



More Europe on Defence or No Europe

edited by **Alessandro Marrone** and **Michele Nones**

Abstract

Recent cuts in EU member states' defence budgets make it impossible to maintain adequate military capabilities at the national level. Only a greater European integration of the national armed forces can keep them effective and efficient. Some steps forward in this direction are possible, although difficult, on several levels: the implementation of the pooling and sharing approach on the military level; the establishment of the permanent structured cooperation on the institutional level; the definition of a European roadmap for dual-use technologies on the technological level; the launch of European procurement programmes co-financed by the EU on the industrial level. All these steps forward are linked to a urgent and basic political choice between two alternatives: more Europe in defence policy, or the complete inability of European countries to conduct such a policy.

Keywords: *European Union / European defence / Italy / Armed forces / Missions abroad / Defence industry*

More Europe on Defence or No Europe

edited by Alessandro Marrone and Michele Nones*

Acronyms	3
How to carry out a successful retreat , by Stefano Silvestri, Michele Nones and Alessandro Marrone	5
1. The military aspect , by Vincenzo Camporini and Valerio Briani	
1.1 Introduction	9
1.2 Current situation: uncoordinated cuts and pooling and sharing	9
1.3 Steps forward: coordinating cuts and investments	11
2. The institutional aspect , by Gianni Bonvicini and Giovanni Faleg	
2.1 Introduction	13
2.2 Current situation: the misfortune of post-Lisbon CSDP	13
2.3 Steps forward: comprehensive action and PESCO	17
3. The technological aspect , by Federica Di Camillo and Nicolò Sartori	
3.1 Introduction	19
3.2 Current situation: confused competition among different “technology agendas”	19
3.3 Steps forward: a European roadmap for dual-use technologies	21
4. The industrial aspect , by Michele Nones and Jean-Pierre Darnis	
4.1 Introduction	24
4.2 Current situation: a not integrated market with decreasing demand	24
4.3 Steps forward: implementation of directives and investment agreements	26

Paper prepared by a team of researcher from the Istituto Affari Internazionali (IAI) in view of the European Council on defence of December 2013. Authors: Gianni Bonvicini, Valerio Briani, Vincenzo Camporini, Jean-Pierre Darnis, Federica Di Camillo, Giovanni Faleg, Alessandro Marrone, Michele Nones, Nicolò Sartori, Stefano Silvestri.

* Alessandro Marrone is researcher in the area of Security and Defence at the Istituto Affari Internazionali (IAI). Michele Nones is Director in the area of Security and Defence at IAI.

Acronyms

CAP	Capability Action Plan
CBRN	Chemical, Biological, Radiological and Nuclear
CMB	Crisis Management Board
CMPD	Crisis Management and Planning Directorate
COREPER	COmité des REprésentants PERmanents
COTS	Commercial Off-The-Shelf
CPCC	Civilian Planning and Conduct Capability
CSDP	Common Security and Defence Policy
DEVCO	Development and Cooperation (Commission's Directorate General)
EC	European Commission
ECHO	Humanitarian Aid and Civil Protection (Commission's Directorate General)
EDA	European Defence Agency
EEAS	European External Action Service
EFC	European Framework Cooperation (Security and Defence Research)
EMSA	European Maritime Safety Agency
ESA	European Space Agency
ESP	European Space Policy
EU	European Union
EU MS	European Union Member States
EUAVSEC	European Union AViation SECurity
EUCAP	European Union Mission on Regional Maritime Capacity-Building in the Horn of Africa
EUMC	European Union Military Committee
EUMS	European Union Military Staff
EUNAVFOR	European Union NAVal FORce
EUROPOL	European Police Office
FRONTEX	European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union
FYROM	Former Yugoslav Republic of Macedonia
JHA	Justice and Home Affairs (Commission's Directorate General)
KETs	Key Enabling Technologies
NATO	North Atlantic Treaty Organization
NORDEFECO	NORdic DEFence COoperation
OCCAR	Organisation Conjointe de Coopération en matière d'ARmement
OPCEN	EU OPeration CENTER
P&S	Pooling and Sharing
PESCO	PERmanent Structured COoperation
PMG	Politico Military Group

PSC	Political Security Committee
R&D	Research and Development
R&T	Research and Technology
SAR	Search And Rescue
SEEBrig	South Eastern European Brigade
SMEs	Small and Medium Enterprises
TDCs	Transnational Defence Companies
UAVs	Unmanned Aerial Vehicles
UN	United Nations
US	United States

How to carry out a successful retreat

by Stefano Silvestri, Michele Nones and Alessandro Marrone

The issue of European defence is not new, nor has EU integration in the defence field made significant progress in recent years - letting down expectations raised by the Lisbon Treaty. Why then should possible steps forward in the European defence integration process be discussed again? For one simple reason: defence budgets in Europe are no longer sufficient to fund the already inefficient *status quo*. The majority of EU Member States (EU MS) have been going through a deep economic crisis in recent years, with austerity policy cutting defence spending as much as - or even more than - other State expenditures, and there is no sign that there will be future increases in defence spending.

As underlined by the document jointly produced by IAI and the *Centro studi sul federalismo* (CSF) "The costs of non-European integration in the defence field",¹ the *status quo* implies a cost for European governments and citizens. It is both an economic cost as public funds are used inefficiently, and a political cost because European military capabilities are progressively becoming ineffective thus hampering any credible defence policy.

In that context, this paper represents an IAI contribution, prepared by a team of ten researchers, to the Italian and European debate - a debate that is supposed to involve the main actors and stakeholders in defence policy in order to bear fruit before the EU Council of Heads of State and Government scheduled for December 2013. Winter is coming.

This document points out the main problems of European defence cooperation, but also puts forward some solutions that the December Council may - and indeed should - consider, before the process of progressive weakening of EU MS' defence policies becomes irreversible.

The international environment continues to change rapidly. On the one hand, the rise of a Chinese power characterized by strong nationalism, together with Russia's strictly *realpolitik* approach to international relations, makes the response to crisis in Africa, the Middle East and Asia more difficult and uncertain. This also weakens the global governance based on UN and other international organizations. On the other hand, the US remains the main global power - as well as the "indispensable power" for maintaining global peace and security - but is no longer able, nor probably willing, to exert a kind of hegemony. The international system is more integrated at the economic, financial, communications and information level than in the past, but is very fragmented when it comes to exerting governance and using military force. Large areas of the world risk falling into a condition close to anarchy, civil war or controlled by international organized crime, while the economic crisis is fuelling social tensions and increasing popular unrest even in countries considered stable.

¹ Valerio Briani, *I costi della non-Europa della difesa*, Rapporto congiunto del Centro studi sul federalismo (CSF) e dell'Istituto affari internazionali (IAI), April 2013, http://www.iai.it/pdf/CSF-IAI_nonEuropadifesa_aprile2013.pdf.

A strategy to deal with this international environment of crisis has not yet been worked out. Countries are muddling through crisis and struggling to manage them, often paying high costs in terms of blood and treasure, particularly with regard to civilian and military casualties. It has become clear that, while economic power is shifting from the G-7 to the G-20 countries, the former bear an unfair share of the cost of keeping up the international system. The new powers are not taking on responsibilities and burdens proportionate either to their economic power or to the benefits they gain from the international system itself. This does not happen by chance. The international system is largely perceived as a "Western" model, which does not arouse great sympathies in the emerging - or emerged - powers. It is true that the international system has worked in favour of - but not exclusively for - the West, and that Western powers still predominate in current global governance. However, it is not clear what the alternative is, nor whether the new powers are ready to take on similar responsibilities and work to build a large international consensus.

In this context, it is very likely that the international system will remain deeply unbalanced for many years, thus creating uncertainty and inefficiency. This poses a crucial strategic dilemma to Western powers, and particularly to Europe. In fact, with respect to the US, Europe does not have comparable military resources and does not have a strong centralized government. At the same time, Europe is closer and more connected than the US with crisis in Africa and Asia, and - being less autonomous than the US - is more dependent on the smooth functioning of global free trade - particularly with regard to energy supplies coming from Russia and unstable areas such as the Middle East and North Africa.

In any case, the prospect for Western countries is a gradual transfer of power and responsibilities. It may happen in an uncontrolled way, for example under the weight of crisis, or it could take place in a controlled and possibly ordered way, thus protecting the vital interests of the European and Western system. A joint effort should be made within the EU and NATO frameworks, and through cooperation between the two actors to make sure that it is the latter. As the military well know, retreat is one of the most difficult and complex manoeuvres of armed forces, but if done properly it also lays down a solid foundation for the future. This also applies to the balance of power in the international system. However, Europe is not ready to undertake such a manoeuvre today with any chance of success. The four chapters of this paper analyze this unreadiness and suggest possible measures to overcome it.

The first chapter on the military aspect focuses on the European armed forces' progressive loss of capabilities. This loss is mainly due to the growing inability of national budgets to finance the necessary defence investments, the transformation and training of military forces, and the cumbersome participation in crisis management operations. The fragmentation of defence spending on a national basis makes this crisis even deeper and more rapid. So far, EU MS have not been able to elaborate credible formulas for the pooling and sharing of the assets they still hold, nor to use the few common military instruments they have set up - such as the Battlegroups. It is indeed surprising and worrying that EU MS have not even been able to reach an agreement to coordinate the cuts and savings decided at the national level, in order not to lose completely - at the European level - capabilities which may be necessary in the next future. Greater operative and budgetary integration would, without an increase in

total European defence spending, make it possible to mitigate these problems and maintain all necessary capabilities in the EU.

The second chapter on the institutional aspect deals with the problems created by the non-implementation of the Lisbon Treaty. This is a huge missed opportunity, which is causing the progressive loss of EU international and strategic credibility - despite the numerous efforts made and responsibilities taken by single European countries. But the absence of a strong, coherent, European political framework largely neutralizes these efforts, diminishing their credibility and fragmenting the crisis management approach. Necessary and feasible steps forwards in this regard include a permanent and integrated European structure to plan, command and control civilian and military missions; a joint budget for defence investments; stronger leadership by the EU High Representative for foreign and security policy, reflected in adequate working procedures with EU MS. Yet, the crucial issue is whether or not to launch one or more Permanent Structured Cooperation (PESCO) initiatives on defence among those countries willing to undertake such a project. So far, the lack of consensus from all major EU MS has been the greatest obstacle to launching such an initiative. But the novelty of Permanent Structured Cooperation was precisely the possibility of undertaking such a process with small groups of countries without the need for EU MS unanimity.

The third chapter on the technological aspects underlines the growing confusion of related programmes and institutional actors, with the consequent inefficient use of resources and the risk of a rapid loss of technological, industrial and innovative capabilities by all EU MS. By the way, the absence of a European programme on Unmanned Aerial Vehicles (UAV) implies a serious loss of technological capacities. Even though there are some European frameworks, the reality is that a common European policy for Research and Technology (R&T) and for Research and Development (R&D) is lacking. This absence is somehow mitigated by the research programmes on security and on space financed by the EU and the European Space Agency (ESA), which have led to the development of important dual-use technologies - technologies that can be used for both civilian and military purposes. Indeed, dual-use technologies represent the opportunity to rationalize the action of various stakeholders at the national and EU level, so as to increase the effectiveness and efficiency of R&T investments. It is necessary to move forward and adequately plan an European R&T roadmap based on the definition of dual-use requirements and systems necessary for the future of European security and defence. Without such a step change, current synergies will remain non-systematic - however useful.

The fourth chapter on the industrial aspect tackles the question of how to maintain a highly competitive European industrial base able to satisfy the needs of the armed forces and of defence and security policies. Despite an early rationalization of major European companies in the 1990s, the various defence industrial bases remain structurally national - also because of national defence spending. However, this national dimension is becoming un-sustainable. For some years now, European defence companies have balanced the insufficiency of their respective national markets by radically increasing their exports. But this approach is now also reaching its limits.

In fact, defence industries in emerging powers are growing and every further transfer of technology from European companies to non-EU countries increases the competitiveness of local industries and reduces export markets. Therefore, European companies will be forced to reduce their exports and increase the technological level of their products in order to remain competitive. This will require work on expensive R&D products not guaranteed by related procurement programmes.

Therefore, it is likely that there will be a new wave of rationalization and concentration of European defence industries, which will require the creation of a truly European defence and security market. The EU has made progress in this regard by regulating competition and some aspects of national defence procurement, but an enhanced monitoring of the implementation of the EU directives approved in 2009 is needed to encourage reluctant countries to fully implement these directives. In any case, this will not be sufficient to rationalize European defence industry without a joint definition of military requirements and needs, which is the only way to achieve the effective integration of the European industrial base. This process can be initiated by taking a number of steps including but not limited to: some significant European procurement programmes involving the main sectors of defence industry and co-financed by the EU; a commitment by EU MS to buy "European" products and platforms; extraordinary funding obtained, for example, from national governments giving up the export royalties of their defence industries.

The four aspects - military, institutional, technological and industrial - have to be considered individually as well as part of a larger picture. Individually, steps forward are necessary and can be taken by means of *ad hoc* measures tailored to the specificities of each aspect. Although technical, these measures are ultimately political by nature. The larger picture is structurally political, because it is based on a political choice taken by political authorities. The choice is whether to maintain the *status quo* and thus only the appearance of national sovereignty - because of the growing ineffectiveness of national armed forces - or whether to share this sovereignty at European level, in order to guarantee a certain national influence on the European defence policy. The bottom line is that an effective defence policy has to be European - and can no longer be national.

Many other solutions are possible beyond those suggested in this document. In any case, the opportunity provided by the December Council should not be missed. Therefore, the Council should be prepared in advance by discussing which concrete decisions can ensure a step change in the European approach to defence. If the Council does not take such concrete decisions, Europe's inevitable retreat will become a disastrous rout.

1. The military aspect

by Vincenzo Camporini and Valerio Briani

1.1. Introduction

This chapter analyses the consequences of defence budgets cuts in times of crisis, underlining their impact on European defence capabilities. The chapter presents some of the different bilateral, multilateral and communitarian initiatives for pooling and sharing military assets, analysing their value as solutions for the budget crisis. Finally, it puts forward some ideas on how to mitigate the negative impact of budget cuts on EU external action.

1.2. Current situation: uncoordinated cuts and pooling and sharing

European defence budgets have been stagnating for years. Most EU countries, Italy among them, chose to maintain their defence budgets at almost a constant level during the last decade. This actually meant cutting defence budgets, as inflation is particularly high in the defence field given the exponentially rising costs of defence technologies, components and materials. With the current economic and financial crisis, stagnation has turned into budget cuts. Between 2008 and 2012, EU countries as a whole reduced their collective defence spending from 200 to 170 billion euro. Just as an example, a country with a strong military tradition like Great Britain will be cutting its defence budget by 7% by 2015. Only very few countries, Poland being the largest, are increasing their defence spending.

The current situation of defence spending cannot be fully evaluated by just looking at budgets. It must be underlined that EU countries are not making the best of their defence expenditures either, getting less capabilities than they could because of the lack of integrated EU defence. The duplications of structures, organizations and equipment and the inconsistencies of the European defence market impose a heavy burden on national defence expenditures. Insufficient spending at the EU level would be much less dangerous for European military capabilities if available funds were not spent in such a fragmented and uncoordinated way.

To make matters worse, budget are currently being cut without any coordination among Member States. It is possible, and actually probable, that some Member States are giving up niche capabilities right now, in order to save money and maintain other capabilities which could be provided by other Member States. As a result Europe, as a whole, is currently losing military capabilities. Even before the crisis, some military missions underlined deficits in key capabilities. For example, the Libyan intervention would not have been possible without US assets and equipment for air-to-air refuelling, surveillance and reconnaissance, and precision strike. Without entering into the debate on the political ratio of the Libyan mission, it is critical to underline that if the EU finds it necessary to perform a similar operation in the future, it will not be able to do it autonomously.

This situation has been going on for decades but has recently become a key issue in the public debate because of the economic crisis. In the last few years, EU countries undertook different initiatives in order to obtain more bang for the buck. Most of these

initiatives, which entail a division of research and development funds or the common production or management of defence products and activities, are grouped under the umbrella name of “Pooling and Sharing” (P&S) and can be divided into three categories. The first one is common development, production and procurement of a platform or system: an example is the Eurofighter aircraft, developed by Italy, Germany, Spain and Great Britain. The second category of P&S includes the creation of multinational units, such as the South Eastern European Brigade (SEEBrig), based on an Italian infantry regiment plus contributions from Bulgaria, Greece, FYROM, Romania and Turkey. Finally, the third P&S category is based on specialization, with countries providing niche capabilities in exchange for the use of other capabilities from other partners.

These initiatives have been developed on the bilateral, multilateral, regional or European level. For example, Great Britain and France recently signed the so-called Lancaster House Agreement, after the name of the place where the agreement was negotiated, which foresees a wide range of possible cooperative activities for the development and procurement of expensive capabilities badly needed by the two partners. A multilateral agreement was at the basis of the *Organisation Conjointe de Coopération en matière d'Armement* (OCCAR), an intergovernmental organization with legal personality which manages some high-profile development projects involving its members, Belgium, France, Great Britain, Germany, Italy and Spain. An example of a regional P&S initiative is the Nordic Defence Cooperation, or NORDEFECO, which includes Sweden, Norway, Finland, Denmark and Iceland. Including both neutral and NATO countries, both EU and non-EU Members, NORDEFECO activated several common efforts in the areas of training and exercises, and a growing number of initiatives for procurement and the common maintenance of equipment used by its Members.

At the EU level, the European Defence Agency (EDA) is in charge of stimulating P&S initiatives, among its other tasks. According to the Lisbon Treaty, the Agency contributes to identifying the Member States' military capability objectives and evaluates the observance of the capability commitments; promotes harmonisation of operational needs and adoption of effective, compatible procurement methods; proposes multilateral projects and ensures coordination of the programmes implemented and the management of specific cooperation programmes; supports defence technology research, and coordinates and plans joint research activities; contributes to identifying and implementing any useful measure for strengthening the industrial and technological base of the defence sector and for improving the effectiveness of military expenditure.

In all these areas, EDA is performing a wide range of efforts which cannot be summarized here. On the issue of capabilities, the Agency developed, with the support of Member States, a Capability Action Plan (CAP) which identified 12 priority areas on which to focus common efforts and which for the first time aims to coordinate development efforts on shared and relevant goals. The weakness of EDA, however, resides in its small budget, which is largely spent on personnel and administrative expenses, and especially in the fact that some countries, such as the UK, are not willing to expand EU competences in the area of defence.

While the development of cooperation initiatives is a positive trend, a few issues should be underlined. The different P&S initiatives were brought forward in different frameworks and overlap geographically and functionally, creating a hierarchy of cooperation and a broad net of development, procurement and sharing projects that are difficult to bring into a single coherent strategic framework, such as the one proposed by the EDA CAP. Moreover, some of these initiatives are not entirely compatible with the EU framework, see for example the exclusiveness initially foreseen by the Lancaster House Agreement. The proliferation of P&S agreements, in other words, may end up creating mutually exclusive islands of cooperation, each with its own regulations which, in the end, would undermine the construction of an integrated European defence market.

But the most delicate issue related to P&S is that sharing military assets also means reciprocal political dependency, and therefore a limitation of sovereignty. What would happen if a country possessing a key asset refuses to join a common mission for which that asset is crucial? Clearly, being dependent on one another implies participating in missions which would otherwise be avoided. From a political point of view, this is a concession that EU governments would like to avoid. However, the dilemma cannot be avoided: integrating military means implies sharing political goals.

More practical issues should also not be underestimated. Joint research and development programs would certainly reduce the current range of duplications of armaments programs, which in turn would reduce orders for national firms. Many small and medium enterprises, which survive today only thanks to national orders, could be put out of business. The reduction of demand fragmentation would thus face considerable opposition from established interests.

1.3. Steps forward: coordinating cuts and investments

Making a step forward towards the integration of European defence capabilities means solving two problems, a real and a perceived one. The perceived problem involves the concept of sovereignty. After losing monetary sovereignty, and coming close to losing control over their budgets, EU MS are reluctant to give up the pillars of statehood as well, foreign and defence policy. The truth is, sovereignty over these pillars is more apparent than real today: sovereignty means being able both to make decisions and to apply those decisions. Today, not even countries like France or Great Britain can pursue an independent foreign and defence policy.

Almost all EU countries are implementing draconian cuts in their defence budget not only because of the crisis, but also because of the general aloofness of public opinion from military missions, that imposes an heavy tribute in terms of blood and treasure. The idea that there is no threat to be faced with conventional military means is also strong. Armed forces are confronted with a crucial choice: either let some capabilities go, or maintain them all knowing that some capabilities will have to be reduced to the point of being of no practical use. With no third choice, Ministers of Defence must sit down at the table with the High Representative and start coordinating their cuts, so that all key capabilities are retained at least at the EU level, but in order to do that, a climate of trust has to be created. The alternative is the complete inability of European countries to play a key role in any future conflict scenario.

The second problem to solve, the real one, is related to the European defence industrial base. The largest MS, but also some of the small ones, own strategic industrial capabilities that they aim to defend at any cost because of their technological and innovative edge and because of their skilled workforce. This is causing the proliferation of a large number of self-styled “autarchic” programs, which are not autarchic at all since they’re often developed using a wide range of off-the-shelf components. Only when the platform to be produced is too expensive do EU MS choose to resort to cooperation, a dynamic observed especially in the field of aeronautics with projects such as Jaguar, Alfajet, Tornado and Eurofighter. However, even in cooperative projects, the will to protect the national industrial base pushes national authorities to design requirements that can be satisfied by their national industry only, with the result that there are several “national” versions of the same equipment, quite different from one another. The final outcome is inferior interoperability, rising costs and a heavy logistical burden.

The solution here can be found by exploiting the concepts of specialization and niche capabilities. The companies involved in the production of the F-35 Lightning II are based in 46 different US States but they will produce, nonetheless, a single platform, not 46 different national versions. Moreover the program enjoys wide support in the Senate, since US senators are particularly sensitive to local interests. In Europe it should not be impossible to design common requirements by employing a similarly clever industrial strategy, based on using the industrial capabilities of different countries while avoiding redundancies and juxtapositions. This could be made easier by the integration, at the EU level, of the offices responsible for requirements design within national military staff. This way, we would obtain shorter development times and significantly lower costs, both for production and operation. We would also obtain full interoperability, with significant advantages from the operational and training point of view. Certainly, such an agreement would require an honest deal between Defence Ministers and between those responsible for industrial policy, but there are no alternatives.

The resources that EU Members are and will be able to spend in the defence field are not sufficient to maintain the current broad range of national capabilities. If EU MS want to retain these capabilities, they will have to integrate their defence structures and make them even more reciprocally interdependent than they already are. National military staff will have to work toward the convergence of national military requirements, on the basis of which the defence industry will be able to consolidate and cooperate. If this is done, the harmonization of foreign policy postures and policies will become unavoidable. It would be a reversal of the usual evolutionary process: instead of a top-down political decision leading to the integration of military structures and industry, it would be a form of cooperation starting from below leading to a common policy.

2. The institutional aspect

by Gianni Bonvicini and Giovanni Faleg

2.1. Introduction

This chapter focuses on the institutional evolution of the Common Security and Defence Policy (CSDP) as a result of the provisions introduced by the Lisbon Treaty. The reform of institutional structures and procedures was aimed at enhancing internal coordination and achieving a more efficient and coherent crisis management. Nevertheless, since the entry into force of the Lisbon Treaty, those expectations and ambitions of a stronger Union as a security provider have been thwarted, as the CSDP has gone through major operational and institutional tribulations.

The first section of this chapter introduces the main provisions of the Treaty and describes the evolution of the European External Action Service (EEAS), with the purpose of highlighting the shortfalls of the CSDP's institutional design. The second section discusses the operationalization of Permanent Structured Cooperation (PESCO) as a way to address these shortfalls. The third section provides recommendations on the revision of these structures to make the CSDP more efficient, coherent and "common", with special emphasis on the implementation of PESCO in the field of security and defence.

2.2. Current situation: the misfortune of post-Lisbon CSDP

A whole new section of the Lisbon Treaty deals with European cooperation in foreign and security policy. The main provisions affecting CSDP are the following:

- the creation of the post of High Representative of the Union for Foreign Affairs and Security Policy, who is also Vice-President of the European Commission (Art. 18 and 27);
- the creation of the European External Action Service (Art. 27), operational from December 1, 2010.

Other provisions relevant to CSDP include:

- the introduction of Permanent Structured Cooperation (Art. 46.6) for those Member States "whose military capabilities fulfil higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions";
- the introduction of a mutual defence clause (Art. 42.7) and a solidarity clause in the event of a terrorist attack or natural or man-made disaster (Art. 222). The former does not preclude Member States' commitments to NATO and does not alter the security policies of Member States (e.g. neutrals);
- the institutionalisation and extension of the Petersberg tasks (Art. 43), following the guidelines provided by the European Security Strategy to include joint disarmament operations, military advice and assistance tasks and post-conflict stabilisation;
- the definition of three types of enhanced cooperation (Art. 20) in security and defence, which include: (1) the implementation of PESCO; (2) a more detailed description of the role of the European Defence Agency (EDA) to strengthen the

- military capabilities of Member States (Art. 42.3); (3) at the operational level, the Lisbon Treaty allows the creation of coalitions of the willing (Art. 42.5 and 44.1), which can be entrusted by the Council (through unanimous decision) to ensure the launching and implementation of a EU missions. This new provision was expected to facilitate the planning and conduct of crisis management missions, and to reduce the complexity of a decision-making process involving all 27 Member States through the institutionalisation of the concept of *lead nation*;
- the possibility to launch a start up fund for urgent CSDP missions, based on contributions from Member States. The fund would speed up and smoothen financial procedures, and hence the planning and procurement for rapid reaction tasks (Art. 41.3).

Notwithstanding these important institutional developments, the decision-making procedures in the CSDP have remained bound to the unanimity rule (Art. 42.4).

The Lisbon Treaty has made the EU the “house” of the *comprehensive approach*. Yet, the EEAS was not an “off the shelf” product. Since its inauguration (December 1 2010), a complex process of institutional reorganisation was set off, allowing the new Service to progressively integrate the permanent structures for military and civilian crisis management and other intergovernmental committees. The former include the new Crisis Management and Planning Directorate (CMPD), the Civilian Planning and Conduct Capability (CPCC) and the EU Military Staff (EUMS). According to the division of tasks among these three permanently-based structures, the CMPD deals with strategic planning for CSDP missions and operations and is tasked with creating synergies between their civilian and military aspects; the CPCC covers operational planning and conduct of CSDP civilian missions; and the EUMS carries out early warning, situation assessment and strategic planning for CSDP activities; finally, the EU Operation Center (OPCEN) becomes also part of the permanent structures, although it was activated for the first time in March 2012 to support the EU’s operations in the Horn of Africa.

Intergovernmental committees, bringing together representatives from Member States (diplomats, seconded experts and military representatives - chiefs of defence) inside the EEAS include Civil Committee, the EU Military Committee and the Political Security Committee (PSC), as well as the EU Special Representatives, the EU Delegations in third countries and the Politico Military Group (PMG). The institutional landscape is completed by the EEAS’ geographic and thematic desks as well as by the Commission’s Directorate Generals (e.g. Development and Cooperation - DEVCO, Humanitarian Aid and Civil Protection - ECHO, Justice and Home Affairs - JHA) and European Parliament Committees and Council bodies (e.g. COREPER) associated with security. The High Representative and the Crisis Management Board (CMB), chaired by the HR herself or by the EEAS Executive Secretary, are in charge of discussing organisational and coordination aspects of crisis response, crisis management and conflict prevention to ensure coherence in EU external action.

The institutional make up has therefore been oriented towards a deepening of the comprehensive approach, aimed at consolidating coordination and coherence horizontally (inter-institutional level) and vertically (from the decision-making process to

the theatres of operation). More than three years after the entry into force of the Treaty, however, expectations have not been fulfilled. In the practice of crisis management, the EU has been unable to live up to its ambitions and incapable of rapidly reacting to crisis situations. In other words, the *comprehensive approach* has failed to turn into *comprehensive action*.

For these reasons, the Union's performance in crisis management missions has been poor. In an increasingly unstable neighbourhood, particularly in the Middle East and North Africa region, CSDP deployments have diminished in the four years following the entry into force of the Lisbon Treaty. Missions have been, in most cases, modest in scale and scope (for instance, the EUAVSEC mission to restore security at Juba airport in South Sudan). In other cases, the EU was totally absent from crisis in which the preparedness of CSDP could have been tested (for instance, Libya and Mali). Fifteen years after the EU's failure to cope with the war in the Western Balkans, learning has been slow. Reliance on NATO and the US (Libya) and Member States' interventions outside the EU framework (France in Mali) demonstrate that the Union has failed the maturity test and is neither a credible security provider in its neighbourhood, nor a reliable global actor. Most problematic is the imbalance between civilian means, which made significant headway in a ten-year span, and the inadequacy of common military instruments. Comprehensive civilian and military efforts are visible only in the case of counter-piracy operations and missions in the Horn of Africa (EUNAVFOR Atalanta, EUCAP Nestor).

The causes of this existential crisis are manifold. First, leadership of course matters, both in terms of management of the new institutional structures and Member States' willingness to invest in the CSDP. During Catherine Ashton's mandate, the development of military capabilities has slowed down. Member States have been reluctant to invest in defence and pool their resources. The Lancaster House Treaties of 2010 between France and the UK have reinforced unilateral and bilateral interventionism and coalitions outside the EU framework. Germany continues to have a passive attitude when it comes to the use of military force, while many Member States are hesitant to finance missions in times of austerity.

Second, the debate on the revision of the European Security Strategy has not identified clear priorities for common and long-term action thus far and there is growing scepticism that the European Council session of December 2013 on defence will take any significant decision in this regard. Finally, squabbling within the EEAS has also hampered effective EU action. Some of these problems are inherited from pre-existing inter-institutional conflicts between the Council and the Commission; others have to do with the efforts to build a *modus operandi* between national diplomacies and civilian and military structures almost from scratch.

Articles 42.6, 46 and Protocol 10 specify the conditions for the implementation of PESCO. These provisions pave the way for deeper integration in the field of defence. Flexibility and the absence of formal bounds are key characteristics of the PESCO framework. No minimum number of Member States is required to launch cooperation under PESCO, no pre-emptive control by the Commission or the High Representative is necessary, nor any formal authorisation from the latter. Within the Council, qualified majority voting applies both during the start-up phase and in cases of opting in or

suspension of Member States at a later stage. Opt out requires a simple notification to the Council.

Protocol 10 sets the requirements for Member States participating in PESCO. These are much less strict than those agreed upon at Maastricht for States willing to adopt the Euro. Prescriptions are general with no precise figures and simply a commitment to proceed more intensively to develop defence capacities. In light of these provisions, joining PESCO has less to do with being *able* than it has with been *willing*.

Nevertheless, more than three years after the entry into force of the Lisbon Treaty, the operationalization of these provisions has not been turned into deeds. The flexibility of PESCO rules has done little to encourage Member States to bring PESCO to life. Instead, the situation seems to have worsened.

The financial crisis that has hit the EU has objectively slowed down moves towards PESCO. At the same time, the costs of non European integration in this field weigh down national defence budgets, for instance in terms of duplications of equipment or units.

The main obstacle is arguably the lack of political will to move towards the implementation of PESCO. Rounding up the usual suspects, it is the UK that over the past two decades has most notably carried out an inconsistent policy vis-à-vis EU defence cooperation. The UK's behaviour has evolved from integrative milestones (the spirit of Saint Malo and the definition of the *Headline Goals*) to defence of British sovereignty during the negotiations of the Lisbon Treaty, to most recently a remarkable step back from the commitment to EU defence and the conclusion of strategic bilateral agreements with France covering armaments procurement and military capabilities. Apart from EUNAVFOR Atalanta, the UK has not taken part in any CSDP initiative in Africa or elsewhere in which NATO has not been engaged. Furthermore, the UK rejected the Weimar Plus (France, Germany, Poland, Spain, Italy) proposal of an EU operational headquarters autonomous from NATO. Moreover, the UK has committed to only one Battlegroup with the Netherlands and systematically refuses to provide adequate funds to the European Defence Agency (EDA).

In the face of this ideological bloc, France has shown a certain ambiguity. Neither Sarkozy nor Hollande have been willing to take on responsibility or a leading role in defence integration. The national interest overshadows the European dimension in France's security policy, especially when the EU proves sluggish and impractical in crisis response, as in the cases of Libya and Mali.

Germany continues to be the "reluctant leader" in CSDP, as well as in the framework of autonomous coalitions of the willing. After the Weimar impetus, German support for PESCO rapidly dissolved.

Finally, on a structural level, weaknesses preventing EU Member States from adopting and implementing PESCO have to do with the following factors: the absence of a formal Council of Ministers of Defence, although Ministers meet regularly at EDA board meetings; the lack of an operational headquarters to overcome the limits of the

OPCEN; the refusal to deploy Battlegroups in EU operations; and finally, Member States' low commitment within EDA.

2.3. Steps forward: comprehensive action and PESCO

The December 2013 European Council session on defence will essentially touch on three topics: 1) the effectiveness, visibility and impact of CSDP; 2) the development of civilian and military capabilities in support of CSDP; 3) the consolidation of a common industrial base.

Differences in Member States' strategic priorities and visions of CSDP are a primary cause of institutional confusion. For this reason, steps forward are only possible if a new strategic discourse sets the priorities for EU action as a global security actor in the next 15-20 years. In parallel with these efforts to provide CSDP with a vision, some targeted institutional engineering may help frame and, in some cases shape actors' preferences. Therefore, recommendations for further institutional reform include:

- the creation of a permanent structure for the command and control of CSDP missions and operations within the EEAS. The comprehensive approach can turn into comprehensive action if the Union has military/civilian capabilities *and structures* that are up to the tasks;
- a better definition of the role of enhanced cooperation in the development of CSDP, namely its link to the strategic debate. The past years have shown the limits of a decision-making process involving all 27 (now 28) Member States, in terms of rapid reaction to crisis (e.g. Battlegroup standing by, but not kicking in) and long-term military capacity building through pooling and sharing;
- the definition of a common defence budget, which should be compatible with the provisions for enhanced cooperation outlined above;
- a revision of working procedures within the EEAS. Standard procedures and tighter consultations among Member States in the elaboration of strategic guidelines could help build mutual trust. The High Representative should act as a broker in this process and have a more proactive role in pushing Member States to agree on common priorities for action.

The implementation of PESCO will also be crucial. Changes in the regional and global security environment should be a wake-up call for the EU. They include new threats and instability in the neighbourhood; the emergence of new security actors such as Turkey and the Gulf States; the US pivot to East Asia; and the push for greater rationalisation of European defence in the wake of the economic and financial crisis.

The real question the European Council will have to address in December is how to build a sound framework for stronger CSDP to emerge. The implementation of PESCO entails a progressive increase in engagement through the following measures:

- the group of Member States should necessarily be restricted in the launch phase. It will most likely not include Britain, Denmark and neutral Member States. Weimar Plus should instead take the driver's seat: France, Germany, Italy, Poland and Spain;
- states joining PESCO should commit to deploying Battlegroups when necessary to give credibility to EU missions;

-
- PESCO countries should enhance their cooperation within EDA with joint research programmes and procurement;
 - a Council of Ministers of Defence, headed by the High Representative, should steer PESCO;
 - the EEAS, in cooperation with EUMS and EUMC, should activate a PESCO headquarters and ensure coherence between military and civilian instruments;
 - PESCO should be equipped with an *ad hoc* budget;
 - finally, PESCO institutions should regularly engage in dialogue with the European Parliament to give the necessary legitimacy to decisions taken in security and defence matters, starting with decisions on the common budget;
 - PESCO should obviously remain open for other Member States to join.

As for the decision-making underlying the launch of PESCO initiatives, two scenarios can be foreseen to cope with the complex process involving all 28 Member States:

- a continuation of the rules and procedures set out by the Lisbon Treaty, with Member States struggling to launch PESCO using qualified majority;
- a second scenario foresees the launch of PESCO outside the Lisbon framework, for instance through the creation of a Defence Compact, which could, at a later stage, be embedded in the Treaty provisions. This could eventually help narrow the gap between the Members of the Eurozone and the Members of PESCO, keeping the door open for future accession in both clusters.

Either way, the launch of PESCO would have the effect of bringing the issue of future EU governance back to the fore, which in turn is linked to the attainment of political unity and legitimacy. Eurozone and the Europe of defence may not be (and should not be) that far away in the end.

3. The technological aspect

by Federica Di Camillo and Nicolò Sartori

3.1. Introduction

The activities of research, innovation and technological development in the security and defence sectors represent a fundamental element for Europe to adequately deal with the rapid evolution of risks and threats characterizing both national and international scenarios. Finally, they are all important for proceeding towards deeper integration in the sectors of security and defence.

3.2. Current situation: confused competition among different “technology agendas”

At present, the sector’s governance model at the European level does not guarantee effective and efficient management of research and technology development (R&T) activities. This situation contributes to generating a set of negative economic and political-strategic externalities, which directly affect the EU, its Member States and European citizens.

The increasing number of institutional stakeholders dealing with R&T in the security and defence sectors - and their overlapping tasks and roles - is one of the main weaknesses of the current governance model. It is enough to consider how the activities of the Ministries of Defence or Ministries of the Interior at the national level relate to projects established in the EDA framework or initiatives promoted at the European Commission level. The latter, aimed at sustaining “European policies for homeland and external security, as well as defence policies” include R&T activities in the security domain funded by the final phase of the 6th Framework Program (FP), the entire 7th FP and the next Horizon Program 2020. In addition to these initiatives, NATO’s R&T activities, those managed in the OCCAR framework, and various multilateral initiatives promoted at the intergovernmental level also play an important role.

R&T activities in the space sector, whose results are also applicable in the security and defence domains, add complexity to this already composite picture. In the space sector, in addition to the institutional stakeholders already mentioned, the European Space Agency (ESA) plays a key role in innovation and R&T policies. National space agencies and Member States’ Ministries of Research also contribute substantially to the development of space systems that can be applied for security purposes (i.e. Cosmo-SkyMed and Pleiades).

The extreme fragmentation of research institutions, universities and small and medium enterprises (SMEs) involved in R&T activities in the defence and security domains adds to the complexity characterizing the institutional side. The lack of a well-established European network - able to consolidate technological competences and rationalise the R&T initiatives of the different actors - represents a strong limitation on the development of a *truly European* sector. In this context, the main risk is to strengthen self-referential national clusters, thus decreasing the efficiency of the entire European security, defence and aerospace industrial value chain.

In the last decade, European efforts to further integrate and rationalise the management of R&T activities have been frustrated, at least partially, by a series of difficulties. These include the different strategic priorities of Member States, protectionist policies aimed at safeguarding national industries in order to uphold employment levels and protect leading-edge technology sectors, and finally different national standards and requirements. These factors have determined the proliferation of specific national “technology agendas” and the duplication of funding for research and technology development, which has largely turned out to be inefficient. Furthermore, there is competition - sometimes clashes - between the objectives, responsibilities and practices of the different European institutions and agencies in charge of managing and funding R&T programmes: for example, the competition principle adopted by the European Commission and the geographic return used in the ESA framework exemplify how different the approach to R&T at the European level can be.

The framework of reference for cooperation on dual-use technology has been so far the European Framework Cooperation for Security and Defence Research (EFC), created by EDA in 2009 in collaboration with the EC and ESA. However, when it comes to EDA-EC relations, the EFC has produced only modest results and displayed a number of limitations. Those limitations need a proper assessment in order to improve the programme. These improvements should be coordinated and fostered by Horizon 2020, whose aim is to cover External Security as well, a domain which was not treated in the 7th FP.

The aim of the EFC is to assure the systematic coordination of the R&T investments separately managed by EDA, EC and ESA. This is intended with a particular attention to dual-use technology in order to avoid useless duplications of R&T activities in the civil and military sectors and, at the same time, to improve civil-military interoperability and standardization.

In EDA-EC relations, an important shortcoming of the EFC derives from the absence of a common budget, and from the fact that EDA investments in projects and research are still very limited because the overall EDA budget is so small that most of it is required to cover Agency’s structural costs. The most important shortcoming however comes from the different rules, responsibilities and types of governance used by the EDA and the EC to separately manage funds respectively in the EFC and in the 7th FP (Horizon 2020 starting from 2014).

Not all the ambitious coordination tools foreseen by the EFC have been activated yet. Particularly, what is still missing is a common top-down strategy for EDA and EC to develop “common” dual-use technical requirements that leave room for “different” applications in the EDA and EC domains.

Even in the Chemical, Biological, Radiological, Nuclear (CBRN) sector, included in the areas of cooperation between EDA and EC and implemented by the EFC from the beginning, there has not been an *a priori* sharing of common objectives and strategies.

In this regard, joint meetings between EDA and EC assessment and management committees on their respective R&T calls for proposals on CBRN took place, but with

only partial results due to the fact that these joint meetings were held after the phase of requirements definition. Notwithstanding the continuous sharing of information that started in 2011, it seems that the EC CBRN Demonstration Project (7th FP) and the EDA initiatives in the same domain have not influenced each other. It may be too early to make these kinds of considerations since the Demonstration Project is going to start in the coming months and both EDA and EC might benefit from their mutual results, but in any case, although foreseen, common planning of requirements was not carried out.

3.3. Steps forward: a European roadmap for dual-use technologies

A coherent effort to rationalize European governance of R&T activities is needed. Rationalization should not be limited to administrative and organizational optimization of the various stakeholder's initiatives, at both the national and the European level. It should also have a clear thematic focus in terms of technologies and programmes to make it more adaptable to the various and mutable economic, industrial and operational contexts with which Europe has to deal.

As shown by the emphasis put on it by the EC during the drafting of Horizon 2020, the development of dual-use technologies could be a way to take advantage of the convergences and overlap highlighted above, stimulating the European process of rationalization, cooperation and integration at both the institutional and the industrial-scientific level.

The definition of dual-use may not be the same even for stakeholders in the same category. Technology itself is not either military or civil, but rather that it is the application that makes the difference. In fact, the initial stages of the R&T process of a product or service, which precede their application, are common to and suitable for applications in both civil and military fields. In most cases, it is almost impossible to know whether a product or service will be used for military or civilian purposes in the initial phases of the R&T process. Having said that, one should favour the development of dual-use technical requirements (especially at basic military and civilian R&T levels), enabling the optimization of budgets and know-how, which would be impossible otherwise.

Investing in dual-use technologies is necessary because of potentially positive impact on civil-military interoperability and standardization. Today, interoperability is crucial for civil-military cooperation, which is an unavoidable EU *modus operandi* in dealing with future crisis. These crisis reflect the blurred borders between the concept of security (which has been overstretched and continues to evolve), and the traditional concept of defence. Likewise, management of these crisis calls for the same kind of complementarity and synergy that the concepts of security and defence display.

As stated by the Council in the process (not yet concluded) of defining Horizon 2020, civil-military interoperability must be considered in the broadest sense and applied to activities that range from civil protection and humanitarian assistance, to border control and civil peacekeeping. What is needed is "technological" interoperability, which must be coupled with an appropriate administrative-legal framework.

The need to develop dual-use technologies addressing the requirements of an increasing number of security actors - involved in a heterogeneous set of missions - has clearly emerged in the space domain, fostering the first important results at the European level in terms of deeper cooperation and stronger integration. The most remarkable examples of the European success in this domain are the two flagship programmes launched by the EC, the Gmes-Copernicus Earth observation system and the Galileo navigation system. The applications and services provided by the two systems, built with technologies developed in Europe, will be at the disposal of security and defence actors, as well as civil, public and private users.

R&T activities performed in the ESA framework have been fundamental in driving this technological development. Thanks to the inter-institutional cooperation between the Agency and the EC - cooperation established by the European Space Policy (ESP) - progress in the space sector has resulted in multiple-use applications and services. The ESP, in fact, encourages better and deeper coordination between the civil and military programmes undertaken at the European level. Despite some difficulties related to the roles, responsibilities and procedures of the different actors involved, the encouraging example of the collaboration that led to the establishment of Gmes-Copernicus and Galileo could represent a new model for broader cooperation in the dual-use sector.

For instance, while the Horizon 2020 and EFC budgets will be kept separate, a top-down strategy to develop “common” dual-use technical requirements on a few select, high-quality sectors should be gradually put in place. This strategy would mitigate the difficulties arising from the different approaches that EDA and EC have in R&T activities. The former follows a technological approach, while the latter is mission-oriented. This means that EDA, on the basis of an accurate analysis of capabilities, identifies what technologies are needed to cover possible capabilities gaps, whereas the 7th FP and Horizon 2020 recommend the type of mission and task to be carried out, but not the technology to use.

It would be desirable to support a shift from a “product/service” development to a “capability” development because focusing on capabilities would lead to more flexible requirements, making it possible to define “common” dual-use technical requirements, for both civil and military customers. This requires durable and stable coordination between EDA and EC in order to work out, systematically update and implement such a common top-down strategy.

Furthermore, such a strategy should involve the engagement of relevant stakeholders at the technical-operational and political-institutional levels. The right balance among industry, operators, universities, research centers, public and private sectors including representatives of the civil and military sectors should be sought. This is required in order for the real and numerous needs of end-users of both categories to be taken into account in the definition of the dual-use requirements.

The proper involvement of end-users has been announced as a strong point of Horizon 2020. Additionally, the realistic consideration of their needs should foster the transition from pure research to the development of EU programmes and marketability.

For this purpose and in order to engage Member States as well, an European industrial database on dual-use technologies, R&T projects and products developed for civil and military applications should be set up at both EU and national levels (a proposal already presented in an ECORYS study). This would allow the industrial sector to evaluate R&T investments more effectively while lowering the barriers between security and defence markets, and reducing duplications. Some Member States have started to compare their respective R&T plans on civil and military capabilities and are searching for shared R&T roadmaps to define what they need in terms of dual-use technologies. In this regard, the EC should launch a common European initiative to engage both EU and Member State institutions.

Finally, R&T investments must be supported by a legal framework enabling the intra- and extra-EU transfer of dual-use products and services. This framework should be efficient and uniform in its application, which is not the case nowadays. For the industrial sector, the certainty of these transfers remains the focal point of the entire dual-use technology innovation system.

This common strategy should be concentrated in selected dual-use sectors. The list of these sectors should be systematically updated according to their relevance and feasibility, and should include but not be limited to those sectors originally included in the cooperation between EDA and EC, if still considered priorities. An example would be cyber security, for example, which is dual-use by definition.

Some documents released by the Council regarding the definition of Horizon 2020 refer to EFC as a tool to strengthen EDA-EC cooperation. This is why the EFC should be reviewed and improved with a series of common EDA-EC initiatives, verifying results in the only sector that has been substantially implemented so far - CBRN - and investigating why no further integration in other sectors originally selected has been promoted. All this should lead to the identification of possible areas of improvement.

Independently of the EFC, the potential of dual-use sectors in Horizon 2020 will only be fully appreciated once a common position is adopted by the European Parliament and the Council. The Council is convinced of the importance of the EFC for dual-use technology and this is why it supports the possibility of more comprehensive mechanisms - which should also include other EU agencies, such as EMSA, FRONTEX and EUROPOL - aiming at promoting enhanced cooperation in the EU internal and external security sectors and with other EU initiatives.

Sectors of interest for dual-use technologies should be selected from this more comprehensive collaboration framework between the EC and other EU agencies.

Last but not least, regardless of the percentage of the Horizon 2020 budget that will be specifically allocated to dual-use technologies, the dual-use approach should be transversally applied to other areas, especially to the Key Enabling Technologies (KETs), which represent an investment in innovation for sustainable competition worldwide.

4. The industrial aspect

by Michele Nones and Jean-Pierre Darnis

4.1. Introduction

The analysis of the industrial aspect has to be conducted from a twofold perspective: the regulatory framework of the defence market, and the investments at EU and national level.

4.2. Current situation: a not integrated market with decreasing demand

Regulatory aspect seems to be one of the most important fields for incisive action by European institutions. The European Council of December will take place four years after publication of Directive 2009/81 on defence and security procurement, and Directive 2009/43 on intra-communitarian transfers of defence-related products. For the first time, their provisions recognized the defence market as an integral part of the single European market, albeit requiring “special” rules and procedures. This is of double value. On the one hand, it has been the premise for improving the previously difficult relationship between the European Commission and the Member States. On the other, it allows for new, specific communitarian initiatives, without national preclusions on the Commission’s competency but rather appraising particular features through *ad hoc* measures.

A further noteworthy aspect of Directive 2009/81 was its recognition of the contiguity of the defence and security sectors. This made it possible to apply the rules established for the defence sector to the more “sensitive” area of security. This constituted the prerequisite for developing comprehensive policies in the defence and security sectors for European interventions. However, the estimated times for the implementation of the two directives turned out to be too optimistic: application of the former was expected for August 2011, of the latter for July 2012. Although the national legislations have been formally modified to incorporate EU provisions, actual implementation by the Member States is still partial and heterogeneous. The general impression is that the Directive on procurement has been used only occasionally, and that, as a consequence, notable effects on the European defence market are still lacking. The Directive on intra-communitarian transfers still requires procedural and organizational implementation by numerous Member States. Hence, evaluating it and eventually suggesting corrective measures is still premature.

At the same time, the different attitudes in the procurement field of countries that manufacture defence systems and those that have limited defence industrial capacities should not be underestimated. The former are largely involved in intergovernmental bi- or-multilateral programmes, research and technology projects, and activities managed by specific international agencies or covered by international agreements that are excluded from the scope of application of the Directive on procurement. These countries allocate more resources to the protection of their national enterprises and are committed to supporting them to drive exports further. The latter resort more often to Commercial Off-The-Shelf (COTS) purchases, and are thus more involved in Directive 2009/81. In any case, they mostly resort to offsets to maintain or develop limited industrial capacities.

Secondly, the different attitudes of countries and enterprises with regard to the timeline of integration in the European defence market must be considered. Briefly, it can be argued that opposition at national level still broadly persists, in particular in those administrations committed to procurement, and those enterprises more closely related to the military market. In Europe, there still seems to be little awareness that the limited national resources available (further affected by the economic and financial crisis), the rapid and constant technological developments, the international market's trend towards openness, the new competitors on the horizon, the US' technological and industrial advantage all make integration of the European market necessary and compelling.

European decision-makers seem to undergo a "Europeanist" metamorphosis only when they pass from their own capital to Brussels: the result is often insufficient support for, or even in passive resistance towards the European institutions' initiatives to accelerate this process. This is attested to by some countries' confrontations with the European Commission. Strong opposition emerges and tries to stop any intervention (even gradual) towards a more integrated European market through the removal of those elements that have distorting market effects (offsets) or are non homogeneous (State aids, control of foreign investments, technology transfers abroad, etc). On the other hand, this affirms the need for major intervention by the Commission to sustain research in the security area (Horizon 2000), corporate restructuring (structural funds) and dual-use programmes (space).

The overall picture of the defence market is quite troubling. Some of the critical points are the following:

1. The economic and financial crisis, especially in Europe, caused significant cuts in investments in the security and defence sector and, more in general, in all sectors in the public domain (such as space), or in related activities like technology research. In Italy, a further reduction and postponing of some important acquisition programmes stand out. In particular, this will occur if the re-organization of the Armed Forces, proposed by Defence Minister Giampaolo Di Paola and approved in December 2012 by the Parliament, is not rapidly implemented.
2. There is a total lack of new European collaborative defence programmes with the exception of exclusively bilateral programmes between France and the United Kingdom. This mostly affects those countries, like Italy, that find it harder to initiate alternative national or bilateral programmes due to limited available funds (obviously proportional to the number of participants) and in which only the political validity of a "European" programme allows for the use the limited available resources of the State budget.
3. Moreover, a certain "autarchic" tendency should not be underestimated (with its social and political-electoral causes) in several industrial countries - United States *in primis* - that further reduces the already limited access to their markets.

4. The competition in the international market is increasing dramatically. The traditional manufacturers are looking for alternative solutions while new suppliers are moving forward, and are vigorous primarily on their regional markets. Since the defence market is not completely transparent, this situation can inevitably push towards wide-ranging and fiercer competition to obtain new orders.
5. In such a hyper-competitive situation, technology transfer to new manufacturing countries increases exponentially, as a prerequisite for penetrating those markets. Europe is likely to pay the highest price since the competition between European industrial groups and countries sharpens, so as to strengthen the bargaining power of the purchasing countries vis-à-vis the competing European suppliers. In addition, export controls are limited to the national dimension, without an appropriate assessment of European strategic interests. The risk is fostering excessive and rapid growth of non-European competitors, thus reducing the Old Continent's technological edge. Chased by new competitors and in the absence of appropriate investments in research and technology, Europe is likely to recede, moving further away from US technological levels.

There are already some transnational groups that receive support from their Member States and compete at the international level: EADS represents the typical case, but also BAe Systems and Finmeccanica. However, these transnational defence companies (TDCs), still seem to be in mid-stream, in that they have to deal with the national involvement/engagement of their customers and shareholders.

4.3. Steps forward: implementation of directives and investment agreements

Any progress should follow two lines of action. On the one hand, greater stimulus and more effective monitoring by the European Commission of the implementation of the two directives are necessary. Verification of Directive 2009/81 is expected in 2016. It would be appropriate, however, to publish early results and circulate best practices at the European level. As for Directive 2009/43, the publication of certified companies and the list of goods subject to national General Licenses should be undertaken promptly at European level. At the same time, the Commission should share the results of its verification so as to identify the "reliable" Member States (the countries that are respecting the directive) and implement the envisaged simplified controls.

Having said that, an intervention on regulations alone is likely to remain ineffective in terms of integration of the European defence market or, at least, to influence it only partially if other initiatives are not adopted towards the *de facto* excluded parties.

For example, take the problem related to the duplication. If we examine European defence productions as a whole, looking at platforms - from armoured vehicles to fighter aircraft passing through submarines and ships - we note that there are numerous and diverse actors. European manufacturers often benefit from a national market of reference and then compete on a global scale. Therefore, in this perspective, rationalization of the defence industry is conceivable in which certain national specializations are encouraged and duplications eliminated.

If the objective is to maintain the highest possible level of investment to produce the best conceivable technology (also to guarantee the necessary strategic autonomy and compete globally), then “government control” manoeuvres and/or visions take on a different value. Undoubtedly, for the moment it seems unrealistic to expect Member States to share their supply chains to rationalize the technological effort and level of concentration. This would mean sacrificing entire segments of their domestic industry to ensure excellence in other fields. In this area, it is possible to distinguish between “almost monopolistic” or “ex monopolistic” countries (which still have an industry that can produce or contribute to all platforms), and those that play a more limited role by insuring only some industrial niches.

In addition, special attention should be given to maintaining the industrial and technological base, and thus not only to system integrators but also to each actor of the supply chain, namely the essential elements of the sector, able to ensure continuity of supply. Only through decisive steps towards European integration can we think of a kind of governance capable of dealing with this international political framework. At the moment, the situation is quite different, being characterized by the interaction of indirect shareholder States (such as France, Germany or Italy) able to incentivize a consolidation at the national level aimed at making their industrial structure more efficient. In France, this approach has often produced conflicts between the various groups involved in the defence industry, while in Italy the “range of activities” of Finmeccanica and its subsidiaries remains an unresolved issue.

Nevertheless, progress on governance may generate some contradictions. Recently there have been suggestions of a strengthening of economic governance in the Eurozone. This would have positive effects on integration and governance of sectors regulated by the public authorities, such as the defence industry. Nevertheless, a small problem remains: the UK and Sweden, two important manufacturers of defence equipment would be excluded. In any case, some new perspectives are emerging and encourage us to think of a Europe of variable geometries. This proposal has the same rationale as participation in international missions: on the one hand there are some “combat ready” countries, such as France and the United Kingdom, on the other some additional States are engaged with differing intensities. It is a situation of relative division that, nonetheless, does not reflect that of the Eurozone (where France is in together with Germany, Italy and Spain, and UK is out).

A set of elements are evolving and a new scenario should give a further boost to the rationalization of European defence. As the dissolution of the Soviet bloc and the consequent reduction of spending on armaments generated the concentration of American industry in the first half of the nineties and European industry at the turn of the millennium, similarly the current economic crisis could be a decisive factor in sparking a new round of industrial restructuring. Last autumn, the attempted merger of EADS-BAe Systems failed, but the matter is almost certainly destined to return to the fore, perhaps in other forms, leading to a further “hierarchization” of European industry.

Therefore, it is essential to act now not only on the regulation of the European market, but also on the technological development and the consolidation of Europe’s industrial structure. In practice, there is a serious lack of joint production of systems and platforms today. All major national and intergovernmental programmes were launched

before or straddling the year 2000 and their impetus is running out. Awareness of this should lead the European Council to initiate a plan to re-launch technological and industrial capabilities in aerospace, defence and security.

In this perspective, four possible tools could be used:

1. A European programme with important dual-use implications that envisages a specific initiative for each main segment of the defence sector, with co-financing from the EU (made possible by the involvement of dual-use technology and/or applications). This programme should be established by the Commission, ESA and the EU Military Committee in order to ensure its "European" nature in the technological, industrial, military and dual-use fields. These segments included could be: aircraft (UAVs), helicopters (SAR), ships (patrol vessels), land (light armoured tracked vehicles), electronics (security of cyber infrastructures), space (tlc). The aim should also be to develop new "European" equipment - not only in words but also in facts - based on European requirements and co-financed by European institutions. This would encourage Member States to adopt such more cost effective outcomes. It would encourage the pooling of such equipment in service, while reducing the cost of logistical support and maintenance. Moreover, the involvement of "willing and able" countries would be an important element of this strategy. The term "willing and able" indicates those Member States that are keen on participating and have advanced technological and industrial capabilities in that specific segment. The logic should be to broaden participation by abandoning the principle of cost-sharing/work-sharing in order to promote competitiveness. It is evident that a package of programmes to be developed in common would favour a distribution of investments that rewards the areas of technological excellence of each country, avoiding the logic of exclusive supremacy of some States. In this context, the creation of European consortia should be favoured by including, where possible, the limited involvement of any actor in the productive activity in order to maintain a competitive market in the future.
2. A European agreement that would make it possible to allocate military spending savings to research and technology programmes (national or intergovernmental) and to the acquisition of new "European" products. This would prevent the savings and cuts now necessary in public spending from being decided from a national perspective with the results benefit only the national financial balance and reducing the capabilities of European security and defence.
3. A European agreement among those countries that financed the most recent renewal programmes of their equipment (especially the intergovernmental apparatus) in order to renounce to *royalties / levies* obtained from the export of such equipment, in order to invest them into maintenance or procurement programmes involving the same industries. Rewarding companies that are able to export their products, by returning to them the royalties destined to the State, would also be an acknowledgement of and incentive for their efficiency. In this way, further impetus to technological innovation would be assured and maintaining the technological and industrial capacity would be favoured.

-
4. Political coordination between the Member States more involved in defence production, in order to draw up a plan for development of the sector, considering not only the strategic priorities but also the political contingencies.

It is clear that technological and industrial capability in the defence field represents one of Europe's flagships. It is not just a matter of autonomy in terms of the provision of strategic goods, rather what is at stake is the high degree of technological content of a product as a factor of industrial competitiveness. In the past, the low efficiency of public spending, fragmented among the various Member States, was a way of sustaining and developing a number of technological productions, as well as maintaining know-how. Nowadays, decreasing budgets are leading to the adoption of priority and selection criteria in the range of productions. Given the peculiarities of the defence market, in the current and complex situation there is a need for an increased level of governance. The nationalist inclination may provoke capability shortcomings. Even a traditionally solid country like France has experienced (first in Libya and then in Mali) some gaps in terms of logistical support and modern systems of data acquisition and transmission (drones and satellites). Indeed, it is in this context that the concept of "subsidiarity" must be implemented at European level. In competing countries, such as the US, the high level of military spending acts as a driving force for the economy as a whole. In Europe, this road is not feasible and only by progressing in regulation and integration will it be possible to renew and strengthen support for the defence technological and industrial base.

Updated: 27 June 2013



Latest Documenti IAI

- 13 | 03** A. Marrone e M. Nones (a cura di), More Europe on Defence or No Europe
- 13 | 02** L. Vai, Tre anime, due teste, un corpo. Il reclutamento e la formazione dei diplomatici nel Servizio europeo per l'azione esterna
- 13 | 01** R. Alcaro and E. Alessandri, A Deeper and Wider Atlantic
- 12 | 07** V. Termini, Sull'energia l'Europa si muove
- 12 | 06** N. Frandi, L'Unione europea e la creazione di una zona libera da armi di distruzione di massa in Medio Oriente
- 12 | 05** S. Forte e A. Marrone (a cura di), L'Italia e le missioni internazionali
- 12 | 04** F. Di Camillo e V. Miranda (a cura di), L'Unione europea e la politica di sicurezza e di difesa comune: elementi
- 12 | 03** A. Colombo e E. Greco, L'Italia e la trasformazione dello scenario internazionale
- 12 | 02e** B. Nascimbene, The "Push-back Policy" Struck Down Without Appeal? The European Court of Human Rights in *Hirsi Jamaa and Others v. Italy*
- 12 | 02** B. Nascimbene, Condanna senza appello della "politica dei respingimenti"? La sentenza della Corte europea dei diritti dell'uomo *Hirsi e altri c. Italia*
- 12 | 01** A. Marrone, Forza NEC e la trasformazione delle Forze Armate italiane
- 11 | 15e** M.C. Paciello, The Arab Spring: Socio-economic Challenges and Opportunities. Report Summary

The Institute

The Istituto Affari Internazionali (IAI), founded by Altiero Spinelli in 1965, does research in the fields of foreign policy, political economy and international security. A non-profit organisation, the 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. The IAI publishes an English-language quarterly (The International Spectator), an online webzine (AffariInternazionali), two series of research papers (Quaderni IAI and IAI Research Papers) and an Italian foreign policy yearbook (La politica estera dell'Italia).

Istituto Affari Internazionali

Via Angelo Brunetti, 9 00186 Roma
Tel.: +39/06/3224360 Fax: + 39/06/3224363
E-mail: iai@iai.it - website: <http://www.iai.it>
Send orders to: iai_library@iai.it