

Brexit and European Defence: What to Expect from a “No-Deal” Outcome?

by Paola Sartori

Brexit poses a unique set of challenges to both the UK and the European Union. Its multifaceted implications will affect several crucial domains, including that of European defence. In this context, two elements are particularly relevant: London’s future membership in the customs union and the degree of UK participation in EU defence collaboration and future relationship with the European Defence Agency (EDA).

At present, the complexity of the issue and the frequent twists and turns in the negotiations make it extremely difficult to speculate on the future EU-UK relationship. All outcomes seem possible, from the best-case scenario of a customs union plus a defence partnership, to the eventuality of a soft free trade agreement coupled with a defence partnership.¹ Even the worst-

¹ For a more comprehensive analysis of Brexit’s implications for the European defence industry see Paola Sartori, Alessandro Marrone and Michele Nones, “Looking through the Fog

case option, the so-called “no deal” scenario, cannot be completely ruled out at this stage.

Thus far, political debates and forecasts within the EU have tended to be quite optimistic. A “no deal” outcome sounds so disruptive that it is hard to even consider. Nevertheless, within the Conservative UK government, a number cabinet ministers support this eventuality.

Indeed, while Theresa May has outlined new proposals that would keep the UK closely aligned with the EU’s single market and customs union, the “Brexiters” have voiced their strong opposition, describing such an outcome as running against the whole spirit of the Brexit referendum.² Such

of Brexit: Scenarios and Implications for the European Defence Industry”, in *Documenti IAI*, No. 18|16 (July 2018), <http://www.iai.it/en/node/9341>.

² George Parker, “UK’s Theresa May Prepares to Face Down Eurosceptic Ministers”, in *Financial Times*, 6 July 2018.

Paola Sartori is Research Fellow at the Istituto Affari Internazionali (IAI).

divisions culminated in the resignation of two senior cabinet ministers within 24 hours on 9-10 July: David Davis, Secretary of State for Exiting the European Union, announced his resignation first, followed shortly thereafter by Boris Johnson, the UK Foreign Secretary.³

These individuals back a “hard Brexit” – a scenario that would see the UK exiting both the customs union and the Single Market; an end to the free movement of people and the jurisdiction of the European Court of Justice in the UK –, an outcome that will be detrimental to both parties.

Should the UK leave the customs union, without succeeding to negotiate a deep and comprehensive partnership or a low profile free trade agreement, its relationship with the EU will likely be characterized by open competition. Such an atmosphere would negatively affect cooperation and even foster the development of diverging approaches, not only in economic terms, but also in the defence sector.

For instance, this outcome would lead to the introduction of barriers to market access, reduced freedom of circulation for technologies and additional costs for industries in terms of both tariffs and non-tariff barriers, thus leading to higher prices. In fact, in light of the complexity of defence products and their related supply chain, with frequent movements of some components across the EU/UK

border, non-tariff barriers (including several administrative and customs procedures) could result in delays and additional costs.

Further negative consequences would encompass the defence sector’s industrial-skills base, since restrictions on the freedom of movement could aggravate the existing shortage of skilled workers in certain specific sectors, such as engineering.

Changes in the economic relationship will also have a major impact on European defence companies with a large footprint in the UK. This could affect decisions on how to structure their business model. A “no-deal” scenario could influence future investment behaviour and even lead certain companies to consider relocation to other European member states in order to maintain access to the benefits of the Single Market, EU funds and the EU-wide supply chain.⁴ Recent warnings by Airbus are noticeable in this regard.

The company has released a Brexit Risk Assessment memorandum, in which it clearly states that “a no deal Brexit must be avoided, as it would force Airbus to reconsider its footprint in the country, its investments in the UK and at large its dependency on the UK (with many potential undesirable consequences such as repatriating competencies, patents, revisit Research and Development footprint, reduce

³ Stephen Castle, “Theresa May in Fight to Save Government Amid Brexit Rift”, in *The New York Times*, 9 July 2018, <https://nyti.ms/2m08j0a>.

⁴ Matthew R.H. Uttley and Benedict Wilkinson, “Contingent Choices: The Future of United Kingdom Defence Procurement and Defence Industries in the Post-Brexit Era”, in *Global Affairs*, Vol. 2, No. 5 (2016), p. 499.

UK’s weight in the supply chain etc.)”⁵

Taking a closer look at European defence initiatives, a “hard Brexit” risks to negatively affect the EU’s defence integration efforts, such as the European Defence Fund (EDF), Permanent Structured Cooperation (PeSCo) and the Coordinated Annual Review on Defence (CARD). A “no deal” scenario would indeed mean the EU losing out on the UK’s significant budgetary and military resources, undermining the implementation of the most ambitious and expensive capability development projects.

With specific reference to PeSCo, the notification document foresees the possibility that participating states invite third countries to join specific projects, provided given conditions are met.⁶ As for the EDF, according to the European Defence Industrial Development Programme (EDIDP) draft regulation, companies established in the Union and controlled by British shareholders, or UK entities as such, can be eligible as beneficiaries only under specific conditions.⁷ Instead,

⁵ Airbus, *Brexit – Risk Assessment*, 21 June 2018, <https://www.airbus.com/content/dam/channel-specific/website-/company/global-presence/uk/Brexit-Risk-Assessment-21-Jun-FINAL.pdf>.

⁶ Council of the European Union, *Council Decision (CFSP) 2017/2315 of 11 December 2017 establishing permanent structured cooperation (PESCO) and determining the list of participating Member States*, OJ L 331, 14.12.2017, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:32017D2315>. Conditions for third countries’ invitation will be established by a Council decision, to be adopted by the end of 2018.

⁷ Council of the European Union, *Proposal for a regulation establishing the European Defence*

cooperation with undertakings located in the UK is subject to limitations and “the costs related to these activities shall not be eligible for funding under the programme”.⁸

In this regard, the Commission’s proposal for the regulation of the EDF budget post-2020 introduces a more inclusive approach, with potential benefits for future EU-UK cooperation. It extends participation to “European Free Trade Association (EFTA) members, which are also members of the European Economic Area (EEA), in accordance with the conditions laid down in the EEA agreement” (Article 5). Needless to say, a “no deal” outcome characterized by open competition will quickly eliminate such cooperative scenarios.

Defence collaboration will be also influenced by the future relationship between the UK and the EDA. Following Brexit, the UK will no longer be a member of the Agency. In this regard, negative effects could encompass budgetary and staffing issues, as well as impacting the UK’s participation in those EU defence initiatives that rely on the Agency for implementation – namely, PeSCo and CARD. As a result, future cooperation between EU member states and the UK may be established on an *ad hoc*, case-by-case basis, through possible intergovernmental deals in either

Industrial Development Programme aiming at supporting the competitiveness and innovation capacity of the Union’s defence industry – Confirmation of the final compromise text with a view to agreement (First reading), 4 June, Article 7(4), http://www.consilium.europa.eu/register/en/content/out?&typ=ENTRY&i=ADV&DOC_ID=ST-9262-2018-REV-1.

⁸ *Ibid.*, Article 7(6).

bilateral or mini-lateral formats.

In such a “no deal” scenario, advancements in defence integration – including the implementation of the concept of EU strategic autonomy – may lead to a progressive divergence of defence policies and military needs on both sides of the Channel. Interestingly enough, this could also present risks in terms of future regulation and overall interoperability, and affect NATO too.

The case of unmanned aerial vehicles (UAVs) can serve as an example. After Brexit, the UK will theoretically no longer be obliged to follow EU regulations on the operation of drones, which are currently established by the Union and the European Aviation Safety Agency (EASA). Such a regulatory divergence could potentially hinder future EU-UK cooperation in this field.

Compromises will be crucial to avoid these scenarios. Both sides of the Channel should bear in mind that, because of the interconnectedness of the various dossiers, the rise of tensions in a specific domain risks jeopardizing cooperative dynamics in other sectors, including defence. Such a possibility is epitomized by UK warnings on the future security and defence partnership with the EU stemming from its exclusion from the Galileo programme.⁹

In light of the above, a “no deal” scenario is clearly not in the interest of either party, although the actual consequences and implications of

Brexit will probably take many years to be fully understood. Ultimately, in order to shelter defence cooperation and its mutual benefits from the Brexit turmoil and avoid the concretization of a worst-case scenario, both the UK and the EU will need to show a greater degree of adaptability, creativity and resilience in the tough negotiations that lay ahead.

12 July 2018

⁹ George Parker and Peggy Hollinger, “Philip Hammond Seeks to Sabotage EU’s Galileo Satellite Project”, in *Financial Times*, 2 May 2018.

Istituto Affari Internazionali (IAI)

Founded by Altiero Spinelli in 1965, IAI does research in the fields of foreign policy, political economy and international security. A non-profit organisation, IAI aims to further and disseminate knowledge through research studies, conferences and publications. To that end, it cooperates with other research institutes, universities and foundations in Italy and abroad and is a member of various international networks. More specifically, the main research sectors are: European institutions and policies; Italian foreign policy; trends in the global economy and internationalisation processes in Italy; the Mediterranean and the Middle East; defence economy and policy; and transatlantic relations. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), two book series (*Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via Angelo Brunetti, 9 - I-00186 Rome, Italy

T +39 06 3224360

F + 39 06 3224363

iai@iai.it

www.iai.it

Latest IAI COMMENTARIES

- 18 | 40 Paola Sartori, *Brexit and European Defence: What to Expect from a “No-Deal” Outcome?*
- 18 | 39 Cono Giardullo, *Fly High Or Die Trying: Drones in the Service of Human Rights*
- 18 | 38 Giorgia Perletta, *Street Protests and Socio-Economic Challenges in Iran: The Case of Khuzestan Province*
- 18 | 37 Gianni Bonvicini, *Beyond the European Council: Domestic Politics Drives the Migration “Crisis” in Italy and Germany*
- 18 | 36 Jean-Pierre Darnis, *The New Space Economy, An Opportunity for Italy?*
- 18 | 35 Adriano Iaria, *E-Emblems: Protective Emblems and the Legal Challenges of Cyber Warfare*
- 18 | 34 Nicola Bilotta, *Elections, Land Reform and the Promise of Peace in Colombia*
- 18 | 33 Alessandro Marrone, *The Conte Government: Radical Change or Pragmatic Continuity in Italian Foreign and Defence Policy?*
- 18 | 32 Sinan Ekim, *Erdoğan’s Snap Election Gamble: Too Little, Too Late?*
- 18 | 31 Lorenzo Mariani and Fabio Angiolillo, *Unconventional Diplomacy on the Korean Peninsula: Implications for Seoul, Pyongyang and Washington*