

# COVID-19: Which Effects on Defence Policies in Europe?

by Alessandro Marrone and Ottavia Credi

## ABSTRACT

The crisis caused by the COVID-19 pandemic will have consequences on every aspect of the European societies, including the defence sector. The extent to which it will impact the military budgets is heavily discussed, with optimists trusting in slightly decreased investments and pessimists anticipating severe downturns. The fulfilment of NATO capability goals will be at stake, while allies will bring further diversified security needs to the Alliance's agenda. The EU will have to cope with both pandemic and economic recession for the sake of its own security and stability, without sacrificing the European Defence Fund which could rather be part of a EU-wide plan for industrial and economic re-launch.

COVID-19 | Military budget | Defence industry | Defence cooperation | EU | NATO | Transatlantic relations

**keywords**

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### Introduction

During its introductory remarks, Alessandro Marrone argued that the COVID-19 pandemic is likely to cause serious downturns in the defence field from a budgetary, industrial, and politico-strategic point of view. In order to fully understand the effects COVID-19 will have on defence, it is necessary to consider three main variables: the pandemic's duration, its economic consequences, and the responses that will come from both states and the European Union.

Europe and North America will face a dramatic economic recession in 2020. National governments are now committing significant financial resources to the public health and welfare sectors, which are likely to imply defence budgets cuts later on to square the circle of state budget.

European and North American aerospace and defence industries will not only suffer from these cuts but will also be affected by the crisis of commercial airlines, which is bringing down orders to companies like Airbus and Boeing, while stock prices are navigating financial markets storms. All of these elements may contribute to creating tensions between the EU and the US, as both blocs will likely feel compelled to safeguard their respective defence industrial sectors from short-term losses.

The EU's next Multiannual Financial Framework (MFF) has to be finalised by the end of 2020. If the Union will shift its available resources to cope with the public health crisis and the economic recession that will follow, both the European Defence Fund (EDF) and the EU military mobility project will risk a substantial budget reduction.<sup>1</sup>

<sup>1</sup> Alessandro Marrone, "The COVID-19 Pandemic and European Security: Between Damages and Crises", in *IAI Commentaries*, No. 20|19 (April 2020), <https://www.iai.it/en/node/11494>.

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· This report summarizes the main findings of the IAI webinar held on 8 April 2020 and participated by 22 experts and practitioners from Italy and other European countries.

According to Marrone, the lack of solidarity currently perceived by several member states demonstrates how the pandemic is also posing security challenges to the EU in a strategic, almost existential, way. Take Italy, for example – the country activated the EU Civil Protection Mechanism at the end of February; yet, until 10 March 2020, no member states responded to its call for help. Should the EU fail to adopt the extraordinary measures needed to cope with the pandemic and its socio-economic consequences, the Union will be blamed by a much larger portion of European citizens than happened with previous migratory and financial crises. This would obviously translate into stronger support for euro-sceptic parties. At a time when anxieties brought about by the pandemic are being further fuelled by fake news and information warfare, such a political storm would be extremely hard to navigate for the EU.

The subsequent discussion during the webinar was held under Chatham House Rule. In order to outline a comprehensive overview of the points raised by participants, this report will concentrate on four main aspects: the risk of cuts to Western military budgets; pandemic effects on NATO's targets and tasks; the armed forces' role in facing the pandemic; and the relationship between European defence cooperation and Europe's economic re-launch.

### 1. Cuts to the military budget

The COVID-19 pandemic will likely have a deep, negative impact on world economy, to which national governments will probably respond with sizable financial investments. As a consequence, many are now wondering whether this will imply inevitable cuts to defence budgets. At the time of writing, the health crisis is far from being over, and it is therefore impossible to make a well-rounded assessment. However, it is important to try and make an educated guess on future developments.

Several participants pointed out the pandemic will indeed have negative consequences on the defence budgets, but they will mostly reveal themselves only in 2021-2022. According to optimists, despite the current crisis, governments are aware of the importance of supporting economic activities including those of aerospace, security and defence industries, and will therefore continue to make meaningful investments in this sector. Some participants argued that the cuts to the military would cause more problems to industries already hit by the crisis of commercial airliners' orders, like Airbus and Boeing.

A second, more pessimistic groups of participants claimed that military spending will fall not only in Europe, but in every country affected by the virus worldwide. Experts adhering to this view believe it is possible to make a forecast of future defence spending through a comparison with the 2008-2009 financial crisis. In the following years, regions that were most affected by the crisis (e.g. Western Europe) saw a direct, negative impact on their military spending. Differently, regions that were less impacted by the economic crisis (e.g. Asia and Middle East)

did not experience a decline in their defence budgets. Because the COVID-19 pandemic seems to be affecting the whole world, though, cuts will likely take place everywhere. East Asia and Oceania are already witnessing economic downturns which will probably impact military spending. For example, In Japan the government is trying to implement saving measures.

In Europe, today like in 2008, Western and Southern countries seem to experience so far the most serious consequences of the crisis. One participant underlined that states more hit by the pandemic happen to also be the ones that are more militarily active, such as France and Italy, as they are the ones deploying more troops in North Africa, Sahel and/or Middle East. When it comes to foreign and defence policy, as military spending in several NATO countries will be constrained in the upcoming years, this will limit by default the possibility to use the armed forces for external purposes. This is also true for political will, as it is not clear whether political leaders will be willing to push in favour of foreign policy commitments at times of internal security crisis and/or economic recession.

Another participant noted that after the 2008 crisis it took six years of decreased military budget before a reversal, which was mainly caused by the resurgent Russian threat emerging from the war waged in Ukraine and the annexation of Crimea. One might wonder whether, this time around, Europeans will once again face an external security crisis that will require an increase in the defence budgets, or if Europe is going towards a prolonged fall in military spending.

Other participants made the point that the 2008 financial crisis and subsequent recession was very different from the one which the world is entering now. The former was characterised by budgetary cuts, while today's is all about the economic stimulus needed to tackle both supply and demand shocks. Failing to perceive the defence sector as relevant within this narrative of industrial re-launch will indicate a lack of understanding of its dual-use nature – and this will turn into a huge crisis for the aerospace and defence industry. Airliners are now completely grounded. They are stopping orders, and some of them are risking bankruptcy. As previously mentioned, this has a negative effect on the aerospace and defence sector too, as several prime contractors hold both civil and defence wings.

Several participants agreed that Europe will not, all of a sudden, become military incapable. However, a hasty and unreasoned cut of military spending, coupled with a decline of the European defence technological industrial base (EDTIB), will lead to a political problem in the definition of the EU's ambitions, *in primis* in terms of strategic autonomy. This may result in an accentuation of tensions between the EU and the US.

Moreover, as one participants pointed out, surely not every country will lose the same degree of GDP, influence and power. The balance of power and ambitions will be shifting, sometimes quite substantially, both at the regional and global levels. This will create windows of opportunities that may be seized by ambitious, revisionist competitors which perhaps will be less affected by the crisis, such as

Russia and China. They might pose Europe in front of new direct threats to its security interests – i.e. situations in which NATO's Art. 5 may be invoked – as well as indirect challenges consisting, for instance, in new tensions, fait accompli or shifting alliances in the Middle East or the South China Sea. The more Europe will turn inward looking, the more it will leave a vacuum in other regions, resulting in a damage to its strategic interests.

### 2. The pandemic crisis and NATO

As mentioned before, in the short-term NATO members will focus most of their political attention on dealing with the pandemic and the subsequent socio-economic impact. Governments have to respond to the expectations of their society and electorates, and the same goes for international member states-driven organisations like NATO. It is not by chance that important allied military exercises have already been reduced, postponed or cancelled, including Defender Europe 2020.

The political-strategic dimension of the pandemic crisis will therefore become inherent to NATO's agenda, with consequences that are difficult to foresee. One participant argued that NATO will need to prove its ability to contribute to responding to the security and political challenge posed by the pandemic. Accordingly, a call for a more civilian role of NATO is likely.

Other webinar participants expressed their concern about the possibility of such a non-military turn in NATO's activities, especially considering Russia's security challenge to Eastern Europe. Although they recognise the importance of NATO's contribution to non-military goals such as overall societal resilience, they consider it crucial to keep in mind that defence and deterrence are, and should continue to be, among NATO's core tasks. A balance will need to be found in this regard. In other words, although under the pandemic peak Western countries are living a new reality, some of the activities NATO is used to do need to remain in place, in order to guarantee collective defence, political cohesion and solidarity. On this note, a participant warned that only a few European countries are able to militarily operate in a pandemic environment, and even fewer are able to provide assistance abroad by deploying armed forces.

Others stressed how, following the COVID-19 crisis, the international system will neither become better nor it will end in political chaos. Geopolitical trends will continue as they were, although they might be accelerated by the effects of the virus. Broadly speaking, the consequences of the pandemic on NATO could be divided into short-term and mid-to-long-term ones. The former will range from the withdraw of soldiers from current allied operations to the scale-down of 2020 military exercises, affecting both the situation on the ground in operational theatres and forces' readiness. Mid-to-long-term effects of COVID-19 on NATO will mainly consist in allies' budget reductions and the impossibility to fulfil the capability goals they subscribed.

A participant pointed out how the severe fall of some countries' GDP might paradoxically help them reach the 2 per cent defence expenditure goal set by Heads of state and governments at 2014 NATO summit. This shed a critical perspective on the risks of exaggerating the importance of a single, input parameter in assessing military capabilities. Yet, such a parameter holds a significant political importance in the US. Another participant actually pointed out that defence cuts by European allies might be used by the current US administration to further criticise Europe and acquire negotiating leverage on the dossiers in the transatlantic agenda.

Some experts highlighted that both NATO's and the EU's contribution to the pandemic crisis is very limited, and that this goes against the narrative that European defence is meant for the protection of its population. They urged NATO and the EU to embark on a process for the development of collective capacities needed to contribute to the pandemic crisis. Failing to do so could severely compromise their role and credibility in the eyes of European public opinion and electorates, with negative consequences of political leaderships' commitments on both organisations.

### 3. A changing role for the armed forces?

In several Western countries, the armed forces are contributing to cope with the pandemic. In some cases, like Italy, this is not the first time the military has actively contributed to dealing with national emergencies under the civil protection's lead. Yet, the level and duration of such engagement in the context of the current pandemic crisis is likely to result greater than in previous experiences.

At the same time, the dividing line between security and defence is further blurring. The police are now resorting more and more to drones and other new technologies to observe people, in order to implement unprecedented lockdown restrictions. Any military equipment that can be of use is currently being employed, from strategic and tactical airlifts to military hospitals, to the army patrolling certain areas. On this note, some participants raised the issue of privacy in relation to the extraordinary security measures and controls being enforced. The EU being a community of values, and not just interests, it is crucial its members do not resort to new technologies in the same way China is doing.

Another webinar participant made the point that, for example, in France the armed forces had a more large-scale, important role during the terrorist attacks of 2015 than they are having in the current pandemic crisis. Accordingly, it was suggested the expert community concentrates on finding new solutions for civil protection, perhaps resorting to non-military tools. For instance, technologies employed in the fight against climate change and natural disasters could be employed under the current circumstances.

Concerning the security and stability of Europe's neighbourhood, according to some experts it is probable the spread of the virus in the Middle East and Africa

will be followed by a call for humanitarian response at the international level, and possibly crisis management and/or stability operations. Indeed, in such regions the pandemic might also flare up new conflicts or revive old ones, causing further instabilities. This, in turn, would require external peace-enforcing to not escalate into a humanitarian disaster and/or regional destabilisation. Overall, the response will depend on the political willingness and military readiness in Europe and the US to commit to armed intervention while dealing with pandemic or its economic consequences at home.

#### 4. The EDF and Europe's economic re-launch

The discussion focused also on European collaboration in the defence sector and, more specifically, how crucial such cooperation will be regarding to military spending at times of budgets' cuts prompted by the pandemic.

The view that budget cuts necessarily lead to increased international cooperation to achieve economies of scale was deemed by several participants groundless, as shown in the aftermath of 2008 financial crisis. Indeed, it was recalled how, at that time, European ministries of defence did not invest in new international procurement because they were barely shelving ongoing programmes by treasury-imposed cuts. As put bluntly by one participant, several governments decided to keep their small, inefficient national programmes rather than resorting to European cooperation, to make sure they were in charge of their own procurement decisions – and the related industrial benefit. Taking this as a lesson learned, some participants agreed that possible cuts to defence budgets to be caused by the pandemic will not represent a driver for more cooperation among EU members. There is rather a need for an incentive like EDF co-funding. A potential reduction in the EDF budget in the context of the new MFF would thus lead to negative consequences on procurement cooperation in the defence sector.

Some participants insisted on the urgency to direct the majority of EU efforts towards the achievement of European strategic autonomy, therefore prioritising investments in common projects rather than national or non-EU programmes. At the same time, the pressure to ensure industrial work-share "at home" might turn into a decreased use not only of American, but also European supplies, if domestic producers are able to deliver just decent solutions.

Lastly, many agreed on the importance of including a defence angle in the economic debate political leaders are going to have about re-launching industries and small and medium enterprises in Europe. The aerospace and defence sector has to be considered as a strategic economic sector, particularly in light of its high-tech character. Accordingly, some pointed out that defence investments will need to sustain the economy, particularly in 2020–21, in the framework of an overall plan for European economic re-launch. For such re-launch to be successful, there is a need for more defence industrial cooperation within the EU, and this can be achieved by making sure its members know they can rely on the EDF and other

European incentives.

### Conclusion – what implications for the European integration process?

When considering what will follow the COVID-19 pandemic, it is possible to outline a best- and a worst-case scenario concerning the subsequent economic recession, thus cuts to military budgets, losses for European aerospace and defence industries, more transatlantic tensions and, above all, damages to the cohesion of the EU integration process which brought peace and stability to the Old Continent. The best-case scenario would see EU institutions and member states committing in solidarity and cooperation to address the multifaceted aspects of the crisis, while in the worst one the EU would exit the pandemic with serious economic, social and political downturns.

These scenarios relate to the international security environment too. Some participants were concerned as the worst-case scenario currently seems the most likely, given the measures that are being adopted by national governments. They claimed the world risks becoming worse than it is today in terms of stability and security, with the US dividing the world between friends and foes according to a short-term, narrow interpretation to its national interests, and China enhancing its military forces as well as its influence abroad at an alarming pace.

In conclusion, the pandemic and its economic impact have both direct and un-direct implications for defence policies in Europe, and different scenarios are possible. The ability of member states and EU institutions to act together in a decisive way will make the difference, with far-reaching impacts on European security.

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