strike Fighter, the NH 40 Helicopter or the Eurofighter). Europe's air defences could be rationalised and Rapid Reaction Forces could be pooled. At the same time simplified certification, on which currently some 4 billion is wasted, could save twenty per cent of costs and standardised munitions would save €500 million yearly.

As an integral part of this vision for defence policy, a planning instrument could provide a framework or master plan for pooling and sharing activities, set out a division of labour and role specialisation.

Finally, a sound policy framework would enable industry to make the necessary investments. That industrial base could further be galvanised by a large-scale, flagship, collaborative project.

In addition to defining a vision for the future, there is a concomitant need to communicate it to a wider public. The convergence of expert opinion to the effect that there is an urgent need for greater coherence, cooperation and vision in European defence policy is not yet reflected in the wider media. The problem remains that, within the EU, there is, generally speaking, 'limited awareness or recognition of the emerging challenges, a basic disinterest in strategic matters, and relatively few voices calling for effective and sustainable armed forces'<sup>26</sup>.

For this reason and, despite the absence of any immediate or obvious military threat, the European Parliament and the High Representative call for a "specific communication campaign" to inform the wider public.

Although public awareness may be low and public sentiment sceptical in places, it is nevertheless true that Europe, as the largest trading bloc in the world, depends on a global security system which is in part its responsibility to maintain.

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<sup>26</sup> ISS *Issue Report n°16* - May 2013 'Enabling the future. European military capabilities 2013-2025: challenges and avenues', p. 5.

## II. Enhancing the development of defence capabilities

The second cluster identified by the European Council<sup>27</sup> is designed to enhance military capabilities and the power of autonomous action, for which there is a desired convergence of defence planning. It is thus the *operational* justification for a policy of greater integration at European level

### 1. Integration of military structures

Driven by fiscal austerity, there is new vigour behind efforts to improve the efficiency of defence in Europe. Many of these efforts focus on the “pooling and sharing” of equipment between Member States with the aim of exploiting economies of scale and scope. Less attention has been paid, at least until recently, to the economic gains which could accrue from the reduction of inefficiencies linked to the size and organization of military personnel in Europe. There is an obvious trend of consolidation of European land forces: total troop numbers have fallen from 2.5 million in 2000 to less than one million today.

Nevertheless, the level of inter-operability among the 28 armies of Europe remains low, with differences in doctrine, logistics, command and control, and other crucial lines of development hindering the deployment of joint forces. Given that the capability of a modern army depends not just on its size but also on its equipment, and the quality and timeliness of its battlefield information, it can be said that standards vary dramatically across the 28 Member States.

In military engagements over the last 15 years, on aggregate, the range of soldiers deployed by EU Member States has been between 25,000 and 60,000 (the years of highest deployment corresponding to military surges in Iraq and Afghanistan). An analysis of mission types over the same period shows that Member State forces have been engaged in a variety of missions, mandates and regions of operation, contributing with soldiers to a number of global and EU stabilization missions (Afghanistan, DRC, Somalia, South Sudan and the Balkans).

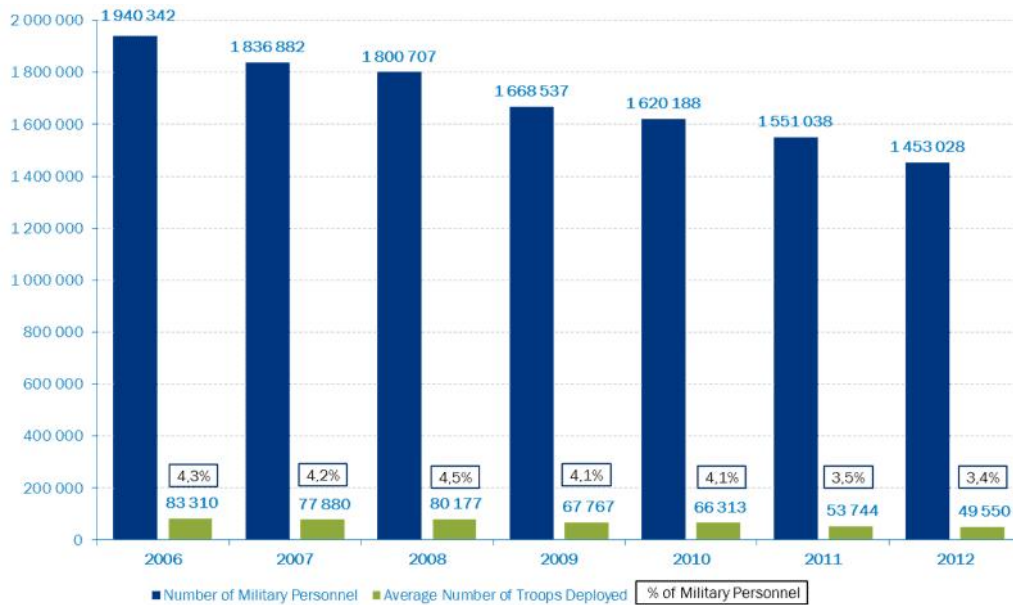
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<sup>27</sup> European Council conclusions 13/14 December 2012:

**“Enhance the development of defence capabilities by**

- identifying current redundancies and capabilities shortfalls and prioritising future requirements for European civilian and military capabilities;
- facilitating a more systematic and longer term European defence cooperation, including through “pooling and sharing” of military capabilities; and in this regard, systematically considering cooperation from the outset in national defence planning by Member States;
- facilitating synergies between bilateral, sub-regional, European and multilateral initiatives,
- including the EU’s “pooling and sharing” and NATO’s ‘smart defence’”.

**Figure 8: Average Number of troops deployed and total military personnel (up to 2012)**

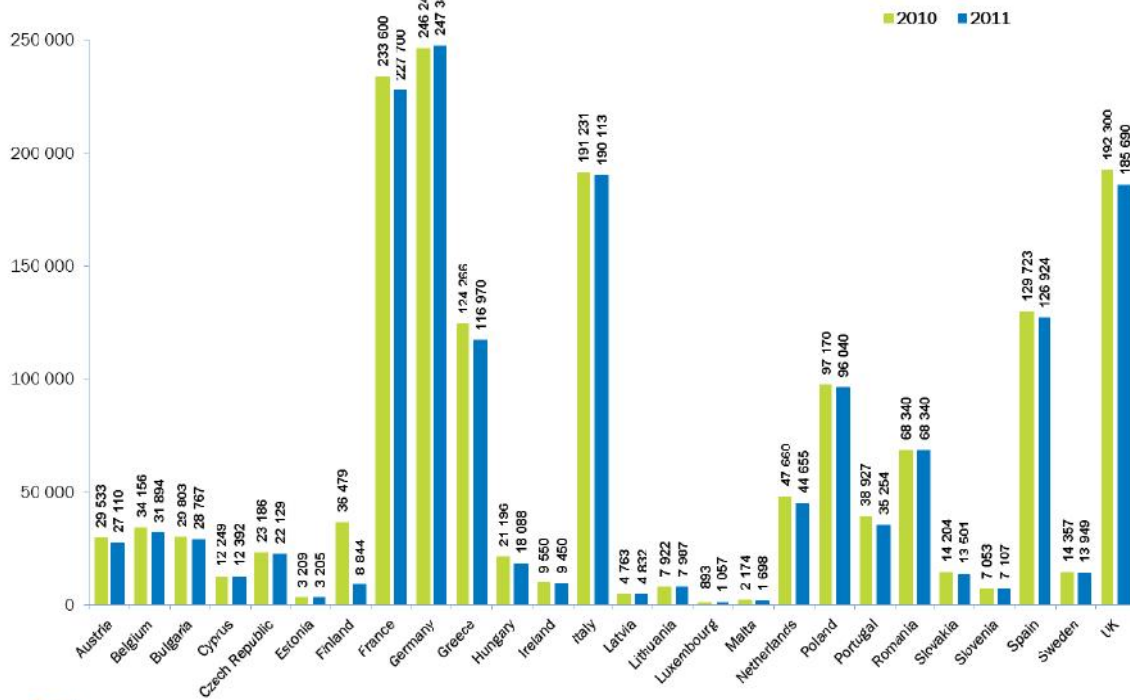


Source: EDA

**Figure 9: Number of deployable and sustainable (land) forces (up to 2012)**



Source: EDA

**Figure 10: Military personnel per Member State (2010 and 2011)**

Source: National Defence Data 2011, published by EDA on 9 September 2013.

The Bertelsmann Stiftung<sup>28</sup> states that 60 per cent of the Defence spending is on personnel. Although the true figure may be 51 per cent (source: EDA), a case is made to the effect that smaller, more coordinated European land forces would both permit a reduction of some 300,000 in the standing armies and bring efficiency gains of three billion Euro or more.

The number of regular soldiers in Europe today is estimated to be in the region of 900,000. However, based on mission scenarios articulated under the Petersberg Tasks, it is estimated that the real required size of European land forces is more likely to be between 480,000 and 750,000. The surplus of land forces is, by this logic, between 150,000 and 420,000.

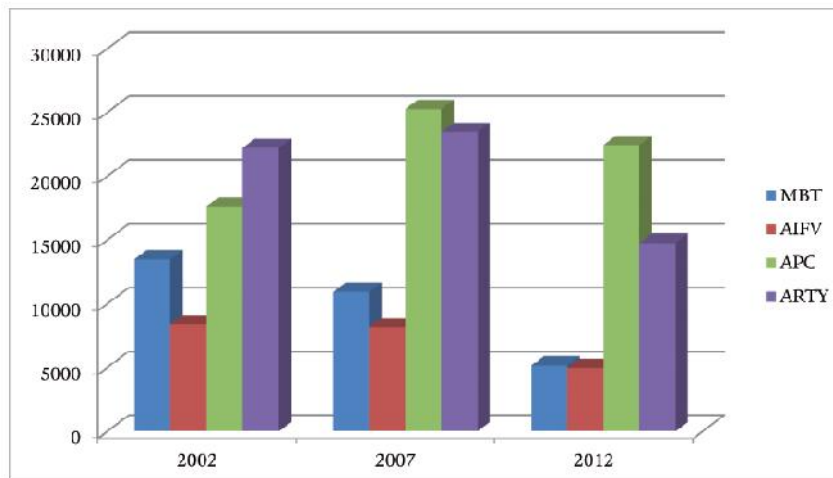
Estimating the wages of soldiers in Europe through comparator countries, the efficiency gains for EU Member States of consolidating their land forces to 600,000 (reducing them by 30 per cent in total) would be, at the high end of the calculations, approximately € 6.5 billion a year.<sup>29</sup>

<sup>28</sup> Bertelsmann Stiftung: "The European Added Value of EU Spending: Can the EU help its member States to save Money?" 2013

<sup>29</sup> 'Bertelsmann Stiftung: The European Added Value of EU Spending: Can the EU help its Member States to Save Money?' 2013.



**Figure 11: 2002-2012 combined EU 27 land combat equipment and land armaments**



Source: IISS, *The Military Balance*, various issues.

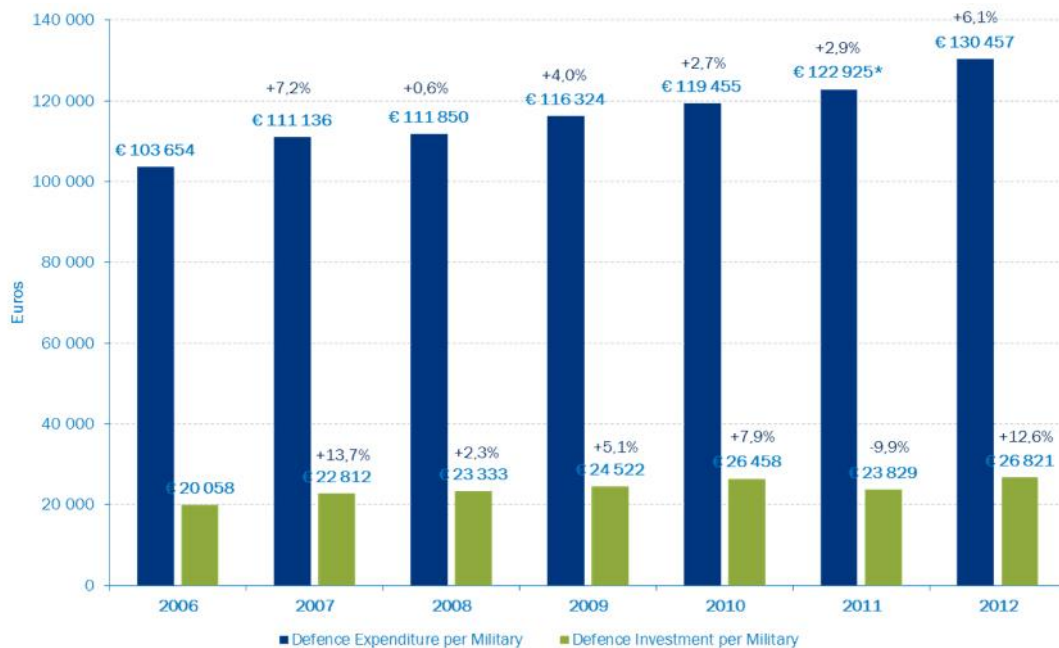
MBT: main battle tanks; AIFV: armoured infantry fighting vehicles; RECCE: reconnaissance; APC: armoured personnel carriers; ARTY: artillery.

Figures correspond to the land combat equipment and land armaments possessed by the 27 existing EU member states, even if they were not members of the EU at that time.

European regular land forces of 600,000 would be similar in size to the US Army (570,000). However, US expenditure on equipment is far greater. With Europe's aggregate spending on military equipment per soldier so far below that of other advanced armies, efficiency gains from a reduction in manpower could be re-invested in the equipment required to modernize Europe's armed forces. This could include investment in helicopters, ammunition, modern communications and electronic countermeasures to provide soldiers with the most up-to-date and effective equipment. An investment of €10,800 per soldier in Europe would represent an increase of almost 40 per cent compared with the current level of spending.

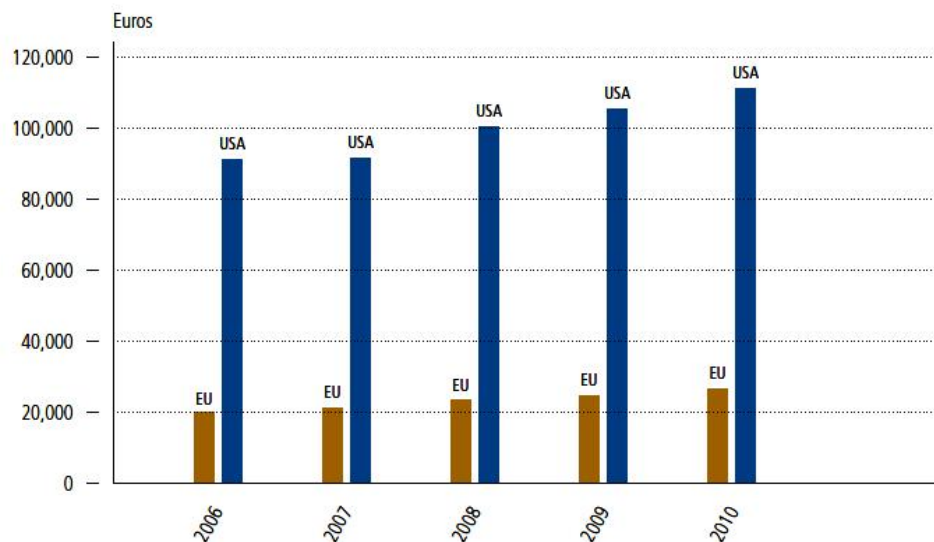
At the same time it is abundantly clear that merely reducing manning levels without improving European interoperability or investing in equipment would only reduce Europe's aggregate military capability. Only by working together can Europe contemplate high-intensity operations over a sustained period. To capture the potential European added value, any reduction in total personnel numbers would need to be accompanied by greater cooperation and coordination among Member States' land forces. This could be achieved through European agreements on common standards, more integrated training, and specialization and division of labour across European forces.

**Figure 12: Defence Expenditure and Investment  
(Equipment Procurement and R&D/R&T) per Military (2012)**

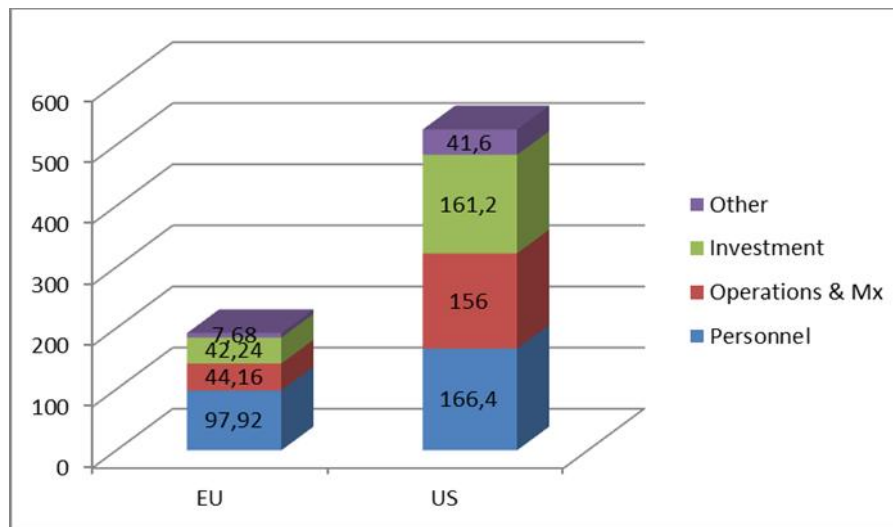


Source: EDA

**Figure 13: Equipment spending per armed forces personnel**



Source: Bertelsmann Stiftung (2013) based on data from EDA

**Figure 14: Budget split in billion €, EU-US Comparison**

Source: own elaboration based on data from EDA and Roland Berger.

Mx: maintenance

## 2. Funding of missions

Military missions abroad are the clearest example of the potential that the European Union has in defence. They also account for the greatest success of the Common Defence and Security Policy. In September 2012 there were twelve CDSP missions: four in the Balkans, the Caucasus and Eastern Europe, three in the Middle East, one in Central Asia and four in Africa. Adding these to the missions that are already completed, the CSDP has made twenty-eight missions possible since its creation in 2003. However, only a fraction of these were of military nature.

Missions of a military nature cannot be funded by the EU budget. The first missions were funded through an *ad-hoc* financing mechanism. Certain problems in the management and funding of two of the first missions (Concordia and Artemis in 2003) showed the need for a permanent scheme to fund at least the initial steps in the preparation of a mission, covering common costs. This is the rationale behind the creation of the Athena mechanism<sup>30</sup> which stipulates that European missions receive funds from the Member States in proportion to their national GDP.

<sup>30</sup> Council Decision 2004/197/CSFP of 24 February 2004, revised in 2008

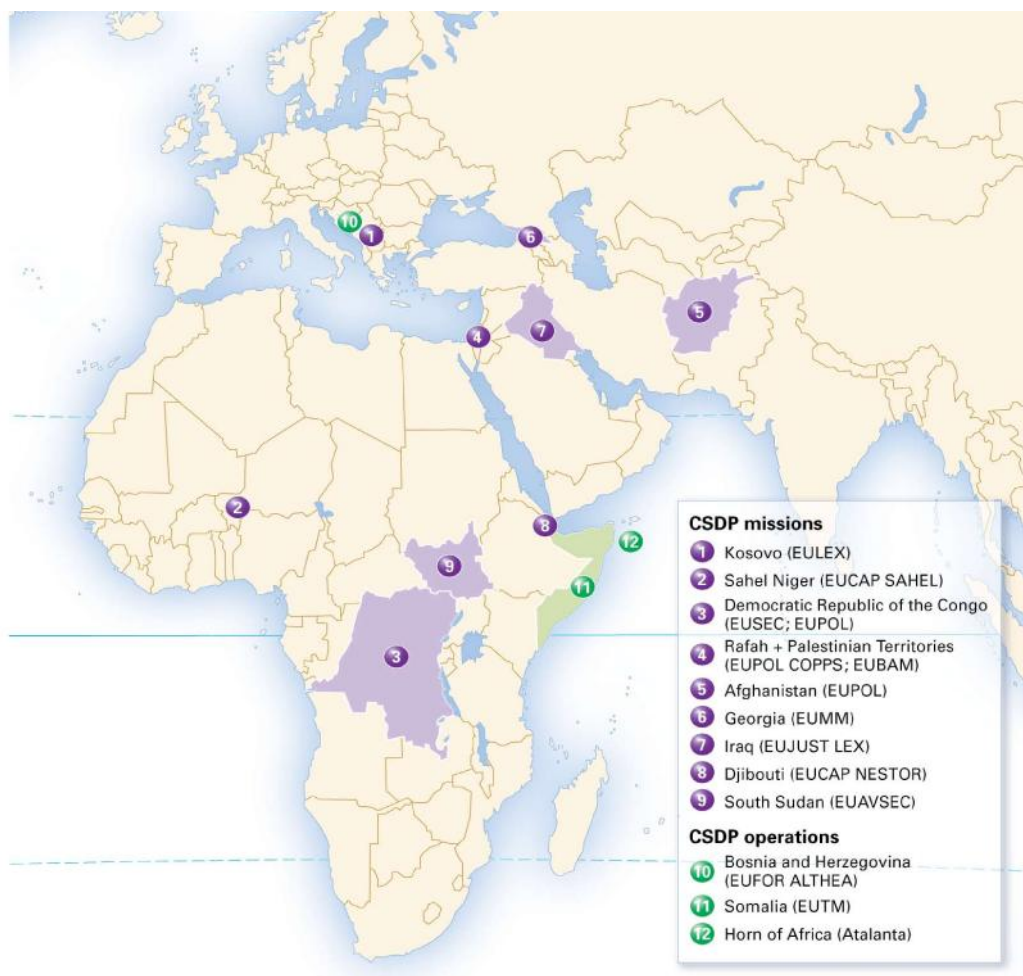
**Figure 15: List of military and civilian EU missions and operations**

Missions/ Operations	Military	Civilian
<b>MIDDLE EAST</b>		<b>EUPOL-COPPS</b> (Occupied Palestinian Territory), Jan 06–30 Jun 13 <b>EUBAM Rafah</b> (Occupied Palestinian Territory), 25 Nov 05–30 Jun 13
<b>MIDDLE EAST and EUROPE</b>	<i>CONCORDIA (FYROM), Mar&gt;Dec 03</i> <b>EUFOR ALTHEA</b> (Bosnia and Herzegovina), Dec 04–	<b>EUJUST LEX-Iraq</b> (Iraq), Mar 05–31 Dec 13 <i>EUPOL Proxima (FYROM), Dec 03&gt;Dec 05</i> <i>EUPAT (FYROM) Followed by EUPOL Proxima, Dec 05&gt;Jun 06</i> <i>EUPM BiH Bosnia and Herzegovina, 01 Jan 03&gt;30 Jun 12</i> <i>EUJUST Themis (Georgia), Jul 04&gt;Jul 05</i> <i>EUPAT Kosovo, Apr 06&gt;Feb 08</i> <b>EULEX Kosovo</b> 16 Feb 08–14 Jun 14 <b>EUMM Georgia</b> 01 Oct 08–14 Sep 13
<b>ASIA</b>		<i>AMM (Aceh Province, Indonesia), Sept 05&gt;Dec 06</i> <b>EUPOL AFGHANISTAN</b> (Afghanistan), 15 Jun 07–31 May 13
<b>AFRICA</b>	<i>ARTEMIS (Ituri province, Congo RDC), Jun&gt;Sep 03</i> <i>EUFOR RD Congo (Congo RDC), Jun&gt;Nov 06</i> <i>EUFOR TCHAD/RCA (Chad-Central African Republic), Jan 08&gt;Mar 09</i> <b>EU NAVFOR ATALANTA</b> (Coast of Somalia), Dec 08–Dec 14 <b>EUTM Somalia</b> (Training Mission, Uganda y Somalia), Apr 10–Mar 15 <b>EUTM Mali</b> (Training Mission, Mali), Feb 13–May 14	<i>EUPOL Kinshasa (Congo RDC), Apr 05&gt;Jun 07</i> <i>EU SSR Guinea-Bissau, Jun 08&gt;Sep 10</i> <i>AMIS 11 Support, Darfur Province, Sudan, Jul 05&gt;Dec 07</i> <b>EUAVSEC</b> South Sudan, Sep 12–Apr 14 <b>EUCAP NESTOR</b> Horn of Africa and the Western Indian Ocean, 01 Aug 12–31 Jul 14 <b>EUSEC RD Congo</b> (Congo RDC), EUMS provides a POC for all issues related to the execution of the mandate, Jun 05–30 Sep 13 <b>EUPOL RD Congo</b> (Congo RDC), 01 Jul 07–30 Sep 13 <b>EUCAP SAHEL</b> Niger, 17 Jul 12–16 Jul 14

Source: *Impetus – The bulletin of EU Military Staff – Issue 15, Spring/Summer 2013*

Although enlarged in 2009, Athena funds some fixed expenses plus an additional series of expenses to be decided at the Council's discretion on a case-by-case basis<sup>31</sup>, but rarely amounts to more than 10 per cent of the effective mission costs.

<sup>31</sup> See Annex III of the Council Decision 2004/197/CFSP.

**Figure 16: CSDP civilian missions and military operations in 2010-2012**

*Source: EUISS Yearbook 2013 (YES), on data by the European Council*

Athena<sup>32</sup> is managed by a trio composed of an administrator, an operation commander and an accounting officer. Their actions remain under the responsibility of a special committee composed of one representative from each participating member state, as well as EEAS and EC representatives. A permanent revision procedure has been set up and each presidency has at least one meeting on the evolution of the Athena mechanism.

<sup>32</sup> Based on Article 41, §3 of the TEU, the financing mechanism of CSDP military operations, known as Athena, is intended mainly to provide funds for rapid response operations. The complete list of costs covered by Athena (including transport, infrastructure, medical services, lodging, fuel, etc.) is stated in four lists annexed to the Council decision 2011/871/CFSP, which amends the Council decision 2008/975/CFSP. Personnel and other items are financed on a 'costs lie where they fall' basis

Athena makes the distinction between common costs (including those incurred in preparation for or following operations) and operational costs which are directly related to operations. All the costs not explicitly covered by Athena remain under the responsibility of the participating member states. EU exercise costs are also included even if capital acquisition, planning and preparatory phase of exercises, transports, barracks and lodging for forces are not included.

**Table 1: Funding of costs through Athena**

**Legal basis:** 2011/871/CFSP; 2008/975/CFSP; 2007/384/CFSP; 2007/91/CFSP; 2005/68/CFSP; 2004/925/CFSP; 2004/197/CFSP

Operations	Legal basis	Cost covered	Financial amount of reference (in euro)
<b>CONCORDIA FYR</b>	2003/92/CFSP	Expenditure related to transportation for the forces as a whole shall not be eligible for payment as common costs.	4,700,000
<b>ARTEMIS DRC</b>	2003/423/CFSP	Barracks and lodging for the forces as a whole, as well as expenditure related to transportation of the forces as a whole shall not be eligible for payment as common costs.	7,000,000
<b>EUFOR Althea</b>	2004/570/CFSP	Barracks and lodging for the forces as a whole shall not be eligible for payment as common costs. Expenditure related to transportation for the forces as a whole shall not be eligible for payment as common costs.	71,700,000
<b>EUFOR DR Congo</b>	2006/319/CFSP	Barracks and lodging for the forces as a whole shall not be eligible for payment as common costs. Expenditure related to transportation for the forces as a whole shall not be eligible for payment as common costs. Art 31,3§ = 70 %	16,700,000
<b>EUFOR TCHAD/RCA</b>	2007/677/CFSP	Art 33, 3§ = 50 %	99,200,000
<b>EUNAVFOR</b>	2008/749/CFSP	Art 33, 3§ = 30 %	60,000
<b>EU Atalanta</b>	2008/851/CFSP	Art 33, 3§ = 30 %	8,300,000
<b>EUTM Somalia</b>	2010/96/CFSP	Art 32, 3§ = 60 %	4,800,000
	2011/483/CFSP	Art 32, 3§ = 30 % Until 09/08/2011 Art 25,1§ = 60 % From 09/08/2011 Art 25,1§ = 30 % From 01/01/2013 Art 25,1§ = 100 %	4,800,000

Source: EUISS YES Yearbook 2013

Until now, the Athena mechanism has been used for only five European Union military operations: EUFOR Althea, EUFOR DRC, EUFOR Tchad/RCA & EUTM Somalia/Mali.<sup>33</sup>

<sup>33</sup> EUISS YES Yearbook 2013, p. 275

CSDP missions have in fact had a predominantly civilian nature. Since EU operations are never 'stand-alone' actions, they form part of the Union's wider long-term policy towards a country or a region. The presence of an EU Special Representative, EU Head of Delegation and CSDP mission ensures the EU's comprehensive relationship with a given country or region. The question, therefore, is thus not really the comparative advantage of CSDP *vis-à-vis* other EU policies but rather *as part of* other CFSP instruments. The internal civilian CSDP budget has steadily increased since 2004 yet remains small (approximately €300 million) as compared to EU development (e.g. €22.7 billion for the European Development Fund 2008-2013) and humanitarian funds (e.g. €1.1 billion for ECHO in 2010), so there are obvious limits to what it can achieve. As a result, all efforts are geared towards creating further synergies and enhancing the combined impact on the ground of the totality of EU actions.<sup>34</sup>

The European Commission has also funded projects to train police, border and customs officers (e.g. EUPAT and Proxima FYROM, EUBAM Moldova/Ukraine, and the planned follow-on to EUPM Bosnia and Herzegovina). An advantage, due to its different recruitment policy, is that force generation does not pose as much of a problem as when personnel is largely paid for by member states. Under this format, in fact, staff has a consultative status and are no longer on active duty and thus do not wear a national uniform.

As CSDP operations are largely staffed by personnel seconded by the EU-28, and as the Political and Security Committee provides strategic and political guidance to and overview of the CSDP, Member States have stronger ownership of and political commitment to CSDP missions than to projects tendered out to contractors.

Finally, CSDP action – while primarily an instrument of external policy – also brings value to internal EU security. CSDP addresses the wider notion of rule of law as the ultimate objective, and so promotes capacity building in fighting organised crime and terrorism, including strengthening host countries' ability to cooperate with international law enforcement agencies (e.g. Europol, Interpol, the International Criminal Court). This fosters the establishment of a wider 'rules-based' security community – which is of particular relevance in the Union's neighbourhood.

### **3. 'Pooling and sharing' and 'Smart Defence'**

The armed forces of the European countries have reached a satisfactory level of integration as regards the performance of their operations thanks to a long

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<sup>34</sup> Hazelzet, H (2013), op.cit.

experience in cooperation at different levels. From planning of missions to standardization of materials, the European countries are used to cooperating thanks also to their experiences within NATO. NATO has allowed for a greater interoperability between and among different military cultures and has also fostered the gradual definition and refining of European common missions.

Nonetheless, apart from some common missions, armed forces remain separated and independent in many other areas. There are still 28 independent national command structures, with the same number of national support structures and infrastructures. Apart from the common exercising necessary to ensure a decent level of interoperability and cooperation for these missions, and apart from some common standards of operative efficiency, each of the 28 European armed forces trains in its particular, independent way, following national doctrines and idiosyncrasies. Very often each of the 28 Member States uses nationally-produced equipment, which also requires maintenance at national level by national companies.

This situation is not just a duplication, it is potentially a multiplication by 28. It is the main reason why European defence cannot compete with the US forces, which can benefit from economy of scale. The cost of maintaining 28 separate military structures, and indeed the lack of a single operational Headquarters, is one of the main constituents of the cost of non-Europe. That cost is difficult to quantify in purely monetary terms, but cannot be disregarded and would be significantly attenuated if the economic impact of this multiplicity were reduced. The call for a fully-fledged EU Operational Headquarters, for example, has been repeated in several occasions by the European Parliament as a means not only to save resources, but to give a permanent military planning and conduct capability to the EU.

Ways of reducing this economic cost have been extensively debated and explored in recent years. Perhaps the most fruitful of these so far is the *pooling and sharing* initiative (*smart defence* in NATO terminology), first introduced as the “Ghent Initiative” in 2010<sup>35</sup>. The concept involves Member States pooling resources which they can make available for CSDP operations, seeking to deliver greater cost-efficiency through closer cooperation and the better realisation of economies of scale. It affords Member States an alternative solution to protect, enhance and acquire military capabilities, at a time when the more prudent use of scarce resources is required.

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<sup>35</sup> Ghent informal Meeting of Defence Ministers, 23-24 September 2010.



### Box 1 - EU Operational Headquarters (OHQ)

The European Parliament called for the establishment of EU OHQ in its resolution of 12 September 2013. Parliament considers that, if necessary, the EU OHQ could be created by permanent structured cooperation (PESCO), and conceives the EU OHQ as a civilian-military structure, responsible for the planning and conduct of other EU civilian and military operations, with **separate** civilian and military chains of command.

In view of the Parliament,

*'the creation of a EU OHQ would greatly enhance the EU's institutional memory in crisis management, contribute to the development of a common strategic culture through the secondment of national personnel, maximise the benefits of civilian-military coordination, allow for the pooling of certain functions, reduce costs in the longer term, and facilitate political oversight by Parliament and the Council'*

The OHQ is essential for a permanent military planning and conduct capability, also with regard to the obligations resulting from the mutual defence clause and the solidarity clause.

To date the EDA has proposed eleven initiatives under Pooling and Sharing to address key capability gaps, as well as to increase overall efficiency. Experience shows, however, that Pooling and Sharing does not succeed as well as it should without the partners sharing essentially the same 'political' views, having the same level of military ambitions, and enjoying a high level of mutual trust and confidence.<sup>36</sup>

The gains in terms of efficiency through cooperation from Pooling and Sharing are estimated at **€300 million**. In the same time-frame, however, military budgets have been reduced by a hundred times as much, **€30 billion**, showing that this welcome adjustment is far slower and more modest than the melting of budgets.

Although undeniably important, Pooling and Sharing can only be part of the solution to the duplication and fragmentation of Europe's defence effort. Problems can arise from sovereignty considerations or simply a lack of trust. The issue of availability and access is key. The optimal applications range from spare parts and maintenance at one end of the spectrum, through pooling research and develop and training, up to pooling rapid reaction forces or creating consortia.

<sup>36</sup> Valasek, T. (2011), *Surviving Austerity: The case for a new approach to EU military collaboration*, Centre for European Reform, London.

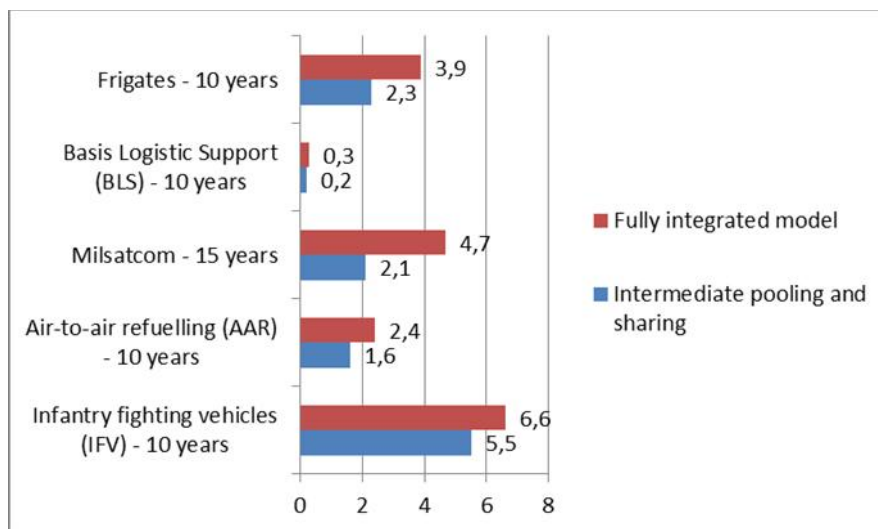
### Box 2 - The BENELUX example

On 28 April 2012, the Ministers of Defence of Belgium, the Netherlands and Luxembourg signed a declaration of cooperation in Defence matters. The starting point of their cooperation is 'to preserve the autonomy in order to achieve the national level of ambition'.

The declaration provides for feasibility studies regarding the sharing of the maintenance and operative cooperation of helicopters NH90, synergies in the domain of air policy, shared training of parachutists and sharing of training installations and programmes.

Other fields where cooperation is foreseen are **land forces** (with a possible extension to the sea corps), and **joint acquisition, interoperability and standardisation**, based on successful examples such as the Soldier Modernisation Programme and the Wideband Global SATCOM Programme.

Figure 17: Efficiency gains in billion € on five Pooling and Sharing initiatives



Source: EDA

Recent research carried out by the EDA shows that there is a clear business case on Pooling and Sharing initiatives on-going at the moment. The efficiency gains through cooperation would be significantly increased should Pooling and Sharing give way to a fully integrated model.

Further mainstreaming of the EDA Code of Conduct on Pooling and Sharing in the national planning drawn up by Ministries of Defence, considering cooperation from the outset and expanding cooperation to the life cycle of capabilities would all contribute to greater efficiency gains. So far however, only a relatively small number of Member States appear to have implemented measures described in the Code of conduct.

#### **4. Integration of units**

In general, experience shows that bilateral pooling and sharing initiatives are the preferred way for asset sharing. During the last five years, the CSDP has tried to move beyond bilateral or partial initiatives by the integration of European military units, also known as *battle-groups* (BG). The concept of battle-group was developed from a French, British and German joint initiative, then included in the *Headline Goals 2010* oriented to provide the EU with rapid-reaction contingents. A battle-group is by definition the smallest military unit to act autonomously on the field, flexible and quick to mobilise before sending, if needed, a bigger contingent. A battle-group must be maintainable for at least 30 days, with a possibility to remain on the spot for 120 days with the appropriate support. Ideally a battle-group is a multinational taskforce, but the country which is the main contributor often assumes the direction of all the process (known as “framework nation”). Member States hold every semester a Battle-group Coordination conference in which they plan the organisation of battle-groups for the coming five years. The goal is to have two multinational battle-groups ready to enter into action at any moment, on *stand-by*.

Battle-groups are a good example of military cooperation. They imply the use of common standards in training in order to assure coherence between the parties. The costs and responsibility of planning, setting up, training, certifying, putting together and making the Battle-groups available to the EU lies with the troop-contributing nations, and primarily, with the framework nation. The standard practices associated with military CSDP operations apply. The “common costs” related to the operational headquarters, local administration, transportation within the Operational Headquarters (OHQ) area, and lodging infrastructures are administered through the “Athena” mechanism. “Individual costs” (transport of troops from individual countries to the area of operations), as well as other costs linked to stand-up preparations and placing the EU BG on standby the responsibility of contributing states according to the principle of “costs lie where they fall”. However, given the fact that costs jointly covered through Athena make up just 10 per cent of the total maintenance and operational costs of

an EU BG, the bulk of the burden is provided by contributing nations, and especially by the framework nation, both in terms of cost-sharing and risk-sharing in case an operation is undertaken. Consequently, many EU Member States have been prevented from taking the lead as framework nations, or even from playing a larger role in a BG formation.<sup>37</sup>

Other examples of successful integrative cooperation include the EU Common Maritime Surveillance Network which is being created.

## 5. Regional cooperation

A regionally-based approach can be an important step in overcoming sovereignty considerations and reticence about sharing. The EU roughly breaks down into Nordic, France/UK, Benelux and Visegrad groups which have a developed history of cooperation and working together.

There are experiences in **Regional Cooperation** that have delivered good results. The most venerable, the UK Netherlands Amphibious Force (UKNLAF) dates from 1973, and was created due to a lack of funds which threatened the survival of the Dutch Marines. Now UKNLAF is an integrated taskforce which became a European battlegroup, on stand-by during the first half of 2010. The Netherlands has also signed a joint training and exercising cooperation agreement with Belgium and Luxembourg, covering the joint use of military airports and deeper cooperation between the Dutch and the Belgian navy forces, which have been working together for the last fifteen years. Other examples include SEEBRIG, the Multinational Land Force and EUROFOR. The Nordic States have developed the Nordic Defence Cooperation Organisation (NORDEF) with the aim of developing common synergies and common solutions to strengthen their national defence in Denmark, Norway, Sweden, Finland and Iceland. They recently agreed to establish a Nordic pool of airlift resources.

### Box 3 - BENELUX cooperation for EU Battlegroups

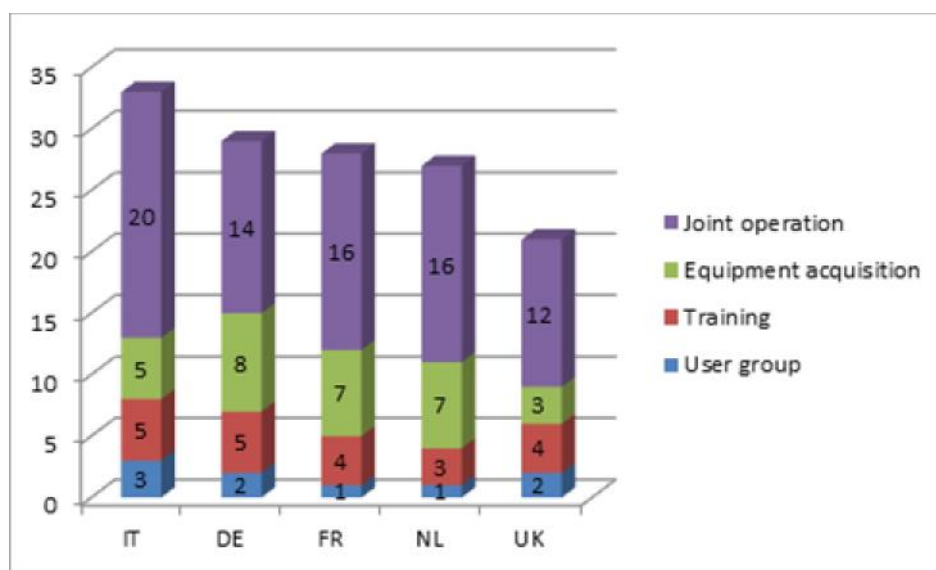
On their joint declaration of 18 April 2012, the Defence ministers of Belgium, the Netherlands and Luxembourg pledged to get involved in “joint training activities in preparation of the EU Battlegroup 2014-2 under Belgian command” in order to make use of the advantages of their regional cooperation and “emphasize the added value of the interoperability of their common Soldier Modernisation Programme”.

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<sup>37</sup> Hatzigeorgopoulos, M. “The role of EU Battlegroups in European defence”, European Security Review, No. 56, June 2012.

According to recent research carried out by EDA, there are about 70 cooperation programmes among EU Member States today, covering topics from training to equipment acquisition and joint cooperation. The Member State cooperating in the highest number of them is Italy (33), followed by Germany (29), France (28), the Netherlands (27) and the UK (21). On bilateral collaboration, the tandem formed by Belgium and the Netherlands has cooperated in 22 programmes, Italy and France together in 20, Italy and Spain in another 20, and the Netherlands with Germany in 19 (see table below).

**Figure 18: Cooperation by type and country, 1999-2011**



Although it is difficult to define the elements needed to ensure the success of cooperation, some variables play an enabling role in making defence cooperation work: **regional proximity, similar geographical size, similar military power, similar strategic culture, pre-existent political cooperation and alignment of political interests.**

In its resolution of 12 September 2013 on the state of play and future prospects of the EU's military structures, the European Parliament welcomes the benefits of cooperation and fully supports the rationale of pooling, but call also for some 'form of rationalisation' and better coordination between the numerous structures with a 'multinational dimension', which have grown without any global and coherent plan. The Parliament recognises the specific contribution of regional cooperation schemes, such as the Baltic Defence Cooperation, the Nordic Defence Cooperation, the UK-Dutch Amphibious Force and the Spanish-Italian one, the German-Dutch corps, the Belgian-Dutch naval cooperation, and the

Anglo-French initiatives to build a combined joint expeditionary force, an integrated carrier strike group and a combined joint force headquarters.

#### **Box 4 - Concrete examples of regional cooperation: BENELUX**

The BENELUX declaration of 18 April 2012 contains an annex where the possibilities for the sharing of training and practice installations and workload is outlined. The listed items cover a wide range of defence activities and show the feasibility of regional cooperation in all areas:

1. Formations on survival techniques for flight crews,
2. Shared information operations,
3. Countering improvised explosive devices (C-IED),
4. Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR),
5. Civil-military cooperation (CIMIC) to rebuild civil societies after conflicts,
6. Explosive Ordnance Disposal (EOD): exchange of expertise and formation in neutralising and removing explosive devices,
7. Submarine diver formation,
8. Chemical, Biological, Radiological and Nuclear Defence (CBRN),
9. Common *mise en condition* of artillery and mortars,
10. Medical cooperation: exchange of expertise and information as regards the training of medical officers,
11. Unmanned Aircraft Systems (UAS).

## **6. Cooperation with NATO**

The relative lack of investment and the adverse effects of budget cut-backs on the ground which afflict the EU in the area of defence policy, is also true to some extent of NATO. This was openly stated by the former US Ambassador to NATO, when he said in June 2013, that *“recent trends in defence spending threaten NATO's ability to face a dangerous and unpredictable future. Most European allies are hollowing out their militaries, jettisoning capabilities and failing to spend their existing budgets wisely”*.

EU-NATO relations are already an important feature of the institutional structure of CSDP. This partnership is important for both organisations as the EU does not have the range of planning capabilities (such as a permanent HQ) that NATO has, and, conversely, NATO does not have the civilian expertise which

adds value in many missions, following the general adoption of a comprehensive approach in military operations.

It is often claimed in political debate that the EU and NATO duplicate matter. The EU Military Staff do not believe this is true either in operations or in capability development. As a result, there are regions where the EU is militarily involved and NATO not, such as Somalia on land, Democratic Republic of Congo and Mali. Similarly, when the EU facilitates Member States in the creation of pooled or shared military capabilities, these remain in principle the property of these Member States, so they can use them not only for the EU but also for their NATO commitments, or even other organisations. Thus, the development of EU military capability always directly strengthens NATO.<sup>38</sup>

The 'Berlin Plus' arrangements, adopted in 2003, are at the core of this partnership, and cover EU access to NATO planning, NATO European command options and use of NATO assets and capabilities. Operations carried out in this framework include Operation EUFOR Concordia in the former Yugoslav Republic of Macedonia, and EUFOR Althea in Bosnia and Herzegovina.<sup>39</sup>

Besides operations aspects, there are institutional aspects to EU-NATO cooperation. On the one hand, a special EU cell has been created within the Supreme Headquarters Allied Powers Europe (SHAPE) to better prepare EU operations relying on NATO common assets and capabilities. On the other, NATO is regularly invited to informal EU defence ministerial meetings.

An EU-NATO capability group, composed of NATO allies and non-NATO EU Member States which have a security agreement with NATO, was set up in Brussels in May 2003 with the task of regularly exchanging information on requirements common to both organisations, if both organisations so wish and if appropriate.

The Pooling and Sharing and Smart Defence initiatives have shown the worth of EU-NATO cooperation in ways that are being developed to avoid expensive duplication of efforts in the future.

One of the main remaining issues is the question of information-sharing between the EU and NATO. Three EU Member States currently do not participate as full members of NATO (Ireland, Cyprus and Austria). In addition, as the Cyprus

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<sup>38</sup> Lt Gen Ton van Osch, Director General of EU Military Staff on *Impetus*, issue 15, Spring/Summer 2013.

<sup>39</sup> Missiroli, A. (2013) EUISS YES Yearbook, pp. 280-281.

territorial dispute is not yet resolved, Cyprus has no security agreement with NATO, where Turkey is a member.

As a result there is no agreement on the sharing of information although a specific agreement on the security of information has been signed within the Berlin Plus agreements. In addition, the European Council in Copenhagen stated that Berlin Plus arrangements could no longer be used by EU Member States which are neither a member of both organisations or participant in the NATO Partnership for Peace programme.

Consequently, the Berlin Plus agreements have become more akin to a set of bilateral security agreements and at the same time the EU is less willing to act, or to improve cooperation, without the full participation of its Member States.

New thinking is needed to bring back the dynamism to the EU - NATO relationship in a mutually beneficial way. Both organisations have twenty-two members in common. One way could be to lower the barriers to participation. A focal point on the EU side, who could be an interlocutor for the Secretary General of NATO, would be another way of driving matters forward.

Declining defence budgets, the overlapping memberships and security interests and the all too present threats on the periphery of Europe appear destined to push the two institutions closer together, while both need to become more self-reliant and less dependent on the US. If NATO embarks on a larger training role, it will overlap with an area that the CSDP has long been dealing with and where CSDP is also expanding. If the EU, in the run up to the December 2013 European Council on Defence, wants to acquire more high-end multinational capabilities, such as RPAS or advanced sensor and intrusion mechanisms for cyber defence, it will inevitably overlap with much of the work being done in NATO. As both organisations seek to make better use of experimental formations such as EU Battlegroups or the NATO Response Force, they will both have an interest in devising common forms of certification or joint training and exercises to make optimum use of scarce funds.<sup>40</sup>

The European Parliament resolution on “EU’s military structures: state of play and future prospects”<sup>41</sup> stresses the need to avoid duplications and potential overlaps with NATO, notably through interaction between the EDA and the NATO’s Allied Command Transformation. It also calls for “much closer and more regular collaboration at a political level between the VP/HR and the

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<sup>40</sup> Shea, J. *NATO post 2014: Preserving the Essentials*, in “The State of Defence in Europe: State of Emergency?”. Egmont Paper 62, November 2013.

<sup>41</sup> P7\_TA-PROV(2013)0381, 2012/2319(INI)).



Secretary-General of NATO for the purposes of risk assessment, resource management, policy planning and the execution of operations, both civilian and military". Furthermore, it stresses the importance of NATO standards for European defence cooperation and the need for capabilities developed within the EU to ensure full interoperability with NATO, and notes that the NATO response force and the EU Battlegroups are complementary and mutually reinforcing, though they "require similar efforts from the Member States"; hence the need to maximize synergies between them.

## **7. Cooperation with the UN<sup>42</sup>**

The possibilities of cooperation between the EU and the UN are worth exploring. With the Lisbon Treaty, the EU now has the opportunity to directly address the UN Security Council via its Head of delegation or via its High Representative. Although Lady Ashton has already used her capacity to address the UNSC, she purposely kept a low profile during her interventions. Yet, this innovation entails a lot of potential for the common foreign and security policy, notably the possibility for the EU to provide direction (set the EU's interests and priorities) whereas the Member States can provide the political backing and the means – soft or hard – to pursue the EU's interests.

Unfortunately, interests and priorities are not clearly identified, which leads to difficulties for European members of the UNSC to strictly abide by Article 34 of the Lisbon Treaty stating that "Member States which are members of the Security Council will, in the execution of their functions, defend the positions and the interests of the Union". The opposition over Libya between France and the UK on the one hand, and Germany on the other hand illustrates the current limits of Article 34.

UN Peacekeeping Operations are another framework where the EU and its strategic partners have the possibility to work constructively together. The sixteen European countries represented at the Berlin roundtable were contributing 5,492 uniformed personnel – around 6 per cent of total uniformed contributions to UN peace operations. European personnel are largely concentrated in UN operations in the Middle East; only 383 from this group are deployed to the six UN missions in sub-Saharan Africa (0.5 per cent of the total uniformed peacekeeping personnel in that region). European countries

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<sup>42</sup>Renard and Hooijmaaijers (2010), *Assessing the EU's Strategic Partnerships in the UN System*. Egmont Security Brief No. 24, May 2011, and *Enhancing European Military and Police Contributions to UN Peacekeeping*. International Peace Institute (IPI) and Pearson Centre, February 2013.

contribute relatively low numbers of police, but those contributors are spread across all UN operations.<sup>43</sup>

Yet the level of involvement within UN peacekeeping operations varies from one partner to another and barely reflects any form of strategic partnership. In terms of staff, for instance, India is the biggest contributor, whereas China and Brazil have significantly increased their contributions in the recent years but not yet to similar levels. European Member States contribute a big chunk as well, with over 7000 men and women. On the other hand, countries like Japan, Mexico, Russia or the US contribute little to the staffing of UN peacekeeping operations.

The EU's personnel contribution to UN-led peacekeeping operations has been steadily decreasing in the last years, although it has also launched its own missions (CSDP) under a UN mandate. Nonetheless, the EU remains a major contributor to UN peacekeeping operations in terms of troops.

Financial contributions to UN peacekeeping operations are a different story. Europe tops the chart, covering over 40% of the total budget, and the US almost 30%. Japan is another important financial contributor, although its contribution to the total budget in relative terms diminished by over 35% over the last six years. All the other partners are very small contributors, China covering for instance less than 4% of the total budget and India 0.1%. As the EU and all its partners recognise the legitimacy of the UN, it would be expected that a true strategic partnership would translate into greater cooperation and involvement in peacekeeping operations; yet practice shows otherwise.

The EU and its strategic partners share the burden of peacekeeping unequally. The establishment of strategic partnerships does not seem to have altered this reality. Nonetheless, peacekeeping is one area where more cooperation between the EU and its partners is not only desirable, but also possible. This calls for more coordination at the political level between the EU and its partners in order to decide where new missions could be launched, and more cooperation on the ground (not only deploying troops alongside each other but effectively cooperating together – within the UN framework or not). This calls also for a greater burden-sharing between the EU and its partners, who would significantly improve their international image as a result of a further cooperation in the field of peacekeeping.

UN peacekeeping continues to be only one element of European countries' crisis-management tools, albeit an important one. For Europeans, the UN remains the primary framework for maintaining international order based on international

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<sup>43</sup> [www.un.org/peacekeeping](http://www.un.org/peacekeeping)

human rights and the rule of law – despite the on-going polarization among the permanent members of the Security Council over questions such as Syria. Given the complexity of the conflicts on its periphery and the finite set of available resources, increased collaboration with regional organizations will be a critical element in Europe's attempts to address such challenges. On Syria, in particular, both the UN and the EU should work together now, it was said, to be ready to do their part when the civil war eventually ends.

The possibilities that interaction among the three players (EU, NATO and the UN) offers are still to be explored. The partnership EU-NATO would likely be aimed at performing a specialized function (such as rapid response or surge capacity) for a limited time horizon (six or twelve months in duration). In parallel, recent developments in the EU-UN relationship aim for closer collaboration between the two entities and include the establishment of a UN liaison office for peace and security in Brussels and the re-launch of the UN-EU Steering Committee on Crisis Management, which will be discussing issues like Mali, the Democratic Republic of the Congo, and Syria. The EU has also adopted a new plan of action to enhance its support to UN peacekeeping and is planning to develop a detailed list of civilian and military capabilities that the EU could provide to the UN. However, progress in implementing the plan of action has been slow so far.

## **8. Options for the future**

### ***Capacity building***

The European Parliament considers that it is urgent to step up the implementation of projects which are strategic enablers. In particular, support needs to be afforded for the EDA's flagship projects of Air-to-Air Refuelling, Satellite Communication, Remotely Piloted Aircraft Systems, Cyber Defence and the Single European Sky.<sup>44</sup>

### ***Future Funding of CSDP Operations***

A **Start-Up Fund**<sup>45</sup> is provided for in Article 41(3) TEU whereby a qualified majority in the Council may create a fund made up of Member States' contributions to the CDSP tasks, which are not or cannot be charged to the European budget. The start-up fund would be a welcome break with the

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<sup>44</sup> Committee on Foreign Affairs: Report on the implementation of the CSDP Rapporteur: Maria Eleni Koppa.

<sup>45</sup> *The start-up fund – an elegant Treaty mechanism for sustaining defence capabilities*, by Huxham and Rempling. Egmont Institute Security Policy Brief no. 48, June 2013.

principle of ‘costs lay where they fall’, currently a major delaying or blocking element in CSDP decision-making.<sup>46</sup>

The Treaty provides of the establishment of the start-up fund, but leaves the decisions concerning the practicalities (in particular the definition of what constitutes ‘preparatory activities’) to the normal EU decision-making process. The Treaty makes a clear distinction between the ‘preparatory activities’ (to which the fund and thus qualified majority voting apply) and all other defence-related decisions, which remain subject to unanimity, notably concerning decisions about operations (‘missions’ in the language of the Treaty), and tasks, as set out in Article 43 of the TEU.

*The Start-up fund is an unused potential of the Lisbon Treaty (Article 41(3)) for the rapid deployment of troops. Qualified majority decision-making in the preparatory stages can remove blockages and enable a reactive capacity, while no individual Member State will be able to wield a veto, as would be the case within NATO. At the same time, actual defence operations will remain sovereignty-sensitive and respect existing arrangements*

Broadly speaking, when it comes to the implementation of the fund, ministers will have to choose between three basic options: to spend more on defence overall in the light of the EU/NATO enhanced role in transatlantic security in recent years, to spend less but maintain existing output through enhanced efficiency, not least through the collaboration that the start-up fund entails, or enhance outputs while remaining budgetarily neutral, as a result of the efficiencies gained through the start-up fund.

The starting point for defining what the start-up fund could do is within the remit of the EDA provided in Article 42(3), i.e. ‘the defence capability development, research, acquisition and armaments’ agency , responsible for measures ‘to strengthen the industrial and technological base of the defence sector’.

In addition to actual operations, and making CSDP operational, the Start-Up Fund could be a potent tool for capacity development, remedying the weaknesses of this cluster. There are a number of objectives of a ‘pooling and sharing’ character which could be addressed as ‘preparatory activities’, including science, technology and innovation, encouraging dual-use R &D, common asset

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<sup>46</sup> Committee on Foreign Affairs: Report on the implementation of the CSDP Rapporteur: Maria Eleni Koppa.

acquisition and management, improving the Knowledge base, preparing for action on climate, environment or energy security

Beyond these, the start-up fund could be an invaluable instrument to achieve fundamental EU military objectives, including reducing Europe's dependence on imported technology, providing improved infrastructure for necessary operations.

### *Future development of the EDA*

An important component of enabling capacity in European defence is to empower the European Defence Agency, particularly as regards its mission to enhance interoperability, and pooling and sharing relationships between the armed forces of the Member States.

The missions and tasks of EDA are provided for in Articles 42(3) and 45 TEU, in particular its essential role in developing and implementing an EU capabilities and armaments policy and harmonising operational needs. Other tasks of EDA include the proposition of multilateral projects, the coordination of Member States' programmes and the strengthening of the European Defence Technological and Industrial Base.

The track record of EDA has shown its potential. The Agency has carried out successful projects such as the Helicopter Training Programme and launching of tactical air transport exercises with a view to establishing a permanent European airlift tactics training course. More pooled and shared training in the areas of cyber defence, countering improvised explosive devices and naval operations are envisaged.

The European Parliament has called for the EDA to be enabled to fulfil its mission<sup>47</sup>, for it to be financed from the EU Budget, and for the Vice-president / High Representative to make appropriate proposals to this end<sup>48</sup>. Indeed the **budget of the EDA** is a good example of what European added value can bring to the defence sector: a fully operational EDA would cost around € 40 million per year, or around €280 million in total between now and 2020. Compared to the combined budgets of the Member States in the same period, this modest contribution would pay for itself in terms of efficiency gains arising out of more effective coordination and generation of economies of scale which ultimately

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<sup>47</sup> Committee on Foreign Affairs: Report on the implementation of the CSDP Rapporteur: Maria Eleni Koppa.

<sup>48</sup> Resolution of 12 September 2013 on EU's military structures: state of play and future prospects (P7\_TA-PROV(2013)0381).

could allow Member States to reduce budgets without compromising their defence.

In Parliament's view, the European Defence Agency (EDA) could be institutionalised in the way set out in Article 45.2 TEU<sup>49</sup>. The Council can take the decision by qualified majority, deciding on its statute, seat and operational rules. From Parliament's point of view, the decision on the statute, which would define its role and budget, is of outmost importance. The EDA could, just like the EEAS, be financed by the EU budget, which would require the consent of the European Parliament.

The Parliament has also called for further progress in the implementation of the EDA's Capability Development Plan, urging that, in the context of its 2013 review, it be integrated into national defence planning. Member States should, according to the Parliament's requests, launch an institutionalised process for increased defence planning coordination both between themselves and within the EU Military Committee, based on EDA's advice.

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<sup>49</sup> Article 45.2 TEU: 'The European Defence Agency shall be open to all Member States wishing to be part of it. The Council, acting by a qualified majority, shall adopt a decision defining the Agency's statute, seat and operational rules. That decision should take account of the level of effective participation in the Agency's activities. Specific groups shall be set up within the Agency bringing together Member States engaged in joint projects. The Agency shall carry out its tasks in liaison with the Commission where necessary.'

### III. Strengthening Europe's defence industry

The third Cluster identified by the European Council<sup>50</sup> refers to strengthening Europe's defence industry and is the *economic* justification for greater integration. The industry could be galvanised and its prospects improved through the delivery of major, collaborative, multi-national capability projects.

Over and above its structural weaknesses and fragmentation, the European defence *market* is feeling the effects of the financial crisis which began in 2008. The fragmentation is clear on the demand side, with twenty-eight national markets and on the supply side, with multiple, non-competitive, providers of the same equipment. Making the industry fit for purpose<sup>51</sup> and improving the European Defence Technology Industrial Base (EDTIB) is the necessary underpinning for Defence policy, on which military capacity and the projection of military or hard power relies.

#### Box 5: The European Defence Industry - Facts and Figures

Europe has a world class defence industrial base supporting the majority of its current capability requirements. It is a major enabler for the Common Security and Defence Policy. Defence generates **750,000 direct and indirect jobs** across Europe, most of them highly qualified, and a turnover of €170 Billion.

In addition, at the EU level defence investment has a multiplier effect on GDP of **1.6**, spread across a range of activities and sectors such as equipment, scientific research and construction. It has a multiplier effect of **7.6 in skilled employment** (higher than in sectors such as health, transport and education), and an **R&D multiplier effect that is between 12 and 20 times higher than in those same sectors.**

Source: EDA

<sup>50</sup> European Council conclusions 13/14 December 2012:

**"Strengthen Europe's defence industry by**

- developing a more integrated, sustainable, innovative and competitive European defence technological and industrial base;
- developing greater synergies between civilian and military research and development; promoting a well-functioning defence market, in particular through the effective implementation of the directives on public procurement and on intra-EU transfers, open to SMEs and benefiting from their contributions."

<sup>51</sup> European Commission, *A New Deal for European Defence: towards a more competitive and efficient defence and security sector*, July 2013.

## 1. Industries and markets

The defence industry in Europe currently has a turnover of €96 billion, generates 400,000 direct and 960,000 indirect jobs across Europe, many of them highly qualified. Indeed, investment in defence is of overall benefit to the economy at large. In the UK, for example, every single euro invested is estimated to generate a return of €2.3. The economic case for defence making a significant contribution to the economy in terms of jobs, innovation and growth appears thus compelling.

According to a study commissioned by EDA, defence investment has a multiplier effect on GDP of 1.6, spread across a range of activities and sectors, such as equipment, scientific research, and construction. It has a multiplier effect of 7.6 in skilled employment (higher than in sectors such as health, transport, and education); and an R&D multiplier effect that is between 12-20 times higher than in sectors such as health, transport, and education. The global financial crisis also impacted adversely on the defence sector. E.g. between 2005 and 2010 European defence spending has declined by almost 10% in real terms.

Overall, the defence industrial production is concentrated in six European countries. The defence industry in these countries accounts for 87% of European defence production. These countries also host the 20 European defence companies which are highest ranked among the top 100 defence companies in the world.<sup>52</sup>

**Table 2: Aerospace and Defence Industries: Key characteristics (2011)**

<b>Turnover</b>	<b>€171.5 Billion</b>
Of which military / civil	54/46%
<b>Direct employment</b>	<b>733,757 people</b>
Of which aerospace	479,600
<b>R&amp;D expenditure</b>	<b>€16.3 Billion (13.8 aeronautics)</b>
<b>Exports extra EU (aeronautical only)</b>	<b>€38.6 Billion</b>

*Source: Aerospace and Defence Industries Association of Europe<sup>53</sup>*

The European aerospace and defence industries together achieved a turnover of €171.5 billion in 2011, an increase of more than 5 per cent in comparison with 2010 (€162.9 billion) mainly pushed by aeronautics. Civil aeronautics increased from €60 to 70 billion in one year. R&D for civil and military aeronautics reached the level of €13.8 billion, or 12.4 % of the revenues of the sector; defence R&D is assumed to amount to €0.5 billion. Defence (land and naval) and space turnover showed modest growth.

<sup>52</sup> European Commission, SWD(2013) 279 final.

<sup>53</sup> ASD Key facts and figures 2011



**Table 3: Sales in billion €, per sector**

Civil Aeronautics	Military Aeronautics	Land Defence	Naval Defence	Space
69.8	42.6	30.7	18.6	9.8

Source: ASD Key facts and figures, 2011

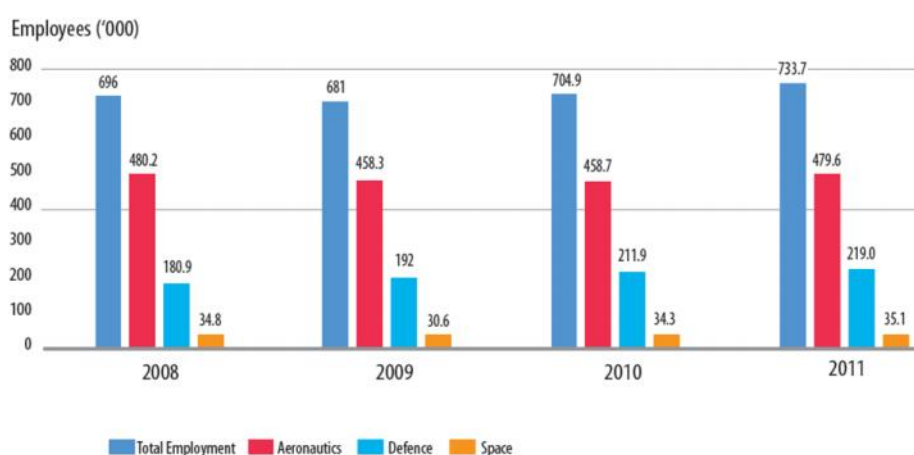
The European aerospace industry is the second largest in revenues after the US. Its revenues are nearly nine times larger than those of the third largest, Canada, as the table below shows.

**Table 4: Aerospace industry global overview - Major markets (2011)**

Country	Revenues (million €)
USA	160.4
<b>EU</b>	<b>122.2</b>
Canada	16.4
Russia	12.7
Japan	12.7
Brazil	5

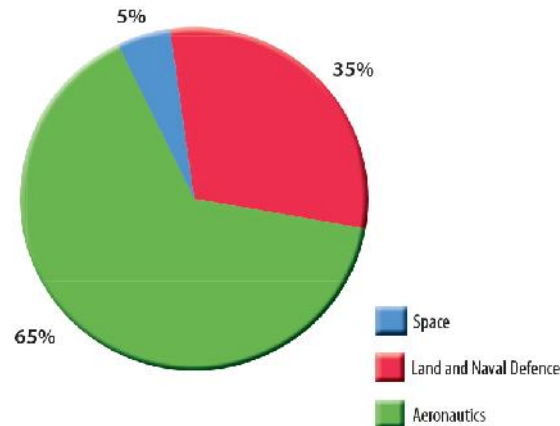
Source: Aerospace and Defence Industries Association of Europe<sup>54</sup>

As regards employment figures, the aerospace and defence industries employed around 650,000 people in 2007 and around 733,000 in 2011, which represents significant increase, as shown in the table below.

**Figure 19: Aerospace and defence employment figures**

Source: ASD Key facts and figures 2011

<sup>54</sup> Ibid..

**Figure 20: Employment breakdown by military sector**

*Source: ASD Key Facts and Figures 2011*

### **Production of defence equipment**

The concentration of EU production of defence equipment in six Member states<sup>55</sup> reflects their size, level of economic development, and a tendency to spend more on defence equipment, to import a smaller proportion of their requirements, and to export a higher proportion of their production.

To a significant extent, this observed concentration of defence supply in certain EU countries, and localities, has been shaped by political choices (how much to spend on defence, the extent that supply is organised by the state, the openness of defence procurement and the degree of preference that is accorded to domestic contractors, the insistence on offset arrangements). But the geography of defence equipment production appears also to be shaped by economic forces evident in other industries viz.: (a) the inverse relationship between country size and the propensity to trade; (b) international specialisation on the basis of knowledge and skills; and (c) the competitive significance of proximity, to customers and to other suppliers, that is expressed through the spontaneous formation of clusters.

However, as the EU defence market becomes more integrated, it can be expected that it will be shaped by the same forces that are driving globalisation. One of these forces is “vertical dis-integration” of the supply chain – an increasing geographical separation of successive stages of production. A possible outcome of this might be that, increasingly, defence equipment is researched, developed and designed in one Member State, assembled in another, with sub-assemblies being supplied from others. These arrangements could exploit differing

<sup>55</sup> Europe Economics (2009): Study on the Competitiveness of European Small and Medium sized Enterprises (SMEs) in the Defence Sector, p. 26.

availabilities of relevant skills, and international differences in their costs. There have already been developments in this direction. For example, a joint venture, Eurocopter Romania, was formed in 2000 between Eurocopter, a subsidiary of EADS (European Aeronautic Defence and Space Company), and the Romanian aerospace company, IAR Brasov.<sup>56</sup>

The defence industries and markets have been subject to particular attention in the European Parliament. In its report on the European Defence Technological and Industrial Base (Gahler report)<sup>57</sup>, Parliament considers that a European industrial defence policy should have the aim of optimising Member States' capabilities by coordinating the development, deployment and maintenance of a range of capabilities, installations, equipment and services with a view to performing the full range of tasks, including the most demanding missions, by strengthening Europe's defence industry, by promoting research and technology cooperation and by developing equipment cooperation programmes.<sup>58</sup>

The Parliament also addresses the specificity of the defence markets in the Gahler report, where it takes the view that the very specific nature of defence markets should be recognised in view of the export control and anti-proliferation obligations and the strict confidentiality requirements which apply, and the fact that the number of companies supplying the market is limited and demand comes almost exclusively from governments.<sup>59</sup>

In order to fully support the European Defence Technological and Industrial Base (EDTIB), the Gahler report calls for the recognition of the status of Economic Defence Operator in Europe (EDOEs) and for them to be the only economic defence operators benefitting from European programmes<sup>60</sup>.

## **2. Inefficiency of defence markets**

Three clear signs of the inefficiency of the defence markets can be identified. First, despite the efforts made by the European Commission and the European Defence Agency, Member States still tend to opt for their national markets, causing overlaps and duplication. Second, there are still hurdles to the transfer of defence goods and materials among Member States. Third, there is industrial offsetting.<sup>61</sup>

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<sup>56</sup> Ibid, p.28.

<sup>57</sup> A7-0358/2013, PE516.829v02-00

<sup>58</sup> Paragraph 18.

<sup>59</sup> Paragraph 22.

<sup>60</sup> Paragraph 26,.

<sup>61</sup> cf. Briani, V. et al 'Il costo della non-Europa della difesa'.

### *Acquisitions on national markets*

The EU defence equipment market remains highly fragmented on both the supply and the demand side. Countries with a significant defence industry generally prefer acquiring nationally-manufactured equipment: between 2006 and 2010 cooperative procurement never exceeded, on average, 26 per cent of the combined national procurement budgets.

Moreover, when cross-border cooperation has indeed occurred, it has frequently led to increased costs and overheads, technical problems, and even duplication of industrial facilities. As a result, the EU Defence industrial base remains fragmented and characterised by endemic overcapacity across the board, supply chain included.<sup>62</sup>

Perhaps the most important difference between acquisition of public goods and of defence goods by national administrations is its sensitivity: survival could theoretically depend on it. There is accordingly a justification for a certain level of secrecy and strategic reservations as regards the features and operation of the equipment acquired, which legitimately motivates Member States to rely on national suppliers and to exclude competition with suppliers from another Member State.

Article 346 TEU provides for this and allows member States to exempt defence and security contracts if the application of European law would undermine essential security interests. Article 346 (1)(a) allows EU countries to keep secret any information the disclosure of which they consider contrary to the essential interests of their security. Article 346 (1)(b) allows EU countries to take measures they consider necessary for the protection of their essential security interests in connection with the production of/ trade in arms, munitions and war materiel. Measures taken under Article 346 (1)(b) may not adversely affect competition on the common market for products not specifically intended for military purposes.

The mention of the “essential security interests” of Member States allows them not to open an international call for tender, thus not to disclose any potentially sensitive information and turning instead to a trusted company. Essential security interests cannot comprise economic interests and obliges member States to assess individual contracts to determine whether the conditions for exemption are met. Even as each Member State is responsible for defining and protecting their essential security interests, the Commission is responsible for ensuring that EU law is correctly applied, and may ask Member States to justify their

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<sup>62</sup> ISS, Issue Report n°16 - May 2013, *Enabling the future. European military capabilities 2013-2025: challenges and avenues*, p. 5.

exemption of a procurement contract or bring a matter before the Court if it considers that the exemption has been abused.<sup>63</sup>

Nonetheless, it is clear that Article 346 can provide a temptation for a Member States wishing to protect its own defence industry. On the one hand, it has enabled their defence industries to remain intact, and not be shared outside the national frontiers, keeping goods and know-how at home, as well as numerous highly specialised jobs. On the other hand, Article 346 has prevented the birth of a true Single Market in defence for about 50 years.

The latest figures show an increase in the openness of the European defence market and less reliance on the U.S. as a supplier<sup>64</sup>. The efforts of the European Commission in this regard will no doubt have played an important role on this.

### *Defence Procurement*

The Single Market has been arguably the greatest success of the European Union; the free movement of goods, services, people and capital has led to lower prices and a significant increase in trade. However, the European institutions have struggled to impose these basic economic freedoms on the EU defence industry, which remains highly fragmented along national lines – 73 per cent of defence equipment in the EU was procured within national boundaries in 2011, and 82 per cent in 2012<sup>65</sup>.

The defence market has always been separate from the rest of the internal market. It is distinctive because of its strategic importance and is characterised by specificities arising out of the necessity to ensure security of supply, and to retain autonomy and reactivity in its operations. This ‘separateness’ of the defence market has resulted in twenty-eight compartmentalized national markets with different rules, standards and administrations. The lack of a truly internal market in defence hinders competitiveness and militates against economies of scale. Ultimately it threatens the growth and even the survival of European defence industries, on which Europe’s own defence capacity relies.

Protectionism in the EU defence industry gave rise to concerns. Making defence equipment less affordable at a time of static defence budgets and when military

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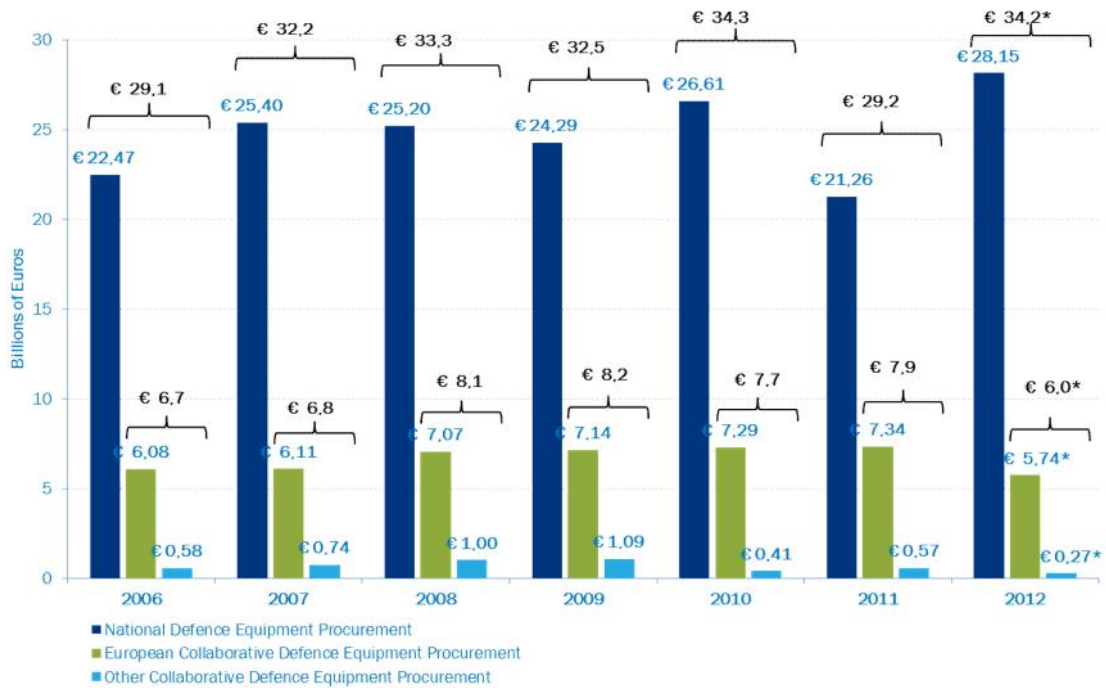
[http://ec.europa.eu/internal\\_market/publicprocurement/docs/defence/more\\_on\\_defence\\_procurement\\_en.pdf](http://ec.europa.eu/internal_market/publicprocurement/docs/defence/more_on_defence_procurement_en.pdf)

<sup>64</sup> For a more detailed analysis, Bialos, J., Fisher, C., and Koehl, S. *Fortresses and Icebergs: the Evolution of the Transatlantic Defence Market and the implications for U.S. National Security Policy*, Center for Transatlantic Relations, Johns Hopkins University, Washington D.C., 2009.

<sup>65</sup> Source: EDA.

intervention continues to play a large part in global politics is clearly not desirable. Only the application of free-market principles could result in less duplication, larger economies of scale, increased industrial competition and lower prices.

**Figure 21: National and Collaborative Defence Equipment Procurement in absolute or percentage values**

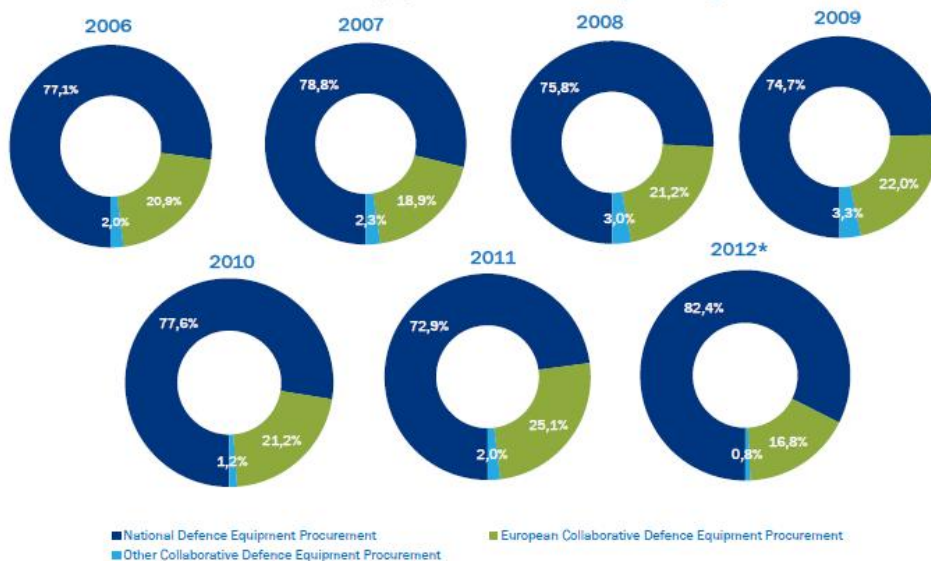


\* Partial: one participating MS not able to provide data.

Source: EDA

#### EUROPEAN COLLABORATION – Equipment Procurement

National and Collaborative Defence Equipment Procurement – percentage breakdown



In seeking to open up the defence - and particularly the procurement - markets, the European Defence Agency (EDA) proposed Codes of Conduct and best practices in the context of improving the European Defence Technology Industrial Base (EDTIB).

This inter-governmental approach has had only limited success and has been followed by a more concerted approach aimed at removing, as far as possible, the partitioning, and introducing market logic to the defence procurement market. This approach translated into the adoption of two landmark Directives:

**a) Directive 2009/81/EC on Defence and Security Procurement**

The EU Defence and Security Procurement Directive 2009/81/EC was adopted by the European Parliament and the Council in 2009 open up the EU defence industry to cross-border competition. The objective was to facilitate the development of a EU defence equipment market by creating a formal framework for cross-border defence procurement within the EU. The directive specifically tackled the sensitive issues around security of information and security of supply and has, after considerable delay, been transposed into national legislation by most Member States<sup>66</sup>.

Although timely transposition of the Directive proved challenging and was done two years late, most of the 23 Member States who have transposed the Directive have *prima facie* done so correctly. The European Commission considers it an encouraging sign that many Member States have also transposed non-compulsory subcontracting provisions. Because it is so important for the strengthening of the European Defence Technological and Industrial Base, the Commission intends to closely monitor the use of exclusions and derogations as well as the phasing out of offsets. A second report is expected on 21 August 2016, paying particular attention to the impact of the Directive on the openness of the Defence market and the strength of the European Defence Industrial Base. In the meantime, EDA will assess the impact of the Directive on defence cooperation, EDTIB and defence market early 2014.

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<sup>66</sup> Report from the Commission to the European Parliament and the Council on transposition of directive 2009/81/EC on Defence and Security Procurement (COM(2012) 565 final).

**Table 5: Values of contracts in million Euro under Directive 2009/81  
(up to March 2013)**

	Total amount	Amount awarded cross-border	Amount awarded nationally	% Cross border
<b>AT</b>	0.6	0.0	0.6	0
<b>BE</b>	0.4	0.0	0.4	0
<b>BG</b>	46.0	0.0	46.0	0
<b>CZ</b>	20.3	0.0	20.2	0
<b>DE</b>	308.6	0.6	308.0	0
<b>DK</b>	40.2	3.4	36.8	8
<b>FI</b>	37.6	16.6	21.0	44
<b>FR</b>	129.8	0.0	129.8	0
<b>HU</b>	58.9	0.0	58.9	0
<b>IT</b>	277.4	20.5	256.9	7
<b>LT</b>	1.4	0.0	1.4	0
<b>LV</b>	1.4	1.4	0.0	100
<b>NL</b>	1.6	0.0	1.6	0
<b>PL</b>	4.4	0.0	4.4	0
<b>RO</b>	1.7	0.0	1.7	0
<b>SE</b>	1.1	0.0	1.1	0
<b>SK</b>	6.4	3.5	2.9	55
<b>UK</b>	839.1	6.9	832.2	1
<b>Total</b>	<b>1776.8</b>	<b>53.0</b>	<b>1723.9</b>	<b>3</b>

Source: European Commission (SWD(2013) 279 final).

Member States of course retain the possibility of using Article 346 of the Lisbon Treaty, which states that ‘any Member State may take such measures as it considers necessary for the protection of the essential interests of its security’. This effectively exempts the defence industry from EU public procurement law, which stipulates that procurement over a certain value must be opened up to competition in the EU market, unless exclusion such as Article 346 applies. While the European Commission has clarified in an interpretive communication that Article 346 should be treated *as an exception* rather than the norm, nevertheless the reality is that it is difficult to define what constitutes ‘necessary for the protection of the essential interests of its security’.<sup>67</sup> However, in a more and more integrated defence landscape, consideration could be given to the development of the notion of “European essential security interests’, including for the use of the article 346.

Since September 2011, about 900 contracts have been awarded under Directive 2009/81 representing a total of €1.8 billion. Those contracts were published in TED, the official EU Public Procurement portal which covers all procurement announcements covered by EU legislation.<sup>68</sup>

<sup>67</sup> Edwards, J. (2011) The EU Defence and Security Procurement Directive: A Step Towards Affordability?

<sup>68</sup> <http://export.gov/europeanunion/defenseprocurement/>



**b) Directive 2009/43/EC simplifying terms and conditions for transfer of defence-related products within the EU**

The objective of the second defence procurement Directive, also adopted in 2009, was to simplify the rules and procedures applicable to the intra-EU transfer of defence-related products in order to ensure the proper functioning of the internal market. Up to then, there were blockages impeding the movement of products and distorting competition within the internal market, hampering innovation, industrial cooperation and the competitiveness of the defence industry in the European Union.

The scope of this Directive is the defence-related products set out in its Annex<sup>69</sup>, which are to be updated constantly under the terms of Article 13(1) of the Directive, so that the Annex strictly corresponds to the Common Military List of the European Union.

The Directive was intended to break down trade barriers for such defence-related products, stimulate common production projects, make EU defence companies more competitive and contribute to the consolidation of the internal market. The new rules were also intended to create opportunities for SMEs in the sector to enter into the supply chain in other Member States, strengthening the defence industrial and technological base. It was hoped that the efficiency of export controls in the EU would increase as Member States' control authorities would focus resources on the most sensitive transfers and therefore maintain high security levels. Finally, it was hoped that the Directive would reduce the risk of illicit transfers.

In the event, the transposition of the Directive has proved challenging<sup>70</sup>. Infringement procedures have had to be initiated against Member States who failed to transpose in time. A real difficulty resides in the updating of the Annex to the Directive, which, although it should be identical at all times to the Common Military List of the EU, can in practice be out of synch for at least seven months of the year.

In addition, the added complication of transposition practically guarantees that the Annex will never be identical to the Common Military List of the EU that applies at that moment, unless the Member States transposes the Common Military List of the EU without waiting for the amendment of the Annex. These discrepancies lead to legal and administrative uncertainties for national

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<sup>69</sup> Already amended twice, namely through Commission Directive 2010/80/EU of 22 November 2010 and Commission Directive 2012/10/EU of 22 March 2012.

<sup>70</sup> Report from the Commission to the European Parliament and the Council on transposition of Directive 2009/43/EC simplifying terms and conditions for transfer of defence-related products within the EU (COM(2012) 359 final).

authorities and defence-related undertakings within the EU and will need the renewed attention of the legislator.

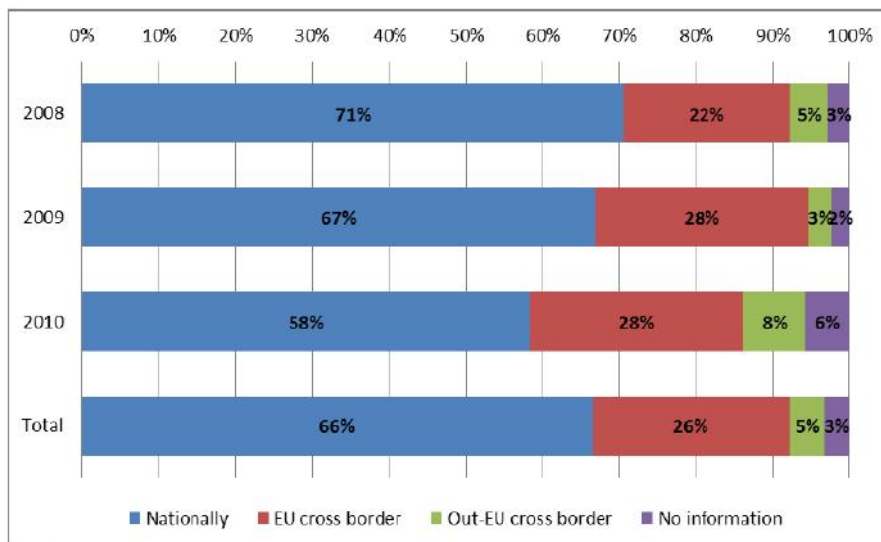
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Recent research done for the European Commission found that, **the share of total contract values awarded to operators in other Member States was 26%.**

Total cross-border contracts within the EU awarded on a competitive basis mostly concern **equipment** and amounted to a total of € 4.5 bn, equivalent to 1.7% of total EU defence procurement, equal to 4.3% of the € 104.4 bn spent by the EU on equipment between 2008 and 2010.

The total value of cross-border contracts – whether awarded on a competitive basis or not- of € 6.1 bn was equivalent to 5.9% of this EU expenditure.

**Figure 22: Contracts awarded nationally and cross-border**



*Note: Totals expressed at 2010 prices.*

*Source: TED figures are based on Europe Economics calculations from MAPP; the EBB figures are from publicly available data.*

Despite the lack of published data on the denominators that are needed to assess the openness of the defence market – such as, for example, total EU expenditure on each sub-category such as air systems, combat aircraft, transport aircraft, helicopters, training aircraft, missiles, etc., it is possible to assume through extrapolation that the EU markets for **land systems** may have been, on average, somewhat **more open** in recent years than those for air systems.

Although difficult to quantify, the impact of the new legislation can be seen in a gradual 'normalisation' of defence procurement. The Directive ended the long

debate on how defence markets should be organised and have marked a paradigm shift. In the short term, most member States have adapted their national legislation to outlaw offsets, avoiding their distortionary effects on markets. In the longer term, treating defence procurement as a market operation like any other will bring benefits and save costs.

### ***Offsets***

Many governments have traditionally required economic compensation from non-national suppliers for the purchase of defence equipment abroad. Such 'offsets' have taken different forms (from subcontracting of local companies to direct investments), but always aim at fostering the local industry of the purchasing State. Offsetting entails discrimination and distorts competition; and is thus against the principles of the Treaty.

The European Defence Agency (EDA) estimated that offset agreements reached a value of € 4 to 6 billion in 2006. More recently, offsets have been valued at €5.1 bn in 2010. It is believed that about 75 per cent of these offset agreements have a value similar to or higher than the value of the main contract.<sup>71</sup> In order to prevent this, in 2008 the EDA published a code of conduct, applicable to offsets claimed in relation with Article 346. The Code is aimed at mitigating the negative effects of offsetting and at increasing transparency. Signatory Member States committed to not asking for offsetting for more than 100 per cent of the value of the contract, and to act so as to guarantee that any compensation would effectively contribute to the growth of the industrial and technological base.

The Franco-German letter of 25 July 2013 to the High Representative is one of many calls for the practice of off-sets to be abandoned. As stated above, this was also an objective of the Defence Procurement Directive 2009/81/EC. According to its Transposition Report, before the Directive 18 Member states maintained offset policies requiring compensation from non-national suppliers when they procured defence equipment abroad for purchases above a certain value. The Commission was in close contact with those 18 Member States concerned in order to help them revise or abolish their offset rules. As a result, offsets are no longer required systematically but solely in exceptional cases where the conditions of Article 346 TFEU are met. In addition, the European Defence Agency and its participating Member States clarified that its Code of Conduct on Offsets may be applied only to offsets which are justified on the basis of that article.

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<sup>71</sup> Bitzinger, R. *The modern defence industry: political, economic and technological issues*, Praeger, October 2009, quoted by Briani, *op.cit.*

### *Barriers to the transfer of defence goods*

- **Standardisation**

Lessons learned from recent CSDP missions highlight the urgent requirement of standardisation and certification for the interoperability of the Armed Forces. The question is equally important for increasing the competitiveness of the European defence industry.

In its Communication, the European Commission states that most standards used in EU defence are civilian. Where specific defence standards are required they are developed nationally, hindering co-operation and increasing costs for the industry. Therefore, the use of common defence standards would greatly enhance co-operation and interoperability between European armies and improve the competitiveness of Europe's industry in emerging technologies.

This highlights the need for creating incentives for the Member States to develop European civil-military standards. Clearly, these should remain voluntary and there should be no duplication with the standards-related work of NATO and other relevant bodies. However, much more could be done to develop standards where gaps and common needs can be identified.

This concerns particularly industrial standards in emerging technologies, such as in Remotely Piloted Aircraft Systems (RPAS) and in established areas, such as camp protection, where markets are underdeveloped and there is a potential to enhance the industry's competitiveness.<sup>72</sup>

Common technical standards can lead to **economies of scale and improve the global competitiveness of European industry**. The Software Defined Radio (SDR) project is a good example of a common technical standard for protected telecommunications which will facilitate communications between blue light services, police and armed forces in the fight against natural disasters, crime or terrorist attacks. However, the success of this project could be jeopardised if different versions of its standard are elaborated. The European Commission and the EDA can play a significant role by pushing standardising initiatives further and set more European standards in defence and security fields. The EDA estimates that €500 million could be saved per year on ammunition alone.

- **Certification**

At this time, much unnecessary duplication is caused by the fact that new products have to be certified in every of the 27 Member States. This causes additional costs of up to twenty per cent of the respective products. A common

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<sup>72</sup> European Commission Communication COM (2913)542 final.

European certification procedure based on the mutual recognition of certificates and in the future on the development of common standards is needed.

Certification, as with standards, is a key enabler for industrial competitiveness and European defence co-operation. The lack of a pan-European system of certification of defence products acts as a major bottleneck delaying the placing of products on the market and adds substantially to costs throughout the life-cycle of the product. There is a need for better arrangements in the field of the certification so that certain tasks currently performed at national level should be carried out in common.

In particular, in military airworthiness, according to the EDA, this is adding 50% to the development time and 20% to the costs of development. Moreover, having a set of common and harmonised requirements reduces costs by enabling cross-national aircraft maintenance or training of maintenance personnel.

#### **Box 6: Certification of RPAS (Remotely Piloted Aircraft Systems)**

Remotely piloted aircraft systems (RPAS) are an excellent opportunity for the European industry, as well as a challenge for regulators. RPAS present interesting dual-use prospects and have key capabilities for surveillance and situation awareness. Certification is essential for the producers of RPAS components, most of which are SMEs in Europe. Apart from reducing costs, certification would increase interoperability, enable pooling and sharing and even be a 'seal of quality' for European exports.

The European Commission has currently seven different roadmaps for certification of RPAS components in cooperation with EDA and with EASA for civil-use components. The threshold of 150 kg of weight which currently determines whether Member States or EDA are competent will be revised, and a set of technical requirements is expected to be approved soon – in half the time than the US invests in a similar purpose.

Ammunition is another example. The lack of a common certification for ground launched ammunition is estimated to cost Europe €1.5 billion each year (out of a total of €7.5 billion spent on ammunition each year).<sup>73</sup>

The European Parliament considers that standardization and streamlining European certification procedures through mutual recognition and common civil and military procedures is of fundamental importance.<sup>74</sup> In the Gahler report,

<sup>73</sup> European Commission Communication COM (2913)542 final.

<sup>74</sup> Committee on Foreign Affairs: Report on the European defence Technological and Industrial Base (2013/2125 (INI)) Rapporteur: Michael Gahler.

Parliament recalls that there is a proliferation of competing industrial standards for civilian and military products, and it regrets the limited success of the implementation of NATO's standardization agreements (STANAG) and recommendations (STANREC). Parliament also requests the Commission and EDA to promote a coherent set of common standards in defence and to develop 'hybrid standards' in dual-use areas, and that Member States ensure that their future steps to set defence standards are based on the civilian suggestions made by the Commission and European standardisation organisations.<sup>75</sup>

Further to the political declaration on certification and airworthiness endorsed by Ministers of Defence in November 2013, the European Commission and EDA could intensify their cooperation to elaborate a proper certification system – with a primary focus on RPAS.

### ***Duplication in development, production and purchasing***

Until recently, EU Member States relied almost exclusively on their national industries to cover military needs in equipment and weaponry. If their national industry was not capable of meeting these needs, preference was given to U.S. industries. This national preference meant duplication in research and development for military purposes and in production chains, which eventually lead to interoperability problems.

When comparing EU military production projects with those of the U.S., considerable doubling-up and duplication in the use of European resources becomes evident. Already in 1995 the comparison showed that Member States were involved in the development of 71

*The relationship between European and American open production lines in all domains is 3 to 1*

different kinds of military equipment (from vessels to helicopters), against 23 products which covered the same needs in the U.S. The updated 2012 figures show an improved 36 platforms for European states, but still three times as many as the 11 in the United States.<sup>76</sup> In practical terms this meant that every major American project had three times the funding of a comparable European project, or, in other words, European projects could have three times more funding if they were handled at continental level.<sup>77</sup>

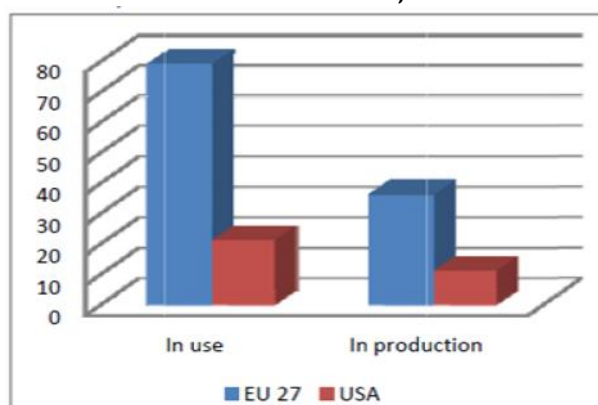
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<sup>75</sup> Committee on Foreign Affairs: Report on the European defence Technological and Industrial Base (2013/2125 (INI)), paragraph 33.

<sup>76</sup> Istituto Affari Internazionali *I costi della Non-Europa della Difesa* Valerio Briani, April 2013.

<sup>77</sup> In 1995, Pierre de Vestel published the first analysis of the cost of duplications in military production in Europe.

**Figure 23: Platforms and systems in use and in production in the EU and USA, 2012**



Source: IISS's "The Military Balance", plus national and industry sources. Extracted from Briani, V. *Armaments duplication in Europe: a qualitative assessment*. CEPS Policy Brief No. 297, 16 July 2013

The question is whether it is good business sense for the EU to have 16 major military ship-yards when the United States has two, or whether Europe really needs 26 separate helicopter training programmes, to take two disparate examples.

Extrapolating from the number of overlaps and duplications to their effective cost is a difficult exercise. Taking the aeronautical sector as an example may give us an order of magnitude to work with. If we examine the cost of R&D costs relative to the numbers of units produced (see table below), we find that, although the Eurofighter and JSF costs are similar, the total costs for the three European jet fighter aircraft (Eurofighter, Gripen and Rafale) are €10.23 billion more than the costs for the single U.S. equivalent (JSF). Furthermore the return in terms of the number of units produced is far greater for the US product.

**Table 6: Cost of aeronautical military equipment**

Model	Research costs (in billion €)	Units produced
Eurofighter	19.48	707
Gripen	1.48	204
Rafale	8.61	294
JSF (primarily U.S.)	19.34	3003

Source: Briani et al, *op.cit.*, p. 16

The duplication obvious here extends to other fields: production chains are differentiated and incompatible, there is no economy of scale, interoperability remains difficult, training is different for each one of the models, and separate logistics are needed for different missions.

The three different production chains (one per product) will only produce 1205 units, about 1800 less than the single American chain, and those 1205 units will not be interoperable. The European Defence Agency is pushing for more interoperability in these and other sectors; for example, in infantry equipment and in the common use of communication satellites. However, interoperability at an earlier, pre-production stage is not yet a reality.

This is just one example. Similar data can be adduced for other platforms. Overall, what the data clearly show is that cooperation in Europe is still driven chiefly by economic necessity and not by political goals. Relatively cheap items such as personnel carriers are developed nationally throughout Europe; while expensive platforms such as fighter jets are developed mostly on a multinational basis. Indeed, there has been considerable political drive towards rationalising and consolidating defence demand, but the raw numbers tell us that this drive has not yet translated into a major factor.<sup>78</sup>

A consequence of duplication is the saturation of markets, as expenditure decreases. For example, in the naval sector, 16 different classes of frigates are deployed by European navies, but only 2 are still in production. This makes the situation economically unsustainable; less competitive or less supported shipyards might be forced to cease activity, causing the total loss of industrial capabilities in this sector.

Additionally, restructuring forced by inefficiencies and duplications can have a social cost. The social implications of restructuring and the loss of know-how need be countered by improved policy, more 'Europe' and exploiting synergies between existing strategies, policies and instruments. Effectively addressing the issue of duplication is an important prerequisite for securing and maintaining a viable industrial base.<sup>79</sup>

### **3. Improving defence markets**

#### ***Supporting SMEs***

The European defence industry plays an important role in fostering innovation and employment in Europe. Seminal innovations of the past decade like the RQ-1 *Predator* remote-controlled air- craft or the Joint Direct Attack Munition (JDAM) were produced by small companies. This is because, in the age of modularity,

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<sup>78</sup> Briani, V. *Armaments duplication in Europe: a qualitative assessment*. CEPS Policy Brief No. 297, 16 July 2013.

<sup>79</sup> Ibid.



small and medium-sized enterprises may have the right repository of technical skills to deliver high-quality and original products, while they are also interested in relatively small markets, which the prime contractors do not consider. By establishing or strengthening independent cells that fund innovation research from small and medium-sized enterprises, the EU and its member states could promote the development of innovative and cost-effective solutions. Since many countries have already established such cells, it is of utmost importance to share their best practices.

The development of value chains in the defence industry, the provision of more detailed information on programmes aimed at supporting SMEs, the promotion of regional networks and strategic clusters in line with a market-driven, competitive-based approach, as well as proposals including financial options on supporting SMEs in developing dual use technologies are all important needs for the future. . Further to the SMEs Action Plan adopted by National Armaments Directors, the European Defence Agency can facilitate this coordinating effort, in close cooperation with the relevant services of the European Commission, with a focus on greater access to business opportunities and to EU instruments, including H2020, COSME or European Structural Funds.

SMEs appear to be much more likely than non-SMEs to win contracts from their own national procurement authority than from those of other countries.<sup>80</sup> The best measure of SMEs' economic significance to these industries is their contribution to GDP.

**Table 7: Turnover (€m) by size of enterprise:  
Weapons and ammunition industry, 2006**

Member State	Industry Total	Enterprises with more than 250 employees	SMEs	SMEs' share (%)
Belgium	53	49	4	7
Germany	1,050	920	130	13
France	350	290	60	18
Italy	420	280	140	34
Portugal	120	100	10	12
Sweden	280	220	60	21
United Kingdom	1,750	1,540	210	12
<b>Weighted average</b>				<b>15</b>

*Notes: Data refer to NACE DK296 – Manufacture of weapons and ammunition.  
Source: Europe Economics (2009, op.cit) from Eurostat, Structural Business Statistics.*

<sup>80</sup> Europe Economics (2009), op.cit., p.27.

There are about 1,320 defence-related SMEs in the EU<sup>81</sup>. It appears that defence-related SMEs are not concentrated in the larger Member States in the way defence equipment production is i.e. while these six Member States host 87% of defence equipment production, only 52% of defence-related SMEs are located there.

The number of defence-related SMEs in any one country is positively correlated with the size of that country's investment in defence equipment, but the relationship is not a proportionate one: a Member State which invests ten per cent more than another on defence equipment tends to have six per cent more defence-related SMEs. A possible explanation for this is that the larger Member States tend to opt for more ambitious systems (aircraft carriers, aircraft), which give less scope for contributions from SMEs.<sup>82</sup>

The 1,320 defence-related SMEs in Europe are estimated to produce an average turnover of €9 million, of which 33 per cent, or about €3 million, is defence-related. On this basis, the defence sales of EU SMEs are estimated to be approximately €3.9 million.<sup>83</sup>

**Table 8: SMEs' estimated share of EU production of defence equipment, based on Trade Association membership**

Estimated number of SME members of aerospace and defence industry trade associations	1,320
Average sales per SME (€ m) <sup>1</sup>	9
Proportion of these sales that are defence-related <sup>1</sup>	33 %
Implied defence sales of defence-related SMEs (€ m)	3,910
Apparent EU defence production (€ m) <sup>2</sup>	36,000
EU SMEs' estimated share of EU defence production	11%
<sup>1</sup> Based on Europe Economics' survey	
<sup>2</sup> Estimated as expenditure plus exports less imports, see Table 2.4 for sources.	

*Source: Europe Economics (2009), op.cit.*

At the EU level, it is desirable that institutions such as the EDA and ASD, supported by the Commission, play a greater role in coordinating the activities of the national and sectoral trade associations to ensure the dissemination of best practice as well as to ensure that these channels are used more effectively to disperse information across the whole of the EU. The Commission and the EDA are important as providers of a coherent EU wide approach – in so far as this is possible – and drive forward EU wide initiatives, including the promotion of

<sup>81</sup> Ibid..

<sup>82</sup> Ibid, p. 33.

<sup>83</sup> Ibid, p. 42.

trade associations and the participation of national trade associations in interactions with institutions such as the EDA and ASD.<sup>84</sup>

At a national level, defence authorities could improve information dissemination regarding future capability requirements to SMEs, through the promotion of, and active engagement with, trade associations and through direct interaction with SMEs.

Member states might consider the merits of giving greater priority to helping defence-related SMEs to become exporters, as the Defence Procurement Directives begin to take effect<sup>85</sup>.

### *Collaborative industrial projects*

As the High Representative's contribution to the December European Council, and many others, point out, the development of major collaborative industrial project could be an important catalyst in generating the resource-efficiency Europe needs and in enhancing Europe's defence production and competitiveness.

The development of a European collaborative project to develop Remotely Piloted Aircraft Systems (a surveillance drone developed among Europeans) offers major potential in this respect, because there is a demand for a European product and as yet no supply. Indeed it could be considered, from a strategic viewpoint, as the minimum option. In this regard, the decision of Ministers of Defence in November 2013 to go for a European solution in the 2020-2025 timeframe is welcome, building on harmonised military requirements, technologies, certification and regulation is of utmost importance.

Such a project requires preparation and long-term planning and investment. The development of the Joint-strike fighter, the NH 90 Helicopter and the Eurofighter took 30 years. At the same time, a collaborative project on Remotely Piloted Aircraft Systems would undoubtedly energise companies. Industry would also need an adequate policy framework in order to make the investment.

As outlined above, significant potential gains would be available with European air defence, as there are currently too many jets.

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<sup>84</sup> Ibid, p. 107.

<sup>85</sup> There are several topics on which such enterprises, in particular, need advice; on national export control policies, the impact of customer countries' offset policies, and local business cultures. Such policies may not be appropriate for all Member States; to conduct them effectively requires a background and expertise in defence that takes some time acquire and there needs to be a volume of business in prospect to justify the additional resources required.

The Defence Procurement Directives contain an important exclusion in that cooperative programmes with an R&D phase conducted by at least two member states are excluded from the directive. This phase must be included to ensure that the product involves new technology and is not simply an off-the-shelf product that is being modified. Cooperative programmes can include the participation of non-EU states as long as at least two member states are involved. The aim is to increase the number of cooperative programmes in the EU in order to foster increased harmonization of military equipment. EU collaborative defence equipment procurement amounted to 22 per cent of total procurement in the EU in 2009; the EDA has stated that this should increase to 35 per cent. Increasing the number of cooperative programmes in the EU would increase the harmonization of military equipment but would have little effect on protectionism. *Juste retour* contracts would continue to be used as member states ensure that a proportion of investment in defence returns to the national manufacturing industry. However, most non-sensitive equipment programmes such as the manufacture of basic ammunition and maritime escort vessels do not have the size or complexity to warrant cooperation. Thus if the directive did open up procurement in this area it would help to reduce protectionism as member states buy the cheapest and best-quality equipment in the EU regardless of where it is manufactured.<sup>86</sup>

### ***Single European Sky***<sup>87</sup>

The Single European Sky (SES) legislation<sup>88</sup> which is expected to apply from 2014 onwards will affect military transport insofar as it will apply to the military when its aircraft fly under general air traffic (GAT) rules. This is in fact the case for the vast majority of transport or transit flights.

In the short term, the Single European Sky will pose a potential barrier for military transport. The costs of the necessary adaptation of military aircraft and infrastructure will need to be borne by the Member States. In late 2010, these SES-related costs for the military have been estimated at up to € 7 billion. After further fine-tuning, EDA has indicated that this cost may be around € 4 billion euro. Most of this amount would be required to upgrade 60 per cent of the military aircraft fleet (rotary and fixed wing) to SES standards<sup>89</sup>. The use of the

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<sup>86</sup> Edwards, J (2001), op.cit.

<sup>87</sup> Karock, U. (2012) *The Single European Sky Air Traffic Management Research Programme and its implications for defence activities*.

<sup>88</sup> The main aims of the SES initiative are to improve the carrying capacity and the safety of the European airspace, reduce cost and flight delays. The SES performance objectives aim at tripling capacity, reducing air traffic management costs by half, improving safety by a factor of 10 and reducing the environmental impact of each flight by 10 per cent.

<sup>89</sup> [http://www.eurocontrol.int/mil/public/standard\\_page/sesar\\_civ\\_mil\\_CBA.html](http://www.eurocontrol.int/mil/public/standard_page/sesar_civ_mil_CBA.html)

remaining 40 per cent of the non-compliant aircraft will either lead to airspace restriction, or such aircraft could be retired implying the loss of military capability.

As regards cooperation on the military side, Member States published, in March 2004, statements on military issues related to the SES in the Official Journal<sup>91</sup> indicating that cooperation between Member States' armed forces will take place *'if and to the extent deemed necessary by all Member States'*.

For the deployment of SESAR, the Single European Sky's technological pillar<sup>92</sup>, the Commission envisages a top-level governance structure under the Commission's auspices<sup>93</sup> which would interface with third countries, standardisation bodies and relevant, non-EU, regulatory authorities. There would also be a *"body entrusted to ensure the coordination of the military implementation projects"* referring to the tasks of the European Defence Agency under the article 45 (1) TEU.

The further deployment of SESAR is the key to the successful implementation of the Single European Sky. The synchronisation between the civilian and the military deployment of projects within the SES framework is required to achieve the SES performance objectives. In particular the synchronisation of the funding on the military side will be a challenge given the pressure on the defence budgets and other long term commitments.

The Single European Sky for military purposes does pose a difficulty, as yet unresolved, of how to manage air traffic by unmanned aircraft systems.<sup>94</sup> This will require the creation of a regulatory framework at the EU level as well as developing technologies and harmonised standards.

A further, broader, difficulty is the lack of a capability for airlifts and heavy transport. In an era when ease of deployment and mobility in the theatre of operations are paramount, the reliance on American, Russian or Ukrainian capabilities can be problematic. In addition, United States Tanker aircraft will no longer be available to European forces, a capability which Europe does not possess.

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<sup>90</sup> [http://ec.europa.eu/transport/air/sesar/doc/2011\\_12\\_22\\_comm\\_com\\_2011\\_0923\\_f\\_en.pdf](http://ec.europa.eu/transport/air/sesar/doc/2011_12_22_comm_com_2011_0923_f_en.pdf)

<sup>91</sup> <http://lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:096:0009:0009:EN:PDF>

<sup>92</sup> European Commission Communication of 22 December 2011.

<sup>93</sup> involving the Single Sky Committee and the Industry Consultation Body, the Performance Review Body, Eurocontrol, the European Aviation Safety Agency, the Consultative expert group on social dimension of the SES, and the European Defence Agency.

<sup>94</sup> <http://www.eda.europa.eu/migrate-pages/Otheractivities/UAStrafficinsection>

## **Research**

Resources devoted to research and development for defence purposes, remain limited and are shrinking. Between 2006 and 2012 the share of national military defence budgets allocated to R&D decreased from five to two and a half per cent. Of that, the cooperative component was historically modest and declined from 26 to 19 per cent over the same period.<sup>95</sup>

In fact, the EU and its Member States individually are extremely dependent on foreign defence technology. Opening the Horizon 2020<sup>96</sup> Programme to defence research or to dual-use technologies (technologies with both a civil and a defence use) would foster European defence technologies and their integration, perhaps more than any other measure.

The potential of civil-military synergies – the greatest of which lies in publicly funded civil and military research, particularly for so called “key enabling technologies” – is not yet fully realised.

The EDA and the Commission could be tasked with working on solutions with industry and research institutions which would result in a European framework for allowing and improving the mutual use of civilian and military research results for dual use applications. EU financial resources could then be mobilised to contribute to dual-use technologies.<sup>97</sup>

The technologies that may affect warfare over the next period do not derive from military research: emerging technologies associated with automation (robotics); communications; additive manufacturing (3D-printing); new materials; direct-energy weapons; and alternative technologies (green sources), are among the most notable examples. Yet the military can work – as it has in the past – as an excellent incubator. Although armed forces did not invent the combustion engine, the aeroplane or radio, they were instrumental in improving such devices or extending their use in other sectors.

The member states and their armed forces thus have a vested interest in ensuring a competitive military-industrial base, able to pioneer new technologies, and supporting the EU in its endeavour to invest more and better – through the EU

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<sup>95</sup> ISS, Issue Report n°16 - May 2013, *Enabling the future. European military capabilities 2013-2025: challenges and avenues*, p. 5.

<sup>96</sup> [http://ec.europa.eu/research/horizon2020/index\\_en.cfm?pg=h2020](http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=h2020)

<sup>97</sup> Committee on Foreign Affairs: Report on the implementation of the CSDP Rapporteur: Maria Eleni Koppa.

research budget proper as well as innovative financing schemes (which may include the European Investment Bank).<sup>98</sup>

A further argument in favour can be found in Article 179(1) TFEU<sup>99</sup> on Title XIX (on research and technological development and space) which describes the strengthening of its scientific and technological bases as one of the objectives of the Union. This must be achieved through a European research area and, among others, 'while promoting all the research activities deemed necessary by virtue of other Chapters of the Treaties'. These other chapters the article refers to cover crime, health policy, agriculture, fisheries, industrial policy and, in the TEU, also to **research in defence**, which is a self-standing capacity attributed to EDA, not to the European Commission, in Article 42(3)<sup>100</sup> and 45(1)d<sup>101</sup>. This confirms that the Treaties indeed foresee defence research as part of the European project, and give a solid legal base for military- and dual-use research to be included as part of the Horizon 2020 Framework.

The challenges that research means for the European defence have been addressed by the European Parliament in the Gahler report, where it highlights the importance of synergies between civilian and military research in areas with high added value and stresses that, while taking into account that certain projects have mainly civilian uses and others are sovereign matters, the possibility of more effective dual use might be explored with a view to pooling costs, since these are sectors which create growth and jobs.<sup>102</sup>

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<sup>98</sup> EUISS Defence Capabilities 2012-2025.

<sup>99</sup> Article 179(1) TFEU: '1. The Union shall have the objective of strengthening its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely, and encouraging it to become more competitive, including in its industry, while promoting all the research activities deemed necessary by virtue of other Chapters of the Treaties.'

<sup>100</sup> Article 42(3) paragraph 2: 'Member States shall undertake progressively to improve their military capabilities. The Agency in the field of defence capabilities development, research, acquisition and armaments (hereinafter referred to as 'the European Defence Agency') shall identify operational requirements, shall promote measures to satisfy those requirements, shall contribute to identifying and, where appropriate, implementing any measure needed to strengthen the industrial and technological base of the defence sector, shall participate in defining a European capabilities and armaments policy, and shall assist the Council in evaluating the improvement of military capabilities.'

<sup>101</sup> Article 45 TEU: '1. The European Defence Agency referred to in Article 42(3), subject to the authority of the Council, shall have as its task to: (d) support defence technology research, and coordinate and plan joint research activities and the study of technical solutions meeting future operational needs'

<sup>102</sup> Paragraph 53.

## Peace activities and conflict resolution

The European Union aspires to be a force for peace and conflict prevention and resolution in the wider world. It is a strategic actor with values and interests to protect and to project. These values include the promotion of a stable and peaceful environment in its neighbourhood and in strengthening the rule of law internationally.

For this reason, conflict prevention and mediation activities should be an important part of the EU's repertoire of strategic instruments. The ability of the European External Action Service to manage conflict prevention and mediation is however strictly limited, and from the perspective of Europe's interest and ambitions this situation is not satisfactory.

The European Parliament has accordingly promoted the idea of an independent body with a focus on non-traditional diplomacy tools such as peace mediation and conflict resolution viz. a European Institute for Peace<sup>103</sup>, in order to become more active and experienced in peace mediation. The aim of an EIP would be to give European interests better access to non-governmental conflict mediation, negotiation and resolution capacity, in ways not accessible through the standard government-to-government diplomatic channels<sup>104</sup>. Its credibility would be based on a profile of having an excellent team for independent conflict mediation and negotiation, with access to key EU policy makers.

Despite the fact that gaps in the current arrangements were identified<sup>105</sup> the option of creating a new EU legal body has so far not been chosen due to the ongoing financial recession and the characteristics of the functions an EIP would have to perform.

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<sup>103</sup> The original proposal was promoted by former Finnish President Martti Ahtisaari, and in 2009, Carl Bildt, Foreign Minister of Sweden, referred to the US Institute for Peace as a promising partner for exchanging expertise, approaches and practices in classic and modern diplomacy. In the autumn of 2010, Carl Bildt and the then Foreign Minister of Finland, Alexander Stubb, jointly proposed the EIP as an initiative to strengthen EU peacekeeping capacities.

<sup>104</sup> The European Parliament adopted the following: *"considers the proposal for an autonomous or semi-autonomous European Institute of Peace with close links to the EU, and which could contribute to the strengthening conflict prevention and mediation capacities in Europe, a very promising idea; calls for such an institute to be based on a clearly defined mandate which avoids duplication of existing governmental and intergovernmental organizations and which focuses on informal mediation diplomacy and knowledge transfer among and between EU and independent mediation actors;"*.

<sup>105</sup> European Commission "SACO" report. *European Institute of Peace: costs, benefits and options*. Final report, 15 October 2012, Brussels report was commissioned by the EEAS found that there are indeed gaps within the current arrangements concerning the "[...] engagement with proscribed actors, rapid expert deployment for mediation support, targeted thematic process expertise provided at short notice in support of EEAS staff, learning lessons from some mediation engagements, and convening and advocacy at a high-level forum".



The European Parliament is nonetheless convinced of the potential utility of such an instrument and the possibilities of mediation when strategic interests of Europe are at stake. An example of the potential of such a support mechanism for mediation of the type proposed is the European Parliament Monitoring Mission to Ukraine of Mr Pat COX, former President of the European Parliament and Mr Aleksander KWASŃIEWSKI, former President of the Republic of Poland.

By maintaining complete independence and impartiality, the mission successfully operated as a privileged channel of communication outside of the normal diplomatic channels and succeeded in generating significant progress. The failure of Ukraine to capitalise on this momentum, for reasons external to the mission, does not take away from the success of the mission as a mediation tool.

The European Parliament's Koppa report notes, more generally, the important role of mediation and dialogue in preventing and resolving conflicts peacefully and expresses the belief that Parliament's successful involvement in mediation processes has demonstrated the important role parliamentarians can play in supporting mediation and dialogue processes.

In addition therefore to the largely civilian nature of CSDP missions to date, there is scope to increase the panoply of tools available to the European Union to intervene as a force for reconciliation and strengthening the rule of law.

## Unleashing the potential of the Lisbon Treaty

Article 42(2) TEU states that '[t]he common security and defence policy shall include the progressive framing of a common Union defence policy', which will lead to a 'common defence when the European Council, acting unanimously, so decides', always in full respect of the obligations towards the NATO.

Article 42 TEU provides that the CSDP is an integral part of the common foreign and security policy, providing the Union with an '*operational capacity drawing on civilian and military assets*'. These assets may be used by the Union on peace-keeping missions, conflict prevention and strengthening international security in accordance with the principles in the UN Charter. The same article provides that 'the performance of these tasks shall be undertaken using capabilities provided by the Member States' (Article 42 paragraph 1 TEU).

The '*progressive framing*' of a common Union defence policy is also envisaged by the Treaty. The ultimate goal is to create a European defence '*when the European Council, acting unanimously, so decides*<sup>106</sup>'. The European Council has the exclusive competence to decide by unanimity when Union defence policy turns into the 'common defence'. In the meantime, the European Parliament can progressively influence the process through its role in the budget negotiations and the research programme, as well as exercising its power of recommendation under Article 36.<sup>107</sup>

Article 42 paragraph 3 TEU further provides that Member States shall make civilian and military capabilities available to the Union for the implementation of the CSDP, both at individual level and if they have established multinational forces among themselves. Similarly, the Treaty compels them to 'undertake progressively to improve their military capabilities' under the guidance of the European Defence Agency (EDA).

The Lisbon Treaty has introduced new elements in the CSDP. Particularly notable is the option of permanent structured cooperation (PESCO) in the development of military capabilities, the mutual defence clause (Article 42(7)) and the solidarity clause (Article 222), the institutionalisation of the Petersberg Missions (Article 43), the concrete definition of three different kinds of enhanced cooperation in defence (Article 20), or the start-up fund for urgent CDSP

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<sup>106</sup> Article 42 para 2 TEU.

<sup>107</sup> Article 36 TUE gives Parliament the right to 'make recommendations to the Council or the High Representative' on the Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP). Twice a year Parliament holds a debate on the issue; this debate could be used not only to assess the progress made on these policies, but also on the missing elements that could increase cooperation and added value.

missions based on Member State contributions to make founding more efficient and quicker (Article 41(3)).

However, **the decision-making procedures remain largely untouched and rigorously linked to the principle of unanimity (Article 42(4)).**

The changes experienced by the institutions, among which perhaps the most important is the institutionalisation of the High Representative, are strongly oriented towards the strengthening of the *comprehensive approach*, reinforcing coordination and coherence both at horizontal and vertical levels. In its Conclusions of December 2012, the European Council reiterated “that CSDP missions and operations are an essential element of the EU's comprehensive approach in crisis regions, such as the Western Balkans, the Horn of Africa, the Middle East, Sahel, Afghanistan and the South Caucasus and remains committed to increasing their operational effectiveness and efficiency.”

However, three years after its entry into force, expectations have not been met.<sup>108</sup> The European Union as an actor in defence lacks a clear identity and has not been able to defend its interests nor to intervene satisfactorily in crisis scenarios. Crisis management missions have drastically been reduced after the entry into force of the Lisbon Treaty, and the ones which have taken place have had a low profile.<sup>109</sup>

#### **Box 7: Institutional aspects: towards a Defence ‘Council’ formation**

The policy decision-making process in the area of European defence would be greatly facilitated by an ambassadorial structure supporting a Defence Council formation. The EDA has no direct Brussels-based interlocutors, as it deals with Member States. There is accordingly no institutional forum where cooperation issues can be comprehensively discussed on a regular basis.

The possibilities of a body at a level higher than a Council Working Group are worth exploring. The Military Committee does not currently make decisions on defence cooperation.

The European Parliament favours the possibility of **Permanent Structured Cooperation** (PESCO) based on Articles 42(6), 42(7), 46 and Protocol 10 of the Lisbon Treaty<sup>110</sup> is to be founded.

<sup>108</sup> Briani et al., *More Europe on Defence or No Europe*. IAI Document 1303, 2013

<sup>109</sup> Bonvicini and Faleg, *More Europe on Defence or No Europe*. IAI Document 1303, 2013

<sup>110</sup> Committee on Foreign Affairs: Report on the implementation of the CSDP Rapporteur Maria Eleni Koppa

PESCO is extremely flexible and presents few formal constraints. There is no minimum number of participant member States, there is no need for an initiative of the High Representative, nor for pre-emptive checks by the European Commission. Qualified majority applies, and if a Member State wants to leave PESCO spontaneously, it needs only to notify the Council.

However, four years after the entry into force of the Lisbon Treaty, this flexible instrument has not been used. The urgency attached to the current situation will hopefully lead to a reassessment. The European Parliament has taken a leading role in this regard, and in its Resolution of 12 September 2013 it invites the willing Member States to proceed with PESCO insofar as Member States are willing to assume their responsibilities within the international community and to make the Union better equipped for crisis management operations.

#### **Box 8: PESCO**

The European Parliament considers that PESCO should aim at enhancing operational effectiveness, and could, among others, be used for the following objectives:

- The establishment of a permanent EU Operational Headquarters,
- Common funding of rapid reaction operations using EU battlegroups,
- A commitment to contribute to the battlegroups roster, with aligned rules of engagement and streamlined decision-making procedures.

Similarly, the Parliament is of the opinion that an agreement on PESCO should at least include commitments to structured coordination of defence planning, common evaluation and review of capability building, and increasing funding for the EDA.

The Treaty clearly states that permanent structured cooperation is to be established within the Union framework. The vast majority of activities developed under it could therefore benefit from access to the EU budget under the same conditions as other EU activities, in line with Article 41 TFEU.

PESCO should also facilitate increased coherence between European collaborative initiatives, in the spirit of inclusiveness and flexibility, by strengthening the links between the various islands of cooperation that emerge within an enhanced CSDP framework.

## Assessing the cost of non-Europe

Almost a quarter of a century on from the publication of the 1988 Cecchini report<sup>111</sup>, the issue of the 'cost of non-Europe' has re-surfaced in times of economic uncertainty and budget austerity. The concept refers to the estimation of the economic cost of the absence, in terms of lost intra-Union trade and jobs not created, of a true single European market.

When analysing the origin of the costs of non-Europe in defence, two distinct but related sources appear to generate unnecessary costs<sup>112</sup>. Firstly, there are costs arising from the **lack of integration of the military structures of the Member States**. European armed forces work nearly exclusively as part of multinational or international armed contingents, but they are still managed and structured around purely national structures. Staff are almost exclusively trained and maintained by their Member State, just as weaponry and equipment and procured nationally. This 'go it alone' approach inevitably entails a multiplication of costs for the formation, maintenance and operation of military forces in Europe.

Secondly, costs rise also from the **lack of a truly integrated market**. The existence of twenty-eight different national markets with their own administrative burden and regulations hinders competition and results in a lack of economies of scale. This is all the more apparent in adverse economic circumstances and a time of economic crisis for the industry, which has a close reciprocal relation with the armed forces.

*Published estimates suggest that the cost of non-Europe in defence could be as much as €130 billion per year. This figure does not include costs that are impossible to monetise - strategic and political costs, for example - nor the possible future costs of inaction.*

The precise quantification of these economic and political/strategic costs in the area of defence is nevertheless a complex and difficult exercise. It is not proposed to calculate the cost of a possible European armed force because its role, formation and doctrine are merely hypothetical at this stage. The only European armed forces for the foreseeable are, as explained above, small national units that cooperate (for example, through a battlegroup) under the European flag for a limited period of time and on a strict case-by-case basis (for example, for the

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<sup>111</sup> <http://aei.pitt.edu/3813/1/3813.pdf>

<sup>112</sup> Briani, V.: *I costi della Non-Europea della Difesa*. Istituto Affari Internazionali e Centro Studi sul Federalismo, April 2013.

Petersberg-type operations). These forces are limited and cannot thus perform the tasks that national defence forces are intended to perform. Furthermore, the Treaty limits them to a set of tasks provided for in Article 42(1).

However, when trying to calculate how much the 28 national defence systems in the European Union cost, summing up the budget of the 28 defence ministers is too simplistic an approach and would not include, for example civilian defence or diplomacy costs. Furthermore, each Minister of Defence uses a different system of financial accounting.<sup>113</sup>

The calculations made to date are based on a comparison with the United States<sup>114</sup> and assume a level of efficiency equivalent to 10 or 15 per cent of the American one.<sup>115</sup> They further assume that a hypothetical single European Defence would have the same cost and budget-efficiency as the United States. By this approximation, and given that the current cost at EU28 level is roughly half that of the U.S. budget in defence of 382 billion dollars (2003), we could conclude that, if equally efficient, the EU could have achieved the then level of security with 38,2 billion dollars a year, whereas the budget for defence was €173 billion dollars. Therefore, ten years ago, the cost of non-Europe in defence was **134.8 billion dollars a year** (about €120 billion) in 2003.

**Table 9: Macroeconomic expenditure comparison EU-US (in €)**

	2010		2011		% change	
	EU	US	EU	US	EU	US
<b>Total</b>	€ 194 billion	€ 520 billion	€191 billion	€503 billion	-0.5 %	-3.3 %
<b>As % of GDP</b>	1.61 %	4.77 %	1.54 %	4.66 %	-4.4 %	-2.3 %
<b>As % of Total Government Expenditure</b>	3.20 %	11.23 %	3.14 %	11.18 %	-1.9 %	-0.4 %
<b>Per Capita</b>	€ 390	€ 1676	€ 383	€ 1610	-1.7 %	-3.9 %*

Source: EDA Defence Data 2011

If this reasoning is correct, let us assume that the ratio of efficiency of the European and American defence expenditure stays the same as in 2003 (the cost of inefficiency is between 10 and 15 per cent of the US) and fix it in 12.5 per cent (the US capacity being rated at 100%).

<sup>113</sup> Briani, *op.cit.*, p. 31.

<sup>114</sup> Unisys, "Intra-Community Transfers of Defence Products", final report of the study "Assessment of Community initiatives related to intra-community transfers of defence products", Brussels 2005.

<sup>115</sup> Briani, *op.cit.*, p. 32

*The cost of non-Europe of defence can be found by comparing the efficiency of the European and American defence spending. In 2011 (latest figures available), the potential gains amounted to €130 billion.*

To obtain 12.5 per cent of the US capacity, if the EU 28 Member States operated in the same conditions and environment as the United States, they would have to spend only €62.9 billion (2011). Nonetheless, altogether they have spent 193 billion. Thus the cost of non-Europe in defence in 2011 would be €130 billion.

This top-down figure should be treated with due circumspection. Currency fluctuations, inflation, differences in national definitions of defence expenditure and changing budget accounting procedures within states mean that any comparison or aggregation of defence economic data will show a considerable degree of distortion.<sup>116</sup> Besides, it does not take into account the economic benefits of the Defence Procurement Directives.

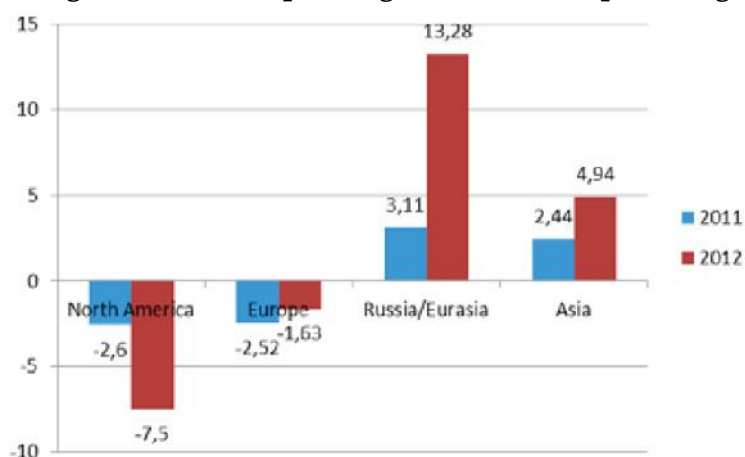
In addition, it is necessary to bear in mind that the US defence spending has its own shortcomings in efficiency which could be factored in. The U.S. Government Accountability Office made recommendations to the Department of Defence's (DOD) procurement practices, among others, during the last years. On their July 15, 2013 report on Strategic Sourcing, the GAO highlighted that a savings rate of 10% of total federal procurement spending would represent more than 50 Bn US dollars annually<sup>117</sup>. While strategic sourcing makes good sense and holds the potential to achieve significant savings, federal agencies have been slow to embrace it.

In a more recent report dated September 2013<sup>118</sup>, GAO signalled that the Department of Defence (DOD) must make cost-effective decisions in the use of its military, civilian and contractor workforces. It is also said that DOD "may not be using the most suitable needed to produce credible cost estimates". Bearing this in mind, it might be necessary to revise the 12.5 per cent of efficiency; the European defence might indeed be much more efficient than that in comparison with the US one in light of the GAO reports.

<sup>116</sup> Schmitt, Burkard, *Defense Expenditure report* (updated July 2004) – Institute for Security Studies of the EU (EUISS), cited by Unisys in op.cit., p. 96 (see note 76).

<sup>117</sup> GAO -13-765T and GAO Highlights from July 15, 2013 "Strategic Sourcing: Improved and Expanded Use Could Provide Significant Procurement Savings",

<sup>118</sup> GAO-13-792 and GAO Highlights from September 2013 "Human capital: opportunities exist to further improve DOD's Methodology for estimating the costs of its workforces".

**Figure 24: Regional defence spending fluctuation, in percentages, 2011-2012**

Source: Military Balance 2013 Data, ISS.

Fine-tuning the results, a study from 2005 (using data from 2003)<sup>119</sup> also found that most of the costs lay in the **duplication or multiplication of operational structures, stocks and research activities and programmes.**

An alternative approach to calculating the cost of non-Europe, which could be constructed bottom-up rather than top-top, and assuming a less dramatic difference in efficiencies between the military structures in the United States<sup>120</sup> and could be set out as follows:

Efficiency gains through cooperation	Amount in €/year (millions)
Industry efficiency	10,000
Certification of ammunition	500
Standardisation of ammunition	1,500
Offsets	6,610
Efficiency gains in land forces	6,500
Efficiency gains in infantry vehicles*	600
Efficiency gains in air-to-air refuelling*	240
Efficiency gains in Basic Logistic support*	30
Efficiency gains in Frigates*	390
<b>Total CoNE</b>	<b>26,370</b>

\*If in fully integrated model

Source: EDA et al.

<sup>119</sup> See note 76.

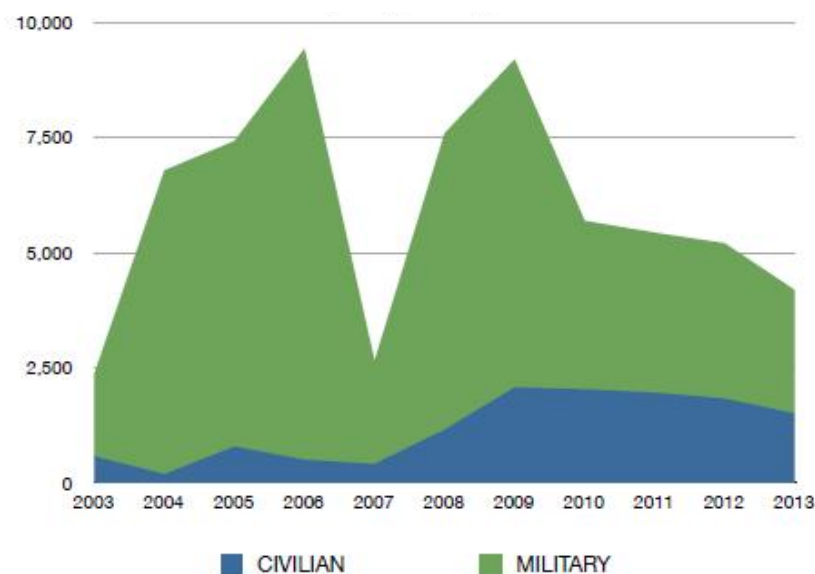
<sup>120</sup> GAO report



In addition to the purely economic costs, there is an **added value of CSDP operations** also from a non-economic point of view<sup>121</sup>. 'Value' can be defined as decisively contributing to bringing lasting peace and security in a crisis or post-conflict situation. Although the EU over time has deployed more civilian (20) than military (8) operations, in terms of size military missions have been much larger.

To put the level of EU staff engagements in perspective: in 2011, the UN deployed 120,000 peacekeepers and NATO almost 150,000 troops – more than 24 and 30 times, respectively, as many as the EU. EU member states provide important shares of NATO troops and carry a large portion of the costs of UN peacekeeping operations. Not unlike the EU, the UN is deploying more and more civilian (police) missions, with a growth of 80 per cent over the past few years (compared to a 13 per cent growth in UN military operations). In 2012, the UN deployed a total of 16 peacekeeping operations and one special political mission, compared to 15 by the EU.

**Figure 25: Total CSDP Seconded Civilian and Military Staff (2003-2013)**



Source: Hazelzet, EUISS (op.cit.)

However, while looking at **when the EU does not intervene, while others do**, it is found that the UN and NATO have typically intervened during conflict situations in non-permissive environments, and the EU has not, though it is also

<sup>121</sup> This part is drafted based on Hazelzet, H. (2013), *The added value of CSDP operations*. European Union Institute for Security Studies (EUISS), Brief Issue 31, September 2013.

one of its ambitions (according to the European Security Strategy, the Petersberg Tasks and the civilian and military Headline Goals).

An analysis of EU civilian and military interventions over the past ten years shows that the EU – despite relatively small and often short interventions – was often able to tip the scales in times of conflict. The EU mainly brought a decisive contribution in three types of situations: the EU was willing and capable to act (i) where other organisations were not; (ii) when there was a specific demand for it to intervene; and (iii) in low- to medium-intensity conflict environments. Geographically, the EU is also the only regional organisation that has deployed far beyond its own neighbourhood.

Third, EU interventions thus far – with possibly one exception (the first DRC operation in 2003) – have taken place only in pre- or post-conflict situations. That is not to say that no risks were involved (e.g. EUFOR Chad, EUNAVFOR Atalanta and EUTM Somalia) but, in comparison, NATO has intervened primarily in high-intensity conflicts, while UN operations also typically need ‘a peace to keep’ before deploying.

In cases where another actor was better placed or equipped to respond to a crisis and CSDP action was not taken, the EU sought to bring value by serving as a clearing house for member states’ contributions (e.g. Lebanon 2006, Haiti 2009) or contribute to UN peacekeeping or monitoring missions by other means – such as satellite imagery (Syria 2012). The EU has also helped build the capacity of other regional organisations (the AU, ECOWAS, Arab League of States).

The impact of CSDP is often difficult to measure, due to the many factors affecting unstable situations and the difficulty in identifying the concrete effects of CSDP action alone. This makes it all the more important to define benchmarks of effectiveness, as was the case with EUTM Somalia (control of Mogadishu), EUNAVFOR Atalanta (none of the vessels with escort or protection on board were to be hijacked), South Sudan (airport meets international standards). This would help identify whether and when EU goals have been met and a CSDP mission can be brought to a close.

The **added value of CSDP**<sup>122</sup> is also clearly recognisable, and benefits the EU, NATO, national governments, and taxpayers alike:

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<sup>122</sup> Biscop and Coelmont (2010), *Permanent Structured Cooperation in Defence: Building Effective European Armed Forces*. Bruges Political Research Papers, No 15, September 2010.

CSDP is not to punish or exclude, but to encourage all to do more; the best PSCD is that at 28. As indicated above, the defence budgets of many individual Member States are relatively modest in scale, but together they represent tens of billions of euros – a chance to get more of such sums without spending necessarily more should not be too easily ignored. CSDP should be an attractive forum for those able and willing to join when it is launched as well for those that might join later. Those opting out will not suffer direct political disadvantages – but they will miss out on the very real benefits that CSDP will bring.

The ideal features of a successful, attractive and encompassing CSDP are, among others, the fact of being achievable by every Member State that wants to, yet a binding commitment to do more than today; open to entry by all, but ensuring growing solidarity and increasingly ambitious commitments as the process continues. It should also have excellent coordination: while preserving flexibility and bottom-up initiative, coordination through the permanent Capability Generation Conference should generate concrete projects to address all shortfalls needed to fulfil its goals. This has proved impossible through an exclusively bottom-up approach, which has achieved some remarkable results – but which has also reached its limits. Without collective top-down steering, significant progress is beyond reach. Simultaneously, the Capability Generation Conference will allow those that seek cooperation to find suitable partners, including for deepening existing multinational units or setting up new ones. This is not to pull all multinational military units and structures into CSDP nor even to have some of them managed by CSDP, but to stimulate MS to use the full potential of such multinational formations, and to use them as frameworks for common deployment – in this regard as well cost-effectiveness will improve.

A strive for cost-effectiveness will gently oblige MS to explore the full potential of four important cost-cutters: (1) collaborative armaments projects (from cradle to grave); (2) pooling; (3) role specialisation; (4) and perhaps most importantly, doing away with redundancies, for Europe does not need 1.8 million uniforms and the combined cost of all redundant assets and structures by far exceeds what is required to address the strategic shortfalls. These cost-cutters will produce a budgetary margin which, if Member States live up to the commitment not to lower their defence expenditures will stay within the defence budget. The other criteria will ensure this margin will be spent on deployable and effectively deployed capabilities.

The assessment of progress made is a necessity as well. Member States will of course decide, but the assessment role given by the Treaty to the EDA will ensure that for the first time their performance will be evaluated by a neutral body.

Simultaneously, the Capability Generation Conference will engender an informal peer review process of investment plans.

The permanent dialogue on defence planning will allow each and every Member State to opt for the development of specific military capabilities that would allow it to participate with significant military contributions in all of the potential Petersberg Tasks. That requires each to focus on his own centres of competence, to acquire or further develop those military forces and capabilities proven to be scarce during Force Generation Conferences, and to abandon capabilities proven to be redundant. This will considerably enhance political solidarity among all Member States and will strengthen the Union as such, at no additional financial cost.

## Conclusion

Although Europe and the world have changed dramatically in the last twenty years in geostrategic terms, the attitude of Member States towards a more integrated defence policy has not. The participation of EU Member States in an increased number of CSDP interventions, this has not resulted in real harmonisation or deeper integration. Member States cannot be said to be converging in defence terms; the opposite may even be the case. The political will to create a stronger European defence has so far not been sufficient to bring about real change. Defence matters remain resolutely intergovernmental, despite opportunities for change offered by the last revisions of primary European law. Unanimity is required in the Council for any joint action, and the heaviness of the decision-making process often means that decisions come late and can be sub-optimal.

The Common Defence and Security Policy, under the Lisbon Treaty, could potentially develop a dual nature: a mix of **intergovernmental** and **"Union" law** respecting sovereignty but enabling action to be engaged in cases of need. This would ultimately entail a budget proposed by the European Commission, but implemented by the Agencies<sup>123</sup>. As a first step, the allocation of EU funds to the European defence agency could be promoted as a way of maximizing synergies and European investments in innovation.

The EU is uniquely placed to respond to crises given its comprehensive approach, world-wide representation and niche capabilities. The CSDP, as an integral part of the Common Foreign and Security Policy (CFSP) has the potential to decisively help raise the Union's reach and profile worldwide. The question *whether* the EU adds value in response to conflicts, and in its role of preventing conflicts, has already been answered in the affirmative. The question now is rather *under what conditions* the EU's impact is comparatively bigger and likely to tip the scales.

The unique selling point of the EU in defence is the possibility of having multiple levers to effect the 'comprehensive approach'. The EU does not presume a starting point where any one lever of power is dominant – as found in a defence-dominated organisation such as NATO. The EU has access to all levers of power, which is more difficult and time-consuming, but provides more surety of truly lasting solutions, especially where such action promotes the transition of crisis from conflict to post-crisis reconstruction. This implies that developing NATO-

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<sup>123</sup> EDA, Frontex or others

EU complementarity needs to recognise that both are naturally separated by ambition and processes, and it would be desirable to build on those discrete, but essentially complementary, drivers – indeed noting that any one strength might actually live in both NATO and EU simultaneously.<sup>124</sup>

As the EU intensifies its efforts to implement the Lisbon Treaty, it will also work to strengthen its high representative for foreign affairs as vice president and voice of the union. The European External Action Service (EEAS) is only two-years old and thus still evolving, but the strategic review of the EEAS in 2013 and 2014 brings with it the opportunity to develop a stronger vision of EU-UN partnership

This report is based on the assumption that it is the duty of the EU to ensure high returns on investments and deliver the added value that Member States expect when deploying their resources through CSDP. It contends that there is an enormous added value still to be gained, possibly in the range of €26 billion to €130 billion, for more 'Europe' in defence.

Achieving this will need political will, a defence policy template for 2040, the development of the instruments available but unused in the Lisbon Treaty, particularly PESCO and the Start-up Fund; empowering the EDA and galvanising the defence industry of Europe through large collaborative projects. This may be the key to turning the larger EU's military potential into reality in the interests of lasting peace and security.

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<sup>124</sup> Rear Admiral Bruce Williams, Deputy Director General EU Military Staff, *Impetus*, Issue 15, Spring/Summer 2013.

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