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**ISSUES AND PROSPECTS FOR EUROPEAN
INDUSTRIAL DEFENCE COOPERATION**

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Introduction

It has become a truism to say that the end of the Cold War brought about by the dissolution of the Warsaw Pact and the disintegration of the Soviet Union has radically changed the strategic picture of the European continent. But hopes for a period of stability finally not imposed by the huge nuclear and conventional forces of the two confronting military blocs have rapidly vanished. The hopes for a "new world order" have been replaced by the cold reality of a "new world disorder" which will presumably last for decades. The war in the former Yugoslavia, the ethnic tensions and conflicts in several republics of the former Soviet Union, the Russian military intervention in Chechnya, the endemic instability and the threats and risks emerging from the Mediterranean and Gulf regions are all a stark reminder of the "new", multifaceted and multidirectional parameters of the European strategic equation.

Moreover, Russia's foreign and security policy is also changing, raising questions about the possibility, in the medium-long term, of a new period of confrontation. Moscow's attempts to re-gain its influence over the republics of the former Soviet Union using the traditional leverage of economic dependence and military support; its enunciation of the right to perform peacekeeping and peace-enforcing missions in the so called near-abroad, and to protect Russian minorities living outside the present borders; its new assertiveness in foreign policy aimed at re-establishing the international image of Russia as a major power; its strong opposition to the enlargement of NATO; its evident tendency to adopt attitudes and positions differing from those of the Western countries when dealing with international crises; the renewed attention given to the military posture and the operational readiness of the armed forces; the role played by the former communists and the ultra-nationalist party in opposing the process toward true democratization and a market economy, these are all elements which add new uncertainty to the future requirements of European security and defence.¹

On Europe's southern periphery the situation is even more complicated and somewhat more untractable because of the lack of a security identity among the Mediterranean nations and the many factors which are bound to destabilize the region and affect European security, directly or indirectly. In addition to the growing influence and the eventual access to power of militant Islamic fundamentalist movements in North Africa and the Middle East, these factors include the following: the still open and uncertain Arab-Israeli peace process; the possible proliferation of

¹. In its 1991 New Strategic Concept, NATO stated, referring to the particular case of the Soviet Union: "... the risks and uncertainties that accompany the process of change cannot be seen in isolation from the fact that its conventional forces are significantly larger than those of any other European State and its large nuclear arsenal comparable only with that of the United States. These capabilities have to be taken into account if stability and security in Europe are to be preserved". The Alliance's New Strategic Concept", NATO Press Service, Press Communiqué S-1 (91) 85, para 11, p. 3. It can be argued that this statement is still applicable to Russia today.

weapons of mass destruction and long-range ballistic missiles; the increase in the North-South economic gap and the difficult economic situation of the majority of the Mediterranean littoral countries; their impressive population growth which could lead to economic disaster and social unrest; the prospect of an increase in migration to Europe fueled by unsustainable political and economic domestic situations; the full application of the Law of the Sea which could lead to situations of potential conflict; the re-emergence of international terrorism in Europe.

Europe is painfully discovering that the "day after" the Cold War might be more difficult to manage than the traditional scenarios of bloc-to-bloc confrontation. And that the lack of a clear threat and the loss of a certain enemy tend to weaken support for defense expenditures.

How can Europe respond to this situation? What should the institutional framework for a new European security system be? How can Russia be convinced to participate in its construction without giving it a veto right on Euro-Atlantic decisions? What military instruments does Europe need to confront present and future security challenges? Will Europe be able to achieve a common defence policy, which might in time lead to a common defence, compatible with that of NATO as indicated in the Maastricht Treaty? Finally, will Europe be able to find ways and means to rationalize its defence R&D and weapons production to support that defence policy?

The scope of this paper is to try to answer the last question at a time of rapid transition of the European and Euro-Atlantic defence organizations, declining defence budgets, shrinking internal and international arms markets, higher international competition.

The starting point of the analysis will be a resumé of the new security challenges and a rough sketch of the differences between Central and Southern Europe in order to underline among other things the distinctive geostrategic elements of European security. The first chapter will also review the new NATO and WEU missions to outline the present European security and defence requirements and those elements of convergence which could favor inter-European and trans-Atlantic industrial cooperation.

The second chapter will examine the security and defence policies of major European countries which form the basis for the national procurement processes, again with the aim of determining points of convergence which could facilitate European defense industrial integration and joint production.

The third and fourth chapters will consider the present picture of European efforts to rationalize defence industry cooperation and issues involved in and prospects for institutionalized European defence industry cooperation and weapons production. A few remarks will conclude the paper.

1. The new security challenges and NATO and WEU missions

a. Security challenges

Absent the threat of a short-warning full scale attack against NATO, European security appears to be challenged by a series of risks against which strong military postures play a reduced role. Domestic political instability, border issues, ethnic conflicts, proliferation of weapons of mass destruction, and terrorism cannot be deterred by military power alone, even though the use of force could be necessary to manage crisis situations. But, above all crisis management requires above all a common strategy and goal, a strong political will and a readiness to use all available

diplomatic, economic and military means: all elements which are presently lacking in the European foreign and security policy.

Confronted with challenges for which traditional defence would apply only in the presently unlikely cases of spill-overs into Western European territory of out-of-area conflicts, NATO and WEU have adapted their strategic concept and their force posture to the new situation, and endorsed new missions. This was not only an act of recognition of the new strategic reality but also a way for NATO to demonstrate its enduring validity and viability and for the WEU to acquire a higher political profile and a strengthened operational role in the framework of the Maastricht Treaty's guidelines.

The task has been made more complicated by two somewhat interrelated factors. The first is a feeling of insecurity and the widespread talk among the former Warsaw Pact European allies about a "security vacuum" in central Europe, and their explicit request to be integrated into the Western political, economic and security system. The second factor is the evident geostrategic difference between Central-Eastern Europe and the Mediterranean region, intended as the area stretching from the Strait of Gibraltar to the Gulf. It is not only a matter of there being a more coherent security "fabric" in the Central-East, as compared to the security fragmentation in the South, as I have previously indicated. It is above all a matter of the South presenting specific challenges and potential threats (proliferation of weapons of mass destruction, spreading of long-range ballistic missiles, potential anti-Western attitudes and policies of Islamic fundamentalism) which are lacking in Central-Eastern Europe. Indeed, security proposals and policies which have been adopted in the Central-East are presently unpracticable in the South.

b. The new NATO missions

While restating its fundamental nature and purpose at its November 1991 Summit in Rome, NATO recognized that preserving peace and preventing war depended even more than in the past on the effectiveness of preventive diplomacy and successful management of crises.² In June 1992, the North Atlantic Council in Oslo went a step further, expressing its willingness to "support, in a case-by-case basis in accordance with its own procedures, peacekeeping activities under the responsibility of the CSCE, including by making available Alliance resources and expertise".³ Moreover, NATO Ministers reiterated their commitment "to strengthening the United Nations' ability to carry out its larger endeavours for world peace", and welcomed the fact that "Allies participate in and contribute to United Nations peacekeeping and other efforts".⁴

By July 1993, the Alliance was directly involved in the U.N. efforts to manage the crisis in the former Yugoslavia. NATO combat aircraft were deployed on Italian airbases to enforce a "No-Fly" zone over Bosnia-Herzegovina, to provide support to the UNPROFOR troops and to protect, on request, the "safe areas" designated by U.N. Security Council Resolution 824. In the Adriatic,

². Para 42 of the 1991 Summit's final communiqué clearly stated that "Allies could, further, be called upon to contribute to global stability and peace by providing forces for United Nations missions." NATO Press Communiqué, cit., p. 11.

³. See para 11 of the final communiqué of the Ministerial Meeting of the North Atlantic Council, held in Oslo on 4 June 1992 in "Atlantic News" (AN), 5 June 1992, p. 5.

⁴. Para 13 of NAC's final communiqué, cit., p. 5. In fact, during the NAC's Ministerial Meeting in Brussels on December 17, 1992, NATO ministers confirmed the preparedness of the Alliance to support peacekeeping operations under the authority of the UN Security Council. Para 4 of the final communiqué on Atlantic News, n. 2484 (Annex), 19 December 1992, p. 1.

NATO and WEU naval forces, under the operational control of COMNAVSOUTH, were enforcing the arms embargo and the economic sanctions against Serbia and Montenegro.

For NATO to embrace peacekeeping and peacemaking as new Alliance missions without renouncing its main task of defending its members against aggression, means a fundamental restructuring of its forces, aimed at enhancing flexibility and mobility, and an assured capability for augmentation when necessary. In this context, the concept of multinational forces plays a key role. Thus, the new NATO force posture with its emphasis on the operational integration of national forces appears to be capable of providing new opportunities for industrial defence cooperation and joint production. In fact, forces for the new missions require high-tech armaments (lethal and non-lethal), modern inter-theater and infra-theater naval and air transport, advanced electronic warfare systems and sophisticated C3I systems.

Moreover, the Partnership For Peace (PFP) program is already leading, and the future enlargement of NATO will lead even further, towards greater operational compatibility between NATO armed forces and those of the PFP partners and potential NATO candidates. Moreover, within the framework of the PFP program, NATO is planning to hold eleven military exercises with its PFP partners in 1995 to prepare forces for cooperation in peacekeeping and humanitarian operations. Though restrained by limited defence budgets, this trend is bound to stimulate the acquisition of Western armaments on the part of the Central-Eastern and South-Eastern European countries in order to achieve a higher degree of interoperability and standardization with NATO forces.⁵ This, in turn, could open up interesting opportunities for the European defence industry, not only in terms of an enlarged European arms market but also in terms of joint ventures which would include Central-Eastern and Central-Southern partners.

c. The new WEU missions

The political and operational revitalization of the WEU was officially sanctioned by the Petersberg Declaration. Like NATO, WEU declared its readiness to support "on a case-by-case basis and in accordance with its own procedures the effective implementation of conflict-prevention and crisis-management measures, including peacekeeping activities of the CSCE or the UN Security Council".⁶

Moreover, in the framework of the measures adopted to strengthen its operational role, the WEU stated that "military units of its member States...could be employed for: humanitarian and rescue tasks; peacekeeping tasks; tasks of combat forces in crisis management, including peacemaking". It also stated that it intended to develop the appropriate capabilities to enable the deployment of WEU military units by land, sea or air.

Finally, France, Italy, and Spain decided to improve the WEU's operational capacity to manage crises on Europe's Southern Flank by creating two multinational forces on-call -- a light armored division known as EUROFOR, and a naval force called EUROMARFOR.⁷

⁵. As just one example, Poland and the Netherlands have signed a naval cooperation agreement to increase interoperability.

⁶. The WEU Council of Ministers in Bonn, 19 June 1992.

⁷. During a meeting of the WEU Council in Lisbon on May 15, 1995. Portugal has agreed to participate in these forces since their establishment. See the final text of the WEU Ministerial Meeting, "Lisbon Declaration", in Europe Document n. 1933, 17 May 1995, p. 2. International Herald Tribune (IHT), 15 May 1995, p. 5 and 16 May 1995, p. 7.

Thus, the WEU is moving toward the same formula adopted by NATO: multinationality of military forces, strengthened capacity to rapidly deploy and operate, enhanced modernization of equipment and armaments.

In summary, the picture emerging in Europe is one of convergence of new military postures and restructuring plans and a resulting trend toward the integration of the military units of different nations into expeditionary forces for peacekeeping or peace-enforcing operations. This, in turn, should also favor the convergence of defence industry policies for the production of common weapons systems and military equipment in order to improve the interoperability and standardization of multinational forces.

2. The security and defence policies of the major european countries

At this point, a brief comparison of the security and defence policies of the major European countries (France, Germany, Italy and the United Kingdom) is in order to examine if there are differences between the commitments taken on within the framework of the European and trans-Atlantic defence organizations and the more stringent logic of the national security, defence and industrial interests. In fact, it could be possible to support the long-term goals of those organizations and, at the same time, stick to national policies, which could adversely affect the harmonization of the European defence industrial production.

Such an analysis was conducted on the latest issues of the British "Statement on the Defence Estimates", the French "Livre Blanc sur la Défense", the German "White Paper on the Security of the Federal Republic of Germany and the Situation and Future of the Bundeswehr", and the Italian "Nota Aggiuntiva allo Stato di Previsione per la Difesa".

It is outside the scope of this paper to address the whole range of subjects touched upon in those official documents, but the emerging picture is one of convergence on assessment of the international situation and the related security and defence requirements, and of divergence in relation to different geostrategic interests and responsibilities and how to deal with crisis situations.

In fact, the overall impression is that even though these documents contain similar concepts, common concerns and shared goals, they lack a true identity of security and defence interests and a common strategic approach to the new security challenges. In this respect, the French proposal to produce a "European" White Paper on defence would -- if this goal is eventually attained -- be a good step forward in the direction of policy harmonization.⁸

Though it should be recognized that unique security interests tend to stimulate specific military requirements and the procurement of weapons for which European cooperation would be more difficult to achieve, one can argue that the process towards a European security and defence identity, conducted within the WEU and the CFSP, will tend to equalize policies and requirements. This, in turn, should provide the framework for a coordinated defence industry policy and production.

One can also argue that there are purely industrial needs and requirements which tend to operate in favor of European-wide cooperation, irrespective of differences in security perceptions

⁸. The initiative was announced by the French Prime Minister Edouard Balladur in 1994. *Le Figaro*, 2 September 1994.

and policies. At the same time, convergences on missions are likely to create similar if not common military requirements which can favor cooperation.⁹

3. The european efforts to institutionalize cooperation

a. The Maastricht Treaty.

Paragraph C of the Declaration on Western European Union annexed to the Maastricht Treaty, which deals with the operational role of the WEU, states that it will be strengthened also by "enhanced cooperation in the field of armaments with the aim of creating a European Armaments Agency" (EAA).

b. The efforts conducted within the WEU framework.

In the Petersberg Declaration, the WEU Council welcomed the decision of the Independent European Program Group (IEPG) to analyze its future role in the context of the new European security architecture. The European ministers considered this to be fully in line with a concerted effort toward cooperation in the field of armaments and the ultimate objective of establishing a European Armaments Agency.

In Rome in November 1992, the WEU agreed that a transfer of IEPG functions to WEU would represent an important step in the direction of attaining that objective.¹⁰ And, in December 1992, the IEPG countries decided to transfer its functions to a new organism in the WEU (the Western European Armament Group), which would initially be based on the IEPG-approved course of action and the traditional IEPG-NATO links.

By May 1993, the Western European Armament Group (WEAG) had made the necessary institutional and operational decisions required by its new setting. Among them the re-location of the permanent Secretariat from Lisbon to Bruxelles.¹¹

In November 1993, the Defence Ministers of the thirteen nations of the WEAG met before the WEU Council. The Ministers "welcomed continuing work to develop the open European Defence Equipment Market and endorsed guidelines and measures to support Developing Defence Industry (DDI) Countries,¹² and enable them to participate more fully in that market. Ministers welcomed a first report on the possible role of a EAA and agreed that work would continue on this subject under the direction of the National Armaments Directors (NAD)".¹³

In November 1994, the Defence Ministers of the WEAG agreed to establish a Research Cell in Spring 1995 to support the conduct and implementation of the EUCLID program. Moreover, they welcomed the German initiative to set up an informal group of experts to study the options for a European armaments policy. They took note of further work on an EAA and approved the principles for its operation. Finally, the Ministers agreed that the NAD would continue their considerations on this subject, "recognising that conditions do not currently exist for the creation

⁹. For example, common requirements can be identified in a new generation of light armoured vehicles, a new medium-range air-to-air missile for the Eurofighter 2000, and a new generation of frigates.

¹⁰. Final Communiqué, WEU Council of Ministers, Rome, 20 November 1992, Europe Document, no. 1810, 25 November 1992, p. 2.

¹¹. The move was completed by 1 April 1994.

¹². Another definition, which has been currently used particularly in NATO, is: "Less Developed Defence Industry (LDDI) countries".

¹³. The agreements by Defence Ministers were subsequently adopted by the Luxembourg WEU Council, held on November 22, 1993. See Atlantic News no. 2573 (Annex), 24 November 1993, p. 6.

of an agency conducting the full range of procurement activities on behalf of member nations".¹⁴ They further agreed "to consider favourably the Franco-German initiative to create a new armaments cooperation structure as a subsidiary body under the modified Brussels Treaty, when introduced to the WEU Council".¹⁵

The informal group of WEU/WEAG and EU experts¹⁶ was given the task to prepare a report covering three specific topics: first, the European armaments policy with a specific assessment of the capacity of the European defence industrial base and the measures needed to improve the arms market conditions in terms of a more competitive approach; second, the European arms export policy with an evaluation of both intra-European exports, in order to cover common military requirements, and extra-European exports in order to harmonize national export policies within the context of the Common Foreign and Security Policy; third, the common measures needed to enhance European cooperation in the R&D and production fields.

Finally, in the Lisbon Declaration of 15 May 1995, the WEU Ministers simply expressed their appreciation for the cooperation between WEU and EU in the framework of the informal group of government experts of WEU/WEAG and EU member States to study options for a European armaments policy,¹⁷ and their expectation of the final report on this matter.

The fact that the EAA was not even mentioned appears as clear proof of the very slow pace at which the concept is moving through the intricate political and industrial bureaucratic structures of national and European institutions. It is also a confirmation of the lack of a common political will capable of stimulating a true convergence of industrial policies and military requirements, the two prerequisites for a constructive work on developing an EAA.

c. The Franco-German Armaments Agency.

The decision to create a joint Armaments Agency was made by the French and German Defence Ministers, Mr. Léotard and Mr Rühle, during the Franco-German summit held in Bonn in December 1993. The issue was further discussed during the May 1994 Summit held in Mulhouse.

The task of the Agency, which is expected to be operational this year, is reportedly to increase the effectiveness and to reduce the costs of the management of the bilateral armaments procurement programs. The Agency is also expected to work for the standardization of the armaments of the EUROCORPS and to coordinate relative common projects.

The bilateral cooperation programs which are supposed to be managed by the Agency will include the attack helicopter TIGRE, the development of a new generation of combat vehicles, the multinational Future Large Aircraft (FLA) program, the antitank missile TRIGAT -- a program also involving the participation of the United Kingdom -- and possibly the HELIOS II intelligence satellite program.

There have been discussions on the preferable institutional framework for the Agency -- a specific agreement between the two countries perhaps subjected to parliamentary ratification or a subsidiary body of the WEU Council. Reading the Noordwijk Declaration it seems that the second solution was finally chosen, though questions have been raised on how the Council could have a subsidiary body open only to two countries.

¹⁴. Noordwijk Declaration of the WEU Council of Ministers adopted on 14 November 1994. Europe Document no. 1910, 19 November 1994, p. 7.

¹⁵. Ibidem.

¹⁶. In accordance with the official directive, the Group is co-chaired by the member States which are currently president of the EU and the WEU, the latter in coordination with the WEAG.

¹⁷. "Lisbon Declaration", cit., p. 5.

Although the establishment of the Agency has been agreed at the highest level of the French and German defence organizations, its operational development process appears to be lagging, pushing the prospect of a fully functioning Agency beyond 1995. The impression is that the political decisions come up against problems when they have to be translated into practical measures, thus confirming the difficulties of harmonizing interests, requirements and expectations even when only two allied countries are involved.

One interesting point concerning the Agency is its possible role as the initial core around which the EAA will eventually be built.

In fact, it is open to question whether the Franco-German Agency will facilitate the establishment of the EAA. On the one hand, it can be argued that the EAA could develop from the Franco-German Agency and that its development could be facilitated by the experiences gained during the initial phases of work by the Franco-German initiative. On the other hand, it can be argued that other potential members of the EAA might resist adopting already established procedures, rules, *modus operandi*, etc. Viceversa, if the Franco-German Agency has become an effective working structure by the time the EAA is created, then Paris and Bonn could object to adopting those changes which might be necessary to transform it into a European organism. But the first hypothesis seems more likely to occur for the simple reason that an EAA without the full participation of France and Germany is unthinkable.

d. A British proposal.

In early 1995, Britain's Defence Procurement Minister, Roger Freeman, suggested that a European Project Office could be established to manage large joint defence programs which were well defined and had agreed specifications.¹⁸ The proposal seemed complementary rather than alternative to the Franco-German Armaments Agency, considering that in the same period the British Defence Minister was lobbying for Britain to become a member.¹⁹ In any case, Freeman's idea was that the Office, if successful, could evolve into a European Agency.

A key element in the responsibilities of the Procurement Office was that it would manage the joint projects by placing orders based on open competition rather than in proportion to the number of weapons systems expected to be acquired by each participating country.

e. The NATO framework.

NATO represents the other framework within which the European countries cooperate in the field of armaments. As noted at the April 1995 NATO Conference of National Armaments Directors (CNAD), there is a "renewal" of cooperation within NATO as a result of decreasing defence budgets and the formation of more and more multinational units, which require greater systems interoperability.²⁰ Moreover, on January 1995, the Atlantic Council approved the replacement of the old NATO Standardization Group by a new NATO Committee for Standardization with the responsibility of improving the interoperability within the Alliance. Though the focus of NATO's effort has been, and still is centered on operational standardization (doctrine, tactics and procedures), the fact that it covers logistics and C3 as well and that the task

¹⁸. Bernard Gray, "UK wants central agency for Europe weapons projects", *Financial Times*, 27 February 1995.

¹⁹. Ross Tieman, "Britain and Europe link arms on weapons", *The Times*, 29 March 1995.

²⁰. NATO Assistant Secretary General for Defence Support, Robin Beard, indicated that the Alliance Ground Surveillance has top priority among the current joint projects together with the development of an Extended Air Defence/Theatre Missile Defence for which a high-level group has been set up to coordinate the activities. He also indicated that 12 other areas of possible technological cooperation are being studied. *Atlantic News*, no. 2710, 13 April 1995, p. 1.

of the new organization includes the harmonization of policies and programs will favor cooperation among NATO members also in the field of procurement.

e. The Scandinavian approach.

The Scandinavian countries have decided to follow a "regional" approach towards institutionalized defence industry cooperation. The Defence Ministries of Norway, Sweden, Finland and Denmark have signed an agreement for cooperation in the field of military R&D, defence production and maintenance of equipment. The main aim is to achieve substantial cost saving by eliminating duplication and joint procurement.

The initiative is interesting because it involves NATO and non-NATO countries and attempts to co-produce equipment and weapons systems designed to respond to specific technical and operational requirements in order to operate in the particular Scandinavian environment.

f. The Anglo-French High Level Air Force Group.

In Chartres in November 1994, France and the United Kingdom agreed to establish a joint High Level Air Force Group (HLAFG), a small ten-man team to be stationed at High Wycombe.

The decision is important within the framework of the European effort to institutionalize cooperation because in its strategic role the HLAFG will have the responsibility of recommending what planes France and the UK should buy in the future, or even whether they ought to jointly build a new aircraft. More specifically, the task of the HLAFG will be to make sure that the French and British air forces will be covered in all areas in which they need to be effective -- fighter aircraft, transport planes, air defence, radar, laser, stand-off missiles and the like.²¹

Though it is intended to remain small, the Group is open to the participation of other European countries (Germany, Italy and Spain have been mentioned).²²

If this eventually occurs, the Group will be responsible for the planning of the major European air forces in terms of their operational employment in situations of crisis and their future development, thus directly impinging on European aerospace industry policy and being in a position to stimulate joint production and procurement.

4. Issues and prospects

It is common judgement that the establishment of an EAA is a long-term prospect. It has to be based on coordinated military requirements, a common European defence industry policy, an integrated European defence market, and a common export policy, particularly in the dual-use technology domain -- four conditions which do not exist today and which will take time to produce.

The situation, however, seems to be moving forward -- albeit slowly and somewhat erratically -- through the institutional frameworks previously cited and under the pressure of sheer industrial interests and market forces. It can be argued that a European defence industry and market already exist, even though in a rudimentary form. In fact, the European defence industry has managed to rationalize its structure and to cooperate on some major joint projects, but a coherent and coordinated industrial approach is still lacking as is the political will to address the issues in a concerted manner.

²¹. See the interview with Gen. Jean-Philippe Douin, French Air Force Chief of Staff in Jane's Defence Weekly, 27 May 1995, p. 40.

²². Ibid.

The decision to choose the WEU as the framework within which to develop an EAA should improve its chances of realization, in particular if the European Union's 1996 Inter-Governmental Conference further clarifies roles and responsibilities of the WEU and decides on reform of article 223. Likewise, the integration of the IEPG into the WEU is another factor which should facilitate European cooperation, especially if one considers that the IEPG/WEAG is responsible for management of the EUCLID (European Cooperation for the Long-Term In Defence) program.

However, no matter which structure is selected, it is of the paramount importance that enough financial resources be dedicated to the European defence industrial R&D and production efforts. In fact, the lack of sufficient funds has up to now jeopardized the progress of common projects included in the eleven Common European Priority Areas (CEPA) of the EUCLID program.

The harmonization of the national politico-administrative, techno-administrative and techno-military structures should be carried out prior to the establishment of the EAA. An attempt to do so in parallel is likely to endanger -- at the best, delay and complicate -- the delicate initial phases of work in the EAA. This is particularly true if the EAA is also going to constitute the legal framework for common European defence projects.

According to a WEU report, the tasks of the EAA could cover the following at least: (i) the management of cooperation projects; (ii) the management of the EUCLID program; (iii) the management of common R&D efforts; (iv) the coordination of technical and operational studies; (v) the management of a data and information center.²³ Consideration could also be given to other tasks such as the coordination of military requirements and and operational tests and the assumption of the former EUROGROUP functions. It is advisable that these tasks be assigned to the EAA gradually in order to prevent imposing too heavy a burden on the Agency. It would be better to proceed in subsequent phases with a step-by-step approach designed to enlarge the EAA's tasks and functions progressively in accordance with its accomplishments and the requirements of the European defence industry. Of paramount importance is to avoid the bureaucratization of the Agency, a risk which is always present in all European Union's initiatives. What is needed, above all, is a flexible structure capable of providing stimulus to the industry and coordinating those joint projects for which coordination is requested. This means that the possibility of joint defence projects conducted outside the EAA framework should not be precluded. The ultimate goal is European defence cooperation and an integrated defence market, not the EAA itself. And this goal can also be pursued outside the EAA through alliances for the production of specific systems of smaller groups of companies homogeneous in terms of expertise and competence. In these cases, the EAA could provide its external support and coordinate the eventual distribution of the system to other European countries. On the other hand, it should be recognized that if the external projects are more numerous than those internally managed, the role of the EAA would lose its significance.

It is open to question whether the prospected EAA should establish close links with the WEU Planning Cell. It can be argued that the main task of the Planning Cell is, and should remain, to prepare contingency plans for the employment of those forces earmarked to the WEU for crisis

²³. "L'Agence Européenne de l'Armement", Report by Mr. Borderas to WEU's Technic and Aérospatiale Commission, Document 1419, 19 May 1994, p. 168.

management. The armament requirements of these forces should be the responsibility of a fully coordinated European planning conducted at national Staff and defence industry levels and based on interoperability and standardization needs. The EAA should then take charge of coordination of the R&D and production of the weapons systems programs eventually decided.

Instead close links should be established between the EAA and the European Defence Industrial Group (EDIG), particularly if and when it will be able to express a true common European industrial policy. In fact, taking into consideration the experience it has accumulated since its establishment in 1990, the EDIG could effectively assist the EAA, particularly during the early phases of its life.

Another important issue refers to the eventual enlargement of the WEU to the Central-Eastern and Central-Southern European countries. Should the EAA also include the new WEU members? Should their EAA membership be granted at the same time as their WEU membership? Would this mean an unacceptable level of bureaucratization, thus negatively affecting the decision-making process? Would it be better to maintain the "noyau dur" of the full members and keep the potential cooperation with the East external to the Agency? Would it be better yet to leave the cooperation efforts to single European countries, and let the EAA coordinate the eventual joint ventures? It can be argued that the present problems of management are complex enough and that enlargement to Nineteen or Twenty-two will only mean to make problems even more difficult.

It is outside the scope of this paper to fully address the issue of European arms export, though the importance and the need for a fully coordinated approach is widely recognized. Should the coordination of arms export be a specific task of the EAA? Governments consider arms transfer to be a legitimate and useful foreign policy tool, capable of creating a more stable balance of power or of deterring aggression, while the export of high technology products is seen as an element of economic policy in support of national industry. Thus, given its evident political and strategic importance, it is likely that the European governments would prefer to maintain this sector under their exclusive control. A long-term solution could be that of giving the EAA the task of coordinating European export only if and when a truly common European export policy is shaped. In the meantime it is likely that, while arms export remain a national decision, dual-use technology and sensitive items export will be regulated by the recently approved EU regime.

Another important issue is that of the offset and compensation deals in connection with multinational projects and within the context of replacement and acquisition programs -- particularly for smaller defence industry countries such as Norway.²⁴

Requests for specific weapons systems or defence equipment, direct participation in the program with the production of some elements of the weapon system,²⁵ or reciprocal procurement could be part of the offset and compensation deals. These deals are important because they normally involve a transfer of technology which, in turn, is decisive for the development of national defence industrial bases and long-term specialization trends.

²⁴. In Norway, the two largest defence companies, Norsk Forvarsteknologi (NFT) and Raufoss have formed a joint venture company (called Kongsberg-Raufoss) to target offset programs linked to the replacement of F-5A/B and F-16 aircraft and other acquisition programs for Norwegian armed forces.

²⁵. In the production of a combat aircraft, these elements can range from composite structures, avionic components and inertial navigation systems to electronic and mechanical subsystems.

The issue raises two basic questions: first, these deals, when adopted towards LDDI (Less Developed Defence Industry) countries, stimulate the technological progress of the their defence industry and, eventually, are likely to create new competitors in the European and international arms market. Then, what should the role and scope of the offset and compensation deals be in the framework of a European defence market, which is expected to be characterized by a sharp competition? Second, these deals have often been used as effective instruments to win a contract. Is this practice destined to disappear in relation to the progressive integration of the European defence industry? In other words, is the system of offset deals doomed to extinction in the longer term, at least in the European Union, in the framework of a more liberalized and integrated market? Or will this integration never reach a level capable of defusing the competitiveness of the market? That is, is it rational to assume that the consolidation and integration trends will be strong enough to involve European LDDI countries as well? Or is it a more likely, also in a long-term perspective, that these less developed industries will continue to struggle for their technological growth through external aid, licensed production and sporadic joint ventures? In this case, it can be argued that the preference in the way of industrial offsets would go to products offered by countries with a large defence market. But will this not result in a preference for American armaments and systems?

It should be underlined that the eventual cancellation of Article 223 of the Maastricht Treaty -- if decided upon at the 1996 EU Intergovernmental Conference -- would mean that protective clauses would disappear and offset demands would be banned from intra-European joint defence projects. However, if it is true that offset deals would continue to be negotiated for procurement outside the EU, then, again, United States' companies could be preferred on the basis of the appealing offsets they could offer.²⁶

A specific point on Article 223. It has often been repeated that the EU is excluded from defence procurement by virtue of this Article. However, as Trevor Taylor has rightly pointed out,²⁷ the EU is logically drawn towards involvement with defence procurement because of its evolving responsibilities in the areas of corporate mergers and acquisitions, collaborative R&D, common external tariffs, and its own procurement policy. Moreover, it has become accepted praxis in the EU to discuss issues of defence procurement within the framework of the Common Foreign and Security Policy with no preset limitations. It can be argued that the strenghtening of the CFSP would gradually bring the whole range of defence-related issues within the EU domain, eventually voiding the practical application and the significance of Article 223, even if not formally abrogated.

On the other hand, Article 223 could simply be reformed so that it continues to protect only the most sensitive technologies, thus allowing market forces to be brought to bear.

A further issue is another peculiarity of the European defence industry: the large presence of state-owned companies with their own arms production (as in France and the United Kingdom), or partially state-owned companies (as in France, Italy and the United Kingdom). This dual role of the State -- producer and buyer at the same time -- tends to negatively affect the "transparency" of the market and the development of multinational programs, because of the logical tendency of

²⁶. One can argue that a good example is provided by the acquisition by the French Navy of two Grumman E-2C HAWKEYE early warning aircraft. France has requested and obtained nearly 100 per cent of industrial compensation in terms of work for French small and medium defence companies. *Air Press*, 22/23, 5 June 1995, p. 1062.

²⁷. Trevor Taylor, "Procurement in European Defence", *Utilities Policy*, January 1991, p. 144.

the political class to intervene, directly or indirectly, on the industrial management decisions and to economically sustain even companies with a low level of productivity and competitiveness. In fact, according to the new managing director of the GEC-Marconi Avionics, Dr. Saul Lanyado: "There is still too much politics and not enough industrial management going on".²⁸ Politics should also be kept out of the European defence industry integration process. Thus, the opportunities for integration should not be politically driven but based instead on market requirements and global positioning. This does not mean, however, that the process should take place totally outside a political framework, which is indeed needed and should be provided by the EU/WEU Common Foreign and Security Policy.

Industrial mergers and strategic partnerships are elements of the European defence industry consolidation and integration process, which can develop both vertically and horizontally. The key issue in this domain is the need for an effort towards long-term prospects rather than short-term goals, in order to stimulate the process and, at the same time, avoid that potential mergers useful in terms of integration be jeopardized by unequal conditions and shortsighted interests. Obviously, consolidation could have drawbacks, in particular if a European company closes its affiliates in other European countries in an effort to streamline operations -- a move which could affect employment in those countries with evident social repercussions.²⁹

Then again, it is open to debate whether small firms should eventually disappear from the landscape of the European defence industry and market; or if they should be maintained within the structure of, or associated with large and consolidated national companies. If not subsidized by the State, small firms are likely to be crushed by sheer market logic and forces. It seems that the major European countries have a different approach to this issue. France, for instance, is actually investing in small and medium-sized defence companies.³⁰ Though the proliferation of small firms has certainly been responsible for the fragmentation and low productivity of European defence industry, there are domestic reasons which call for supporting the survival of at least the best: willingness to preserve niches of high technology, defence of industrial jobs, or promotion of a generation of new ones. The point here is how to strike a balance between diverging requirements and how to harmonize different national policies in a way which would facilitate the consolidation and integration of the European defence industry, which is needed to achieve a healthier industry and higher competitiveness in the international arms market. But at the same time, the point is also to save the autonomy of those high-technology, mainly component-producing companies which would lose their technological innovation drive if swallowed up by a big corporation.

The development of tighter European defence cooperation, and the establishment of an integrated European defence market -- both effectively managed by an EAA -- would synergetically influence transatlantic political, industrial and military relations. Different scenarios can be drawn, however, with outcomes ranging from a strengthening of the Euro-American military and industrial cooperation to confrontational attitudes, even tougher competition in the international market and the possibility of a commercial war with the closure of the European market to American defence systems. Yet, the European defence industry is quite

²⁸. Jane's Defence Weekly, 4 March 1995, p. 32.

²⁹. "UK alliances worry French unions", Jane's Defence Weekly, 11 March 1995, p. 8.

³⁰. France will reportedly spend FFr 700 million (\$135 million) in the next two years to assist small and medium-sized defence companies to develop and sell their products. Jane's Defence Weekly, 18 March 1995, p. 15.

international with a notable presence in the U.S.: the French Thomson-CSF has bought an American avionics company; MATRA has bought the "Defence Electronics, Space and Controls" of the American FAIRCHILD Industries; GEC-Marconi has acquired Lear Siegler Astronics and Singer ESD³¹ and has a special link with American General Electric. The German company, Huels, has bought Monsanto Electronic Materials, America's last indigenous producer of silicon wafers.³² On the other hand, the American Hughes has a substantial electronic facility in the United Kingdom, while cooperation, special agreements and transatlantic alliances between and among American and European defence companies have been and are a normal feature of Euro-American industrial relations. The CFM aero-engine firm, jointly owned by America's General Electric and France's SNECMA, has produced the very successful CFM56 turbofan engine. Similarly, International Aeroengines has brought together the American Pratt & Whitney, the British Rolls-Royce, the German MTU, the Italian FIAT and the Japanese Aero-Engine Corporation. Defence industry ties are numerous, varied, diversified and important, and it is difficult to imagine that they would deteriorate to the point of negatively affecting Euro-American security and defence relations.

However, the sheer difference in size between the European and the American defence industry is a factor which should not be forgotten when assessing these relations. Thus, Europe cannot afford to be complacent. It is likely that by the end of the century, the American defence industry will have completed its rationalization process -- faster than the European defence industry -- and will then be able to present itself as an even stronger competitor.³³

So far in Europe, mergers of defence companies have taken place mainly on a national basis. In fact, cross-border consolidation of defence-related industries is still hampered by many obstacles. In the long run, this is likely to weaken the European defence industry and pose difficult problems of competition if and when a single, integrated European arms market is established.

An important issue is related to some of the drawbacks of joint ventures. On the one hand, money is saved through the sharing of development costs; on the other hand, however, the practice of multiple production lines and inefficient sharing of work tends to introduce new costs, raising the final price-tag of the defence product.³⁴ A "modular" approach, i.e. the possibility for a company to produce complete sub-systems, could avoid unnecessary passages of components from country to country and contain total costs.

³¹. The two American companies are engaged in highly classified works. *The Economist*, 3 September 1994, p. 17.

³². Trevor Taylor, "West European Defence Industrial Issues for the 1990s", *Defence Economics*, vol. 4, pp. 115-116. Maurizio Cremasco, "Un'analisi sulle prospettive dell'industria degli armamenti in Europa", IAI paper, 1992. *The Economist*, 3 September 1994, p. 17.

³³. By January 1995, following some American large-scale mergers and takeovers (Northrop's takeover of Grumman and the merger between Lockheed and Martin Marietta) the average size, as measured by arms sales, of the ten largest US defence-related companies was already twice that of the ten largest EU defence-related companies. "The Industrial Base for the Production of Defence Equipment in the European Union", Document produced by the Services of the European Commission for the Informal Group on Cooperation in the Area of Armaments, January 1995, p. 5.

³⁴. An example: the radar of the Eurofighter is made by the British company GEC-Marconi, while its covering is made by Germany's Daimler-Benz Aerospace, with high transport costs and potential difficulties in assembling the components. Bernard Gray, "UK urges Europe to collaborate more on defence projects", *Financial Times*, 5 June 1995, p. 1.

A delicate issue, which has not yet been given the attention it deserves, concerns the relations between NATO and the WEU in military procurement and the need for coordination between NATO agencies dealing with arms cooperation and the prospected EAA.

As previously stated, NATO has recently seen a true "renewal" of cooperation in the field of armaments and major joint projects are either underway or in the pipeline -- the Eurofighter 2000 (EF-2000), the Alliance Ground Surveillance System, and the Extended Air Defence and Theatre Missile Defence System. Moreover, 12 areas of possible technological cooperation are being studied.

There is a problem of coordination between what is being done in NATO and in the WEU. Many of the European multinational projects, from the F-104 fighter to the TORNADO fighter-bomber and, more recently, to the EF-2000 were and are conducted within ad hoc NATO Agencies.³⁵ Is this practice going to be followed in the future when an EAA is fully operational? Will there be a sharing of responsibility and work between NATO and WEU organizations? In this case, what criteria will be adopted? Will NATO only put under its "umbrella" those joint projects which include the participation of the United States or Canada, leaving the European projects to be managed by the EAA? How to deal with those projects which can be eligible for NATO common funding? How to avoid the risk of duplication and overlapping, particularly in terms of structures and personnel? Is there the possibility that two systems could be produced for the same mission?³⁶

5. Concluding remarks

In the future, no European country will be able to produce a major weapon system by itself. International cooperation will be the only way in terms of technology and cost. Moreover, in the future, it will be very difficult for Europe to allow itself today's luxury of building three advanced fighters -- the EF-2000, the Dassault RAFALE and the Saab GRIPEN.

The fragmentation of the market and the overcapacity in production is likely to be resolved gradually through the on-going process of rationalization of the European defence industry. It can be argued that a single, integrated European defence market will be more the natural result of this process than of coordinated political decisions. And the creation of an EAA can be seen as the logical effort to offer the European defence industry an institutionalized framework with a strong leading and coordinating potential.

It can be argued that the transnational consolidation of European defence companies should be favored, removing the present legislative and institutional obstacles, and adopting a more European than national (if not nationalistic) defence industry policy. But real consolidation will

³⁵. The European Fighter Aircraft (EFA) now renamed Eurofighter 2000 (EF2000) became a NATO project in 1987 with the NATO Council agreeing to a Charter for a new organization (NEMFO) under the terms of Article 9 of the North Atlantic Treaty, and the establishment of its executive arm -- the NEFMA, NATO European Fighter Aircraft Development, Production and Logistic Management Agency. Ignacio Buruaga, "NEFMA - For The Eurofighter", NATO's Sixteen Nations, no. 3/4, 1994, pp. 86-88.

³⁶. This appears to be the case of the Alliance Ground Surveillance project. The United States and the United Kingdom are proposing a system of fixed-wing aircraft (JSTARS and ASTOR), while France and Italy are proposing airborne systems (HORIZON and CRES).

very likely entail a reduction in the total work force of the defence industries of the European countries and this is expected to be a limiting factor.³⁷

In the end, if the integration of the European arms industry is such as to lead to the production of a single major weapons system for each type, in accordance with the coordinated acquisition programs of the armed forces of all EU country, the way towards a European Security and Defence Identity (ESDI) will be greatly facilitated. It can even be argued that true defence industry cooperation may become one of the leading elements towards a European security and defence identity.

The establishment of an EAA is a long-term prospect, which will require much conceptual and bureaucratic work supported by a strong, common political will. Paradoxically, the European political and economic factors which call for the establishment of an EAA are the same as those which are at the basis of some of the strong resistance to it. In any case, no matter what kind of institution will eventually be created and what tasks and functions will be attributed to it, there are some fundamental goals which have to be reached in order for the Agency to be capable of operating effectively: an agreed industrial policy; a framework of coordinated military doctrines, acquisition programs and operational requirements; a shared and coordinated R&D effort; a simplified management structure to decrease costs and increase efficiency.

Cost control is, and will remain, one of the most important issues of European defence industry cooperation. Cost overruns are bound eventually to jeopardize any European joint venture for the production of major weapons systems.

In the longer run, only the European Union appears to be capable of offering the institutional framework needed for the establishment of rules valid for all members.

The coordination between NATO and WEU in the field of arms production will be of paramount importance for the viability and effectiveness of European defence industrial cooperation and European security and defence identity. However, European political and industrial choices which could undermine NATO and the transatlantic link should be avoided. In fact, if a rigid policy is adopted by the EU/WEU in arms procurement and if the preference for European defence products becomes an obligation, then negative repercussions on the Euro-American relationship are very likely to occur. They will, in turn, affect and jeopardize European collective defence. On the other hand, the United States should recognize that a "buy European" philosophy is needed for the development of a healthy and independent military industry. This should not be seen as directed "against" the American industry, but as a means for creating a more balanced competition and, in the end, more constructive cooperation.

³⁷. On June 26, 1995, the Lockheed Martin Corp., the world's largest defence contractor, announced that it will lay off 12,000 workers and close 12 plants in a period of five years. 5,000 workers are scheduled to be laid off in 1995. The cuts are mainly the result of a "consolidation plan" aimed at increasing the competitiveness of the company in the national and international markets, and shrinking U.S. military and space budgets. Barry James, "U.S. Defence Contractor Cuts 12,000 Jobs, International Herald Tribune, 27 June 1995, p. 1.