Briefing
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European defence cooperation
New impetus needed

SUMMARY *The December 2013 European Council summit is due to debate the EU's security and defence policy. Many expect the summit to give renewed impetus to European defence, as economic austerity has had a severe impact on the defence budgets and military capabilities of EU Member States (MS).*

Moreover, the EU's future ability to protect its interests and act as a security provider may be affected by a range of factors. These include an unpredictable strategic environment, the announced US "pivot" to the Asia-Pacific region, and the lack of investment in defence.

The importance of greater cooperation in further developing the Common Security and Defence Policy (CSDP), in closing capability gaps and in strengthening the European defence industry is increasingly underlined in both academic and official circles. Strengthening CSDP constitutes the object of recent EU proposals - a Commission communication and a report from the High Representative (HR/VP). It has also been a recurrent demand from the United States (US) and NATO, which expect Europeans to assume a bigger share of the security burden.

However, MS are still reluctant to cooperate fully in an area they consider clearly a matter of national sovereignty.

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In this briefing:

Glossary

PESCO: Permanent Structured Cooperation, enabled by Article 42(6) TEU for those EU MS who wish to develop cooperation in defence capabilities.

Pooling: Joint procurement of military goods or services by two or more states.

Sharing: Joint usage of a shared capability on a collective basis.

EDTIB: European Defence Technological and Industrial Base

European Council: expected input to CSDP

For the first time in years, in December 2013, the European Council will debate defence and security issues. In view of the meeting, new EU proposals were put forward on improving the CSDP, developing capabilities and strengthening EU's defence industry. In a March 2013 speech, Herman Van Rompuy, European Council President suggested that EU leaders should not limit their debate to CSDP, but address "the state of defence in Europe". They should focus on ensuring Europe's credibility as a partner and the fulfilment of its security responsibilities. In particular, the European Council is asked to offer a strategic direction to European defence, to re-set Europe's ambitions and

Author: Carmen-Cristina Cîrlig
Contact: carmen-cristina.cirlig@ep.europa.eu

interests together with establishing the necessary instruments.

Calls have been made for a White Paper or strategic concept; a new Security Strategy; or a European Defence Review. Other proposals suggest the summit should give impetus to the European Defence Agency (EDA) and agree on a few realistic flagship projects. While for some the summit could achieve great outcomes, for others little could be expected of the meeting, were it not for some desire to show the US results. At the least, it is hoped EU leaders will express a clear commitment to European defence, define the next steps and ensure follow-up (further meetings on defence, regular reviews and progress reports).

CSDP and the Treaty of Lisbon

The Treaty of Lisbon (Title V, Articles 42-46 TEU) confirms the Amsterdam Treaty's commitment to "the progressive framing of a common Union defence policy. This will lead to a common defence", when unanimously decided by the European Council. The Treaty adds to the Petersberg tasks (missions the EU may perform); introduces the concepts of Permanent Structured Cooperation (PESCO); of a European capabilities and armaments policy; and a mutual assistance clause; provides for a start-up fund for MS' contributions for CSDP tasks not chargeable to the EU budget;[2] and creates conditions for rapid reaction if a group of states is willing to perform a task on behalf of the EU (Art. 44). It also institutionalises the EDA.

EU defence: work in progress

Common Security and Defence Policy

Part of the EU's Common Foreign and Security Policy, CSDP covers the Union's military operations and civilian missions, as well as Member States' commitment to improve and coordinate their capabilities. Since its inclusion in the EU Treaties, CSDP[1] has put in place institutional structures and instruments, some 30 missions have been undertaken and it has favoured more efforts at military cooperation. In 2004, the European Defence Agency was created to support the improvement of European capabilities. EDA has managed to promote some cooperative projects, including in the context of pooling and sharing (P&S).

...and its limits

Nevertheless, the opportunities presented by the Lisbon Treaty have not yet brought their full benefits to the MS. CSDP missions still struggle on both operational and logistics sides, as well as with political issues. The EU Battlegroups, fully operational since 2007, have not been used in practice, and many doubt their usefulness. Above all, the political will is lacking for those initiatives that would lead to a "common defence" (e.g. common military structures and capability procurement). The EDA is under-funded, preventing it from fully assuming its role. The start-up fund, meant to increase MS' defence investment, has not yet been created.

The European defence market and EDTIB

The EU has the world's second most developed defence industry after the US. Some MS perform very well on international defence markets, and 20 European companies figure among the world's top 100 defence companies. The EC argues that the European defence industry is a major sector producing significant economic benefits (turnover of €96 billion in 2012) and employment (400 000 direct and 960 000 indirect jobs). However, defence industrial production is concentrated in six MS, accounting for 87% of Europe's total.

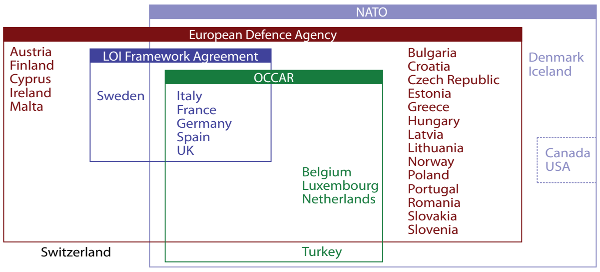
At EU level, two Directives on Defence Procurement (2009/81/EC) and Transfers of Defence-related Products (2009/43/EC) entered into force in 2009 with the objective of strengthening EDITB and increasing cooperation between MS. They created the conditions to increase competition in defence procurement while ensuring information confidentiality and security of supply (SoS); deal with exceptions invoked under Article 346 TFEU (i.e. exempting defence from internal market rules, for

Author: Carmen-Cristina Cîrlig
Contact: carmen-cristina.cirlig@ep.europa.eu

national security reasons), and facilitate transfers of defence goods between MS.

In 2007, MS agreed an EDTIB Strategy, to ensure the security of supply (SoS) of European armed forces. Outside the EU framework, some MS have subscribed to **initiatives** such as the Letter of Intent Framework Agreement Treaty (LoI) and OCCAR (Organisation for Joint Armament Cooperation). LoI aims to improve EDTIB's competitiveness, while OCCAR's objective is to manage collaborative defence equipment programmes throughout their life cycle.

Fig. 1: Clusters of defence cooperation



Source: The development of EDTIB, Policy Department, EP

Challenges to defence cooperation

A number of challenges still prevent MS from cooperating fully in developing defence capabilities, or in sustaining the European defence market and industry.

Sovereignty issue

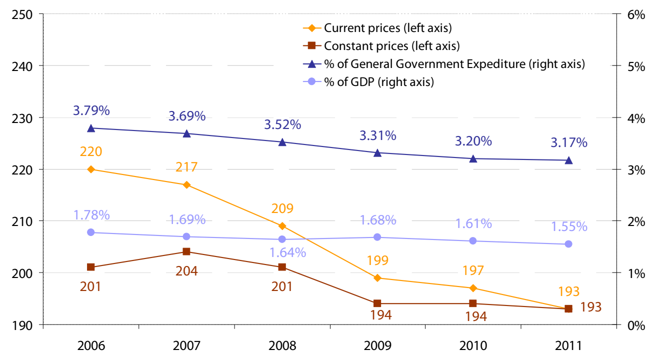
Defence is a policy dealt with nationally, mainly due to sovereignty concerns. Most MS want to be sole deciders on this core national task, and are hence reluctant to coordinate and cooperate. Nevertheless, many observers point to the reality that no single MS can "afford to maintain the full spectrum of military capabilities", or launch major new programmes (with few exceptions). MS' preference for acting nationally has led to capability gaps becoming critical and to increased dependence on other MS. Moreover, MS do not entirely trust their partners. They fear being prevented from engaging in an operation if a partner with essential capability refuses to participate, and also free-riding by other states. Governments also worry about procuring equipment from companies in other states. Finally, states are reluctant to share sensitive information on their military technologies with allies.

Declining defence budgets

The global economic and financial crisis and austerity measures have seriously hit MS' defence budgets. According to the Military Balance 2013 (see annex), since 2008 defence spending in Europe has followed a downward trend. In 2012, real defence spending declined in the majority of MS (except in Poland and Estonia, where increases were noted), with the largest real cuts made by Spain (-17.6%), Hungary (-16.7%) and Slovenia (-16.1%). The largest military spenders (UK, France and Germany) also made major cuts.

The EDA's latest defence data for 2011 (excluding Denmark and Croatia) shows that MS spent 1.55% of their GDP on defence (€193 billion). In comparison, the US spent more than 4% of its GDP on defence (€503 billion). But with the US also reducing its military spending (by some US$55 billion a year from 2013 to 2021), Europeans will have to shoulder more of the burden.

Fig.2: EU defence expenditure, 2006-11



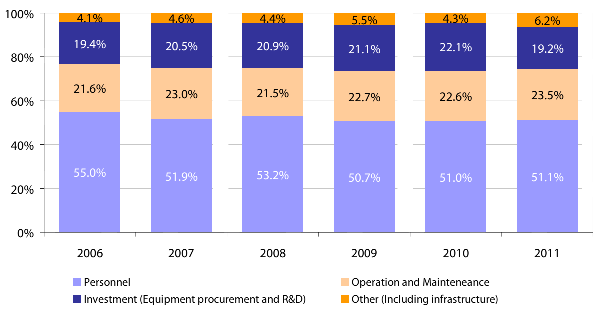
Source: European Defence Agency, 2012

The problem is not simply the cuts. Budgets are reduced without consultations among MS, increasing imbalances. In addition, how efficiently and on what the money is actually spent is also important. On average, more than half of MS' defence spending goes on personnel (less than 35% for the US). European investment in research and development (R&D) has fallen considerably

Author: Carmen-Cristina Cîrlig
Contact: carmen-cristina.cirlig@ep.europa.eu

(by 14% over 2005-10), while the US spends seven times more than the EU-27.

Fig.3: EU defence expenditure breakdown



Source: European Defence Agency, 2012

Declining defence budgets may have serious consequences. A critical level would be reached when military forces and equipment are no longer credible or relevant. Expensive capabilities may become less available as states invest only in what they can afford. Finally, insufficient R&D investment (the defence area most affected by cuts) will affect European defence industries' competitiveness and widen the technological gap with the US.

The capabilities gap

The missions in Libya and Mali again under-lined the shortfalls in European strategic capabilities and the dependence on US assistance. These relate to key capabilities gaps in the areas of intelligence, surveillance, target acquisition and recon-naissance (ISTAR), in strategic air-lift and sea-lift, in air-to-air refuelling, C4 (command, control, computers and communications) and precision-guided munitions. In Libya, the US provided 75% of ISTAR data and 80% of airborne tankers. NATO's Secretary-General warned that no NATO operation can be envisaged in the near future without US participation. In the long run, Europe "will not even be able to participate in inter-national crisis management." On the other hand, MS keep an excess of certain outdated military capabilities (e.g. tanks) and develop competing versions of equipment.

Fragmentation of the defence market

Currently, there is no integrated European defence market, for reasons such as the sensitivity of the sector and the reluctance of MS to give up a strategic industrial base, which they see as a matter of national prestige and sovereignty.

On the **demand side** of the defence market, in general, MS turn for procurement to their national industry. Article 346 TFEU gives MS the possibility to exempt defence from internal market rules, by invoking an "essential security interest" and avoiding open procurement. The Commission believes the practice of offsets (i.e. contractual arrangements whereby suppliers make compensatory commitments to the buyer) is distorting the market. The principle of *juste retour* underlying many collaborative programmes (work allocated to a national industry should equal the state's financial contribution) is seen as an offset.

The various consequences of fragmented demand, budget pressures and MS' protectionist tendencies include: lack of economies of scale and inefficiency, fewer programmes and less equipment, reduced earnings for industry and over-capacity. The most visible is the existence of various weapon systems: Europeans have 154 in use compared to 27 in the US.

On the **supply** side, the European defence industry is also very fragmented. The 28 national defence markets present many incompatibilities, including different stand-ards and certification. Two forces are set to determine further integration: increased consolidation of demand and the degree of supply-side liberalisation. Industry itself favours further consolidation, as companies want to achieve economies of scale and become more competitive. MS still focus on developing a strong national DTIB, but because governments are reducing invest-ment in defence, industry is driven to act globally. Businesses react to shrinking demand in Europe by reducing their share of defence business or by exporting outside

Europe. But exporting brings risks. The emerging markets are still relatively small compared to Western markets, so extra-EU exports alone cannot support EDTIB. Emerging countries also want to develop their own defence industries, focusing on transfer of technologies and skills, ultimately constituting competition to EU firms.

The outlook for EDTIB is dim: analysts estimate that EDTIB will shrink further, and national DTIBs will be difficult to sustain. The risk is that the EU will not be able to sustain a DTIB capable of supplying the military capabilities needed. In this context, experts have called for increased competition in the European defence market. Nevertheless, potential conflicts may emerge between a competitive single market for defence and the effort to develop EDTIB.

Public attitudes towards defence

The 2013 Transatlantic Trends survey shows the majority of Europeans oppose the use of force and 38% want to reduce defence spending. However, they view Europe's role in global affairs positively, and agree that neither Russian nor Chinese leadership would be desirable. Analysts point thus to the "need to reconcile the European public's global ambitions with a foreign policy that cannot rely on the threat of military force."

Incentives for EU defence cooperation

Experts believe MS should cooperate more on defence if the EU is to safeguard its interests and project its values. Many factors already affect this ability and may lead to reduced military capacity, an exodus of the defence industry and loss of technological leadership. Countering these risks requires Europeans to "do more together".

The evolving strategic context

The 2003 European Security Strategy (ESS) and the 2008 Report on the Implementation of the ESS assess the key challenges and threats to EU security. While still valid, new trends and threats complicate today's strategic environment. Globalisation is drawing the zones of instability closer to Europe. Emerging powers are increasing their military spending and developments in new weapon systems are pressuring Europeans to keep pace. The HR/VP's October 2013 report also depicts a volatile and uncertain strategic environment, with new threats (cyber attacks, competition for resources) added to long-standing ones (terrorism, regional conflicts etc.). Many doubt the EU's ability to respond to the new security challenges, but also to sustain its current and future commitments. Despite a certain shared awareness of the security context, MS do not seem willing to adapt foreign policy and military tools to deal with the challenges. Maciej Popowski, of the EEAS, points to an erosion of MS' "willingness and ability to project their military and civilian assets abroad".

Europe as a credible security partner

Some experts also support a comprehensive assessment of the military effort of MS.[3] Europeans should consider both CSDP and NATO as instruments to be used according to circumstances. With its planned disengagement from Europe, the US also expects Europeans to take on more security responsibilities, either through NATO, CSDP or in coalitions of states. US and NATO officials have repeatedly appealed to European states to assume their share of the burden. Former US Defense Secretary Robert Gates characterised NATO's European allies as "more security-consuming rather than partners". He warned the US may no longer invest in NATO, if Europeans fail to bridge the transatlantic gap in defence spending and capabilities. Similarly, NATO Secretary-General, Anders Fogh Rasmussen, called on European allies to increase their spending if they want to avoid losing US solidarity and become less dependent on the US (which provided 72% of NATO's funds in 2012).

Capability development

Analysts point to synergies in capability development which NATO and the EU could achieve. The Berlin Plus arrangements cover

EU access to NATO's capabilities and assets, including planning and command. Both have adopted pooling and sharing initiatives. However, coordination and duplication problems also plague these efforts.

In this context, specialisation is seen as a solution: MS each focus on a limited set of capabilities, and give up others; when necessary, they may rely on another MS for the capabilities they lack. **Specialisation by design** could replace the current **specialisation by default**, in which cuts in capabilities or force restructuring are made without coordination. This phenomenon could seriously affect collective capabilities, interoperability between militaries and the capacity to sustain an operation.

Other experts consider the focus should be on future capabilities and the type of armed forces Europe is likely to have/need in the medium to long term. They warn against the current process of shrinking armies and the future possibility of "bonsai armies". They also point to the "regionalisation of military cooperation" – groups of European countries collaborating in defence: e.g. Nordic Defence Cooperation; Benelux Defence Cooperation, Visegrad Group, British-Dutch Amphibious Force and Baltic Defence Cooperation. The France-UK Lancaster House Treaties (2010) have received particular attention. These efforts are seen both as improving cooperation, and as undermining wider EU initiatives.

The EU "pooling and sharing" concept (2010) refers to initiatives and projects to pool and share capabilities among MS, who also agreed in 2012 on a voluntary Code of Conduct on Pooling and Sharing. **Projects** under way include air-to-air refuelling, field hospitals and maritime surveillance, etc. NATO's Smart Defence Initiative (2012) is based on prioritisation, specialisation and cooperation. To date, 29 multinational capability projects have been implemented.

Consolidating demand and supply

Experts assert that improving pooling and sharing initiatives and increasing the productivity of current spending may result in a more integrated and efficient provision of defence capabilities. The potential for collaboration is vast, as EDA states spend only 23% of their defence procurement collaboratively. Pooling has its advantages (lower procurement costs due to economies of scale; lower maintenance and follow-up costs; and better interoperability), but it shows results rather in the long term. Sharing is more sensitive, because it may involve specialisation of MS and less autonomy to decide over the use of assets. However, programmes such as the European Air Transport Command (EATC) are seen as successful sharing initiatives. Supply-side consolidation also depends on the strategic decisions made by those MS which have large public stakes in European defence companies (unlike the US). Of late, no major consolidation has taken place. In 2012 a merger between two of the world's biggest defence contractors, BAE Systems (UK) and EADS (Germany, France), was prevented.

Costs of "non-Europe" in defence

Economic costs

Experts have tried to assess the additional costs Europeans incur by not cooperating in defence. One way is to compare EU and US defence performance. Earlier studies (2003) found that European armed forces had 10%-15% of US' operational capability, yet spending was just under half of the US defence budget. The economic costs of non-Europe in defence are said to vary between €20 and 120 billion a year. Similarly, a recent study by the EP's European Added Value Unit, estimates these costs between €26 and 130 billion annually.

Other analysts consider that if Europeans took full advantage of pooling, the long-term productivity potential would amount to 30% of total procurement, or 7% of total military spending.

Strategic and political costs

The political and strategic costs relate to the costs of missed opportunities: initiatives not

Author: Carmen-Cristina Cîrlig
Contact: carmen-cristina.cirlig@ep.europa.eu

undertaken, operations carried out at lower performance levels, or the costs of dependence on the US. Gaps also affect solidarity among MS and their willingness to develop a common defence policy.

Recent EU proposals

HR/VP report on CSDP

The report, published on 15 October 2013, suggests a series of priorities and proposals for strengthening CSDP, capability development and EU industry. The EU must act as a security provider through CSDP; achieve **strategic autonomy** (first of all in its neighbourhood); protect its interests and contribute to international security, including through **power projection** (mentioned for the first time in an EU document); and have a comprehensive approach.

Increasing the effectiveness, visibility and impact of CSDP

The HR/VP stresses the need for a comprehensive approach; to work with partners; to achieve security of space and cyber networks, as well as energy security; to address maritime and border challenges; to rapidly and effectively deploy the right assets, and to improve the visibility of CSDP.

Enhancing the development of capabilities

The report emphasises the importance of systematic and long-term European cooperation. MS should increase transparency and information-sharing on their defence planning, as well as make use of the Lisbon Treaty's potential, in particular the PESCO provisions. The European Council could take the initiative to embed P&S in MS defence planning. Also, it could endorse a strategic Defence Roadmap, with agreed priorities, to support European defence cooperation and closer synergies with OCCAR. MS are also encouraged to commit to major cooperative projects focused on delivering key capabilities: air-to-air refuelling, remotely piloted aircraft systems (RPAS), including the next generation of Medium Altitude Long Endurance (MALE) RPAS, cyber defence and satellite communication, and high resolution imagery.

Strengthening Europe's defence industry

A strong EDTIB is seen as a prerequisite for securing Europe's strategic autonomy and SoS. It requires cooperation in launching major programmes, a focus on small and medium-sized enterprises, on investment in defence R&D and in research and technology (R&T). MS should commit to further progress, including on hybrid standards (i.e. standards for products with both civilian and military applications) and to multi-annual investment in defence R&T. They could launch a "Critical Defence Technology" funding programme, and a comprehensive research strategy to combine national dual-use and European research programmes.

New Commission Communication

In July 2013, the Commission adopted a Communication entitled "Towards a more competitive and efficient defence and security sector". It aims at creating the conditions for a "certain degree of strategic autonomy for Europe": SoS, access to critical technologies and operational sovereignty. The action plan in the Communication consists of initiatives to:

- Strengthen the internal market for security and defence, by tackling market distortions and improving SoS;
- Strengthen the competitiveness of the European defence industry;
- Exploit the dual-use potential of research and reinforce innovation.

The Commission also proposes to support European industry on third-country markets, and address offsets and their potential negative impact.

Parliament's position

On 21 November 2013, the EP adopted two reports on the implementation of the CSDP (rapporteur Maria Eleni Koppa, S&D, Greece) and on EDTIB (Michael Gahler, EPP, Germany). MEPs set out their recommendations for the December

European Council. In particular, EU leaders should commit to use the Lisbon Treaty's potential, review the European security framework and adopt a White Paper on EU Security and Defence. They should take the occasion to inform citizens about the importance of European defence. MEPs also called for more industrial cooperation, strengthening the internal market in defence and a common approach to standardisation and certification.

Main reference

The state of defence in Europe: state of emergency/ S. Biscop, D. Fiott (eds.), Egmont Institute, Brussels, 2013.

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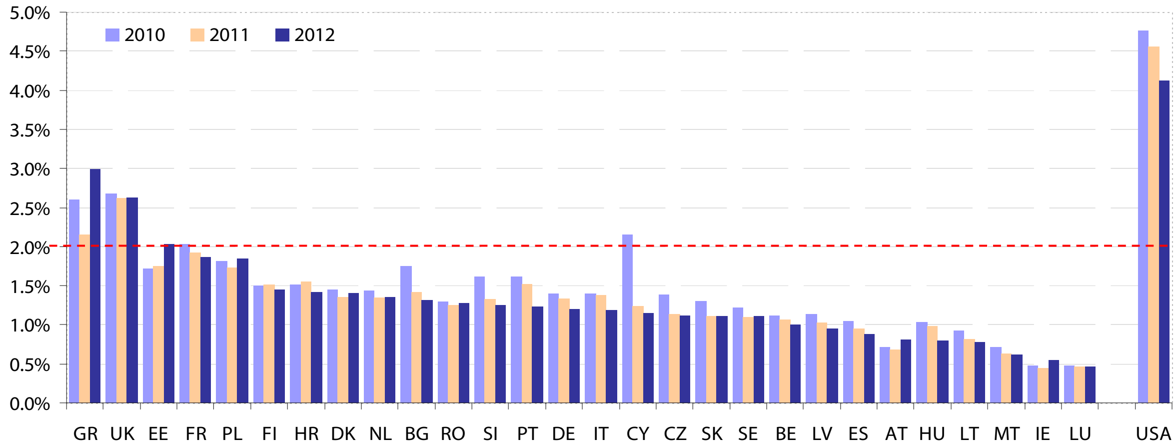
Annex

Fig 4: Comparison of EU-27 and US defence expenditure (as % of GDP) against the2% NATO benchmark



Source: The Military Balance 2013, Routledge, London, March 2013.

Endnotes

[1] The Treaty of Amsterdam (1999) made reference to the European Security and Defence Policy (ESDP). The Treaty of Lisbon changed that denomination to Common Security and Defence Policy (CSDP).

[2] The TEU prohibits funding for operations with military or defence implications from being charged to the EU budget (but not civilian missions). The Athena mechanism was created in March 2004 to manage the financing of "common costs" for CSDP military operations. They are established in a Council Decision and may cover transport, infrastructure, medical services, lodging, fuel etc. MS contribute to the mechanism based on their gross national income. The costs not explicitly covered by Athena are the responsibility of the participating MS, according to the principle "costs lie where they fall".

[3] Twenty-two MS are members of NATO, while 27 MS participate in the elaboration of CSDP, i.e. all except Denmark.

Author: Carmen-Cristina Cîrlig
Contact: carmen-cristina.cirlig@ep.europa.eu