



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES**  
**POLICY DEPARTMENT**



# **THE IMPACT OF THE FINANCIAL CRISIS ON EUROPEAN DEFENCE**

## **ANNEX**

**SEDE**



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION**

**DIRECTORATE B**

**POLICY DEPARTMENT**

**THE IMPACT OF THE FINANCIAL CRISIS  
ON EUROPEAN DEFENCE**

**ANNEX**

(Events taken into account until 1. April)

# TABLE OF CONTENTS

- ABBREVIATIONS..... 6**
- 1 STRUCTURE AND METHODOLOGICAL CONSIDERATIONS ..... 10**
- 2 CATEGORY A ..... 11**
  - 2.1 France ..... 11**
    - 2.1.1 Impact of the Financial Crisis on the Defence Budget..... 11
    - 2.1.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts ..... 12
    - 2.1.3 Level of Ambition and International Engagement ..... 14
    - 2.1.4 Pooling and Sharing Options..... 14
    - 2.1.5 Defence Industry ..... 14
  - 2.2 Germany ..... 15**
    - 2.2.1 Impact of the Financial Crisis on the Defence Budget..... 15
    - 2.2.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts ..... 16
    - 2.2.3 EU Pooling and Sharing Options ..... 17
    - 2.2.4 Defence Industry ..... 18
  - 2.3 Italy ..... 19**
    - 2.3.1 Impact of the Financial Crisis on the Defence Budget..... 19
    - 2.3.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts ..... 19
    - 2.3.3 Level of Ambition and International Engagement ..... 21
    - 2.3.4 Pooling and Sharing Options..... 21
    - 2.3.5 Defence Industry ..... 22
  - 2.4 Poland ..... 22**
    - 2.4.1 General Defence Policy Outlook..... 22
    - 2.4.2 Impact of the Financial Crisis on the Defence Budget..... 23
    - 2.4.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts ..... 23
    - 2.4.4 Level of Ambition and International Engagement ..... 24
    - 2.4.5 Pooling and Sharing Options..... 24
    - 2.4.6 Defence Industry ..... 25
  - 2.5 Spain ..... 25**
    - 2.5.1 Impact of the Financial Crisis on the Defence Budget..... 25
    - 2.5.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts ..... 26
    - 2.5.3 Level of Ambition and International Engagement ..... 26
    - 2.5.4 Pooling and Sharing Options..... 27
    - 2.5.5 Defence Industry ..... 27

<b>2.6</b>	<b>Sweden.....</b>	<b>27</b>
2.6.1	General Defence Policy Outlook.....	27
2.6.2	Impact of the Financial Crisis on the Defence Budget.....	28
2.6.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	28
2.6.4	Level of Ambition and International Engagement .....	29
2.6.5	Pooling and Sharing Options.....	30
2.6.6	Defence Industry .....	30
<b>2.7</b>	<b>United Kingdom .....</b>	<b>31</b>
2.7.1	General Defence Policy Outlook.....	31
2.7.2	Impact of the Financial Crisis on the Defence Budget.....	32
2.7.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	32
2.7.4	Changes in Defence cooperation .....	33
2.7.5	EU Pooling and Sharing Options .....	33
2.7.6	Defence Industry .....	34
<b>3</b>	<b>CATEGORY B.....</b>	<b>35</b>
<b>3.1</b>	<b>Austria.....</b>	<b>35</b>
3.1.1	General Defence Policy Outlook.....	35
3.1.2	Impact of the Financial Crisis: Budget and Procurement.....	35
3.1.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	36
3.1.4	Level of Ambition and International Engagement .....	37
3.1.5	Pooling and Sharing Options.....	37
<b>3.2</b>	<b>Belgium.....</b>	<b>37</b>
3.2.1	Impact of the Financial Crisis on the Defence Budget.....	38
3.2.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	38
3.2.3	Level of Ambition and International Engagement .....	39
3.2.4	Pooling and Sharing Options.....	39
<b>3.3</b>	<b>Bulgaria.....</b>	<b>40</b>
3.3.1	Impact of the Financial Crisis on the Defence Budget.....	40
3.3.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	40
3.3.3	Level of Ambition and International Engagement .....	41
3.3.4	Pooling and Sharing Options.....	41
3.3.5	Defence Industry .....	42
<b>3.4</b>	<b>Czech Republic .....</b>	<b>42</b>
3.4.1	General Defence Policy Outlook.....	43
3.4.2	Impact of the Financial Crisis on the Defence Budget.....	43

3.4.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	43
3.4.4	Level of Ambition and International Engagement .....	44
3.4.5	Pooling and Sharing Options.....	44
<b>3.5</b>	<b>Denmark .....</b>	<b>45</b>
3.5.1	General Defence Policy Outlook.....	45
3.5.2	Impact of the Financial Crisis on the Defence Budget.....	45
3.5.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	46
3.5.4	Level of Ambition and International Engagement .....	46
3.5.5	Pooling and Sharing Options.....	46
3.5.6	Defence Industry .....	47
<b>3.6</b>	<b>Finland .....</b>	<b>47</b>
3.6.1	Impact of the Financial Crisis on the Defence Budget.....	47
3.6.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	47
3.6.3	Level of Ambition and International Engagement .....	49
3.6.4	Pooling and Sharing Options.....	49
<b>3.7</b>	<b>Greece .....</b>	<b>49</b>
3.7.1	General Defence Policy Outlook.....	50
3.7.2	Impact of the Financial Crisis on the Defence Budget.....	50
3.7.3	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	50
3.7.4	Level of Ambition and International Engagement .....	52
3.7.5	Pooling and Sharing Options.....	52
3.7.6	Defence Industry .....	52
<b>3.8</b>	<b>Hungary .....</b>	<b>52</b>
3.8.1	Impact of the Financial Crisis on the Defence Budget.....	52
3.8.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	53
3.8.3	Level of Ambition and International Engagement .....	53
3.8.4	Pooling and Sharing Options.....	53
3.8.5	Defence Industry .....	54
<b>3.9</b>	<b>Ireland.....</b>	<b>55</b>
3.9.1	Impact of the Financial Crisis on the Defence Budget.....	55
3.9.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	55
3.9.3	Level of Ambition and International Engagement .....	56
<b>3.10</b>	<b>Netherlands.....</b>	<b>56</b>
3.10.1	Impact of the Financial Crisis on the Defence Budget.....	56
3.10.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	56

3.10.3	Level of Ambition and International Engagement .....	58
3.10.4	Pooling and Sharing Options.....	58
<b>3.11</b>	<b>Portugal .....</b>	<b>58</b>
3.11.1	Impact of the Financial Crisis on the Defence Budget.....	58
3.11.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	59
3.11.3	Level of Ambition and International Engagement .....	60
3.11.4	Pooling and Sharing Options.....	60
3.11.5	Defence Industry .....	60
<b>3.12</b>	<b>Romania .....</b>	<b>61</b>
3.12.1	Impact of the Financial Crisis on the Defence Budget.....	61
3.12.2	Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts .....	61
3.12.3	Level of Ambition and International Engagement .....	62
3.12.4	Pooling and Sharing Options.....	62
3.12.5	Defence Industry .....	62
<b>4</b>	<b>CATEGORY C.....</b>	<b>62</b>
<b>4.1</b>	<b>Cyprus .....</b>	<b>62</b>
<b>4.2</b>	<b>Estonia .....</b>	<b>63</b>
<b>4.3</b>	<b>Latvia.....</b>	<b>65</b>
<b>4.4</b>	<b>Lithuania .....</b>	<b>66</b>
<b>4.5</b>	<b>Luxemburg .....</b>	<b>67</b>
<b>4.6</b>	<b>Malta .....</b>	<b>67</b>
<b>4.7</b>	<b>Slovakia.....</b>	<b>68</b>
<b>4.8</b>	<b>Slovenia .....</b>	<b>69</b>

## ABBREVIATIONS

AMV	Armoured Modular Vehicle
C2	Command and Control
C3	Command, Control and Communications (US); Consultation, Command and Control NATO)
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CBRN	Chemical, Biological, Radiological and Nuclear
CIACI	Interministerial Committee to support Civil and Military Export
CIMIC	Civil-Military Cooperation
COTS	Civilian Off The Shelf
CS	Counter-Strike
CSAR	Combat Search And Rescue
CSS	Combat Service Support
DCNS	Direction des Constructions Navales Services
DGA	Délégation Générale pour l'Armement
DIRCM	Laser-based infrared countermeasures system
DIS	Defence Industrial Strategy
DPG	Defence Policy Guidelines
EADS	European Aeronautic Defence and Space Company
EOD	Explosive Ordnance Disposal
EU	European Union
EUFOR	European Force
EUSEC	European Communications Security and Evaluation Agency of the Military Committee
EUTM	EU Training Mission
FREMM	Frégate Multi-Mission
GAF	German Armed Forces
GDP	Gross Domestic Product
IED	Improvised Explosive Device

IMF	International Monetary Fund
ISAF	International Security Assistance Force
ISR	Intelligence, Surveillance and Reconnaissance
ISTAR	Intelligence, Surveillance, Target Acquisition and Reconnaissance
JSF	Joint Strike Fighter
KFOR	Kosovo Forces
LoA	Level of Ambition
MALE UAV	Medium-Altitude Long Endurance UAVs
MBDA	Matra BAE Dynamics Alenia
MBU	Modular Battle Units
MEADS	Medium Extended Air Defense System
MED	Ministry for Economic Development
MED	Ministry of Economic Development
MINURCAT	UN Mission in the Central African Republic and Chad
MoD	Ministry of Defence
MONUC	Mission de l'Organisation des Nations Unies en République Démocratique du Congo (UN Observer Mission in the Democratic Republic of the Congo)
MOTS	Military Off The Shelf
MPL	Military Programming Law
MRAP	Mine-Resistant Ambush-Protected Vehicle
NADMP	National Air Defence Modernisation Plan
NATO	North Atlantic Treaty Organisation
NBC	Nuclear, Biological, Chemical
NORDEFECO	Nordic Defence Cooperation
NRF	National Reserve Forces
NSS	National Security Strategy
OHB	Orbitale Hochtechnologie Bremen
OMLT	Operational Mentor and Liaison Team

OSCE	Organisation for Security and Cooperation in Europe
PfP	Partnership for Peace
R&D	Research and Development
SAR	Search And Rescue
SDR	Strategic Defence Review
SDSR	Strategic Defence and Security Review
SEDM	South-Eastern Europe Defence Ministerial Process
SEEBRIG	South Eastern Europe Brigade
STOVL	Short Take-Off Vertical Landing
UAV	Unmanned Aerial Vehicle
UN	United Nations
UNDOF	UN Disengagement Observer Force
UNFICYP	UN Peace-Keeping Force in Cyprus
UNIFIL	United Nations Interim Force in Lebanon
UNMIS	UN Mission in Sudan
UNTSO	UN Truce Supervision Organization
WMD	Weapons of Mass Destruction



## 1 STRUCTURE AND METHODOLOGICAL CONSIDERATIONS

This annex offers an overview of the defence sectors of all EU member states and gauges the recent impact of the financial crisis on defence expenditure and ongoing reform efforts to national armed forces. It is a companion document to the study “*The Impact of the Financial Crisis on European Defence*”, which draws its analysis and recommendations on this volume’s empirical insights.

EU member states are divided into three groups (A, B, C), according to the size of their armies and their defence budgets, to the amount of contributions made to EU capabilities and to the size of their defence industry.

The country case-studies of this volume follow a basic structure in six parts:

- Each case study starts with an overview of quantitative indices (GDP, gross public debt, net lending or borrowing, defence spending, force size).<sup>1</sup> For some countries, recent data was not available and has been marked accordingly in the tables (n.a.).
- We then gauge the overall impact of the financial crisis on the defence budget of a state where data is available, with a particular focus on the years 2009 to 2011. This section identifies to which extent a national government has been affected by the crisis and is seeking to redistribute the consolidation effort to its Ministry of Defence (MoD).
- A third section seeks to deliver more detailed insights about the impact of potential consolidation efforts on the ongoing reform process of the armed forces. It sketches the key drivers and goals of reform processes, as well as the planned force structure and capabilities. We identify what items of the reform process are directly affected by planned cuts: Is it the end-strength and the size of the civilian personnel? Or is it the modernization and the procurement of new of equipment?
- A fourth section gauges the extent to which levels of ambition and ongoing international engagements are directly affected by cuts: Do we see drastic reductions in international engagements or hasty withdrawals?
- A fifth section identifies where possible the member-state’s attitude towards pooling and sharing and highlights where adequate areas of ongoing cooperation.
- Finally, a sixth section addresses where adequate the state of the national defence industry as well as the impact of the crisis on this sector. The defence industry is very thin in some countries, so this section may be missing in certain cases.

With regard to the type and status of ongoing reforms of the armed forces, the case studies are mostly based on Bastian Giegerich and Alexander Nicoll’s excellent review of ongoing reform trends across Europe (*European Military Capabilities: Building Armed Forces for Modern Operations*, IISS, London, 2008). For a rendition of recent reactions to the financial crisis, the paper draws strongly on publicly available information (printed press, online media), but also selectively on interviews and a peer review by partner research institutes across the EU 27. Both the inherent difficulty in obtaining reliable information on defence matters and the timely and unfolding nature of the topic have put a caveat on the information contained in this document. This volume chiefly offers to policy-makers a snap-shot impression of the impact of the crisis on defence across the EU that has been missing to date.

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<sup>1</sup> Data on GDP and GDP per capita, gross public debt in bn Euro and % of GDP, and net lending or borrowing in bn Euro and as % of GDP stems from the *AMECO Database* (European Commission, October 2010). The source for data on defence budgets in Euro and as % of GDP and for military personnel is *The Military Balance* (IISS, London, Volumes for 2005 through to 2010).

## 2 CATEGORY A

### 2.1 France<sup>2</sup>

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		1,726.07	1,806.43	1,895.28	1,948.51	1,907.15	1,947.85
GDP per capita, euro tsd.		27.42	28.50	29.72	30.38	29.57	30.05
Gross public debt, euro bn.		1,145.40	1,149.90	1,209.00	1,315.10	1,489.00	1,615.80
Gross public debt (% of GDP.)		66.36	63.66	63.79	67.49	78.07	82.95
Net lending (+) or net borrowing (-), euro bn.		-50.37	-41.07	-51.43	-64.68	-143.83	-150.76
Net lending (+) or net borrowing (-), % of GDP		-2.92	-2.27	-2.71	-3.32	-7.54	-7.74
Defense budget, euro bn.		32.90	35.40	36.20	30.38	32.00	32.10
Defense budget, % of GDP		1.91	1.96	1.91	1.56	1.68	1.65
Military personnel	Armed forces	254,895	254,895	254,895	254,895	249,395	249,395
	Gendarmerie	104,275	104,275	104,275	104,000	103,376	103,376

#### 2.1.1 Impact of the Financial Crisis on the Defence Budget

The overall economic situation in France is poor, as the budget deficit lies at 8% and the debt rate at 83% of GDP in 2010. In light of the financial crisis, a revised defence triennial spending law for the period 2011-2013 was unveiled in late September 2010. Total defence spending for that period will amount to €91.6bn, instead of €95.3bn—as initially planned in the 2009-2014 Military Programming Law (MPL).<sup>3</sup> Between 2011 and 2013, the French armed forces will thus need to save €3.5bn. This initial proposal from the Defence Ministry was validated by the adoption of the budget on 29. December 2010.<sup>4</sup>

The defence budget was supposed to benefit from €2.4bn due to the selling of real estate and military radio frequencies in 2009 and 2010, but the Ministry of Defence has not succeeded in doing so to date.<sup>5</sup> In January 2011, a deal over real estate seemed likely to succeed that could bring €150m in revenues. The military radio frequencies that would bring about €850m have yet to find buyers. To date, planned sales of real estate, the decrease in personnel and the outsourcing of certain tasks have not even added up to 20% of expected returns.<sup>6</sup>

However, a gap seems to exist between intended cuts according to government declarations and the sum of de-facto planned and necessary cuts. Independent estimates of planned cuts, postponements and freezes consider them to amount to a contraction of financial means of about €6 to 7bn.<sup>7</sup> Observers are also keen to point to the fact that the deficit for financing the previous MPL (2008 to 2013) had already been at €3.6bn at the end of 2010. This situation makes a future payment slump by the end of 2013 inevitable.<sup>8</sup> The likelihood of such slump is reinforced by a number of additional costs not much

<sup>2</sup> This section is based on Jean-Pierre Maulny, Chapter Two: France, in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

<sup>3</sup> 'Le budget de la défense sera réduit de 3,5 milliards d'euros en trois ans', *Le Nouvel Observateur*, 02.07.2010.

<sup>4</sup> Loi no. 2010-1657 du 29 décembre 2010 de finances pour 2011 (1), *Journal Officiel de la République Française*, numéro 3002 du 30 décembre 2010, p. 23033.

<sup>5</sup> Véronique Guillermand, Cécile Crouzel, 'Budget de la Défense: la recherche préserve', *Le Figaro*, 08.01.2011; Bernard Cazeneuve, François Cornut-Gentille, *Rapport d'information sur la mise en œuvre et le suivi de la réorganisation du ministère de la défense*, 2ème rapport d'étape, Commission de la défense nationale et des forces armées, Assemblée nationale, April 2010.

<sup>6</sup> Louis Gautier, 'Budget de la défense: tour d'écrou et escamotage', *Les Echos*, 01.12.2010.

<sup>7</sup> Ibid.

<sup>8</sup> 'Défense: des budgets mal en point', *La lettre A*, 29.10.2010.

taken into consideration to date: the costs of re-joining NATO have been estimated at €600 to €800m and those of military operations around the world to around €850m per year.<sup>9</sup>

### 2.1.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The transformation of the French military forces to become more expeditionary began in 1989: The “Plan Armées 2000” aimed at increasing combined forces. In 1994, the French government decided to close and gather military bases in order to save money. In 1996, a major reform led to the end of conscription and the gradual introduction of a professional army. This transformation lasted four years (1996 to 2002).

#### **Force Structure and Personnel**

No cuts in force structure are planned as a direct consequence of the financial crisis, since restructuration efforts and significant cuts are already part of the implementation of the White Paper’s guidance on Defence and National Security from 2008. The White Paper launched a new transformation of French military forces, including a total personnel reduction of 54,000 to an end-strength of about 225,000 troops by 2015. During the 2009-2014 Military Programming Law, the total number of personnel is expected to decrease from 314,000 to 276,000. The objective is to pool logistic and support functions together. In order to do so, a rationalisation of military bases is foreseen (leading to aggregating all the military forces in 75 major military bases). By the end of the process in 2015, the objective is to have achieved savings of €1.6bn per year– although no signs of savings have been visible by the end of 2010<sup>10</sup>.

#### **Equipment and Procurement**

Should the revenues of €2.4bn from the sale of real estate and military radio frequencies fail to materialize, the MoD declared that all procurement items will be scanned for potential savings and postponements. However, the MoD wants to protect a number of sectors from cuts, such as deterrence and intelligence surveillance and reconnaissance (ISR).

The MoD also intends to keep up R&D funding at around €700m per year until 2013.<sup>11</sup> Despite a real cut of about €1.7bn in comparison to the previous programmatic law, the procurement budget is also planned to slowly increase from €16bn in 2011 to €16.8bn in 2012 and to €17.3bn in 2013.<sup>12</sup>

In addition to the protection of R&D, a stimulus package for armaments of around €2.3bn was adopted for 2009 and 2010. Contrary to the general trend in Europe, then, the French defence sector had a boom in this period. For the Navy, the BPC Dismude was commissioned to compensate the lacking demand in cruise vessels. Due to difficulties in exporting the Rafale fighter jet, the MoD added an order for 11 Rafale per year between 2011 and 2013 to keep Dassault’s line of production alive. Wherever demand is present, the government actively seeks to support export. Russia for instance signed a deal for 2 helicopter-carriers of the MISTRAL-class with France in late January 2011, which would allow maintaining the strategically important STX-shipyard in St-Nazaire.<sup>13</sup> It is the only one in France with the know-how and capacities for the construction of aircraft-carriers.

However, the governmental effort to keep certain lines of production open will be compensated by postponing the modernisation of the Mirage 2000D fighter and the Scorpion modernisation programme for the land forces as well as the Multi-Role Transport Tanker.<sup>14</sup> The decision also casts

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<sup>9</sup> Jean Guisnel, ‘Alain Juppé, et maintenant, au boulot!’, *Le Point*, 15.11.2010.

<sup>10</sup> Cazeneuve et al., 2010.

<sup>11</sup> Véronique Guillermand, Cécile Crouzel, *Le Figaro*, 08.01.2011.

<sup>12</sup> Jean Guisnel, *Le Point*, 15.11.2010.

<sup>13</sup> Agence France Presse, ‘Russia, France sign deal on two Mistral-class helicopter carriers,’ 25.01.2011.

<sup>14</sup> Véronique Guillermand, Cécile Crouzel, *Le Figaro*, 08.01.2011.

uncertainty about the financing for the planned MALE-UAV orders. Indeed, the launch of new programmes in the coming years seems unlikely, despite the fact that the draft 2011 defence budget law announces that credits will fund the MUSIS space observation programme and UAVs for the French Air force. The inter-ministerial budget will be used to fund the extra cost of the A 400 M programme – where €400m are needed to conclude the new contract and to save the programme.

### 2.1.3 Level of Ambition and International Engagement

The level of ambition is not being reduced as reaction to the financial crisis. The French government explicitly does not declare a date for withdrawal from Afghanistan. Funding for the mission in Afghanistan will see an increase by €60m to €630m in 2011.<sup>15</sup>

### 2.1.4 Pooling and Sharing Options

With regard to international cooperation for military engagements, France showcases an open attitude as a consequence of its ongoing reductions in force-structure and capabilities. The French government seeks to actively search for cooperation opportunities rather than to react passively to the pressures of the financial situation and the ensuing political environment. France has decided to promote bilateral dialogue with the UK and Germany in order to find new solutions to the challenge of austerity. In both cases, the possibility of pooling capabilities was mentioned. Paris has engaged Germany on this front over the past months through different structures: The Franco-German Ministerial Council, the Franco-German Defence and Security Council (with its working groups on capabilities, strategy and operations, and sub-working groups on different armed services and armaments policy) and finally the ad-hoc working group launched by both Defence Ministers in mid-2010 tasked to identify specific projects for further cooperation. On 2. November 2010 during the Franco-British Summit a framework agreement on defence cooperation was signed between the two countries. Apart from the co-operation in nuclear testing, 17 topics for further collaboration were identified.<sup>16</sup> London and Paris agreed to pool logistics and training for the A400M. France will use spare UK air-tanker capabilities and research and technology co-operation will be continued with a joint annual budget of €100m. One essential caveat in the negotiations about pooling and sharing, however, is France's priority to secure its own political capacity to act. It is currently inconceivable to the French government to rely on the military capability of other states without a guarantee that those would be available to France to pursue priorities in national security policy (including French military operations abroad). This is why France has in the past months been engaging in a dialogue with a state such as the UK that shares a similar security culture. The Ghent-Process is welcomed by France, but its key-priority even in this framework is to maintain France's independent capacity to act.

### 2.1.5 Defence Industry

The turnover of the French defence industry is around €15 billion per year. Around one third is related to export. Different strategies are being used to face the diminishing defence budget.

The French procurement agency, the DGA, tried to oblige Sagem and Thales to merge their optronic assets, because the market is too small for two companies. Even though the French State is a shareholder of the two companies, Sagem and Thales have not submitted to the wishes of the French government so far. Recently, former Minister of Defence, Hervé Morin, commanded the DGA to stop ordering R and T studies from the two companies in order to force them to merge their common assets.

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<sup>15</sup> Agence France Presse, 'Budget Défense: Augmentation de moyens pour les opérations extérieures,' 29.09.2010.

<sup>16</sup> Prime Minister Alastair Cameron (UK), President Nicolas Sarkozy (France), *UK-France Summit 2010 Declaration on Defence and Security Co-Operation*, 02. November 2010, London, UK. Collaboration is planned in the following areas: nuclear stockpile stewardship and testing; exchanges between UK and French Armed Forces in operational matters; strengthening industrial and armaments cooperation; pursue joint initiatives in three key areas:

- *operations and training* (creation of a Combined Joint Expeditionary Force; joint operation of aircraft carriers),
- *equipment and capabilities* (A400M joint support, training and further cooperation in maintenance and logistics; joint development of submarine technologies and systems; aligning plans for maritime mine countermeasures; enhancing cooperation on satellite communications; potential use of spare capacity in the UK's Future Strategic Tanker Aircraft programme for France; launching a competitive assessment phase for the joint development, support and training costs for the next generation of MALE-Unmanned Air Surveillance Systems; joint assessment of requirements and options for the next generation of Unmanned Combat Air Systems)
- *defence industrial concerns* (development of a 10-year strategic plan for the British and French Complex Weapons sector, joint R&D).

At the European level, the Franco-British initiative aims at furthering the integration of MBDA in order to rationalize the localisation of the company sites in the UK and in France within the project "One MBDA". Paris and London also agreed to co-operate on the next generation of nuclear submarines, mine countermeasures, Satellite Communication, in the missiles sector, as well as on MALE UAVs and on UCAVs. All these co-operation items could lead to industrial consolidation. However, this is not a declared political aim, except for missiles, where the objective is to have further consolidation within the Franco-British-German-Italian company MBDA.

Faced with stagnating export rates, the French government has actively sought to push exports for the past three years. In 2008, it created an inter-ministerial committee to support civil and military export (CIACI), and there is now a "war room" dedicated to this issue at Elysée Palace. The efforts seem to have paid off, as the DGA stated that export orders for French defence equipment had climbed to around €8bn in 2009.

## 2.2 Germany<sup>17</sup>

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	2,242.20	2,326.50	2,432.40	2,481.20	2,397.10	2,489.52
GDP per capita, euro tsd.	27.19	28.25	29.57	30.21	29.28	30.50
Gross public debt, euro bn.	1,524.40	1,571.60	1,578.70	1,643.80	1,760.50	1,884.80
Gross public debt (% of GDP.)	67.99	67.55	64.90	66.25	73.44	75.71
Net lending (+) or net borrowing (-), euro bn.	-73.95	-36.83	6.55	2.82	-72.91	-91.28
Net lending (+) or net borrowing (-), % of GDP	-3.30	-1.58	0.27	0.11	-3.04	-3.67
Defense budget, euro bn.	23.50	27.90	28.40	29.50	31.10	31.10
Defense budget, % of GDP	1.05	1.20	1.17	1.19	1.30	1.25
Military personnel Armed forces	284,500	284,500	245,702	245,702	244,324	250,613

### 2.2.1 Impact of the Financial Crisis on the Defence Budget

The German defence budget has been underfinanced for quite some time. Equipment necessary for operations was not purchased in sufficient quantities. This situation became rather dramatic with the Afghanistan operation getting more intense in terms of fighting.

On 7 June 2010, the government set course for a drastic consolidation of the federal budget. This was imminent due to the increased debt incurred for the national stimulus programme but also because of the constitutional anchored "debt brake". It obliges the government to restrict new debt to not more than 3.5% of GDP per year from 2016 onwards.

Simultaneously, the cabinet kicked off the reform of the German Armed Forces. The MoD bound itself to generate savings of €8.3bn from the defence budget between 2011 and 2014. €4bn should result from savings in personnel costs. It was assigned together with a specially convened *Commission on Structural Reforms* to demonstrate the implications of a reduction in personnel of up to 40.000 soldiers the suspension of conscription as well as ways to streamline administration and rationalise procurement and acquisition. Moreover it shall identify options for savings through better pooling and sharing within EU and NATO.<sup>18</sup>

<sup>17</sup> This section is based on Sophie C. Brune, Chapter Three: 'Germany, in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

<sup>18</sup> Griephan Briefe 29/10.

As it currently stands, the MoD is not able to generate the savings it has accepted. Instead reform induced changes are envisaged to generate extra costs of about €1bn.<sup>19</sup> The Treasury has lowered the financial pressure for the MoD by extending the savings horizon from 2014 to 2015. Due to a change of the minister itself it is now to the successor – Mr de Maizière - to outline the future course of the defence reform. He already made clear that he will restructure the armed forces not only along the security challenges but also in accordance to the foreseen budgetary limits<sup>20</sup>

## 2.2.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite the growing engagement in crisis-management tasks beyond the Euro-Atlantic since 1990, the German Armed Forces (GAF) force structure and rationale for the use of military force remained long geared for territorial defence. A first review process aiming at restructuring the Armed Forces took place in 2000. The Defence Policy Guidelines (DPG) that eventually came out of this review in 2003 stated that the GAF should now be equipped to participate in operations “anywhere in the world and at short notice and...across the entire mission spectrum [including] high-intensity [combat] operations.”

Currently, Germany is engaged in the largest structural reform of its armed forces since the end of the Cold War. The twin pressures of the need to enhance deployability –brought home especially by the Afghanistan -operation - and the financial crisis have resulted in an attempt to redefine the force structure of the GAF, as well as its capabilities.

### **Force structure and Personnel**

The *Commission on Structural Reforms* submitted its report in early November to the Defence Minister. It recommended to reduce force levels to around 180,000 troops, to suspend conscription and to use pooling and sharing at European level to achieve more savings. Whilst offering options to trim and restructure the MoD as a whole, it also speaks in favour of enhancing the responsibilities of the Chief of Defence.<sup>21</sup>

The only concrete change that has been introduced is the ending of conscription by mid-2011. From then on the GAF would turn into an all-volunteer force. However, final structure and size are still left open. While the restructured GAF would be able to fulfil its security tasks with 164,000 soldiers according to the report by the Chief of Defence<sup>22</sup> it is likely that the final number of military personnel will end up at about 185,000 soldiers – 170,000 plus 15,000 short term volunteers. While the smaller option would save about €1.5bn p.a. any reform would first of all induce costs. Hence, savings are likely to be seen only in some years.

Reforms are foreseen for the command structure to increase deployability and readiness. The impractical tripartite structure of crisis response, stabilisation and defence forces is likely to be given up. Instead, two army divisions with three mixed brigades each may represent the future structure. These shall form the backbone for force generation with increased sustainability and flexibility concerning the mission spectrum. The number of infantry units is to be increased as they have been missing during last deployments. Moreover, there is likely to be a pool for rapid response.<sup>23</sup> Air Force/ Navy

On 7 February 2011 the MoD made further suggestions, targeting especially the ministerial structures. Accordingly, the currently 17 departments shall shrink and become reorganized into 8. While the ministerial staff is decreased from 3,200 to about 1,800, the only direct savings result from the lower amount of staff that receives the allowance for working in the ministry. Key of the ministerial reform is the transfer of the chiefs of the services out of the ministry. Moreover the inspector general will become

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<sup>19</sup> Handelsblatt 7.2. 2011, p.14.

<sup>20</sup> Bundesminister der Verteidigung: Weisung zur Strukturreform 22.03.2011

<sup>21</sup> Bericht der Strukturkommission

<sup>22</sup> Wieker Bericht, p. 49.

<sup>23</sup> Griephan Briefe 1-2/11

a “real” chief of defence, i.e. head to the inspectors of the services. At the same time he loses some competences.<sup>24</sup>

### Equipment and procurement

In the light of the budget pressure, some immediate decommissioning has already taken place. The Navy has taken its six 206A submarines out of service before the planned date. The fleet of more modern 212A Class submarines will grow up from currently 4 to 6 units by 2013. K130 Corvettes could replace eight Type 122 frigates in 2012-13. A further reduction is planned in the order of three instead of four frigates F125 between 2016 and 2019. The Air Force will retire 15 TRANSALL and reduce flight hours. The decommissioning of TORNADO fighters (from 185 to 85) will take place earlier than planned. The Army will take out of service several LEOPARD II main battle tanks, around 60 MARDER armoured fighting vehicles, as well as armoured anti-air and artillery vehicles. Upgrades for the remaining LEOPARD II may be postponed. The status of decision or implementation for the majority of these cuts is uncertain.

Further cuts in acquisition could be part of the savings effort. The inspector general has advocated for fundamental reforms of the acquisition process and speaks in favour of buying more commercial and military off-the-shelf solutions in his report to the Cabinet.<sup>25</sup> A priority list for equipment programmes shows options for acquisition cuts summing up to €9,4 bn. It i.a. suggests that the number of initially planned NH 90 transport helicopter could be reduced from 122 to 80 as well as the anti-tank helicopter TIGER (from 80 to 40). The final tranche (3b) of the EUROFIGHTER will probably be cancelled (about 37 units) or sold on the international market, if the contract does not allow for cancellation. Orders for the armoured vehicle PUMA might also decrease from 400 to 280 units.

Yet, the amount of savings will depend on MoD's negotiations with industry on foregone contracts since cancellation clauses would incur penalties for the MoD that might make cancellation economically unsound. The resell of some units may be necessary. Following the recent re-negotiation of the procurement terms for the A400M, Germany will buy only 53 of the initially 60 planned A400M transport aircrafts for the initially agreed price. But it has to maintain a €500 million loan guarantee for EADS should the A400M not export satisfyingly.

#### 2.2.3 EU Pooling and Sharing Options

The *Wieker Report* also identifies increased pooling and sharing of capabilities as one way to achieve savings through international cooperation. Yet he cautions about the political challenges involved in making such cooperation genuinely effective.

Most importantly, Germany has introduced the *Ghent Initiative*, jointly with Sweden. It aims to assess options for pooling and sharing. The initiative has been welcomed by the European Council in December 2010 and thus Europeanized. During the next six month CSDP member states will analyse their national capabilities along three criteria: as to what extent and by what measures the interoperability of those capabilities that have to remain under national control could be increased; which capabilities allow options for pooling; which capabilities and support structure offer potentials for role and task-sharing through intensified cooperation.<sup>26</sup>

Moreover, the *Weimar initiative* to CSDP by France, Germany and Poland aims to strengthen CSDP capabilities through increased multilateralization and pooling of forces. This initiative has been welcomed by the High Representative and will be taken forward on the EU/EAD level and by the three

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<sup>24</sup> MoD: Konzentration und Verantwortung: Die Prozessorientierte Neuausrichtung der Bundeswehr

<sup>25</sup> Wieker Bericht

<sup>26</sup> Council conclusions on Military Capability Development. 3055th Foreign Affairs (Defence) Council meeting Brussels, 9 December 2010. [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/esdp/118348.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/esdp/118348.pdf)

initiating countries. On the bilateral level the French and German Planning Staffs have analysed options for pooling and sharing. This process has not delivered any visible results so far.

#### 2.2.4 Defence Industry

German defence industry has not suffered significantly so far from the financial crisis. Growth is expected to be higher in 2010 than anticipated (€3.9 bn. as compared to expected €3.7 bn.). Still, the effects of decreasing public spending are to arrive over the next years.

While German defence industry maintains significant overcapacity in land and navy systems, the economic data available from individual German defence firms like Rheinmetall, EADS, OHB and Diehl seems to paint a mitigated picture: Most firms are starting to show clear signs of recovery from the peak of the crisis in 2008-2009.

Not all recoveries are due to defence-related activities. Firms specialising in systems that are important for current operations have largely profited from the recent government efforts to improve acquisition for ongoing deployments. Rheinmetall's defence business, for instance, has turned into the strongest section of its portfolio, thanks to the strong demand from the MoD whilst suffering from the crisis in the automotive sector. The space technology company OHB, is booking net growth in 2010, and is expanding its international ties, including those to China. Other firms like Diehl are recovering due to their civilian or dual-use activities. Yet, small and medium enterprises in the aerospace sector and those specialising in maintenance work, as well as outfitters or subsystem suppliers are already suffering from the freeze in contract awards imposed by the MoD on maintenance expenses.

Hence, industry and unions are getting sensible for the governmental plans. While there is the general threat of production site closure, they see the plans of more COTS/MOTS as weakening the national industrial and knowledge base for strategic sectors like UAVs and naval production. Hence, they aim for targeted national orders and the shortening of administrative delays for exporting defence goods. Without domestic support for R&D and the national endorsement of products, industry fears its chances to stand on the international market will be reduced as well –with clients such as India, Brazil, the United Arab Emirates or Saudi Arabia becoming ever more demanding about the quality of goods and a maximum technology transfer.

Whether the "Industry-Government Agreement on Core Capacities" is still a valid basis for business in the light of imminent cuts is uncertain. Still too many areas are considered as national core capacities, and little attention is paid to the wider spectrum of capacities at European level.

## 2.3 Italy

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		1,429.48	1,485.38	1,546.18	1,567.85	1,520.87	1,548.32
GDP per capita, euro tsd.		24.39	25.20	26.04	26.20	25.24	25.58
Gross public debt, euro bn.		1,512.80	1,584.10	1,602.10	1,666.50	1,763.60	1,841.60
Gross public debt (% of GDP.)		105.83	106.65	103.62	106.29	115.96	118.94
Net lending (+) or net borrowing (-), euro bn.		-61.90	-49.92	-23.52	-42.69	-80.86	-77.53
Net lending (+) or net borrowing (-), % of GDP		-4.33	-3.36	-1.52	-2.72	-5.32	-5.01
Defense budget, euro bn.		14.00	12.12	14.44	16.40	15.40	15.50
Defense budget, % of GDP		0.98	0.82	0.93	1.05	1.01	1.00
Military personnel	Armed forces	191,875	191,152	191,152	186,049	185,016	185,235
	Gendarmerie	110,000	110,000	110,000	110,000	110,000	110,000

### 2.3.1 Impact of the Financial Crisis on the Defence Budget

The Italian government faces a budget deficit of over 5% of GDP and an outstanding national debt of 110% of GDP. In late July 2010, Finance Minister Tremonti issued a €25bn savings programme over the period 2011-12, which included a 10% cut in each Ministry's budget.

Defence spending fell by 4.5% in 2009. In 2010, the defence budget amounted to €17.6bn, which corresponds to 1.1% of GDP. For 2011, the MoD has requested €20.55bn, which represents a 0.9% increase from 2010, with the core defence budget of €14.3bn up by 0.5%.<sup>27</sup> It remains unclear from open sources, what amount of funding has been adopted for 2011, however.<sup>28</sup>

The opaque nature of data on Italy's military spending obscures the true picture of defence expenditure.<sup>29</sup> In 2009, the budget of the Ministry of Economic Development (MED) contained an additional €888m for defence procurement and another €400m for R&D not officially accounted for under the defence budget.

In light of Tremonti's savings agenda, the Italian MoD is currently risking a reduction in end-strength of the armed forces and their military readiness in order to be able to pay incompressible wages and prioritize ongoing modernization efforts.<sup>30</sup>

### 2.3.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

In 2004, the Chief of Defence's *Strategic Concept* laid a road map for the transformation of the Italian armed forces until 2019. The overall goal of the reforms is to increase force-projection capacities of troops able to address complex scenarios, ranging from stabilisation, post-conflict reconstruction operations and humanitarian intervention to high-intensity conflict. This is pursued in order to improve capacities for participation in multilateral missions abroad and to contribute simultaneously to EU and NATO initiatives.<sup>31</sup>

## Force Structure and Personnel

<sup>27</sup> Andy Nativi, 'Holding On: Despite its strained military budget, Italy resists modernization cuts', *Aviation Week & Space Technology*, 13.12.2010.

<sup>28</sup> Parlamento Italiano, *Bilancio die previsione dello Stato per l'anno finanziario 2011 e per il triennio 2011-2013*, Legge 13.dicembre 2010, n. 221, Article 11.

<sup>29</sup> Istituto Affari Internazionali, May 2010.

<sup>30</sup> Tom Kington, 'Training Cuts Could Hurt Italian Readiness', *Defense News*, 29.11.2010.

<sup>31</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, London, 2008, p.50.

In 2010, end-strength of the armed forces was at 179,000 troops.<sup>32</sup> They are planned to be down-sized to 141,000 by 2012. Expected savings from the planned cuts in personnel are around €2.5bn.<sup>33</sup> The sustainably deployable Italian full-spectrum force to be developed will consist of three light, three medium and three heavy brigades, one airmobile brigade and one special operations forces unit to be eventually able to deploy up to 13,000 soldiers.<sup>34</sup> The professionalization of the force, the modernization of equipment and the establishment of joint structures are three key-aspects of ongoing reform efforts.

Conscription was abolished in 2005. The internal breakdown of the defence budget has remained unbalanced following the end of conscription, which saw a dramatic increase in personnel costs. The Ministry of Defence has a target that 50% of its budget be allocated to personnel costs, with 25% allocated to procurement and another 25% to running and operational outlays. However, in 2009 personnel expenditure accounted for 67% of the budget, procurement 20% and running costs just 13%.<sup>35</sup> Personnel costs continue to take up the lion's share of spending with about 70% of the defence budget in 2011. In light of this imbalance, the government has called for proposals from an inter-ministerial commission on the future make-up of the Italian armed forces.<sup>36</sup>

Funds for operations and maintenance went down by 29% between 2008 and 2009 and were at €1.76bn in 2010, which corresponds to a further drop of 7% from 2009. Additional cuts of €100m in the O&M budget were made in the 2011.<sup>37</sup> Keeping equipment and training on an adequate level has thus proven particularly problematic for the Italian armed forces.<sup>38</sup> Training funds have been cut by dramatic 69% since 2006. Then at €186.6m, spending on training is planned to be €58.5m in 2011.<sup>39</sup> Some help for training is provided through additional funds granted by parliament for pre-deployment training for overseas missions in Lebanon and Afghanistan. That funding does not benefit most Air Force pilots and naval crews not involved in missions, however.<sup>40</sup> To cope with reduced flying hours, the Air Force has turned increasingly to flight simulation, i.a. with its newly delivered C-27 J full flight simulator. The reduction in the operational budget and the land-based focus of current missions thus particularly affect the Italian Air Force and Navy.<sup>41</sup>

## Equipment and Procurement

Equipment priorities that have been at the centre of the past reform process include fighter aircraft, multi-role frigates, air-defence frigates, NH 90 medium transport helicopters, MEADS air-defence systems, air-to-air missiles, support vehicles, satellite-based communications and UAVs.<sup>42</sup>

Some major capability cuts are planned, however, such as the allocation for the tranche 3B of the Eurofighter (25 Typhoons) to achieve savings of about €2bn<sup>43</sup> and the buy of four FREMM frigates from France. The biggest and most controversial programme in 2011 is the Joint Strike Fighter. Italy is going to finish paying for its involvement in the development phase of the programme in 2012, but the number and type of F-35 to procure is not yet determined. The initial target was 131 units.<sup>44</sup>

<sup>32</sup> Manovra di Bilancio (2011-2013), June 2010.

<sup>33</sup> Istituto Affari Internazionali, Mai 2010.

<sup>34</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, London, 2008, p.50.

<sup>35</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

<sup>36</sup> *Defense News*, 24.10.2009.

<sup>37</sup> *Defense News*, 02.08.2010.

<sup>38</sup> *Defense News*, 07.06.2010.

<sup>39</sup> Tom Kington, 'Training Cuts Could Hurt Italian Readiness', *Defense News*, 29.11.2010.

<sup>40</sup> Ibid.

<sup>41</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 115.

<sup>42</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.51.

<sup>43</sup> David Rising, 'Germany moves ahead with major restructuring of military to meet new threats, save money', *Associated Press*, 26.10.2010.

<sup>44</sup> Andy Nativi, 'Holding On: Despite its strained military budget, Italy resists modernization cuts', *Aviation Week & Space Technology*, 13.12.2010.

Despite these planned cuts, some major procurement programmes survive. The 2011 budget request contains funding for a long-sought search-and-rescue (SAR) and combat search-and-rescue (CSAR) helicopter initiative, the development of a laser-based infrared countermeasures system (DIRCM) to safeguard aircraft from infrared-guided missiles and for which a national solution will be developed by Elettronica and Elbit allegedly due to difficulties in getting export approval from the US for an equivalent system.<sup>45</sup> A further priority lies with rotary-wing programmes, with the army continuing to fund procurement of 16 CH-47Fs to replace its fleet of CH-47 Cs in service since 1973 and starting a new round of combat helicopter upgrades (AW 129 Mangusta). The Air Force is beginning two programs with procurement of AW 101 CSAR and AW 139 SAR helos. NH 90 also remains a major budget item, as much as the army procurement of Textron AAI Shadow tactical unmanned aircraft.<sup>46</sup>

Funds for investment in 2011 clearly rise. They amount to €3.4bn, an extra €266m compared to the €3.2bn of 2010.<sup>47</sup> Research and development will continue to be funded for portions of the Typhoon, most of the space programmes, the procurement of Navy and Air Force AW 101 helicopters and the M-346 Master advanced jet trainer.

### 2.3.3 Level of Ambition and International Engagement

Total spending on international missions in the first six months of 2009 was more than €700m, with the largest outlays going to operations in Afghanistan (€242m), Lebanon (€192m) and the Balkans (€114m). Italian forces are also deployed in other operations including *Active Endeavour*, the NATO training mission in Iraq, and EU-led operations in Georgia and off the Somali coast.<sup>48</sup> In 2010, Italy's international engagement had to be adjusted in light of financial pressures. The available yearly budget for overseas missions consisted in €1.35bn covering overseas missions as well as development aid. The contribution to Italy's participation in Afghanistan as part of the ISAF mission was increased from €310m to €364m in 2010, but Italy's contribution in Lebanon, in the Balkans, Bosnia, at the Horn of Africa, as well as for the training of Iraqi security forces were significantly reduced by the end of the year.

### 2.3.4 Pooling and Sharing Options

Beyond the creation of the Franco-Italian Brigade in Spring 2010 and the hope to strengthen national defence industry through European armaments cooperation (cooperation with London on a MALE-UAV), Rome has not yet signalled particular interest in furthering European cooperation out of financial motivations. Defence Undersecretary Guido Corsetto expressed concerns to see Italy excluded from cooperation with the UK since the declarations on Franco-British cooperation on Defence on MALE-UAVs in November 2010.<sup>49</sup>

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<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> BBC, 'Italian Defence Minister unable to fund 'new industrial programmes'', 23.10.2010.

<sup>48</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

<sup>49</sup> Interview with Guido Crosetto, Italian Defence Undersecretary, *Defense News*, 13.12.2010.

### 2.3.5 Defence Industry

Critics of argue that because money provided by the MED is only ever made available for the purchase of domestic equipment, around 40% of the armed forces' investment budget is not subject to open tenders and represents a de facto national subsidy to national industry.<sup>50</sup>

## 2.4 Poland<sup>51</sup>

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	244.42	272.09	311.00	363.15	310.48	354.71	
GDP per capita, euro tsd.	6.40	7.14	8.16	9.53	8.14	9.29	
Gross public debt, euro bn.	120.00	132.10	147.30	144.70	166.70	207.70	
Gross public debt (% of GDP.)	49.10	48.55	47.36	39.85	53.69	58.56	
Net lending (+) or net borrowing (-), euro bn.	-9.96	-9.88	-5.85	-13.34	-22.49	-28.18	
Net lending (+) or net borrowing (-), % of GDP	-4.07	-3.63	-1.88	-3.67	-7.24	-7.95	
Defense budget, euro bn.	4.27	4.62	5.33	6.36	6.20	6.47	
Defense budget, % of GDP	1.75	1.70	1.71	1.75	2.00	1.82	
Military personnel	Armed forces	141,500	141,500	141,500	127,266	121,808	100,000
	Gendarmerie	21,400	21,400	21,400	21,400	21,400	n.a.

### 2.4.1 General Defence Policy Outlook

The shift resulting from being firmly anchored in the Euro-Atlantic security system with Poland's accession to NATO in 1999 was reflected by a deep transformation of Polish armed forces, which for most of the last 20 years have been struggling to meet NATO political, organizational and technical standards. In 2007, a National Security Strategy was adopted, outlining the major tasks of the armed forces as being collective defence, international crisis management and support for civilian authorities as well as the transformation into an all-volunteer force by 2012.<sup>52</sup> The gradual implementation of those goals was enabled thanks to a stable defence budget, which –according to domestic legal provisions, in force since 2002– each year must equal to 1,95% of GDP. A new Strategic Defence Review updating the last one undertaken between 2004-2006 was finished by the end of January 2011. The SDR will identify future capability requirements for the Polish armed forces and propose lines for its further transformation.

Besides asymmetric threats, such as international terrorism, organised crime and environmental challenges, the National Security Strategy identifies energy dependence as the greatest external threat to national security. Large-scale armed conflict is considered unlikely. Regional and local conflicts such as in the South Caucasus and the Balkans that may require Polish involvement, however, are considered more likely than in the past.<sup>53</sup>

<sup>50</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

<sup>51</sup> This section is based on Marcin Terlikowski, 'Chapter Four: Poland', in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

<sup>52</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.57.

<sup>53</sup> Ibid.

## 2.4.2 Impact of the Financial Crisis on the Defence Budget

The impact of the financial crisis on the Polish economy in 2008 forced the MoD to make severe cuts by approximately 20% in the 2009 defence budget, which decreased from €6.3bn to €5.8bn. The statutory commitment to hold spending at 1.95% of GDP de facto fell to 1.85% of GDP in 2009.<sup>54</sup> Cuts concentrated on investment expenses, reduced by about 50%. Most of the long-term procurement contracts were reviewed with the aim to reduce, delay or suspend payments (and deliveries). Only vital deliveries to Polish ISAF-contingents deployed were not significantly curtailed. Furthermore, maintenance and training costs were reduced by limiting administrative expenses and suspending field exercises.

The Polish economy recovered relatively well in 2009 and 2010, which allowed defence cuts to be stopped. The 2010 budget has not been reduced and was implemented without difficulties, although it did not yet allow the MoD to boost investment (also due to the need to cover contracts renegotiated in 2009). The defence budget for 2011 rose by unexpected 7.1% to €6.8bn in comparison to the 2010 budget (€460m more than in 2010).<sup>55</sup> Investments both in equipment and infrastructure will increase by 16%. The procurement budget should also rise by 12% to €1.23bn.<sup>56</sup> No particular savings plans are currently being drawn up, other than a further rationalization of expenses through organizational and administrative reforms.

Still, the government has recently proposed to lift the obligation to spend 1.95% of GDP on defence annually, and to stretch it over a six-year period. This would allow for more flexibility in defence budgeting and make defence expenses more dependent on the overall condition of public finances.

## 2.4.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

### Force Structure and Personnel

Currently, Polish armed forces are continuing a deep transformation, involving three core elements: professionalization, administrative reforms and technical modernization. The professionalization, decided upon only in 2008, suspended compulsory draft in favour of a completely professional armed force, which has been subsequently reduced by 30% to approximately 100,000 troops. The proportion of professional soldiers has risen by 25%. A National Reserve Forces (NRF) is being established by the end of 2011 with a planned end-strength of 20,000 personnel.<sup>57</sup> The numbers of volunteers fit for the job have been too low to achieve this goal to date, however.<sup>58</sup>

Administrative reforms, in turn, seek to rationalize the MoD and armed forces' organizational structure, maintenance and training systems. One key priority is to overhaul the ministry's spending structure. Almost 50% of last year's €6.52bn budget (some €3.25bn), were allocated for personnel expenses, while the remaining €3.21bn went for capital expenses including procurement. The MoD wants to increase the share dedicated to modernization in 2011. The number of jobs in the MoD will be cut by around 10%, and additional cuts in the armed forces are foreseen by 2012.<sup>59</sup> The three services, civilian guard units and logistics will be most affected by cuts.<sup>60</sup> A further key development is the reorganization of the military procurement system, with a new arms procurement agency ('Armament Inspectorate') taking over responsibility for contracting military investments from 2011 onward.

### Equipment and Procurement

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<sup>54</sup> International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 116.

<sup>55</sup> Polish Ministry of National Defence, Budgetary Department, *Basic Information on the MoND Budget for 2011*, Warsaw, March 2011.

<sup>56</sup> Grzegorz Holdanowicz, 'Polish defence budget set for 10-year high', *Jane's Defence Weekly*, 15.09.2010.

<sup>57</sup> BBC, 'Poland's new national reserve force has 9.300 applicants—Defence Ministry', 23.11.2010.

<sup>58</sup> BBC, 'Polish army struggles to recruit volunteers for new national reserve force', 20.10.2010.

<sup>59</sup> BBC, 'Polish Defence Ministry plans job cuts among civilian staff in Armed Forces', 10.01.2011.

<sup>60</sup> BBC, 'Polish Defence Ministry plans job cuts among civilian staff in Armed Forces', 10.01.2011.

Modernization is aimed at replacing aging post-Soviet equipment and increasing the level of armed forces' interoperability, deployability and sustainability. The 2001 White Paper defined C3I and air defence as central capability priorities, as well as basic combat equipment, transport, combat support and NBC protection. Through recent experience in Afghanistan, force protection, including MRAPs, tactical lift, helicopters, surveillance and reconnaissance UAVs and precision-strike capabilities have also become preeminent priorities.<sup>61</sup>

The Polish government approved a new four-year armed-forces development for 2009–12 and a longer-term €15.4bn investment plan to run to 2018 and listing 14 modernization programmes. It involves a number of relatively big procurements with some of them to be accomplished in only three/four years – e.g. a purchase of 16 fighter-jet trainers, 26 support helicopters and 48 Patria/'Rosomak' AMVs. Poland also wants to replace its helicopter fleet by 2018 and intends to order 26 helicopters (Sikorsky's Black Hawk S-70i or the NH 90 by NH industries). Advanced training systems to serve as a lead-in for the country's F-16 fighter fleet<sup>62</sup> as well as a medium-range air defence system worth approximately €3.62 bn<sup>63</sup> are topping the list of procurement priorities to be implemented due to the increase of the procurement budget by 12% in 2011.<sup>64</sup>

The long-term investment plan foresees very ambitious procurements, which will be financed after 2018 – e.g., new aerial and missile defence system or comprehensive improvement of C4ISR capabilities. The total value of all those procurements is estimated to equal around €35bn. In the same period large numbers of old equipment should be withdrawn (e.g. dozens of Sukhoi Su-22 bombers or hundreds of T-72 tanks), although in case new procurements were delayed, life-extensions are likely. These goals assume stable financing of the defence budget and the preservation of the 1.95% of GDP quota spent on defence, however.

#### 2.4.4 Level of Ambition and International Engagement

Poland's precise level of ambition with regard to deployment is classified. It is believed to include deployment based on different levels of mission intensity, sustainability, requirements and concurrency. Military leaders have argued that a deployment of 4,000 troops is the limit of Poland's current sustainable capacity.<sup>65</sup>

In Afghanistan, Poland keeps a 2,600 strong contingent. In 2010 the MoD set aside €330m for its operations including €240m for the purchase of equipment and €95.6m for personnel. The start for the withdrawal from Afghanistan is foreseen by 2012.<sup>66</sup> As a consequence of the financial bottleneck, Poland shifted its troops from various military missions to increase contributions in Afghanistan. Poland has withdrawn its forces from international operations in Lebanon (UNIFIL), Syria (UNDOF) and Chad (MINURCAT).<sup>67</sup> As part of the EU Althea mission, 215 Polish soldiers and army employees serve but this number will be reduced to 47 due to a change in the mission and the end of the mission in 2010. Nineteen Polish soldiers serve as part of NATO's training mission in Iraq, whilst 11 are observers in the EU mission in Georgia. Individual observers are in Congo, Lebanon, Sudan, and the Ivory Coast. Polish ships take part in the Active Endeavour mission on the Mediterranean and between April and August 2010 Polish pilots took part for the third time in the NATO air policing mission protecting the Baltic states.<sup>68</sup>

#### 2.4.5 Pooling and Sharing Options

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<sup>61</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p.58.

<sup>62</sup> Robert Wall, 'Poland Hikes Defense Budget, Seeks New Trainer', *Aerospace Daily and Defense Report*, Vol. 235: 49, 09.09.2010.

<sup>63</sup> Jaroslaw Adamowski, 'Poland's Defense Budget rises, with emphasis on modernization', *Defense News*, 20.09.2010.

<sup>64</sup> Grzegorz Holdanowicz, 'Polish defence budget set for 10-year high', *Jane's Defence Weekly*, 15.09.2010.

<sup>65</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p.57.

<sup>66</sup> Jaroslaw Adamowski, 'Poland's defense budget Rises, With Emphasis on Modernization', *Defense News*, 20.09.2010.

<sup>67</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 116.

<sup>68</sup> BBC, 'More than 3,000 Polish soldiers serve on foreign missions', 03.12.2010.

On the issue of pooling and sharing, Warsaw has been engaged in a close dialog with Berlin and Paris as part of the Weimar Triangle since 2010. Poland, Germany and France sent a letter to the EU High Representative Lady Ashton in mid-December calling for the improvement of capacities to plan and to conduct operations and missions, to strengthen cooperation among their militaries and to create synergies in times of scarce resources, taking due care for complementarity with national and NATO planning capacities (see Part I, section 2.3. for further details). Germany, France and Poland will enhance their cooperation within the Battlegroup which they are to provide in the first half of 2013.<sup>69</sup>

## 2.4.6 Defence Industry

The Polish defence sector is dominated by state-controlled companies: a large holding called "Bumar" (incorporating over 27 different corporations) and a few separate but cooperating firms (e.g. WZM Siemianowice – the manufacturer of Patria/Rosomak' AMV), which are active mostly in the land systems domain. An overarching, governmental strategy for those firms was adopted prior to the crisis for the period 2007-2012 and involves further consolidation (within the Bumar group), recapitalization and concentration on core business (e.g. track and wheeled armoured platforms, munitions, opto-electronics, radars). So far, the strategy hasn't been updated due to the crisis and is being implemented (in line with it, e.g. Bumar has recently incorporated 7 new companies).

## 2.5 Spain

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	908.79	984.28	1,053.54	1,088.12	1,053.91	1,051.33	
GDP per capita, euro tsd.	20.94	22.34	23.48	23.87	22.95	22.81	
Gross public debt, euro bn.	391.10	389.50	380.70	433.00	560.60	676.90	
Gross public debt (% of GDP.)	43.04	39.57	36.14	39.79	53.19	64.39	
Net lending (+) or net borrowing (-), euro bn.	8.76	19.85	20.07	-45.19	-117.31	-97.85	
Net lending (+) or net borrowing (-), % of GDP	0.96	2.02	1.90	-4.15	-11.13	-9.31	
Defense budget, euro bn.	7.12	7.12	7.69	8.14	7.84	n.a.	
Defense budget, % of GDP	0.78	0.72	0.73	0.75	0.74	n.a.	
Military personnel	Armed forces	147,255	147,255	147,255	149,150	149,150	128,013
	Gendarmerie	73,360	73,360	73,360	73,360	73,360	80,210

### 2.5.1 Impact of the Financial Crisis on the Defence Budget

In 2009, the Spanish defence budget was cut for the first time in ten years: The budget of €8.24bn was 3% lower than in 2008. The total defence spending including funds for civilian employees, secret services, research institutes and defence procurement earmarked in the budget of the Ministry for Industry, Tourism and Trade added up to €11bn. Funds for procurement in the budget were at €1.15bn.

In 2010, the core defence budget was €7.7bn, a reduction by 6.2% to 2009. Total defence spending was €10.11bn and funds for procurement were down at €950m. In 2010, the Spanish government decided on two savings package adding up to €11.5bn.<sup>70</sup> The savings effort transferred to the Ministry of Defence can be considered relatively light, currently amounting to €141m. Savings will mostly be achieved through reductions on the investment and procurement budget up until 2014.

<sup>69</sup> Gabriela Baczyńska, 'France, Germany, Poland urge closer EU defence ties', *Reuters News*, 13.12.2010.

<sup>70</sup> Government of Spain, Ministry of Economy and Finance, *General State Budgets 2011*, based on Law 39/2010 on General State Budgets for 2011, Madrid, p. 5.

In 2011, Spain is cutting its defence budget for the third consecutive year, resulting in a 13.3 % reduction since 2009.<sup>71</sup> The defence budget for 2011 stands a below €7 billion, which represents a cut of 7% from 2010.<sup>72</sup> The total defence budget for 2011 amounts to €8bn, including funds for civilian administration and around €771m for procurement, instead of the €9.33bn initially planned for in the draft budget.<sup>73</sup>

## 2.5.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Spanish policymakers embarked on defence reform from 1998. The abolition of conscription took effect in 2001 and was followed by a strong force contraction until 2004. The blueprint for reform is the 2003 Strategic Defence Review, which has broadly been confirmed in the Zapatero government's 2004 Defence Directive. International commitments and enhancing the Spanish force projection capacity are the key drivers for structural reforms.<sup>74</sup>

### Force Structure and Personnel

The reform agenda of the armed forces is pursued through a reduction in the number of units and a re-equipment drive. The focus is on enhancing mobility and projection, sustainability, readiness, survivability, command and control, ISTAR, interoperability and 'jointness' between the services.<sup>75</sup> The end-strength of the Spanish armed forces currently lies at 128,013 troops. Civilian jobs amount to 26,800 employees and the Civil Guard is 73,000 soldiers strong. Although the MoD argued that the cuts could be borne by administration rather than by the armed forces,<sup>76</sup> cuts in soldiers' pay of up to 5% have already been enacted and cuts of up to 6,000 jobs with the armed forces are planned.

### Equipment and Procurement

Both the government of Jose Maria Aznar and José Luis Rodrigues Zapatero initiated major re-equipment programmes with the goal of modernizing and transforming the Spanish armed forces by 2015. Equipment priorities include fighter aircraft, A-400M transport planes, tactical transport planes, air-to-air missiles, *Leopard 2 E* main battle tanks, armoured vehicles, future soldier systems, frigates, submarines, offshore patrol vessels, strategic projection vessels, medium transport helicopters, attack helicopters, UAVs and dual-use observation satellites.<sup>77</sup>

The main cuts will take place in future procurement and modernisation efforts. Funds for new helicopters, transport planes, fighters, tanks, frigates or submarines had 39% fewer funding in 2010 (€204 millions) than in 2009 (€333 millions). The funds dedicated to general modernisation of the armed forces –without including major programmes—suffer a cutback from €319 million in 2010 to €283 million in 2011.<sup>78</sup> The next two budgets for modernization efforts will equally be reduced: €184 million in 2012 and €162 million for 2013. A recovery to old rates of investment is only expected from 2014 onwards. The modernization programmes hardest hit are that of the Leopard 2 tank and of the EF-2000 fighter jet. Funds are kept up for modern ground attack helicopters (Tiger), an urgent requirement in Afghanistan, where Spanish troops are sharing those of the Italians.<sup>79</sup> International programmes to keep up commitments and benefit from expected technology transfer will be somewhat preserved from cuts.

## 2.5.3 Level of Ambition and International Engagement

<sup>71</sup> David Rising, 'Germany moves ahead with major restructuring of military to meet new threats, save money', *Associated Press*, 26.10.2010.

<sup>72</sup> David Ing, 'Spain faces third defence budget cut in a row', *Jane's Defence Weekly*, 06.10.2010.

<sup>73</sup> Ministry of Economy and Finance, *General State Budgets 2011*, based on Law 39/2010 on General State Budgets for 2011, Madrid, p. 18-19

<sup>74</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

<sup>75</sup> Ibid.

<sup>76</sup> Europolitics, 'Recent defence spending plans announced by EU member states', 30.11.2010.

<sup>77</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

<sup>78</sup> BBC, 'Spain's Defence Ministry hit by 40% cut in modernization budget', 06.10.2010.

<sup>79</sup> Ibid.

The 2003 defence review defined the level of ambition for the Spanish army as indefinitely sustaining a deployment for the full spectrum of crisis-response missions of up to two brigades with the necessary combat support, as well as maintaining a division headquarters to lead a multinational force should the brigades be deployed to a single theatre.<sup>80</sup> Spain supports the EU-Battlegroup concept and would like to see their more flexible use in the future. Madrid favors a closer coordination with NATO and UN capacities and a further development of civil-military capabilities. No reductions in the level of ambition are planned or discussed. Spain seeks to maintain its engagement in Afghanistan and ended engagement in the Balkans out of a reappraisal of the security situation and in order to free capacities for other engagements.

#### 2.5.4 Pooling and Sharing Options

Despite the financial pressure on the armed forces, the Spanish government is not actively engaging with the idea of pooling and sharing. Spain only follows the EATC-initiative as observer. Spain affirms it wants to maintain independent full-spectrum capabilities. Accordingly, the Ghent-Process has not been engaged by Spain to date

#### 2.5.5 Defence Industry

The MoD announced the restructuring of the national defence industry: SEPI—the holding for firms with public participation—will be slimmed down at managerial level. The national shipbuilding champion Navantia will have to reduce running costs by 30% over the coming five years. However, the Spanish government seeks to enhance its support for exports to alleviate pressure on the domestic defence industry.

### 2.6 Sweden

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	298.35	318.17	337.94	334.23	292.68	347.74	
GDP per capita, euro tsd.	33.04	35.04	36.94	36.11	31.33	37.15	
Gross public debt, euro bn.	148.00	146.50	132.40	112.90	126.90	143.60	
Gross public debt (% of GDP.)	49.61	46.04	39.18	33.78	43.36	41.30	
Net lending (+) or net borrowing (-), euro bn.	6.49	7.44	12.04	7.34	-2.69	-3.14	
Net lending (+) or net borrowing (-), % of GDP	2.18	2.34	3.56	2.20	-0.92	-0.90	
Defense budget, euro bn.	4.74	4.60	4.94	4.12	4.03	4.14	
Defense budget, % of GDP	1.59	1.45	1.46	1.23	1.38	1.19	
Military personnel	Armed forces	27,600	27,600	27,600	24,000	16,900	13,050
	Gendarmerie	600	600	600	600	600	800

#### 2.6.1 General Defence Policy Outlook

Sweden's threat assessment focuses on regional conflicts and instability, organized crime, international crime and WMD proliferation, which are considered security challenges to be met only through international cooperation. A direct attack on Swedish territory is considered unlikely in the next ten years. Sweden is not a NATO member, which enhances the significance of Stockholm's commitment to the EU.<sup>81</sup> Although the government's fiscal position deteriorated during 2009, Sweden pushed on with

<sup>80</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

<sup>81</sup> Op.cit., p. 70.

its long-standing military re-organization programme that started in 1999. The steady decline in defence expenditures witnessed since that time seems to have been halted due to the Georgia-incidents in 2008.<sup>82</sup> In an abrupt reversal of its previous declarations, in March 2009 the government presented a revised reform schedule, halting its plans to further shrink the army and offering a new focus on strengthening the country's rapid-response components. The proposal also revoked plans calling for the closure of bases and a reduction in the tank inventory, and outlined initiatives to strengthen capacities in areas that had been ignored over recent years, such as the Baltic Sea and the island of Gotland, which will receive additional air, sea and land assets including a unit of *Leopard 2* tanks.<sup>83</sup>

## 2.6.2 Impact of the Financial Crisis on the Defence Budget

Sweden's budgetary situation has comparatively suffered little from the financial crisis, and the defence budget has consequently been little affected. Defence spending is kept flat for 2011, remaining at €4.43bn as in 2010. However, to guarantee that key programmes needed for the armed forces' modernization continue, the government has agreed to supplementary budget allocations de facto increasing the defence budget to €4.8bn per year over the period 2010-2015. The Swedish armed forces will see their operational budget increased from €2.2bn in 2010 to €2.37bn in 2011. Spending on peacekeeping and international operations will be reduced from €281m in 2010 to €255m in 2011. The procurement budget will be down from €1.2bn in 2010 to €1bn in 2011.<sup>84</sup> The government wants to push ahead with reforms including the rationalization of support services and the reorganization of the armed forces' operational units around rapid-response modular structures.<sup>85</sup> The introduction of a defence support organization is expected to save €222m by 2012.<sup>86</sup>

## 2.6.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Reforms of the Swedish armed forces have been ongoing since 1999. The overarching goal has been to enhance the expeditionary character of the armed forces for better force projection as part of international crisis-management missions.<sup>87</sup> In July 2010, Sweden suspended conscription, which had been part of the force generation model for 109 years.

### Force Structure and Personnel

In 2011, the Swedish government will finalize the restructuring of its land forces around modular units inspired by the structure of the Nordic Battlegroup. The army core operating units will be reorganized so as to create up to six Modular Battle Units (MBU) and will assemble around tactical operations battalion equipped and resourced from tank, air defence, engineer, logistical and intelligence units. The Army's heavy division will be organized outside of these maneuver battalions. The first MBUs are expected to be trained, equipped and ready for deployment by 2012. Air and special units consisting of combat and transport helicopters, Gripen NG-combat aircraft, C-130 Super Hercules planes and Special Forces units will be attached to the MBUs.<sup>88</sup>

A Rapid Mobilization and Deployment Reserve Force, consisting of four battalions, will be created, boosting the number of deployable mobile battalions at the military's disposal from three to eight, while the Home Guard will be fixed at 22,000 personnel, of which 17,000 will receive improved training and equipment and be under a service obligation even in peacetime. Greater emphasis was placed on

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<sup>82</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 116-7.

<sup>83</sup> Ibid.

<sup>84</sup> Gerard O'Dwyer, 'Sweden seeks greater cost controls amid flat budget for 2011', *Defense News*, 25.10.2010.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

<sup>87</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

<sup>88</sup> Gerard O'Dwyer, 'Sweden to reshape army with modular structure', *Defense News*, 25.10.2010.

deployability, and in future the entire 50,000-strong force will be available within one week 'to serve where and when necessary', compared to a year at present.<sup>89</sup>

### Equipment and Procurement

Contrary to previous suggestions, most of the armed forces' major weapons systems will be retained: the number of *Gripen C/D* aircraft will be fixed at 100; the number of all MBU, artillery and air-defence units will be unchanged; new helicopters and protected vehicles will be procured; and the navy will retain its submarines and fleet of seven corvettes (including five *Visby*-class ships).<sup>90</sup>

A range of procurements have been launched in the pursuit of the modularization, notably in transport, command and control. Equipment priorities include armoured vehicles, corvettes, software-defined radios, fighter aircraft and air-to-air missiles.<sup>91</sup> Sweden as well as Norway have retained funding for all major programmes, while Danish and Finnish procurement has been delayed or reduced.<sup>92</sup> Procurement planned in 2011 includes the acquisition of a medium-weight tactical and transport helicopter to support international units and the Nordic Battlegroup (UH60 Black Hawk). Other programmes include the purchase of the MBDA-Meteor radar guided long-range missile for the Gripen NG fighter jets needed for a larger regional role, including a higher level of surveillance and patrol in the Baltic Sea region;<sup>93</sup> wheeled armoured vehicles for the €248m Armored Modular Vehicle (AMV) project, a new signals intelligence ship and new next generation submarines, coupled with the midlife upgrade of the Navy's existing Gotland-class submarines, the single most costly programme at a cost of €1.2bn. In addition, the Swedish armed forces are acquiring 77 BD-Archer artillery systems, tactical UAVs and the Norwegian Protector weapon station, as well as developing a modernized version of JAS 39-C and D Gripens called 'Material Standard 20' to enter into service in 2018. The Army has ordered eight RQ-7 Shadow UAVs from AAI and modified by SAAB, which will be delivered in early 2011.<sup>94</sup>

In Spring 2010, the Swedish Ministry of Defence commissioned a review to identify how its military organization might benefit from a centralized national defense support structure outsourcing non-core functions such as pilot training and equipment maintenance. Finland's experience in outsourcing its pilot-training is under scrutiny. The first segment of such support structure—an arms export agency—is already in place. In 2011, new outsourcing opportunities will be sought in Army, Navy and Air Force. The aim is to save €293.5m. A further move considered is the merger of the state materials procurement agency and other support units.<sup>95</sup>

#### 2.6.4 Level of Ambition and International Engagement

The Defence Bill from 2005-2007, entitled "Our Future Defence" defined the Swedish level of ambition as the capacity to be able to lead and participate in two large-scale international missions simultaneously, with each mission requiring the deployment of an entire battalion. Additionally, there should be the capacity for up to three smaller missions. This target of up to about 2,300 troops would amount to at least a doubling of current Swedish deployment.<sup>96</sup>

In December 2010, the Afghanistan mandate for the 855 Swedish soldiers deployed in northern Afghanistan was extended beyond the scheduled start of withdrawal in 2013.<sup>97</sup> Sweden has decided to reduce its 500-strong force in 2012, with the minority center-right government setting a course to have

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<sup>89</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 116-7.

<sup>90</sup> *Ibid.*

<sup>91</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

<sup>92</sup> Gerard O'Dwyer, 'Nordic procurement vs. the Downturn', *Defense News*, 06.09.2010.

<sup>93</sup> *Ibid.*

<sup>94</sup> Gerard O'Dwyer, 'Sweden seeks greater cost controls amid flat budget for 2011', *Defense News*, 25.10.2010.

<sup>95</sup> Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

<sup>96</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

<sup>97</sup> 'Schweden Soldaten bleiben über 2013 hinaus', *Tagesanzeiger*, 16.12.2010.

all troops home in 2014.<sup>98</sup> The Swedish decision opened the door to a possible joint withdrawal strategy with Finland by 2014. Finnish troops form part of the same units and share facilities with Swedish forces, making a coordinated approach all the more functional. Finland has signaled interest in a coordinated exit-strategy, including troop reductions and ultimate withdrawal with Sweden and other Nordic states such as Denmark operating in Afghanistan.<sup>99</sup>

### 2.6.5 Pooling and Sharing Options

Sweden has signed the Nordic Defence Cooperation (NORDEFECO) Memorandum of Understanding together with Denmark, Finland and Norway in 2009 in a bid to expand military and industrial cooperation in the region. The NORDEFECO MoU merges three cooperative frameworks previously in existence. Nordac was a framework established in the 1990s to allow for closer cooperation on acquisition. Nordcaps (1997) was a framework within which Nordic and Scandinavian countries were organizing peace support education and training for joint military peace support. Nordsup (2008) launched an effort to identify around 140 areas where cooperation among Nordic and Scandinavian states is possible to retain defence capabilities.<sup>100</sup>

In June 2008, the defence ministers of Finland, Sweden and Norway issued a defence cooperation report in which a plan was sketched to increase Nordic cooperation on 140 items. In 2009, the Nordic countries pursued with the implementation of 40 items and Defence Ministers decided to merge existing tracks of cooperation into a single collaborative structure. By the end of 2009, one structure was to be formed by the merger of the Nordic Armaments Cooperation (NORDAC, begun in 1994), the Nordic Coordinated Arrangement for Military Peace Support (NORDCAPS, launched in 1997) and the Nordic Supportive Defence Structures (NORDSUP, started in 2008).<sup>101</sup>

Nordic cooperation has long-term objectives, including common weapons procurements and more commonality in military operations and equipment. Some key-cooperation projects include: the EU's Nordic Battle Group; joint development of the Sea Surveillance Cooperation Baltic Sea project; and the feasibility of improving the Nordic defence industry's capability through common weapon programs. Through joint training and exercising, the declared intention of participant nations has been to create the platforms needed to support a higher level of cooperation.<sup>102</sup> In January 2010 an agreement among the air forces of Finland, Norway and Sweden was signed to increase the number of joint exercises in 2010 and strengthen the foundation for multinational fighter squadrons for regional air-policing duties. The agreement built on the Cross-Border Training Agreement from 2009, which promoted two-nation exercises. Sweden has also proposed putting helicopters or other military assets at the disposal of Danish, Norwegian, or Finnish crews for international missions.<sup>103</sup>

The Nordic countries already made positive experience with pooling and sharing in the fields of common transports and common logistics.<sup>104</sup> In early December 2010, Germany and Sweden confirmed they would seek to start a process in which EU member states sought to undertake more joint responsibility for military matters.<sup>105</sup> The Nordic Defence cooperation effort is not designed to remain a closed shop, as cooperation talks have already been extended to the Baltic States and mutual interest in expanding cooperation with the UK, Germany and Poland has become evident.<sup>106</sup>

### 2.6.6 Defence Industry

<sup>98</sup> Gerard O'Dwyer, 'Sweden, Finland May Coordinate Afghan Strategies', *Defense News*, 08.11.2010.

<sup>99</sup> Ibid.

<sup>100</sup> Nordic Cooperation—History and Background, [www.nordefeco.org](http://www.nordefeco.org), 23.03.2011.

<sup>101</sup> Gerard O'Dwyer, 'Nordic Meeting Shows Progress – and Limits – of Defence Cooperation', *Defense News*, 18.05.2009.

<sup>102</sup> Gerard O'Dwyer, 'Five Nordic nations boost air-defence cooperation', *Defense News*, 15.02.2010.

<sup>103</sup> Gerard O'Dwyer, 'Nordic Meeting Shows Progress – and Limits – of Defence Cooperation', *Defense News*, 18.05.2009.

<sup>104</sup> Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

<sup>105</sup> Dave Graham, 'Germany plans to boost military cooperation', *Reuters News*, 09.12.2010.

<sup>106</sup> Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

To help meet the capabilities priorities of the reform process, the Swedish government has encouraged industry to focus its research and development on generating cutting-edge technology in the area of networked-based command and control, aircraft, combat vehicle system, short-range combat systems and communications.<sup>107</sup>

Sweden is keen to parade the Archer - a self-propelled system incorporating a fully

automated 155 mm/L52 howitzer and a Lemur remote-controlled weapon station -<sup>108</sup> as an instance of how Nordic states can collaborate constructively, productively and with cost awareness. Norway and Sweden ordered 48 Archer units at a combined cost of €1.77bn in Spring 2010. Both states seek to win the support and participation of other Northern states such as Finland, Denmark and the Baltic states as sign to their commitment to future regional defence cooperation and to ensure bigger production scale for exports.<sup>109</sup> Finland signalled its interest to join the Archer artillery project but financial consideration prevent it from any orders before 2012.<sup>110</sup>

## 2.7 United Kingdom<sup>111</sup>

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	1,833.96	1,948.52	2,052.86	1,815.41	1,563.11	1,693.60
GDP per capita, euro tsd.	30.45	32.16	33.66	29.57	25.30	27.22
Gross public debt, euro bn.	778.00	859.50	851.80	791.20	1,069.30	1,322.50
Gross public debt (% of GDP.)	42.42	44.11	41.49	43.58	68.41	78.09
Net lending (+) or net borrowing (-), euro bn.	-62.94	-52.48	-56.00	-90.79	-177.45	-177.13
Net lending (+) or net borrowing (-), % of GDP	-3.43	-2.69	-2.73	-5.00	-11.35	-10.46
Defense budget, euro bn.	41.50	42.29	43.70	48.51	44.80	44.84
Defense budget, % of GDP	2.26	2.17	2.13	2.67	2.87	2.65
Military personnel Armed forces	205,890	216,890	191,003	180,527	160,280	175,690

### 2.7.1 General Defence Policy Outlook

The UK finds itself in the middle of a comprehensive defence review. On 19 October 2010 the UK published the results of its "Strategic Defence and Security Review" (SDSR). It follows the "National Security Strategy" published one day earlier. While the latter delivers a comprehensive risk assessment, the SDSR identifies resulting implications for a security and defence reform. While the UK has regularly adjusted its defence posture since the end of the Cold War in relation to real or perceived changes, this time it happens under extreme pressure from two sources. First, fiscal policy, the UK faces a dept of 70% of the UK GPD equalling £ 900 bill. Second, the military commitment in Afghanistan until 2015 has to be taken into account. Accordingly the British government is going to revise the SDSR after 2015.

While the NSS underlined such threats as International terrorism or Cyber-warfare, the SDSR concentrates on the military dimension. The SDSR made clear that the UK keeps its global aspiration level. However, it assumes that above a certain limited scale of operations (e.g. Sierra Leone), the UK is only likely to be involved in either type of warfare if it is part of an international coalition, usually led by the US. The potential scenarios vary from major inter-state warfare to fighting intra-state 'wars among the people'. Given the financial constraints some uncertainty rises over how the review will actually deliver an effectively balanced force structure, also more interoperable with key partners, while meeting

<sup>107</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p. 70.

<sup>108</sup> Gerard O'Dwyer, 'Finland may join neighbours in Archer', *Defense News*, 13.09.2010.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid.

<sup>111</sup> This section is based on Alastair Cameron, 'Chapter One: The United Kingdom', in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

uniquely national requirements (for example in Northern Ireland). a policy of over-specialisation in capabilities for sustained state building and counter-insurgency operations could also risk underinsurance against the exploitation of new technologies (for example, CBRN, cyber-terrorism and nanotechnology) by a wide range of potentially hostile state and non-state actors.

### 2.7.2 Impact of the Financial Crisis on the Defence Budget

The financial crisis hit a defence budget that was already under stress from a overcommitted defence procurement programme and growing strains from ongoing operations. It faces a debt of £36bn (€43bn) over the next decade. This excludes the potential costs of £20bn (€24bn) for the upgrade of submarine based trident nuclear weapon systems.

Hence, above all the SDSR had to introduce large cuts to the defence budget. However, while estimates suggested reductions up to 23% the defence budget will face cut of only about 8% between 2011 and 2014. The departmental spending limit for defence is at around GBP 38bn for 2010-2011 and at 37bn for 2011-2012 and 34bn for 2012-13, reaching a plateau at around that spending ceiling until 2015.<sup>112</sup> Compared to the shrinking other UK public budgets have to face, especially in social care and education, these cuts are less significant in the UK context. However, cuts may increase up to a 10% in real terms, possibly more once combat troops withdraw from Afghanistan from 2015 onwards. However, there are already signs that these cuts may not be sufficient because of unrealistic assumptions and wrong estimates. Loopholes of up to £ 20bn (€24bn) have been identified.

### 2.7.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

#### **Force Structure and Personnel**

Armed Forces will be used more selectively, according to the British government. Generally, the UK envisages unilateral operations being the least probable scenario for future engagement. Hence, the UK focuses on increased interoperability, especially with its main partners, the US and France.

Moreover the SDSR lowers the level of ambition to:

- either one long-term stabilization operation, requiring an engagement on brigade level, including contributions from air force and navy, one non- enduring complex intervention with up to 2000 soldiers and one non- enduring simple intervention in parallel,
- or three non enduring operations if the UK is not already engaged in enduring operations elsewhere but the scale isn't defined.
- or with sufficient notice, a one off intervention involving 3 brigades. Hence the maximum size will be limited to 30.000 men including contributions from navy and air force. Operations of Iraq size (45 000) will no longer be possible.

Capabilities shall result from a restructuring the forces into the „future force 2020“. Five multi-role brigades each of about 6500 men with different levels of readiness will build the pool for force generation: One brigade for rapid reaction; the others for long-term stabilization operations. The UK will face a significant decrease of amphibious capabilities and maritime based power projection. Hence, London will not be able to conduct a Falkland type scenario independently.

All services face a serious downsizing by 17.000 servicemen to a final size of 163.000 in 2015. Moreover the Ministry of Defence will be restructured and face itself substantial cuts to its civilian staff – about 25.000.

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<sup>112</sup> HM Treasury, Budget 2011, Return to an order of the House of Commons, London, March 2011, p. 48.

## Equipment and Procurement

Equipment has been or will be taken out of service to save the costs for operation and maintenance. The aircraft carrier HMS Ark Royal has been taken out of service along with its fleet of Harrier jets. Squadrons of RAF Tornado jets will be maintained until they are gradually phased out with the full entry into service of Eurofighter Typhoons, along with the closure of several air force bases. The Army will lose about 100 tanks and 35% of its heavy artillery. Further cuts may be envisaged upon its return from Afghanistan in 2015.

The main procurement programmes have survived the SDSR, except the NIMROD surveillance aircraft. While programmes these represent the major burden on the budget, restrictive contractual arrangements make it more expensive to cancel the projects than to proceed with them. However numbers of pieces have been reduced and production timelines will be stretched. This is especially true for the two planned air craft carriers. The first one will enter into service in 2016 but be mothballed or sold, once the second arrives – foreseen for 2020. The second carrier will be redesigned with a catapult to host and let operate of conventional instead of vertical takeoff and landing aircrafts. Consequently the UK will change the purchase of the carrier based jets from the more expensive short-takeoff, vertical-landing (STOVL) variant to the conventional F-35 aircraft. Moreover the number of jets on the carriers will be reduced from 36 down to 12. As these will arrive only in 2020, the first carrier is expected to enter service without any fighter aircraft. The purchase of the last tranche of Eurofighter Typhoon – 88 jets is still uncertain. Decision will likely be taken with the consortium partners as a joint cancellation prevents the penalties for unilateral withdrawal. If procured, the total amount the aircrafts would come to as much as £1 billion per annum during some of the peak procurement years of 2012-16.

The navy will also have to wait longer for its new T26 Destroyers and is likely to get fewer of them. Also the replacement of nuclear second strike capability – the VANGUARD submarines - will be delayed until 2027. This also postpones the arrival of the financial burdens for the Trident replacement beyond the next general elections.

### 2.7.4 Changes in Defence cooperation

NSS and SDSR acknowledge the need for more international cooperation, due to the cuts in resources and capabilities. In fact the envisaged cuts can be termed historical. However, the UK continues to favour bilateral frameworks. Preferred partners are the US and France. Germany, Italy, the Netherlands and Spain are named less important.

Hence, the Franco-British defence accords signed in November 2010 are only a logical consequence: Paris and London face not only the same budget restraints but share role conceptions as global players. Moreover, they account for 50% of EU's defence spending and 70% of R&T

### 2.7.5 EU Pooling and Sharing Options

The Tory party leader and MP Cameron made clear that it will not invest in EU-based initiatives. It underlines its NATO- first policy. Concerning CSDP the new government views the member states' inconsistencies regarding security political interests and the will to project power as hampering factors for pooling and sharing. Creating interdependencies with these states would constrain rather than multiply political and military options.

EDA's performance is highly criticised its aims and ways of working are suspicious to the new Government. The Tory party has publicly discussed exit options for the UK's EDA membership. Lately Prime Minister Cameron states that he will give EDA two more years and then reconsider UK membership. Thus, the British government is reserved vis-à-vis initiatives such as Ghent or Weimar as it doesn't see the potential for an added value.

## 2.7.6 Defence Industry

The way in which the current fiscal crisis will affect British defence industry should broadly be similar to how it will affect its European neighbours. However, a number of mitigating factors exist in the UK, which point to much greater resilience of some in the British defence industrial sector to a downturn in the European market. British defence industry has by and large already had to restructure itself substantially and has driven down costs. It has done so in pursuing diversification strategies, through, for example, acquisitions within the expanding security sector where dual use civilian and military technologies can be reengineered for specific usages. Another approach to diversification has been to concentrate on service provision thanks to a 'through-life' approach - thereby shifting from a purely platform sales orientated model to a readiness and sustainment model which provides longer-term maintenance and servicing contracts to UK industry for existing platforms.

The prime manufacturer BAE Systems has already assured that it is less reliant on its UK customer base. It has for several years already developed greater diversity in its market structure. Through investments and buy-ins into domestic industry BAE systems perceives six countries as 'home-markets': the United States, the UK, Saudi Arabia, South Africa, Australia and Sweden. This provides the company with considerable financial resources and diversity. Moreover its UK navy shipyards and missile production sites are protected against short-term changes in demand by long-term contracts. Where this is not the case - like for the maintenance of HARRIERS BAE Systems has already downsized the jobs.

Beyond traditional unease regarding its likely impact on particular lines of production and revenue, industrial concerns lie primarily in the potential loss of engineering capabilities or skills within the UK industrial base should the UK Armed forces abandon entire capability areas or divest investment in research and development to such an extent that industry can no longer retain the qualified skills.

To reassure the defence industry and to increase planning reliability, the British government will issue an White Paper on Defence Industry and Technology Policy in 2011. This updates the previous government's Defence Industrial Strategy (DIS) from 2005. It will result from a consultation period with industry. The aim is to publicly discuss core industrial capabilities in relation to shrinking public spending. These core capabilities shall be protected outside the upcoming EU-procurement and transfer Directives that are to be translated into national law by mid of 2011. One instrument could be further employment compacts. This would compromise the UK's proclaimed open markets policy. International armaments cooperation will be only an asset if the capability requirements are identical or technological contributions are complementary so that an increased value for money is possible. Like in other areas the UK will prefer a bilateral approach, especially with the US and with France.

### 3 CATEGORY B

#### 3.1 Austria

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	243.59	256.95	272.01	283.09	274.32	281.50
GDP per capita, euro tsd.	29.61	31.08	32.77	33.96	32.80	33.56
Gross public debt, euro bn.	155.80	159.40	161.20	176.80	185.10	198.10
Gross public debt (% of GDP.)	63.96	62.04	59.26	62.45	67.48	70.37
Net lending (+) or net borrowing (-), euro bn.	-4.03	-3.85	-1.16	-1.33	-9.61	-12.02
Net lending (+) or net borrowing (-), % of GDP	-1.65	-1.50	-0.43	-0.47	-3.50	-4.27
Defense budget, euro bn.	1.81	1.81	2.63	2.03	2.11	2.12
Defense budget, % of GDP	0.74	0.70	0.97	0.72	0.77	0.75
Military personnel Armed forces (incl. conscripts)	39,900	39,900	39,600	39,600	34,900	27,300

##### 3.1.1 General Defence Policy Outlook

Austria's aspirations in the realm of defence and security policy are limited by its neutrality and low defence spending. Paradoxically, Austria's threat assessment as laid out in the 2001 *Security and Defence Doctrine*, virtually rules out the risk of direct aggression and instead focuses on asymmetric and transnational risks.<sup>113</sup>

The Austrian armed forces have been undergoing a comprehensive reform programme since 2005, which was to be completed by 2010.<sup>114</sup> Austria's military reform process started late compared to other Western European countries, as discussions of defence needs and future options were hindered by strong public adherence to the principle of neutrality.<sup>115</sup> The European Union is the main cooperative framework through which Austria aims to make its contribution.<sup>116</sup>

##### 3.1.2 Impact of the Financial Crisis: Budget and Procurement

In mid-2010 the Austrian Finance Minister called for defence-related savings of €530m until 2014 to contribute to national budgetary consolidation.<sup>117</sup> Since 2009/2010 the budget for defence and for sports have been joined. In late March 2010, Defence Minister Darabos stated in an internal directive that the ongoing structural reforms of the armed forces were not enough to achieve the consolidation efforts called for by the finance minister. A new more drastic reform plan was adopted.

The Austrian government decided to reduce new debt to 2.6% of GDP and drew up consolidation plans amounting to about €2.4bn in 2011. The defence budget for 2011 is at €2.2bn, which represents a cut of €64m compared to 2010.<sup>118</sup> To achieve savings imposed by government, the Austrian armed forces will have to implement cuts of -€80m in 2011, -€129.5m in 2012, -€152m in 2013 and -€169m in 2014.<sup>119</sup> Cuts include the decommissioning of 500 tanks, additional cuts in personnel and the force-structure,

<sup>113</sup> Bundesrat, Resolution by the Austrian Parliament: Security and Defence Doctrine, Vienna, 12. December 2001.

<sup>114</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 66.

<sup>115</sup> Op.cit., p. 67.

<sup>116</sup> Op.cit., p. 66.

<sup>117</sup> 'Die arme Armee: Wo das Bundesheer abrüstet', *DIEP*, 16.06.2010.

<sup>118</sup> Bundesministerium für Finanzen, *Bundesfinanzgesetz 2011: Gesamtüberblick*, Vienna, 2011, p.4, 69,

<sup>119</sup> Op.cit., 8.

including a reduction of the number of brigades and an inquiry into costs and benefits of moving to an all-professional army.<sup>120</sup>

### 3.1.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The chief aim of past reform efforts has been to improve the Austrian armed forces' capacity for international crisis-management as international and national missions are now given equal priority. Austria is currently considering ending conscription to move to an all-professional army and investigates seven different models inspired by similar ongoing reforms in Germany.<sup>121</sup>

#### **Force Structure and Personnel**

In light of current budgetary pressure, defence-related personnel will be cut by approximately 1,000 employees until 2014: 400 to 500 through pensioning, 400 employees will shift from the Defence Ministry to the Finance Ministry or the Ministry of the Interior. Open posts will not be re-filled. Seven caserns will be closed with expected savings of around €30m. Further savings of around €22m p.a. are expected from reduced training hours (incl. flight and transport) expectedly amounting to savings of up to €4bn by 2014.

The end-strength of the *Bundesheer* was at 27,300 soldiers in 2010 (incl. conscripts). The command structure was streamlined considerably: instead of six major military commands (land, air, international operations, special forces, logistics and support, command and control), there will only be two on the operational level: one in charge of logistics and support and one combining command of all international and national missions from all services.<sup>122</sup> The number of brigades will further drop from five to four and battalions from 57 to 39.<sup>123</sup>

#### **Equipment and Procurement**

Equipment priorities ensuing from the reform include fighter aircraft, armoured vehicles, command and communication and long-range radar, reconnaissance, logistics and transport.<sup>124</sup> Austria has initiated projects and relevant procurement in most of these areas (e.g. through the lease of fighter aircraft or the acquisition of used transport aircraft). An increase of the investment share of spending by about one-third of the budget was foreseen by initial reform efforts, which will not materialize in the current fiscal situation.<sup>125</sup>

By 2009, 15 Typhoon aircraft were to be delivered that had been ordered under great controversy by the Haider/Schüssel coalition in 2002 whilst considering Austria's accession to NATO.<sup>126</sup> Promises made in 2002 that the core defence budget would not be affected by this acquisition were broken and forced the postponement of a number of key procurement programmes, including the deployment-relevant *Dingo* armoured patrol vehicles and the 40-year-old Saab jet trainer as well as the upgrading of 23 Agusta-Bell 212 helicopters.<sup>127</sup>

Despite a revised reform agenda, deployment-relevant procurements, such as helicopters, the training-jets Saab 105, the equipment of the Battle-Group, trucks, or Pandur- light wheeled tanks will allegedly not be affected by cuts.<sup>128</sup>

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<sup>120</sup> Alexander Purger, 'Bundeswehr light nimmt Gestalt an', *Salzburger Nachrichten*, 14.12.2010.

<sup>121</sup> Faymann in Österreich: "Schau mir deutsches Heeres-Modell an", *Austria Press Agentur*, 20.09.2010.

<sup>122</sup> Bundesheerreformkommission, *ÖBH 2010—Die Realisierung*, Vienna, 2005, pp. 10-11, 13-14, 29.

<sup>123</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 66.

<sup>124</sup> Op.cit., p. 33, 67.

<sup>125</sup> Op.cit., p. 66.

<sup>126</sup> Rudolf Gruber, 'Österreich sieht keinen Grund für eine waffenstarrende Armee', *Die Südschweiz*, 20.06.2010.

<sup>127</sup> International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 117-8.

<sup>128</sup> 'Wie Verteidigungsminister Darabos bis 2014 €530 Mio. einsparen will', *Austria Presse Agentur*, 13.12.2010.

Savings are in turn expected from re-selling conventional capabilities. In a bid to save €12m per year, defense minister Norbert Darabos announced in December 2010 that Austria will scrap or sell around 500 armoured vehicles and related defense systems from 2011 onwards—amounting to about 50% of Austria's vehicle fleet.<sup>129</sup> The 432 *Sauer*-armoured tracked vehicles as well as the 54 Tank Destroyers *Kürassier* are scheduled for retirement. Of the 114 *Leopard* 2A4 combat tanks, the Austrian army will sell 48, probably to Hungary. Of the 205 self-propelled howitzers M109, 100 will also be sold. Seventy M109 had been mothballed earlier. Reductions are also planned for grenade launchers, anti-aircraft guns und anti-aircraft missiles.<sup>130</sup>

### 3.1.4 Level of Ambition and International Engagement

Maximum number of available troops lies at 1,000 soldiers. They will be composed of two battalions plus support forces for low- to medium- intensity missions, including rotation and for unlimited deployment. A Brigade on 30-days readiness for one year for high-intensity operations, including separation of forces is also planned as well as maintaining a classical peacekeeping deployment. An increased contribution to 5-day readiness missions currently limited to company level is also planned to be realized by 2012.<sup>131</sup> Austria currently contributes troops to KFOR, EUFOR, Althea and UNDOF Golan Heights.<sup>132</sup>

### 3.1.5 Pooling and Sharing Options

The option of joint air policing with Germany, Slovenia, Slovakia or Switzerland is a frequently debated, yet domestic discussions about pooling and sharing more capabilities are regularly thwarted by Austria's neutrality, which also hampers a clear stance with regard to the Ghent process. Joint training schemes are already well established with Germany, especially with regard to mountain infantry training, Eurofighter training (technicians and Pilots), flight control and aerial photo analysis.

## 3.2 Belgium

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	302.85	318.15	335.08	345.01	339.16	351.91
GDP per capita, euro tsd.	28.91	30.18	31.55	32.22	31.43	32.39
Gross public debt, euro bn.	279.10	280.40	282.10	309.10	326.30	347.10
Gross public debt (% of GDP.)	92.16	88.13	84.19	89.59	96.21	98.63
Net lending (+) or net borrowing (-), euro bn.	-8.43	0.57	-1.10	-4.62	-20.35	-17.02
Net lending (+) or net borrowing (-), % of GDP	-2.78	0.18	-0.33	-1.34	-6.00	-4.84
Defense budget, euro bn.	2.68	2.70	2.75	2.85	2.84	2.87
Defense budget, % of GDP	0.88	0.85	0.82	0.83	0.84	0.82
Military personnel Armed forces	36,900	36,950	39,690	39,690	38,844	38,452

<sup>129</sup> 'Austria to Cut in Half Armored Vehicle Fleet', *Defense News*, 11.12.2010.

<sup>130</sup> Alexander Purger, 'Bundeswehr light nimmt Gestalt an', *Salzburger Nachrichten*, 14.12.2010.

<sup>131</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 33, 66.

<sup>132</sup> 'Austrian Army to continue foreign missions despite budget cuts', *BBC*, 10.11.2010.

### 3.2.1 Impact of the Financial Crisis on the Defence Budget

As a consequence of the financial crisis, a savings plan was issued in 2009, which aims at cutting about 10% of the budget over the period 2009-2011.<sup>133</sup> In 2010, the Belgian defence budget of around €2.8bn was cut by €128m.<sup>134</sup>

### 3.2.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

In May 2000, Belgium adopted the *2000-2015 Modernization Plan of the Belgian Armed Forces*.<sup>135</sup> The main thrust of ongoing reforms is to enhance operational capabilities for rapid and sustainable deployment and indicates a shift away from territorial defence to force projection as part of international missions. The emphasis lies with developing a smaller, better equipped military and on developing niche capabilities.<sup>136</sup> Requirements are driven by deployments abroad (peace-operations, humanitarian aid, disaster relief, evacuation missions). The *'Political Orientation Note 2008'* acknowledged concerns about meeting long-term strategic objectives, and pointed out that the overall national defence budget was well below that required to complete the transformation envisioned in 2000 or as revised in 2003. The *'Plan for Finalisation of Transformation 2009'* developed by Defence Minister De Crem in October 2009 attempts to reconcile the vision with budget realities.<sup>137</sup>

#### Force Structure and Personnel

The Belgian armed forces currently are and will remain geared primarily for peace and stability operations. The MoD seeks to be primarily able to contribute to a coalition effort (UN, EU, NATO). The military aims for the ability to perform all tasks required for stability operations and maintains only niche capabilities for conventional conflicts. Belgium seeks to contribute specialized niche capabilities in the conventional realm to NATO (combat aircraft, para-commandos, special forces and naval forces (frigates and mine hunters).<sup>138</sup> The land component is transforming under the terms of the *'2000-2015 Modernisation Plan of the Armed Forces'* to be constituted eventually of a mechanised capacity relying solely on wheeled armoured vehicles and air-transportable infantry capacity with transport helicopters.<sup>139</sup> Flexibility to work in a hybrid environment and perform a diversity of tasks is being enhanced by the volume and structure of manoeuvre units, in particular the provision of 40 soldiers per platoon and the modular nature of units.<sup>140</sup>

De Crem's adaptation of the original reform plan calls for the reduction of the armed forces' end-strength from currently 38,400 to 34,000 (32,000 military, 2,000 civilian personnel) by 2013, the closure and reorganisation of around 30 military installations, including about a dozen of Belgium's 30 bases<sup>141</sup> (i.e. 40% of all army bases) as well as an increase in the efficiency in logistics.<sup>142</sup> The current savings plan foresees a reduction of the land forces to only two combat brigades or around 6,000 troops, which would represent a drop of around 1,000 troops.<sup>143</sup> The governmental crisis in which Belgium finds itself since 13 June 2010, however, severely constraints defence minister Pieter de Crem's political capacity to act on the implementation of the plan.

#### Equipment and Procurement

<sup>133</sup> 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

<sup>134</sup> 'Défense: Des mesures d'économies plus importantes que prévues', *Agence Belga*, 21.10.2009.

<sup>135</sup> 'Belgium', *Jane's World Armies*, 14.05.2010.

<sup>136</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

<sup>137</sup> 'Belgium', *Jane's World Armies*, 14.05.2010.

<sup>138</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

<sup>139</sup> 'Belgium', *Jane's World Armies*, 14.05.2010.

<sup>140</sup> *Ibid.*

<sup>141</sup> 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

<sup>142</sup> 'La Belgique à la traîne pour les achats de matériel militaire', *Agence Belga*, 10.06.2010 ; 'Belgian defence chief outlines army restructuring needs', *BBC*, 10.07.2009.

<sup>143</sup> 'Belgium', *Jane's World Armies* 14.05.2010.

The '*Strategic Steering Plan 2003*' gave investment priority to the land component. The focus on peace and stability operations also explains the elimination of tracked armoured vehicles for conventional warfare and the transition to wheeled armoured vehicles, which are intended to provide greater versatility and flexibility and will be useful in a variety of threat environments. Further equipment priorities include: A400M transport planes, frigates, mine hunters, medium transport helicopters, transport and fighter upgrades.<sup>144</sup>

### 3.2.3 Level of Ambition and International Engagement

The Belgian level of ambition is not clearly defined. No troop-withdrawal from current military engagements will be considered as a consequence of financial necessities. Belgian troops are currently engaged in ISAF with NATO in Kandahar, Kabul, Kunduz and Mazar I Sharif. The number of fighter jets engaged remains unchanged to date (six Falcon F-16). Belgium deploys troops as observers under UN mandate in Israel (UNTSO), Somalia/Sudan (UNMIS), and in the DR Congo (MONUC). Belgian soldiers are also deployed for explosive ordnance disposal with UNIFIL in Lebanon. Since October 2010, Belgium sent out a frigate as part of the EU-Operation ATLANTA in the Gulf of Aden. Belgian troops have traditionally been engaged in bilateral security force assistance with African states such as Benin, the Congo and Burundi.

### 3.2.4 Pooling and Sharing Options

Belgian armed forces are already engaged in a number of pooling and sharing initiatives, and intend to make further use of this option in the future. The Belgian and Dutch Navy for instance already share capabilities and organise joint training. The Belgian armed forces are further interested in the harmonisation/standardization of new capabilities of importance for current deployments (e.g. A400M, NH90), especially with Germany. There is also interest for deepening Belgian-German cooperation with regard to training and the joint use of simulators. Talks are engaged on this point. Even before the Ghent summit of September 2010, informal talks between the Belgian and German defence ministers took place in order to start a process with a view to identifying fields in which further cooperation to ameliorate synergies is possible. Belgium is also interested in finding a joint European solution for multirole combat aircraft, since the Belgian F-16 fleet needs replacement.<sup>145</sup> Defence Minister De Crem's restructuring plan calls for a reduction of F-16 in service from 60 to 54 with six planes being mothballed.<sup>146</sup>

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<sup>144</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

<sup>145</sup> M. De Crem regrette que la Belgique ne participe pas au programme de chasseur JSF', *Agence Belga*, 27.10.2010.

<sup>146</sup> 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

### 3.3 Bulgaria

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		23.26	26.48	30.77	35.43	35.04	35.86
GDP per capita, euro tsd.		3.01	3.45	4.03	4.66	4.63	4.76
Gross public debt, euro bn.		6.39	5.72	5.30	4.86	5.14	6.52
Gross public debt (% of GDP.)		27.48	21.60	17.22	13.72	14.67	18.18
Net lending (+) or net borrowing (-), euro bn.		0.24	0.49	0.35	0.59	-1.64	-1.38
Net lending (+) or net borrowing (-), % of GDP		1.02	1.85	1.13	1.66	-4.68	-3.84
Defense budget, euro bn.		0.50	0.55	0.61	0.79	0.74	0.76
Defense budget, % of GDP		2.15	2.08	1.97	2.23	2.13	2.12
Military personnel	Armed forces	51,000	51,000	51,000	40,747	40,747	34,975
	Gendarmerie	34,000	34,000	34,000	34,000	34,000	34,000

#### 3.3.1 Impact of the Financial Crisis on the Defence Budget

The Bulgarian defence budget for 2010 was reduced to €456m from €740m in 2009. In April 2010, however, a compensatory budget of €131m had to be adopted in order to pay for running armaments programmes and thus to avoid incurring penalties for non-payment. The budget for 2011 is expected to amount to around €560m, slightly less than the augmented budget of 2010.<sup>147</sup> A slight increase in the defence budget is again expected for 2012-14. The Defence Ministry's goal is to slowly rise defence spending to be able to modernize its military.<sup>148</sup>

#### 3.3.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The goal of the Bulgarian armed forces' reform to date has been to create a flexible, well-equipped and interoperable force, which can be rapidly committed to the full spectrum of military tasks for NATO and EU operations.<sup>149</sup> In February 2010, the Bulgarian government began a major force structure review starting with an analysis of the threat environment and of the tasks facing the Bulgarian Armed Forces - nationally and in coalition operations- on the basis an evaluation of defence resources. Reform need to undo missteps of its early reform efforts and deal with decades of stagnation as a former Warsaw Pact member.<sup>150</sup> The strategic review generated a White Paper to be submitted for public discussion and ultimately for adoption by parliament.<sup>151</sup> This document provided the mid-term vision for force development. In an effort to define capability-based planning for the Bulgarian armed forces, the reform is to cover task organization, equipment and combat training. In a preliminary analysis, the MoD is currently drawing up a picture of which capabilities Bulgaria should discard and which capabilities it lacks and should thus be building up.<sup>152</sup> A Force Development Plan was adopted in December 2010 and schedules a restructuring of the combat units in March 2012. Redundancies in 2011, however, will be limited to the Defence Ministry and the highest command levels in the armed forces.<sup>153</sup>

<sup>147</sup> 'Budget walls confront defence in SE Europe', *Agence France Presse*, 21.10.2009.

<sup>148</sup> R.K. Ackermann, 'Bulgarian Military Faces Multitude of Challenges', *Signal*, Vol. 65: 3, 01.11.2010.

<sup>149</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (Fn. 2), p. 40.

<sup>150</sup> 'Bulgarian defence minister views "drastic" personnel cuts, forces' reform', *BBC*, 28.01.2010; 'Bulgarian Defence Ministry to cut senior military staff by 30 per cent', *BBC*, 31.05.2010; R.K. Ackermann, 'Bulgarian Military'.

<sup>151</sup> 'Vers une forte baisse des effectifs militaires bulgares', *Reuters*, 16.09.2010.

<sup>152</sup> R.K. Ackermann, 'Bulgarian Military'.

<sup>153</sup> Bulgarian minister discusses draft bill on armed forces standing reserve, *BBC*, 04.12.2010.

## Force Structure and Personnel

About 80% of Bulgaria's defence budget is currently spent on personnel. The government wants to lower the proportion to 65% and be able to spend about 15% on capital investment.<sup>154</sup> First cuts have already ensued in the defence ministry as well as in the top-command administrative offices. The reforms aim for a downsizing of around 700 administrative posts in the ministry and around 700 posts in top-command administrative ranks and should ultimately amount to reductions of up to 20% of current capacity by mid-2011.<sup>155</sup>

## Equipment and Procurement

Due to the defence cuts, only the most important procurements and preparations for deployment for troops sent to Afghanistan and Bosnia-Herzegovina could be achieved. Shortages have been significant for a number of years with regard to training, ammunition, petrol, and as primary items such as catering, heating and clothing.

No new defence equipment has been procured in 2010 and new programme starts are limited for 2011. As a consequence of the financial crisis, some programme contracts will need to be reconsidered and some programme payments restructured. Among those are contracts with Eurocopter for new transport helicopters, contracts with Daimler for new land vehicles and with Alenia Aeronautica for new transport aircraft. In October 2009, Bulgaria announced the cancellation of a deal to buy two Gowind corvettes from Armaris (DCNS).<sup>156</sup>

Capabilities that will be prioritized in light of the strategic review are air defence, as Bulgaria's military here faces a capability shortfall: The country's MiG 29s and MiG 21s are ageing and need replacement in the 2012 horizon. The country will thus need to acquire a multirole fighter aircraft, for which acquisition is likely to begin in 2011. Land forces also need modernization and Bulgaria is here seeking to be included in the US assistance programme for ISAF participants.<sup>157</sup>

Priorities, whose pursuit is unlikely in the mid-term, are: a full range of C4I systems, including a mobile communications and information system up to the brigade level for its land forces and an upgrade of its fixed-station capabilities; an effective network-enabled ISR/ISTAR system, an upgrade of Bulgaria's helicopters to serve in a broader range of hostile environments; an upgrade of soldier equipment of both land and air forces; counter-IED; UAV-capabilities.<sup>158</sup>

### 3.3.3 Level of Ambition and International Engagement

At the end of 2009, Bulgaria reduced its troop numbers with KFOR from around 50 to 10 soldiers. Attempts to reduce troop numbers in Bosnia-Herzegovina were stopped by the protest of Bulgaria's international allies. In Afghanistan, troop levels were increased as previously announced from around 530 troops to 600 not to disappoint the USA.

### 3.3.4 Pooling and Sharing Options

Pooling and sharing are issues currently being debated in Bulgaria, yet the time is not yet politically ripe to implement concrete cooperation project. Improving the political relations to Bulgaria's neighbours in the Balkan/ Southeastern Europe is considered an absolute priority. The aim is to become an essential ally, if not a military lead-nation in the region.

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<sup>154</sup> R.K. Ackermann, 'Bulgarian Military'.

<sup>155</sup> 'Bulgarian Defence Minister views "drastic" personnel cuts, forces' reform', *BBC*, 28.01.2010.

<sup>156</sup> 'Budget walls confront defence in SE Europe', *Agence France Presse*, 21.10.2009.

<sup>157</sup> R.K. Ackermann, 'Bulgarian Military'.

<sup>158</sup> *Ibid.*

During the Bulgarian chairmanship of the first meeting of the South-Eastern Europe Defence Ministerial (SEDM) Process (2009-2011)<sup>159</sup> in October 2009, the Bulgarian Defence Minister Mladenov identified the financial crisis and economic stagnation as factors that should be taken into account upon formulating the future forms of cooperation, to “invest not only in national but also in joint efforts to achieve higher efficiency.”<sup>160</sup> Mladenov stressed the need to fully utilize the potential of the South Eastern Europe Brigade (SEEBRIG), and to analyze which type of missions the Brigade should fulfil in the future.<sup>161</sup> Cooperation talks have also been taking place with Serbia and Romania. With Serbia, Bulgaria is discussing military exchanges, joint military exercises and industrial cooperation as part of a military *rapprochement*.<sup>162</sup> With Romania, Bulgaria is considering closer cooperation in the area of maintenance, crew training and air policing, given that both countries will equip themselves with the same multi-role aircraft.<sup>163</sup> Concluding the reforms of the armed forces is considered a priority and concrete pooling and sharing may then resurface on the political agenda after 2014. Accordingly, the Ghent-Process is being acknowledged in Bulgaria but does not come center-stage in domestic debates. Bulgaria to date prefers to concentrate on bilateral relations to the US, which still invests substantial amounts into the Bulgarian armed forces.

### 3.3.5 Defence Industry

The Bulgarian defence industry is chiefly concentrated in the field of handguns and smaller products in the opto-electronic field. Despite privatisation in parts, both domestic and international demand for their goods remains very weak. The Bulgarian government seeks to strengthen or support its defence industry by looking for adequate foreign investors or by using offsets.<sup>164</sup>

## 3.4 Czech Republic

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	100.19	113.70	127.33	147.88	137.16	146.26
GDP per capita, euro tsd.	9.79	11.07	12.34	14.18	13.05	13.88
Gross public debt, euro bn.	30.53	34.50	38.45	41.11	48.36	58.36
Gross public debt (% of GDP.)	30.47	30.34	30.20	27.80	35.26	39.90
Net lending (+) or net borrowing (-), euro bn.	-3.58	-3.00	-0.86	-4.02	-7.95	-7.67
Net lending (+) or net borrowing (-), % of GDP	-3.58	-2.63	-0.68	-2.72	-5.80	-5.24
Defense budget, euro bn.	1.77	1.97	1.98	2.17	2.12	1.95
Defense budget, % of GDP	1.77	1.73	1.55	1.47	1.54	1.33
Military personnel Armed forces	22,272	22,272	24,752	23,092	24,083	17,932

<sup>159</sup> Participants to the SEDM are Bosnia and Herzegovina, Bulgaria, Greece, Italy, Macedonia, Romania, Slovenia, Turkey and Ukraine. Observer Nations are Montenegro, Georgia, Moldova and Serbia.

<sup>160</sup> ‘Southeast European defence ministers meet in Bulgaria’, *BBC*, 21.10.2009.

<sup>161</sup> *Ibid.*; ‘Bulgaria hosts southeast Europe defence meeting on security, cooperation’, *BBC*, 14.09.2010.

<sup>162</sup> ‘Bulgarian, Serbian defence ministers discuss joint exercises, cooperation’, *BBC*, 14.12.2010.

<sup>163</sup> ‘Romanian, Bulgarian defence ministers discuss defence relations’, *BBC*, 02.06.2010.

<sup>164</sup> R.K. Ackermann, ‘Bulgarian Military’.

### 3.4.1 General Defence Policy Outlook

The Czech Republic considers the risk of a direct military attack on its territory to be relatively low for the coming 10 to 15 years. Instead, its threat perceptions include international terrorism, migration, economic crises and natural disasters.<sup>165</sup> A Defence White Paper is to be completed by Spring 2011.<sup>166</sup>

### 3.4.2 Impact of the Financial Crisis on the Defence Budget

The defence budget for 2009 was €2.27bn, or 1.5% of GDP. In 2010, the defence budget fell below €2bn. The Czech defence Budget for 2011 amounts to €1.8bn.<sup>167</sup> Cuts of approximately 10% are foreseen in the Czech defence budget for 2011. Defence expenses will thus drop from 1.3% of GDP in 2010 to 1.15% in 2011. Current cuts are part of the savings program installed by the current Czech government reaching into 2012.

### 3.4.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The reform process of the Czech armed forces started in 2003. The overall goal of the reforms is to arrive at a small, mobile and advanced force with key operational capabilities that enable increased force projection. Key means to achieve this reform are specialization, downsizing, a two-tier force structure, professionalization and increased cooperation. Full professionalization was achieved in 2005, with the last batch of conscripts called up in 2004.<sup>168</sup> A new Security Strategy and a Defence White Paper will be drafted in 2011 will in all likelihood review the current force structure and ambitions in terms of current budgetary pressures. The latest set of strategic documents of 2008 had already presented an starkly reduced Force structure and ambition in light of fiscal pressures (The Long Term Vision of the Sector of the Ministry of Defence and the The Military Strategy of AČR 2008).

#### **Force Structure and Personnel**

The Defence Ministry must cut its mandatory and operational spending. The Ministry has reduced its personnel in connection with the budgetary cuts. The White Paper will define the level of cuts in personnel. Some estimates expect these numbers to be around 700 employees with another 350 vacancies for career soldiers to be abolished.<sup>169</sup> The pay of soldiers and civilian personnel will be reduced in line with similar cuts planned with all public employees. Savings are expected on training, with more use being made of simulators to reduce costs (e.g. shooting).<sup>170</sup> Still, even the simulators will need to be retired in 2012. The cuts in defence expenditures are further planned to be translated into the reduction of the armed forces through the re-selling of military property as well as through the retirement of expensive systems (e.g. fighter helicopters).

The Czech armed forces focus on certain niche capabilities such as NBC protection, Med-Evac and electronic warfare at the expense of a more comprehensive capability. Accordingly, all major categories such as manpower, bases, main battle tanks, armoured vehicles and fighter aircraft are being downsized through decommissioning.<sup>171</sup>

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<sup>165</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.41.

<sup>166</sup> 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

<sup>167</sup> Ministry of Defence and Armed Forces of the Czech Republic, *Basic Data of the State Budget*, available at <<http://www.army.cz/scripts/detail.php?id=5760>>, 29.03.2011.

<sup>168</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.42.

<sup>169</sup> 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

<sup>170</sup> 'Czech Army to partially replace live training with simulators to reduce costs', *BBC*, 29.11.2010.

<sup>171</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.42.

## Equipment and Procurement

Decisions on which to implement major reductions in the purchase of machines and services are currently going on as part of the process of drawing up the new White Paper, as part of an audit between 2005 and 2010: €310m of the total €380m procurement budget is allocated for current projects such as the lease of Gripens and the repayment of Pandurs and Ivecos (armoured vehicles). The Czech army is currently leasing 14 JAS-39 Gripen fighter planes but the lease runs out in 2015. In 2011, the army plans to spend part of the non-specific funds on the further modernization of helicopters, which are the most frequently used means of transport in Afghanistan, for instance.<sup>172</sup>

### 3.4.4 Level of Ambition and International Engagement

The Czech armed forces' level of ambition –already very low- will not be further reduced. The Czech Republic's level of ambition is defined as participation in peace-support or peacekeeping operations with a mechanized battalion and a special company (up to 1.000 personnel in total), sustainable for a year with six-months rotation, plus another contingent of 250 personnel deployed for six months without rotation on a humanitarian or rescue missions. Alternatively, the Czech armed forces should be able to deploy one brigade-sized army task force of up to 3.000 personnel for six months and an equivalent air-force contingent for three months.<sup>173</sup> The Chamber of Deputies agreed in early November 2010 to raise Czech participation in Afghanistan by about 200 to 720 soldiers in 2011. In 2012 the total should be 80 soldiers lower.<sup>174</sup> The increase of troops in Afghanistan will be compensated by a reduction of forces in Kosovo.

### 3.4.5 Pooling and Sharing Options

Although discussions still stand at the outset, pooling and sharing are options currently being discussed with much intensity in the Czech Republic. Especially closer cooperation with the Visegrad Four (Poland, Czech Republic, Slovakia, Hungary) is considered to be an interesting option although doubts remain with regard to an equitable burden-sharing among the four. Cooperation with Slovakia seems here most likely and promising, since the armed forces of both states already closely work together. On the background of the debate about prolonging the leasing of Gripen-fighter jets, Prime Minister Necase has been advocating for a while the sharing of planes with other NATO member countries, inspired by the example of the Netherlands and Belgium, which are building up a joint Navy.<sup>175</sup>

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<sup>172</sup> 'Czech Army to partially replace live training with simulators to reduce costs', *BBC*, 29.11.2010.

<sup>173</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.41.

<sup>174</sup> 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

<sup>175</sup> 'Experts suggest Czechs save on fighter plane costs, cooperate with NATO allies', *BBC*, 02.07.2010.

### 3.5 Denmark

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	207.37	218.75	227.53	233.48	222.41	232.91
GDP per capita, euro tsd.	38.27	40.23	41.67	42.51	40.28	42.06
Gross public debt, euro bn.	78.20	70.20	62.00	79.70	92.50	104.70
Gross public debt (% of GDP.)	37.71	32.09	27.25	34.14	41.59	44.95
Net lending (+) or net borrowing (-), euro bn.	10.80	11.29	10.95	7.53	-6.03	-11.79
Net lending (+) or net borrowing (-), % of GDP	5.21	5.16	4.81	3.22	-2.71	-5.06
Defense budget, euro bn.	2.54	2.65	3.05	3.04	3.10	3.34
Defense budget, % of GDP	1.22	1.21	1.34	1.30	1.39	1.44
Military personnel Armed forces	21,180	21,180	21,620	29,960	29,550	26,585

#### 3.5.1 General Defence Policy Outlook

The Danish threat assessment concludes there will be no conventional threat to Denmark in the foreseeable future. Denmark considers NATO to be the bedrock and ultimate guarantor of its security and has opted out of participating in the EU's Common Security and Defence Policy. Denmark thus does not commit troops to EU battlegroups or to meet EU Headline Goals.<sup>176</sup> However, the current government has committed to conduct a referendum on whether the opt-out should be reversed before the next parliamentary elections due in 2011 and has been preparing for immediate participation in EU defence bodies for the case of a positive result.<sup>177</sup>

#### 3.5.2 Impact of the Financial Crisis on the Defence Budget

Out of the Nordic states, Denmark and Finland have been most affected by the global economic downturn, but both governments have resisted political and economic pressures to drastically cut defence spending, opting instead for modest increases while seeking greater efficiencies in military operations.<sup>178</sup> The MoD has responded to the Armed Forces Command's request for higher expenditure by instructing them to cover extra spending requirements by cutting the military's operating cost-base by about €366m in savings by 2014.<sup>179</sup> Decommissioning old equipment is thus the order of the day for the Danish armed forces.

In July 2009, a five-year defence budget was adopted, that allocated €3.06bn to the Danish Armed Forces in 2010 and €3.03bn for each other year up to 2014.<sup>180</sup> The defence budget for 2011 amounts to €3.11bn.<sup>181</sup> For each year the budget was foreseen to include €18.2m to create a secure computer network-operations capacity, a maximum of €134m for participation in international missions, and around €54m for 'one-off expenditures'.<sup>182</sup> Procurements are expected to account for more than 15 percent over the term 2010-2014.<sup>183</sup>

<sup>176</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 42-43.

<sup>177</sup> Op.cit, p. 43.

<sup>178</sup> Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

<sup>179</sup> Ian Brzezinski, Damon Wilson, 'NATO's future amid defence cuts', *The Nation*, 20.10.2010; Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

<sup>180</sup> Gerard O'Dwyer, 'Danish Government Finalizes Historic Budget', *Defense News*, 13.07.2009.

<sup>181</sup> Danish Ministry of Defence, *Defence Expenditure 2011*, available at: <<http://www.fmn.dk/eng/allabout/Pages/Defenceexpenditure.aspx>>, 29.03.2011.

<sup>182</sup> International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 115.

<sup>183</sup> Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

### 3.5.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The major lines of Danish defence policy are set in the 'Defence Agreements' defined every five years. The current 'Defence Agreement 2010-2014' commits Denmark to pursue the transformation process of its armed forces to become "modern deployable defence forces".<sup>184</sup> The reform of the Danish army is strongly inspired by reforms made within the UK Army. Over the next five years, the armed forces -still based on conscription-<sup>185</sup> will become smaller and more expeditionary, though with pressure on the budget there will be a number of cutbacks.<sup>186</sup>

To render the Danish armed forces more expeditionary whilst making savings, ground-based air-defences will be reduced and reductions with the Navy are planned (Standard-Felx). Denmark decided to withdraw from NATO's Air Ground Surveillance System programme in 2010. The decision concerning the future fighter replacement to the current F-16 fleet was postponed several times in 2009. In light of the current budgetary situation, there will be no replacement for the F-16 by 2016 as originally planned. The new replacement date is now 2020 and the use of the F-16 is to be extended until then.

Further reductions worth up to €98 million from core and infrastructure support units to be implemented by 2014 also include a reduction of the number of F-16 aircraft from 48 to 30 starting 2011 and a cut of up to half of the Army's Leopard 2A5DK tank fleet down to 34.<sup>187</sup> The Army will decommission its long-range fire-support system of M109 howitzers, disband its anti-aircraft artillery and long-range anti-armour missile units.<sup>188</sup> The navy will cut its number of permanent naval surveillance units from four to three and reduce the air force's *Fennec* helicopter personnel and equipment, ending the international capability of that fleet.<sup>189</sup> In a bid to rationalize the armed forces' functioning, Denmark has also outsourced a number of support functions since 2005, including part of the military's information and communications technologies operations.<sup>190</sup>

In terms of new equipment, the Danish army will receive new armoured vehicles, communications and engineering equipment and personnel-protection suites for infantry troops. The Navy is scheduled to take delivery of new maritime helicopters, weapons systems, small vessels and auxiliary ships. The Air Force will receive new radar and control systems, communications and identification systems and supplementary equipment for its EH-101 Merlin helicopters.<sup>191</sup>

### 3.5.4 Level of Ambition and International Engagement

For NATO and UN operations, the level of ambition is defined as a sustainable deployment of 2.000 troops (~1.500 army and 500 for navy and air force). One brigade is designated to NATO at high readiness, one at low readiness. The latter will also provide forces for Denmark's involvement in the UN Standby High Readiness Brigade. The aim has been to commit a full brigade to NATO Response Force (NRF) rotation in 2010.<sup>192</sup> There is currently no talk of reducing Denmark's levels of ambition or of early withdrawals from its international engagements.

### 3.5.5 Pooling and Sharing Options

Pooling and sharing are options on which discussions are starting, but with a preference for NATO as context rather than the EU, due to its caveats concerning CSDP and due to the close alliance with the

<sup>184</sup> Danish Ministry of Defence, *Defence Agreement 2010-2014*, Copenhagen, 24.06.2009, p.1.

<sup>185</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 43.

<sup>186</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 115.

<sup>187</sup> Gerard O'Dwyer, 'Nordics to Hunt for Savings Across Defense', *Defense News*, 14.12.2009.

<sup>188</sup> Ibid.

<sup>189</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 115.

<sup>190</sup> Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

<sup>191</sup> International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 115. Forecast International Defense Intelligence Newsletter, *A look at Denmark's Defence Agreement 2010-2014*, 09.09.2009.

<sup>192</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.43.

USA. Nevertheless, the Ghent Process is considered a good initiative and Denmark supports it and would like to be part of it. Denmark has signed the Nordic Defence Cooperation (NorDefCo) Memorandum of Understanding in 2009.

### 3.5.6 Defence Industry

Denmark's defence industry is only small and local. Effects of the crisis on its economic situation remain unclear to date.

## 3.6 Finland

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	157.31	165.64	179.70	184.65	171.32	178.46	
GDP per capita, euro tsd.	29.99	31.45	33.98	34.75	32.09	33.26	
Gross public debt, euro bn.	65.70	65.70	63.20	63.00	75.10	87.50	
Gross public debt (% of GDP.)	41.77	39.66	35.17	34.12	43.84	49.03	
Net lending (+) or net borrowing (-), euro bn.	4.25	6.65	9.31	7.79	-4.26	-5.52	
Net lending (+) or net borrowing (-), % of GDP	2.70	4.01	5.18	4.22	-2.49	-3.10	
Defense budget, euro bn.	2.21	2.27	2.31	2.42	2.82	2.72	
Defense budget, % of GDP	1.40	1.37	1.29	1.31	1.65	1.52	
Military personnel	Armed forces	28,300	28,300	29,300	29,300	29,300	22,600
	Gendarmerie	3,100	3,100	3,100	3,100	3,100	2,950

### 3.6.1 Impact of the Financial Crisis on the Defence Budget

Finland (along with Denmark) has been the Nordic country most affected by the global economic downturn, yet the government has resisted political and economic pressures to drastically cut defence spending, opting instead for modest increases while seeking greater efficiencies in military operations.

In September 2010, the Finnish MoD announced its intention to raise defence spending by 2% annually in the period of 2011 to 2015 to bring forward army modernisation plans.<sup>193</sup> The defence budget for 2011 amounts to €2.8bn and remains at about 1.55% of GDP like in previous years (€2.61bn in 2010 and €2.69bn in 2009).<sup>194</sup> The forecast is €2.37bn in basic spending for 2012 and €2.25bn for 2013.

Long-term spending on defence, set by the government in March 2010, envisages a total four-year allocation of €10.77bn for 2010-2013, €0.83bn higher than for the 2006-2009 period. About one-third will fund ongoing and new procurements, such as the Army's €1.12bn Air Defence Project that will deliver a NATO-compatible anti-aircraft missile system.

### 3.6.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite acknowledging a wide range of threats, such as international terrorism, WMD proliferation, regional conflicts, international crime and others, Finnish defence policy remains geared towards territorial defence based on a conscript armed forces.<sup>195</sup> Territorial defence, support to civilian authorities and participation in international crisis management are defined as core tasks of the Finnish armed forces.<sup>196</sup>

<sup>193</sup> 'Recent defence spending plans announced by EU member states', *Europolitics*, 30.11.2010.

<sup>194</sup> Finnish Ministry of Defence, Division of Defence Spending, available at <http://www.defmin.fi/index.phtml?l=en&s=120>, 29.03.2011; Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

<sup>195</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 67.

<sup>196</sup> *Ibid.*

## Force Structure and Personnel

The Finnish military has been engaged in defence reforms based on significant downsizing, whilst maintaining conscription, which is considered a cost-effective way to defend a large country. The end-strength has been reduced to 22,600 in 2010, mostly through cuts in the reserve.<sup>197</sup>

Downsizing is forcing significant organisational changes: The Army has decommissioned one armoured brigaded, detached armoured battalions, four regional brigades, three Jaeger brigades and more than 200 smaller units.<sup>198</sup> The Navy decommissioned fast-attack craft and a mine-countermeasures vessel, which will be replaced. Mobile and fixed coastal artillery has been reduced. The Air Force will retain its strength and will, for the first time, obtain air-to-ground capability through a mid-life upgrade of its F-18 fighters.<sup>199</sup> The rapid-reaction capacity of the armed forces is to increase.

Further force structure objectives outlined in the White Paper that are currently pursued involve developing up to three so-called readiness brigades; creating two mechanised battlegroups, a helicopter battalion and a special-forces battalion; and establishing five regional battlegroups, six main air-force bases and three fighter squadrons. Listed among the White Paper's other priorities is the creation of two missile fast-attack craft squadrons, two mine-countermeasure squadrons and two coastal infantry battalions.<sup>200</sup>

Changes to the command structure are being made: Regional commands and military provinces will be restructured into seven military provinces. Materiel Command will be streamlined to shed land and real estate. The naval headquarters will be moved from Helsinki to Turku and maritime surveillance will be centralised. As part of an attempt to rationalize the national defence apparatus, Finland began large-scale outsourcing of non-core defense functions in 2005. The Air Force contracted out its basic pilot flight training to Patria, the state-controlled defence group for a price of €22m over five years.<sup>201</sup>

## Equipment and Procurement

Airlift, intelligence gathering, C3 and inter-operability were considered the most important areas for improvement for crisis-management tasks before the start of the crisis. Equipment priorities to match these goals included networked communications, mine-countermeasures vessels, fast-attack craft, tactical transport planes, fighter aircraft upgrades, armoured vehicles and medium transport helicopters.<sup>202</sup>

In a direct response to events in Georgia in 2008, the Finnish government boosted the 2009 defence budget by 16% and indicated that it would be willing to carry on raising the budget in future years should the security conditions require it. Details of the proposed funding plans were laid out in the 2009 Finnish Defence and Security Policy document, which suggested that spending should be increased by 2% a year in real terms from 2011.<sup>203</sup> Mobility, precision stand-off strike, force protection, air defence and a joint C4ISR are current key undertakings with €800m to be spent by 2012, drawing on Finland's strong high-technology base.

In June 2010, after a domestic political standoff between advocates of defence savings and their opponents, the Ministry of Defence was granted additional €440m in new funds for the period 2011–14. Therefore no crisis-induced postponements or cancellations in procurement can be observed. Finland will thus carry on with its modernization programmes and has commissioned the national champion Patria with the modernization of 35 F-18 Hornets for €24m until 2015.

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<sup>197</sup> Ibid.

<sup>198</sup> Op.cit., p. 68.

<sup>199</sup> Bastian Ibid.

<sup>200</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p.117.

<sup>201</sup> Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

<sup>202</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 68.

<sup>203</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p.117.

### 3.6.3 Level of Ambition and International Engagement

Finland is committed to providing 300 Finnish soldiers to two battle units which are in readiness from the beginning of the year till end of June and which are ready to leave for crisis management operations decided jointly by the EU. For Finland, participating in the Battlegroup units is more expensive than for countries which use professional armies, since they can register troops that already exist and would be training anyway. The Finnish Armed Forces in turn have to invite reservists for training and pay them for being trained and in readiness. The Finnish Parliamentary Defence Committee was pondering in early December 2010 whether Finland should rethink its participation in the EU battle units, as these are a particular financial burden for forces that have never been used to date ("use it or lose it").<sup>204</sup>

However, Finland seeks to maintain its current level of participation in international crisis management operations.<sup>205</sup> Finland has 180 troops serving with ISAF and plans to increase this number to 195 by January 2011.<sup>206</sup> The Finnish Parliament currently debates whether to renew participation to UNIFIL. Annual crisis-management appropriations were increased to €150m a year in 2010.<sup>207</sup>

### 3.6.4 Pooling and Sharing Options

Finland is a strong proponent of closer defence cooperation as illustrated by the Ghent Initiative and its long-time participation in Nordic defence cooperation and latest signature of the NORDEFMO MoU in 2009.

A proposal to set up a shared surveillance effort over the North Sea is seen as attracting broad Nordic support.<sup>208</sup> Finland is hesitating over a proposal backed by Denmark, Norway and Sweden to conduct fighter jet patrols over NATO-aligned Iceland, citing its own neutrality as well as the sizable commitment of planes and money.<sup>209</sup>

Finland decided to work more closely with Estonia on its € 750 million National Air Defence Modernisation Plan (NADMP) until its scheduled completion in 2015. Cooperation over the system to repel and counter hostile air attacks will enable both Finnish and Estonian forces to coordinate air-defence strategies. The air-defence collaboration between the two countries is significant on a number of counts: the radar system element marks the single biggest common procurement program between Finland and any of the NATO-aligned Baltic states. It also extends Finland's radar-based air-surveillance reach beyond the Gulf of Finland and into the far reaches of the Baltic Sea.

The cross-border collaboration gives the Estonian Army access to the latest medium-range air surveillance systems and due to the common purchase programme, it does so at a cost significantly lower than had Estonia sought to acquire these capabilities on its own. Finland's traditional support of defence system development within the Baltic States is largely concentrated on Estonia, with more modest support to the defences of Latvia and Lithuania. Estonia has also been the main recipient of Finnish surplus, equipment and materials, including armoured vehicles and artillery.<sup>210</sup>

## 3.7 Greece

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	194.82	209.92	225.54	235.68	233.05	229.93
GDP per capita, euro tsd.	17.54	18.82	20.14	20.96	20.69	20.20

<sup>204</sup> 'EU battle unit role expensive for Finland, says defence committee', *BBC*, 06.12.2010.

<sup>205</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 68.

<sup>206</sup> Gerard O'Dwyer, 'Sweden, Finland May Coordinate Afghan Strategies', *Defense News*, 08.11.2010.

<sup>207</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p.117.

<sup>208</sup> *Ibid.*

<sup>209</sup> *Ibid.*

<sup>210</sup> Gerard O'Dwyer, 'Finland, Estonia join forces on defense modernization', *Defense News*, 05.10.2009.

Gross public debt, euro bn.		195.40	224.20	238.60	261.40	298.00	325.20
Gross public debt (% of GDP.)		100.30	106.80	105.79	110.91	127.87	141.44
Net lending (+) or net borrowing (-), euro bn.		-10.07	-12.11	-14.47	-22.36	-36.15	-22.33
Net lending (+) or net borrowing (-), % of GDP		-5.17	-5.77	-6.41	-9.49	-15.51	-9.71
Defense budget, euro bn.		3.52	3.71	3.87	4.16	4.32	n.a.
Defense budget, % of GDP		1.81	1.77	1.72	1.77	1.85	n.a.
Military personnel	Armed forces	163,850	163,850	147,100	156,600	156,600	156,600
	Gendarmerie	4,000	4,000	4,000	4,000	4,000	4,000

### 3.7.1 General Defence Policy Outlook

Due to decades-long tension with neighbouring Turkey over territorial disputes including the divided island of Cyprus, the size of territorial waters, airspace and the continental shelf in the Aegean, debt-ridden Greece has the EU's biggest military budget as a percentage of GDP, and the second highest in NATO after the US.<sup>211</sup> Over the period 1988 to 2008, the percentage of GDP spent by Greece on armaments has averaged 4% against 3.4% for Turkey and 2.9% for the UK and France.<sup>212</sup> Besides the conventional threat perceived as emanating from Turkey, the Greek government considers the Balkans to be still unstable. Towards the end of 2010 a improvement in Greek-Turkish relations could be observed as both states have been trying to establish a common strategic vision to end their major disputes surrounding the Aegean, including territorial water borders, airspace, over-flights and sovereignty over oil drilling rights and some islands.<sup>213</sup> Such rapprochement was not least motivated on both sides by Greece's dire fiscal situation. In accordance with these threat perceptions, the Greek armed forces have a defensive posture, with territorial defence their main task. International deployments have thus always been below EU average as a percentage of active forces. Issues such as terrorism, WMD proliferation or organised crime have only been officially considered threats to national security since the revision of the *1997 White Paper*.<sup>214</sup>

### 3.7.2 Impact of the Financial Crisis on the Defence Budget

Greece's defence budget was at 2% of GDP in 2010, down from 3% in 2009.<sup>215</sup> Greece's defence budget was cut by around 18% in 2010 (- €1.1bn) and will in all likelihood be reduced by a further 19% in 2011, and fall from €6bn to €5bn.<sup>216</sup> The conventional focus of Greece's armed forces reform has recently proved very difficult to sustain in light of state bankruptcy. A reduction by about €500m is foreseen in military expenditure through delivery stops alone.<sup>217</sup>

### 3.7.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Greece's defence-reform process is marked by the perceived need for strong territorial defence, which prevents a clear orientation towards expeditionary forces.<sup>218</sup> In 2001-2002 the Greek government conducted a strategic defence review that identified two main goals of modernisation: first, countering Turkish numerical superiority by means of modern and advanced equipment; and second, creating a lighter and more deployable force to engage in international crisis-management tasks.<sup>219</sup>

<sup>211</sup> Elena Becatoros, 'EU Greece Financial Crisis Defense', *Associated Press*, 02.06.2010.

<sup>212</sup> Jean Guisnel, 'La France entend fournir plusieurs milliards d'euros d'armement à la Grèce', *Le Point*, 07.06.2010.

<sup>213</sup> Burak Ege Bekdil, 'Turkey, Greece strive to end Aegean impasse', *Defense News*, 01.11.2010.

<sup>214</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 48.

<sup>215</sup> 'Recent defence spending plans announced by EU member states', *Europolitics*, 30.11.2010.

<sup>216</sup> 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010.

<sup>217</sup> Ministry of Finance of the Hellenic Republic, *Budget 2011: Draft Law*, 18.November 2010, p.20.,

<sup>218</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

<sup>219</sup> Op.cit., p. 48.

## Force Structure and Personnel

The armed forces are becoming smaller and are increasingly relying on professional soldiers.<sup>220</sup> As consequence of the budgetary cuts, reductions were implemented in training and exercises. Pay in the armed forces has been reduced from 15% to up to 40% and posts being freed by retirement have in most cases not been refilled. The Defence Ministry announced it would scrap mandatory conscription service in the Navy and Air Force in 2012, following incumbent defence spending cuts.<sup>221</sup>

## Equipment and Maintenance

Capability priorities defined for the 2006-2010 equipment programme that implements the goals of the strategic defence review are: Earth stations for satellite communications, transport helicopters, six new frigates and 70 fighter aircraft, Leopard 2 main battle tanks, attack submarines, air-to-air missiles and attack helicopters.<sup>222</sup> Adaptation and modernisation efforts identified under the strategic review resulted in the drawing up of five-year procurement programmes. The current programme ran from 2006 to 2010.<sup>223</sup> In late 2010, Defence Minister Venizelos announced that the land forces' budget for armaments projects would be reduced from €25 million to €10 million over the next 15 years.<sup>224</sup>

Greece may be forced to shelve some projects or scale back plans for new equipment, buying off-the-shelf or second-hand equipment.<sup>225</sup> Several open arms deals concluded in 2006, including orders for submarines, frigates and warplanes had to be re-examined in light of Greece's financial situation.<sup>226</sup> Programmes that will need to be cancelled include 450 Russian BMP-3 armoured tracked vehicles worth €1.7bn, six FREMM frigates worth €2.5bn to be bought from France, 15 Super Puma SAR-helicopters made by EADS for an estimated €400m<sup>227</sup> and 40 fighter jets, for which Greece still had to chose between the Eurofighter, the Rafale or American options (F-16, F-18 or F-35s) on offer.<sup>228</sup>

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<sup>220</sup> Op.cit., p. 49.

<sup>221</sup> 'Greece to scrap mandatory service in navy, airforce by 2012 following defence cuts', *The Canadian Press*, 06.11.2009.

<sup>222</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

<sup>223</sup> Op.cit., p. 48.

<sup>224</sup> 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010; 'La Grèce envisage de couper 15 mds EUR dans ses dépenses d'armement', *AFP*, 29.10.2010.

<sup>225</sup> Forecast International Military Markets Group, 'Greece's budget deficit crisis may eat into future defense allocation', 04.11.2009.

<sup>226</sup> 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010.

<sup>227</sup> 'Analysis—Broke? Buy a few warships, France tells Greece', *Reuters News*, 23.03.2010.

<sup>228</sup> Elena Becatoros, 'EU Greece Financial Crisis Defense', *Associated Press*, 02.06.2010; Gerd Höhler, 'Athen spart sich Rüstungsgüter: Die klamme Regierung in Griechenland schickt den Eurofighter in die Warteschleife', *Der Tagesspiegel*, 06.06.2010.

### 3.7.4 Level of Ambition and International Engagement

To meet the EU Headline Goal, Greece has pledged a brigade-level headquarters, a 3.550-strong brigade, a geographic support unit, civil-military cooperation (CIMIC), two frigates, four missile boats, one fleet oiler, one oceanographic survey vessel, one submarine, one naval aircraft, 30 F-16 and Mirage 2000 aircraft, six reconnaissance and surveillance F-4 aircraft, four C-130 transport planes, a Patriot theatre-missile-defence wing, two air-defence wings, and a search-and-rescue unit.<sup>229</sup> Greece will need to withdraw from a number of its current international engagement to save on running costs and will do so in close coordination with NATO and EU allies.

### 3.7.5 Pooling and Sharing Options

Greece is currently considering options for pooling and sharing redundant capabilities at EU level. Decisions are to be expected in the first half of 2011.

### 3.7.6 Defence Industry

Despite representing only a small part of Greece's economic activity, the national defence industry is currently being supported by the government to protect jobs. With a few exceptions (e.g. INTRACOM), the Greek defence industry is not internationally competitive and has only been part of national armaments procurement to a limited extent. Due to the financial crisis, a number of loss-making firms are currently being privatized (Hellenic Defense System, ELBO, Hellenic Airspace Industry) as part of the attempt to consolidate the defence budget.

## 3.8 Hungary

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		88.57	89.80	100.74	106.37	92.94	98.41
GDP per capita, euro tsd.		8.78	8.92	10.02	10.60	9.27	9.83
Gross public debt, euro bn.		53.71	61.93	65.95	72.55	75.52	80.11
Gross public debt (% of GDP.)		60.64	68.97	65.46	68.20	81.25	81.41
Net lending (+) or net borrowing (-), euro bn.		-7.03	-8.38	-5.07	-3.98	-4.12	-3.79
Net lending (+) or net borrowing (-), % of GDP		-7.94	-9.33	-5.03	-3.74	-4.44	-3.85
Defense budget, euro bn.		1.16	1.21	1.36	1.41	1.21	1.33
Defense budget, % of GDP		1.31	1.35	1.35	1.32	1.30	1.35
Military personnel	Armed forces	32,300	32,300	32,300	32,300	25,207	29,450
	Gendarmerie	12,000	12,000	12,000	12,000	12,000	12,000

### 3.8.1 Impact of the Financial Crisis on the Defence Budget

In spite of the financial crisis, Hungary made the decision to slightly increase its defence budget.<sup>230</sup> In 2009, it was decided to increase the defence budget by 0.2% of GDP over the next four years to reach over 1.3% of GDP by 2013.<sup>231</sup> Pledges were made by then-defence Minister Imre Szekeres to earmark 20% of its defence budget for development expenditures.<sup>232</sup> However, the financial crisis has put a caveat on these initial ambitions and savings had to be made on the investment budget as well as on

<sup>229</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

<sup>230</sup> 'NATO Chief welcomes Hungary's plan to increase defence budget', *MTI-Econews*, 19.11.2009.

<sup>231</sup> 'Hungary's armed services reform provides model, says PM Bajnai', *MIT-Econews*, 21.04.2009.

<sup>232</sup> 'Hungary, US defence ministers hold talks', *MTI-Econews*, 10.09.2009; 'Hungary's armed services reform provides model, says PM Bajnai', *MIT-Econews*, 21.04.2009.

maintenance and modernization of equipment. In 2010, the defence budget was around 1.17% of GDP at €1.12bn.<sup>233</sup>

### 3.8.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The crisis erupted during the implementation of a 10-year reform plan to be completed by 2014, based on a defence-review conducted by the Hungarian government in 2002-03.<sup>234</sup> An ongoing review for a revised 10-year development in light of current fiscal constraints will show results in the summer of 2011.

The goal of the ongoing transformation process has been to create a more capable, well-equipped, deployable and interoperable force within the limits of financial constraints to fulfill Hungary's growing international obligations within NATO and the EU. The first years were focused on legislative changes and adaptation of the force structure.<sup>235</sup> Conscripted ended in 2005.<sup>236</sup> The Hungarian armed forces were at an end-strength of 125.000 soldiers in 1990 and at 25.000 troops today.<sup>237</sup>

From 2006 on reform efforts focused on training and equipping units designated for deployment. From 2010 the modernization process has broadened to encompass the entire force. The Hungarian defence reform has been progressing slowly due to a serious lack of funding, and has been further impaired by the financial crisis. To enhance flexibility and deployability, the army is to shrink from three brigades to two, one of which is to be designated for collective defence and the other for crisis-management operations. Armoured and heavy-artillery units have been reduced, as have training facilities and air fields. Mechanised units are being transformed into light infantry.<sup>238</sup>

Several procurement initiatives have been delayed and equipment upgrades put in jeopardy. The army's MI-8 transport helicopters are in need of replacement within 3-4 years, whilst a decision was made to upgrade the MI-17 helicopters to allow for a further ten years of use. The MI-24s, in service for 30 years, will continue being used without any upgrades.<sup>239</sup>

### 3.8.3 Level of Ambition and International Engagement

During a 2003 defence review, the level of ambition was defined as a sustainable deployment of 1.000 troops, a level which has since been exceeded. The level of ambition is now set at 2.000 deployable troops,<sup>240</sup> with one Brigade on duty for 6 months plus a rotating battalion or two rotating battalions. No reductions are planned as a consequence of the crisis.

About a thousand Hungarian soldiers are serving in missions in 13 countries, which in terms of the number of missions places Hungary on the third rank in terms of international engagement, after the US and UK.<sup>241</sup> Hungary intends to boost its mission in Afghanistan with 90 troops to secure the airport, a 40-troops platoon to watch over the election, a 56-member training team and a 35-member logistic group.<sup>242</sup>

### 3.8.4 Pooling and Sharing Options

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<sup>233</sup> Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

<sup>234</sup> Ibid.

<sup>235</sup> Ibid.

<sup>236</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

<sup>237</sup> Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

<sup>238</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49-50.

<sup>239</sup> 'Hungary's armed forces to create jobs', *MIT-EcoNews*, 26.05.2009.

<sup>240</sup> Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

<sup>241</sup> 'Hungary's armed services reform provides model, says PM Bajnai', *MTI-Econews*, 21.04.2009.

<sup>242</sup> 'Hungary to send more troops to Afghanistan', *BBC*, 30.11.2010.

In late November 2010, the Hungarian Ministry of Defence expressed strong interest in cooperation with Slovakia to train Mi17-helicopter pilots. Hungarian pilots could train on a special flight simulator in Presov (Slovakia), Slovak pilots may gain experience at the Hungarian air base in Szolnok. Cooperation between Slovakia and Hungary is already ongoing with regard to pyrotechnics and bomb disposal.<sup>243</sup> In May and June 2009 talks were also held on Hungarian-Greek and on Hungarian-Macedonian cooperation concerning military training.<sup>244</sup> A paper from late 2010 confirms the need for specialization of the Hungarian army including the development of niche capabilities such as NBC defence,<sup>245</sup> instead of maintaining the ambition of a full spectrum force. Cooperative divisions of labour with small nations, such as Austria, Slovakia, Finland or Belgium similarly affected by the crisis are listed as policy priority.<sup>246</sup> Hungary has put the furtherance of pooling and sharing as priority onto the agenda of its EU Presidency in 2011 and intends to strengthen the Ghent-Process.

### 3.8.5 Defence Industry

The Hungarian defence sector, largely state-sponsored, is in overall poor condition and has suffered from the financial pressures exerted onto the government.

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<sup>243</sup> 'Hungarian army interested in Slovak flight simulator, more cooperation', *BBC*, 01.12.2010.

<sup>244</sup> 'Hungary, Greece army chiefs discuss military cooperation', *MTI-EcoNews*, 18.06.2009. 'Macedonia, Hungary sign military cooperation agreement', *Xinhua News Agency*, 07.05.2009.

<sup>245</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 50.

<sup>246</sup> Nicolas Gros-Verheyde, Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir, <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

### 3.9 Ireland

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	162.31	177.34	189.37	179.99	159.65	156.52
GDP per capita, euro tsd.	39.02	41.62	43.38	40.51	35.73	35.00
Gross public debt, euro bn.	44.40	44.00	47.30	79.80	104.60	152.50
Gross public debt (% of GDP.)	27.35	24.81	24.98	44.34	65.52	97.43
Net lending (+) or net borrowing (-), euro bn.	2.68	5.20	0.05	-13.15	-22.96	-50.61
Net lending (+) or net borrowing (-), % of GDP	1.65	2.93	0.02	-7.31	-14.38	-32.34
Defense budget, euro bn.	0.76	0.89	0.97	0.001	0.001	n.a.
Defense budget, % of GDP	0.47	0.50	0.51	0.001	0.001	n.a.
Military personnel						
Armed forces	10,460	10,460	10,470	10,460	10,460	10,460

#### 3.9.1 Impact of the Financial Crisis on the Defence Budget

The defence budget for 2010 has been cut by about 10% (around €45m) in comparison to 2009. The 2010 defence budget of about €710m will be cut by another €28m in 2011.<sup>247</sup> Until 2014, the budget is set to drop by further 15%, down to approx. €600m.

#### 3.9.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The initial timeline of Ireland's reform efforts to make the armed forces more deployable was 2000 to 2010. Its overall aim is to enhance force projection for better participation in international crisis management missions.

#### Force Structure and Personnel

The Irish Defence Forces comprise a Permanent Defence Force and a Reserve Defence Force. The planned reduction of the Permanent Defence Force from 11,500 to approximately 10,500 troops was achieved in 2001. The current force structure comprises 10,460 active soldiers. Four barracks were closed in 2009. The reserve force is also currently being reorganized. The government is further focusing on improving military training.<sup>248</sup>

On 16. July 2009, the *Special Group on Public Service Numbers and Expenditure Programmes*, also known as the McCarthy Report, made its recommendations on cuts in public spending. The Report recommended to close more barracks and to reduce Defence Forces by 500 personnel to 10,000 over the next three years. However, that number was already reached by the end of 2009 due to an unexpected rise in the early retirement rate that resulted from fears of pensions being affected by government cutbacks.<sup>249</sup>

Further reform efforts concentrate on developing and maintaining the infrastructure to meet the operation, training, logistical and administrative needs of the armed forces. This includes rationalization of properties, development of training areas, review of accommodation and creation of an Infrastructure Annual Plan.

<sup>247</sup> Shane Coleman, 'Minister O'Dea wants state to splash out on two new naval vessels', *Sunday Tribune*, 17.01.2010.

<sup>248</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 69.

<sup>249</sup> 'Closures of more barracks ruled out', *Irish Independent*, 19.11.2009.

## Equipment and Procurement

Capability priorities include the logistics system, utility helicopters, armoured wheeled vehicles and medium-range anti-armour missiles.<sup>250</sup> Despite the financial crisis, Ireland confirmed a €90m order for two high-tech new Naval Service vessels in late 2010. The two new ships – to be provided in 2014 and 2015 – will replace L.E. Emer and L.E. Aoife.<sup>251</sup>

### 3.9.3 Level of Ambition and International Engagement

By 2010, the Irish level of ambition was to have 1.600 deployable troops.<sup>252</sup> The Irish Defence Forces are intended to contribute to the full range of military operations. Ireland is willing to contribute to UN peace-support operations (including peacekeeping and peace enforcement), to EU-missions within the whole spectrum of the Petersberg tasks, to Partnership for Peace crisis-management operations, to OSCE confidence and security-building measures and to international humanitarian and disaster-relief operations. To the United Nations, it intends to provide a joint-peace-support capability of 850 military personnel as part of the UN Standby Arrangement System; to the EU, one light-infantry battalion of 750 troops and to NATO/PfP, one APC infantry battalion group.<sup>253</sup>

Ireland will withdraw troops as a consequence of the financial crisis to make savings of about €7 million.<sup>254</sup> The remaining 44 Irish troops in Bosnia were withdrawn by July 2010 and the 240 troops in Kosovo were scaled down to about 50 by April 2010 and withdrew by October 2010.<sup>255</sup>

## 3.10 Netherlands

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	513.41	540.22	571.77	596.23	571.98	585.73	
GDP per capita, euro tsd.	31.46	33.06	34.91	36.27	34.61	35.26	
Gross public debt, euro bn.	266.10	255.90	259.00	347.10	347.60	379.50	
Gross public debt (% of GDP.)	51.83	47.37	45.30	58.22	60.77	64.79	
Net lending (+) or net borrowing (-), euro bn.	-1.36	2.92	1.05	3.39	-30.92	-34.16	
Net lending (+) or net borrowing (-), % of GDP	-0.26	0.54	0.18	0.57	-5.40	-5.83	
Defense budget, euro bn.	7.67	7.91	8.36	8.09	8.73	8.55	
Defense budget, % of GDP	1.49	1.46	1.46	1.36	1.53	1.46	
Military personnel	Armed forces	46,330	46,330	46,330	38,808	40,537	40,804
	Gendarmerie	6,800	6,800	6,800	6,800	5,953	6,078

### 3.10.1 Impact of the Financial Crisis on the Defence Budget

The new coalition government intends to make consolidation efforts of €18bn at national level by 2015. Different scenarios involving cuts between €400m to €2.1bn for the defence ministry in 2011 are being discussed.<sup>256</sup> The base defence budget for 2011 lies at €8.4bn. Even without upcoming cuts, the new cabinet's defence spending was intended to decrease to €8.1bn by 2015.<sup>257</sup>

### 3.10.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

<sup>250</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 69.

<sup>251</sup> 'Navy set to put in €90 million in order for two 'vital' new ships', *Irish Independent*, 03.09.2010.

<sup>252</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

<sup>253</sup> Op.cit. p. 69.

<sup>254</sup> 'Troops numbers drop to save €7 million', *Irish Independent*, 10.12.2009.

<sup>255</sup> Shane Coleman, 'Minister O'Dea wants state to splash out on two new naval vessels', *Sunday Tribune*, 17.01.2010.

<sup>256</sup> 'Dutch military plans to cut 10,000 jobs', *Reuters News*, 19.11.2010.

<sup>257</sup> Christopher Catelli, 'Dutch to buy second JSF test aircraft, cut defense by €600 million', *Inside the Pentagon*, 07.10.2010.

The current reform process of the Dutch armed forces started in 2003. Conscription was abolished in the late 1990s. The government set out its reform agenda in a Defence Budget and Policy Letter to Parliament, updated in 2006 and 2007.<sup>258</sup> The Dutch armed forces have three main tasks: territorial defence, contributing to international crisis-management missions and supporting civil authorities in case of disasters or emergencies. In practice, however, making forces available to support international peace and stability missions has evolved into their main role.<sup>259</sup> The concentration on operations and improving performance has been to a large extent shaped by the Dutch experience in Afghanistan.

### Force Structure and Personnel

The Dutch armed forces stand at the end of their reform process that has aimed to improve their deployability and interoperability with allies. Current plans are due to be completed in 2012. The planned all-professional force structure for 2012 comprises 51,000 active forces.<sup>260</sup> Significant cuts had been made before the crisis, and an increase in personnel of about 10% was expected.<sup>261</sup>

The Dutch government announced in November 2010 that it intends to cut 10,000 defence ministry jobs by 2015 while also introducing extensive spending cuts. A detailed plan about the military's future strategy and the measures taken will be announced in Spring 2011 with compulsory layoffs a possibility.<sup>262</sup> The budget for training is also expected to be cut by €5m per year until 2014. Even with the lowest amount of cuts being enacted, the armed forces' ability for international deployment would be seriously hampered. Two brigades would need to be closed, the Navy and Air Force would suffer significant cuts in capabilities and up to 24,000 jobs cuts would be necessary.

### Equipment and Procurement

The Dutch armed forces have recently shed some *Leopard II* main battle tanks, some PzH-2000 self-propelled howitzers and 18 F-18 fighter aircraft as well as Orion maritime patrol aircraft. Several other planned initiatives, such as Dutch participation in NATO's Alliance Ground Surveillance project and procurement of Tomahawk cruise missiles and medium-altitude, long-endurance UAVs, have been scrapped. Other planned investments such as frigates, a joint logistics support ship, patrol vessels, F16 self-protection capabilities, infantry fighting vehicle Boxer, the combat vehicle CV-90 and brigade-laying tanks, have been postponed.<sup>263</sup> Orders for the Mortar-Tracking-Radar-Project or the Apache helicopter will be reduced.

Certain capability priorities of immediate importance for current operations such as force protection, tactical air transport, the NH-90, additional C-130 transport planes or the modernization of the remaining Dutch F-16s and investment in satellite communications and command and control continue to benefit from funding.<sup>264</sup>

Dutch F-16 aircraft need replacement. The new coalition has committed to buying a second JSF test aircraft in 2011 to participate in operational testing but has made no commitment beyond that test asset as a means to achieve defense budget cuts. The investment into the JSF to date make it unlikely that any other option but the JSF will be chose to replace the aging F-16s.<sup>265</sup> Around 50 Dutch firms depend on the contracts worth close to €3bn.

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<sup>258</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

<sup>259</sup> *Ibid.*

<sup>260</sup> *Op.cit.*, p. 55.

<sup>261</sup> *Ibid.*

<sup>262</sup> 'Dutch military plans to cut 10.000 jobs', *Reuters News*, 19.11.2010; Blanka Kolenikova, 'Dutch government to Introduce Extensive Defence Spending Cuts', *HIS Global Insight Daily Analysis*, 19.11.2010.

<sup>263</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

<sup>264</sup> *Ibid.*

<sup>265</sup> Christopher Catelli, 'Dutch to buy second JSF test aircraft, cut defense by €600 million', *Inside the Pentagon*, 07.10.2010.

### 3.10.3 Level of Ambition and International Engagement

The level of ambition foresees a deployment at brigade level, and two squadrons of fighter jets or a maritime task force on high-intensity missions sustainable for up to one year. In addition, three battalion-sized task groups (or air and naval equivalents) can be provided for low-intensity missions over a prolonged period of time. Special Operations personnel can be provided for evacuation and counter-terrorism purposes.<sup>266</sup>

The previous coalition government broke apart in February 2010 over whether or not to extend the Dutch four-year mission in Afghanistan. The Netherlands has consequently pulled out most of its 2,000 troops since August 2010. The new coalition government is planning on sending a new training mission to Afghanistan from mid-2011 to mid-2014. A total of 545 troops will be deployed, including 225 police and military trainers, 125 soldiers, 120 air force soldiers and support staff for four F-16 fighter planes and 70 specialists for military command centers. Costs are estimated to be € 468 million for the total duration of the mission.<sup>267</sup>

### 3.10.4 Pooling and Sharing Options

The Netherlands are a long-time advocate of closer defence cooperation, for instance through pooling and sharing of capabilities- over the 1990s mostly through NATO. France, Germany, Belgium and the Netherlands recently put 200 transport aircraft under a single command at an air-base in the Dutch city of Eindhoven.<sup>268</sup> With the re-sell to Germany of the maritime air patrolling plane P3 Orion, the Netherlands even fully abandoned capabilities in this domain. It remains unclear to date whether The Hague is interested in further cooperative steps in the wake of the financial crisis.

## 3.11 Portugal

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		153.73	160.27	168.74	172.10	168.08	171.38
GDP per capita, euro tsd.		14.57	15.14	15.91	16.20	15.81	16.09
Gross public debt, euro bn.		94.80	102.40	105.90	112.40	127.90	141.90
Gross public debt (% of GDP.)		61.67	63.89	62.76	65.31	76.10	82.80
Net lending (+) or net borrowing (-), euro bn.		-9.10	-6.49	-4.67	-5.04	-15.70	-12.55
Net lending (+) or net borrowing (-), % of GDP		-5.92	-4.05	-2.77	-2.93	-9.34	-7.32
Defense budget, euro bn.		1.92	1.91	1.88	1.79	1.82	1.97
Defense budget, % of GDP		1.25	1.19	1.11	1.04	1.08	1.15
Military personnel	Armed forces	44,900	44,900	43,960	42,910	42,910	43,330
	Gendarmerie	47,700	47,700	47,700	47,700	47,700	47,700

### 3.11.1 Impact of the Financial Crisis on the Defence Budget

The Stability and Growth Plan adopted in the wake of the financial crisis has imposed significant restrictions on the defence sector. The Defence Ministry's budget is due to be reduced by about 11%.<sup>269</sup> It imposes an annual cut of 40% by 2013 on funds for the modernization of the armed forces. In order to structure these cuts, the Military Planning Law was revised in 2010, making the purchase of some new equipment for the Armed Forces conditional on the previous sale of used materiel and prohibiting the signing of new contracts.<sup>270</sup> In 2010, the investment part of the defence budget was cut von €413m to

<sup>266</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

<sup>267</sup> 'Dutch plans police training mission to Afghanistan', *Reuters News*, 07.01.2011.

<sup>268</sup> Henry Chu, 'Defense cuts may downsize Europe's clout', *Los Angeles Times*, 05.12.2010.

<sup>269</sup> Barry Hatton, 'Portuguese spy chief quits ahead of NATO summit, reportedly angered by spending cuts', *Associated Press*, 18.11.2010.

<sup>270</sup> 'Portuguese budget cuts hit defence spending', *BBC*, 30.03.2010.

€248m. Further savings in investment expenses of up to €502m are planned until 2013. The main measures adopted in the MoD are a freeze on promotion applicable both to public service employees and to the armed forces in 2011; a one-off cut in the number of servicemen and women recruited (3000 less than in 2010); and a 40% cut in the Military Functioning Programme, with plans under way to suspend new procurement until 2013.<sup>271</sup>

### 3.11.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite still bearing the marks of its historical past as power-projecting maritime power, Portugal's threat assessment is based on the appraisal of a diffuse security environment characterized by international terrorism, the proliferation of WMD, failed states and organised crime.<sup>272</sup> A fundamental defence-reform decision was taken in 1999 when the Military Service Law called for a fully professional force by 2003. Conscription formally ended in 2004. The armed forces were to be reduced by over 40% from 43,330 soldiers today to a target of some 40,500.

#### Force Structure and Personnel

A hiring freeze holds for openings due to retirement or end of contracts, which has led to the hiring quote lying below the rate of force generation in 2010. As of January 2011, pays were lowered by up to 10% in the public sector, which is expected to yield savings of €1bn as well as a reduction of the national deficit by 0.6% in 2011.

The overall goal of the reform process is to create a joint, modular and technologically advanced force. The armed forces are expected to operate across the full spectrum of tasks rather than specialize in particular capabilities.<sup>273</sup> Principal means include a re-equipment and modernization programme, the restructuring of the force, downsizing and selling of surplus equipment. The traditional territorial command structure has been replaced with a centrally organized regiment structure. The key elements in this new land-force structure are three combat brigades: a mechanized brigade; an airborne rapid-intervention brigade and an intervention brigade.

#### Equipment and Procurement

The Military Planning Law (MPL) from 2006 stated that €290m would be obtained from the sale of military equipment during the first six year period of this law. The equipment in question was 10 F-16 fighter jets, 4 Puma helicopters, 14 Aviocar transport planes, 56 M60 tanks, 2 Joao Belo frigates and ammunition.<sup>274</sup> Expected revenues turned out to be only one third of what was initially expected, as the sale of the equipment did not take place as hoped, with the exception of the frigates sold to Uruguay for about €13m.<sup>275</sup> The MPL shows a deficit close to €273m of a total of €2.12bn for the period 2006-2011.

According to a revised MPL, the following programmes will be delayed until at least €110 million have been obtained from sales: Parts for the new coastguard launchers for the Navy (LCF), the purchase of 18 Leopard 2A6 tanks for the Army, 6 light helicopters (to replace the Alouette III) for the Air Force and 1 Lynx helicopter for the Navy.<sup>276</sup> The review of the MPL also discussed the suspension of the delivery of NH90 helicopters that was planned to start in 2012.<sup>277</sup> The programme of light tactical armoured 4x4

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<sup>271</sup> Ministry of Finance and Public Administration, Portuguese State Budget for 2011—Summary Report, Budget Consolidation Strategy in 2011, October 2010, Lisbon, S. 24.

<sup>272</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 58.

<sup>273</sup> Ibid.

<sup>274</sup> 'Portuguese military purchases subject to sale of used materiel', *BBC*, 01.05.2010.

<sup>275</sup> Ibid.

<sup>276</sup> Ibid.

<sup>277</sup> 'Portugal considers delaying receipt of NH90 helicopters', *BBC*, 23.04.2010.

vehicles for the army will be suspended as part of this effort.<sup>278</sup> Cuts were also made in the training budget.

Programmes in turn considered too essential to be subjected to sales are: the new light weaponry, light helicopters and four-wheeled armoured vehicles for the Army; a new multi-role support ship for the Navy and the modernization of the C130 planes for the Air Force.<sup>279</sup>

Despite cuts, the Portuguese government will press on with the modernization of the Air Force, which involves investment of over €1.5bn, two third of which have not yet been spent.<sup>280</sup> Compliance with existing contracts for the modernization of F-16s and P3C Orion, will be offset through a hiring freeze until 2013 concerning 1,300 temporary regular soldiers and 1.300 non-career soldiers.

### 3.11.3 Level of Ambition and International Engagement

While there is no official level of ambition in relation to participation in international crisis-management missions, the maximum contribution is three battalions in up to three missions. Portugal's international commitments (KFOR, ISAF, UNIFIL) will be kept up but reduced. The 150 Special Operations troops engaged in Afghanistan were withdrawn in December 2010. A capacity build-up of around 30 soldiers is planned for training and medical assistance. The 296 troops stationed in Kosovo since 2007 will be halved in May 2011 as the security situation is considered to have improved significantly. No changes are foreseen to the Portuguese presence in Lebanon (145 soldiers). Portugal seeks to take part to the best of its abilities in EU-led operations (Atalanta, Althea, EUTM, EUSEC RD Congo), but its priority lies with NATO- or UN-missions.

### 3.11.4 Pooling and Sharing Options

Neither pooling, sharing nor extended defence cooperation at European level have to date been on the political agenda in Portugal. Accordingly, little attention is being paid to the Ghent Process.

### 3.11.5 Defence Industry

A state-led consolidation of the defence sector was achieved ten years ago. The resulting holding 'Empresa Portuguesa de Defesa SGPS S.A.' (EMPORDEF) is focused on aerospace, software and simulation, weapons and munitions as well as maintenance and modernization. Additional capabilities can be found in the field of naval construction, with the semi-public shipyard Estaleiros Navais de Viana do Castelo (ENVC). Keeping up national industrial capabilities is a priority to the current government.

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<sup>278</sup> 'Portuguese budget cuts hit defence spending', *BBC*, 30.03.2010.

<sup>279</sup> 'Portuguese military purchases subject to sale of used materiel', *BBC*, 01.05.2010.

<sup>280</sup> 'Portugal to modernize air force despite cut', *BBC*, 07.10.2010.

### 3.12 Romania

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		79.80	97.75	124.73	139.76	115.87	121.68
GDP per capita, euro tsd.		3.69	4.53	5.79	6.50	5.40	5.68
Gross public debt, euro bn.		12.40	12.59	14.49	17.09	27.67	36.96
Gross public debt (% of GDP.)		15.54	12.88	11.62	12.23	23.88	30.37
Net lending (+) or net borrowing (-), euro bn.		-0.92	-2.19	-3.23	-8.02	-10.00	-8.90
Net lending (+) or net borrowing (-), % of GDP		-1.16	-2.24	-2.59	-5.74	-8.63	-7.32
Defense budget, euro bn.		1.57	1.88	2.29	2.26	2.32	1.93
Defense budget, % of GDP		1.96	1.93	1.83	1.62	2.00	1.58
Military personnel	Armed forces	97,200	97,200	69,600	74,267	73,200	73,350
	Gendarmerie	79,900	79,900	79,900	79,900	79,900	79,900

#### 3.12.1 Impact of the Financial Crisis on the Defence Budget

The Romanian defence budget for 2010 went down from 2.5% GDP in 2009 to 1.3% of GDP (€1.8bn), representing a 13% cut.<sup>281</sup> The budget in 2011 is planned to be at 1.8% of GDP. No funds have been attributed to the investment budget since 2009 and this trend will not change in 2011 as no new procurement will be possible until 2014—according to Romania's President Traian Basescu (December 2010). Romania's dependency on international financial contributions from the IMF—much like that of Ireland, Greece and Portugal—is severely limiting the government's leeway.

#### 3.12.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

No major conventional threat is identified in Romania's threat assessment in the medium term. Besides highlighting the threats emanating from regional instability, failed states, the proliferation of WMD, international terrorism, or migration, the Romanian threat perceptions also name domestic factors related to economic and social problems with potentially destabilizing effects on the political system.<sup>282</sup>

#### Force Structure and Personnel

The government is developing niche capabilities: In cooperation with the US it is building up a special forces battalion designed to represent its niche expertise in future NATO missions.<sup>283</sup> The transformation of the Romanian armed forces has been suspended in Fall 2010 until further notice, due to the budgetary pressure exerted by the financial crisis.

Almost 80% of the Romanian defence budget is spent on salaries and pensions, with only about 20% remaining for missions at home and abroad.<sup>284</sup> Pay cuts of up to 25% in the public sector have hit the military and defence industry particularly hard.

#### Equipment and Procurement

The seven strategic procurement programmes running since 2007 to complete achievement of NATO standards will also be suspended. Basescu does not count on their fulfillment before 2025. The equipment of the armed forces is by and large leased by the US.

<sup>281</sup> Robert Wall, Douglas Barrie, Andy Nativi, 'Defense Budget Blades: Defense spending starts to catch the edge of European budget cuts', *Aviation Week & Space and Technology*, Vol. 172, Issue 22, 7.6.2010.

<sup>282</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 59.

<sup>283</sup> *Ibid.*

<sup>284</sup> 'Romanian Army's Financial Situation Close to "Breakdown"', *BBC*, 26.04.2010.

In March 2010, Romania had announced its decision to purchase 24 F-16 aircraft currently used by the US Air Force at a cost of €1.1bn in order to replace its ageing Soviet-made MIG-Lancer jets incompatible with NATO missions. The Romanian Air Force planned to remove these from service between 2010 and 2012.<sup>285</sup> Finance Minister Sebastian Vladescu stressed that crisis-hit Romania cannot afford to purchase these second-hand F-16.

The deal had triggered criticism from European groups Eurofighter and Saab, which stressed authorities should have issued a call for tenders.<sup>286</sup> The Swedish company that offered Romania the Gripen planes and the Eurofighter group later proposed financial packages that were more flexible than the one proposed for the F-16. The resumed competition for the multi-purpose planes now offers Bukarest important offset offers and technological changes meant to stimulate the development of the Romanian aeronautical industry.<sup>287</sup>

### 3.12.3 Level of Ambition and International Engagement

Romania seeks to be a reliable NATO-partner and currently ear-marks around 1,750 soldiers for international deployments. The number is intended to increase to 2,000 in 2011. In August 2010, additional funds were made available to the Romanian armed forces to secure its continued military participation in Afghanistan.<sup>288</sup>

### 3.12.4 Pooling and Sharing Options

Pooling and sharing are currently not options considered, despite repeated suggestion by NATO military attachés. No interest with regard to the Ghent process is to be noted.

### 3.12.5 Defence Industry

The Romanian defence industry is made up to almost 100% out of national champions, with a very limited productivity already before the financial crisis, whose employees remain paid on a minimum wage.

## 4 CATEGORY C

### 4.1 Cyprus

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		13.66	14.67	15.95	17.25	16.95	17.46
GDP per capita, euro tsd.		18.02	18.99	20.35	21.75	21.24	21.72
Gross public debt, euro bn.		9.49	9.44	9.26	8.35	9.83	10.86
Gross public debt (% of GDP.)		69.48	64.33	58.05	48.41	58.01	62.21
Net lending (+) or net borrowing (-), euro bn.		-0.33	-0.18	0.54	0.16	-1.01	-1.04
Net lending (+) or net borrowing (-), % of GDP		-2.42	-1.19	3.38	0.91	-5.97	-5.93
Defense budget, euro bn.		0.31	0.24	0.36	0.22	0.64	n.a.
Defense budget, % of GDP		2.23	1.65	2.25	1.27	3.80	n.a.
Military personnel	Armed forces	10,000	10,000	10,000	10,000	10,000	10,050
	Gendarmerie	750	750	750	750	750	750

<sup>285</sup> *Forecast International Defense Intelligence Newsletters*, 'Romanian Defense Body Green-Lights Second-hand F-16 Purchase', 24.03.2010.

<sup>286</sup> 'Romania cannot afford buying F-16 Jets Now', *Agence France Presse*, 11.06.2010.

<sup>287</sup> 'Paper says USA 'not angry' with Romania for not buying warplanes', *BBC*, 07.08.2010.

<sup>288</sup> 'Romanian Defence Ministry gets extra money for operations in Afghanistan', *BBC*, 20.08.2010.

Cyprus' threat perceptions focus on the presence of Turkish troops in northern Cyprus as well as on transnational risks. The financial crisis has not conditioned any cuts in the Cypriot defence budget. In 2011 some shifts in spending are planned to advance the professionalization of the armed forces and to set priorities in procurement (esp. air defence). The defence budget for 2011 is at €360m and has increased by around €20m from 2010. The timeline for reforms remains unclear. Its overall aim, driven in part by EU commitments, is to develop niche capabilities, to strengthen deterrence and transform its national guard into semi-professional forces. Reforms are pursued via more spending efficiency, a decrease in the proportion of conscripts and reserves, increases in the number of professional soldiers and the modernization of equipment. Key capabilities are SAR, new training facilities and used MBTs.<sup>289</sup> No changes to current international engagements (UNIFIL, Somalia, ATALANTA) nor to NATO and EU engagements are planned to date. Pooling and Sharing are cooperation options not currently discussed.

## 4.2 Estonia

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		11.18	13.39	15.83	16.11	13.86	14.18
GDP per capita, euro tsd.		8.30	9.96	11.79	12.01	10.34	10.58
Gross public debt, euro bn.		0.51	0.59	0.59	0.74	0.99	1.14
Gross public debt (% of GDP.)		4.57	4.41	3.74	4.60	7.15	8.04
Net lending (+) or net borrowing (-), euro bn.		0.18	0.33	0.40	-0.46	-0.24	-0.15
Net lending (+) or net borrowing (-), % of GDP		1.61	2.45	2.54	-2.84	-1.73	-1.03
Defense budget, euro bn.		0.16	0.19	0.25	0.29	0.26	0.26
Defense budget, % of GDP		1.45	1.41	1.59	1.82	1.87	1.85
Military personnel	Armed forces	4,934	4,934	4,100	4,100	5,300	4,750
	Gendarmerie	2,600	2,600	2,600	2,600	2,100	n.a.

Estonia's declared threat perceptions are asymmetric threats as well as a crisis in Estonia's vicinity.<sup>290</sup> Despite events in Georgia and a series of Russian cyber attacks on the government's computer network, Estonia has also been forced to cut its defence budget with resulting cuts in both salaries and procurement.<sup>291</sup> As a result of the global financial crisis, in June 2009, the Estonian Ministry of Defence revealed a €2m cut in the defence budget from €306m in 2008 to €303m in 2009.<sup>292</sup> The Estonian defence budget for 2011 will amount to €7.8m or 1.9% of GDP.<sup>293</sup>

Reforms of the armed forces started in 2004 with its accession to the EU and NATO and were predicted to last until 2010. Core aims of the reforms are to improve host nation support capacity as well as to develop rapid reaction capabilities to enhance its ability to operate international crisis management missions as well as Estonia's credibility within NATO. The level of ambition is defined as a sustainable deployment of one infantry company, special forces platoon, several military observers, a staff element and two vessels. By 2008, Estonia has sought to attain 250 troops for sustainable missions, rising to 350 by 2010.<sup>294</sup>

<sup>289</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 34.

<sup>290</sup> Ministry of Defence of the Republic of Estonia, *National Security Concept of Estonia*, May 2010, p.7.

<sup>291</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

<sup>292</sup> NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis>>

<sup>293</sup> Estonian Ministry of Finance, Brief Overview of the State Budget for 2011, 23.09.2010, Tallinn, p.2.

<sup>294</sup> Ministry of Defence of the Republic of Estonia, *National Military Strategy: Annex to the Government of the Republic Regulation No.10* from 18 January 2005 on Implementation of the National Military Strategy (unofficial translation), Tallinn, 2005, §51. <<http://www.mod.gov.ee/?op=body&id=369>>

Estonia aims to have high standard capabilities in several key areas, especially in army and naval units to take part in international cooperation. For the army, equipping an infantry brigade with organic combat support and combat service support is key. The navy is to focus on mine warfare, including countermeasures and mine-laying, as well as refurbishment of a naval base. The air force is focused on surveillance tasks within the framework of a joint Baltic system (BALNET) and on provision of host-nation support arrangements similar to the navy's.<sup>295</sup> Key mechanisms for reform are specialization and the implementation of a tier-structure for forces. Improving capabilities such as air surveillance, CS and CSS, Host Nation Support, and mine warfare, the development of Ground Based Air Defence Capabilities, development of tactical transport helicopter capabilities are set priorities.

In January 2009, the new Defence Development Plan for 2009-2018 was adopted, which seeks to strengthen Estonia's national defence capability and that country's capacity to contribute to international security. The 2007-2010 budget plan identifies the following procurement priorities: €640m for the development of modern, multipurpose and quickly reacting military components; €80m for two multipurpose ships, renovation of the Kati, a spill response vessel, and other critical equipment; and, €120m to participate in NATO integrated air safety system and to develop an air-policing airport in Amari that meets minimum requirements.<sup>296</sup>

Estonia has pledged an infantry battalion, military police units, an explosive ordnance disposal (EOD) group, two mine countermeasure vessels and one mine-countermeasure support vessel for international operations.<sup>297</sup> More specifically, mine-countermeasure capabilities, military police and the EOD group have been made available to the NRF. Estonia is participating in the EU's Swedish-led Nordic Battlegroup with infantry, medical and logistics units and staff elements in 2008.<sup>298</sup>

The economic crisis has also spurred movement towards joint defence procurement among Latvia, Lithuania, and Estonia. Officials from the three countries are seeking to harmonize their national procurement plans in order to eliminate differences in the armament and equipment contributed by each country.<sup>299</sup>

The Ghent Initiative is welcomed: Estonia is keen on identifying value-added, pragmatically implementable solutions for pooling and sharing. Estonia also supports the activities of the Weimar triangle, amongst other things because it is currently looking into joint procurement options with Poland. Military cooperation with its Nordic and Scandinavian partners Sweden, Finland, Norway, but also with Ireland were strengthened in past years. Cooperation with its Baltic neighbours has remained strong, especially concerning air-policing tasks through NATO partners and ensuing compensation and support plans (Host Nation Support, training opportunities for NATO troops).

On 15<sup>th</sup> December, Estonia and the UK concluded a framework agreement on joint acquisition of defence equipment, opening the road for information-sharing on defence, arms or munitions acquisitions planned or contemplated. Estonia signed similar agreements with Sweden and Germany.<sup>300</sup> Estonia does not plan on reducing its contributions to international missions (e.g. ISAF, ATALANTA) and its NATO and EU military commitments.

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<sup>295</sup> Ministry of Defence of the Republic of Estonia, *Estonian Defence Forces 2003-2006*, Tallinn, 2003.

<sup>296</sup> Jane's Sentinel Country Risk Assessment, quoted in: NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, < <http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis> >

<sup>297</sup> Ministry of Defence of the Republic of Estonia, *Estonian Defence Forces 2003-2006*, Tallinn, 2003, p. 15.

<sup>298</sup> 'Major Landmarks in Estonian Security and Defence Policy in 2006', *Baltic Security and Defence Review*, Vol. 9, 2007, pp.273-278.

<sup>299</sup> Tomas Jermalavicius, 'Baltic defence cooperation during economic crisis: between symbolism and substance', *International Centre for Defence Studies, Diplomaatia*, < <http://blog.icds.ee/contact/baltic-defence-cooperation-during-economic-crisis-between-symbolism-and-substance> >

<sup>300</sup> *European Diplomacy and Defense* No.377, 21.12.2010, p.2.

### 4.3 Latvia

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		13.01	16.05	21.11	23.04	18.54	17.84
GDP per capita, euro tsd.		5.66	7.01	9.28	10.17	8.22	7.95
Gross public debt, euro bn.		1.61	1.71	1.91	4.49	6.77	8.11
Gross public debt (% of GDP.)		12.37	10.66	9.05	19.49	36.52	45.47
Net lending (+) or net borrowing (-), euro bn.		-0.05	-0.07	-0.07	-0.96	-1.90	-1.38
Net lending (+) or net borrowing (-), % of GDP		-0.39	-0.46	-0.32	-4.16	-10.25	-7.73
Defense budget, euro bn.		0.22	0.25	3.18	0.37	0.24	0.19
Defense budget, % of GDP		1.68	1.57	15.07	1.61	1.31	1.06
Military personnel	Armed forces	5,238	5,238	5,339	5,696	5,187	5,745
	Gendarmerie	n.a.	n.a.	n.a.	11,034	11,034	n.a.

Latvia's military posture focuses on asymmetric threats and interestingly does not allude to a perceived threat emanating from Russia as do its neighbours Estonia or Lithuania.

In Latvia, the government was forced to approach the IMF for emergency financing in return for implementing an austerity budget. The reduction in state spending resulted in a 21% cut in the 2009 defence budget.<sup>301</sup>

The reform of the armed forces has begun in 2000 and is planned to be carried out until 2012. Its main aim is to improve contributions to NATO and international missions. Key reform mechanisms are the transformation of the armed forces to an all-professional force that will be expanded to attain up to 750-1000 troops for sustainable operations. The Latvian armed forces are also undergoing restructuring and specialization of the services. Capability priorities encompass C4, mobility, deployability, sustainability and effectiveness.<sup>302</sup>

The defence cuts led to a temporary pause in the 12-year, long-term defence plan implemented in 2001, designed to produce a professional, highly competent force providing niche capabilities in the areas of medical response, military police and engineering support. In order to continue with its commitment in Afghanistan, Latvia will end its participation in NATO- and EU-led military missions in Kosovo and Bosnia-Herzegovina.<sup>303</sup>

<sup>301</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

<sup>302</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

<sup>303</sup> International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

#### 4.4 Lithuania

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		20.87	23.98	28.58	32.29	26.51	26.89
GDP per capita, euro tsd.		6.11	7.06	8.47	9.61	7.94	8.17
Gross public debt, euro bn.		3.85	4.33	4.84	5.03	7.81	10.06
Gross public debt (% of GDP.)		18.45	18.06	16.94	15.58	29.46	37.41
Net lending (+) or net borrowing (-), euro bn.		-0.10	-0.11	-0.29	-1.06	-2.43	-2.25
Net lending (+) or net borrowing (-), % of GDP		-0.50	-0.45	-1.01	-3.29	-9.18	-8.36
Defense budget, euro bn.		0.27	0.28	0.33	0.37	0.34	0.21
Defense budget, % of GDP		1.27	1.17	1.16	1.15	1.27	0.80
Military personnel	Armed forces	13,510	13,510	12,010	13,850	8,850	8,850
	Gendarmerie	15,140	14,600	14,600	14,600	14,600	14,600

Lithuania perceives threats emanating from Russia's military capabilities in its immediate vicinity as well as from asymmetric threats. Reforms of the armed forces began in 2002 and are scheduled to finish by 2014. Reforms seek to restructure forces and increase the number of professional soldiers (up to 1000 troops for sustainable operations by 2015). Capability priorities are strike effectiveness, deployability, sustainability, survivability and C2.<sup>304</sup> The Lithuanian government seeks to increase its contributions to international crisis management to address its threat perceptions and abide with NATO obligations.

Lithuania cut its 2009 budget by 9% -first defence cuts since 1999. Defence spending was 1.2% of GDP in 2009- the lowest of any NATO country but Lithuania is also in the midst of one of the steepest economic decline among NATO members.<sup>305</sup> The defence budget was cut by a further 36% in 2010. As a result of such dramatic cuts the Ministry of Defence has been forced to cancel its plan to reintroduce national military conscription (resurrected in reaction to the 2008 Russia-Georgia war); withdraw forces from overseas missions such as Kosovo; impose salary reductions for officers; cut training schedules; and defer payments, though some procurement programmes have been unaffected. Programmes that will still proceed include the delivery of a final C-27J transporter, a third StanFlex 300 patrol ship, two ex-Royal Navy mine-hunters, off-road trucks and rifles.

However, as funding for these items will wipe out the chance of any further purchases in the medium term, Lithuania has stepped up its consultations with its Baltic neighbours and Poland in an effort to pool resources for joint procurements to economize and drive down operating costs.

The new budget will reduce spending for light arms and surveillance equipment by 8.5% (€35m), personnel supplies by 6%, maintenance by 16.7%, communications by 7.5%, transportations by 20.8%, and facilities maintenance by 68.8%.

<sup>304</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

<sup>305</sup> NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis>>

## 4.5 Luxembourg

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		30.28	33.92	37.49	39.64	38.04	40.29
GDP per capita, euro tsd.		65.15	71.83	78.14	81.21	76.50	79.80
Gross public debt, euro bn.		1.84	2.27	2.50	5.40	5.53	7.32
Gross public debt (% of GDP.)		6.07	6.68	6.67	13.61	14.53	18.16
Net lending (+) or net borrowing (-), euro bn.		n.a.	0.46	1.39	1.18	-0.27	-0.71
Net lending (+) or net borrowing (-), % of GDP		n.a.	1.35	3.70	2.98	-0.72	-1.76
Defense budget, euro bn.		0.21	0.20	0.26	0.12	n.a.	n.a.
Defense budget, % of GDP		0.69	0.60	0.70	0.30	n.a.	n.a.
Military personnel	Armed forces	900	900	900	900	900	900
	Gendarmerie	612	612	612	612	612	612

Luxembourg's defence budget for 2011 amounts to €71.5m.<sup>306</sup> Luxembourg seeks to increase contributions to crisis management missions and is specifically driven by international missions. Key mechanisms for reform are the reform of the military command and training center as well as the modernisation of equipment and joint procurement. Capability priorities are C3, air- and sealift, vehicles as well as small arms and ammunition. The level of ambition and time frame of reforms remain unspecified.<sup>307</sup>

Due to its limited resources, Luxembourg places a special focus on developing niche capabilities. Increases in its internationally deployable military capabilities such as reconnaissance for NATO and EU missions are its key priority. The military and training structure is being revamped. A new military center was set up in 1997 (Centre Militaire de Diekirch), which comprises a headquarter, two operational companies (incl. reconnaissance and anti-tank units), administrative units, logistics support and one military academy.<sup>308</sup>

## 4.6 Malta

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		4.79	5.13	5.48	5.74	5.75	6.11
GDP per capita, euro tsd.		11.88	12.63	13.40	13.40	13.92	14.77
Gross public debt, euro bn.		3.36	3.25	3.38	3.38	3.95	4.30
Gross public debt (% of GDP.)		69.99	63.41	61.66	61.66	68.65	70.44
Net lending (+) or net borrowing (-), euro bn.		-0.14	-0.14	-0.12	-0.12	-0.22	-0.26
Net lending (+) or net borrowing (-), % of GDP		-2.96	-2.96	-2.28	-2.28	-3.77	-4.19
Defense budget, euros		20mio	20mio	10mio	10mio	40mio	n.a.
Defense budget, % of GDP		0.34	0.34	0.25	0.25	0.63	0.61
Military personnel	Armed forces	2,237	2,237	1,609	1,609	1,954	1,954

Malta remains militarily non-aligned and perceives no imminent conventional threat to national security. International terrorism, migration, human- and drug-trafficking and the potential spill-over of

<sup>306</sup> Memorial, Journal Officiel du Grand-Duché de Luxembourg, A-No.249, 31.12.2010, Section 01.06 Défense Nationale, S. 4291

<sup>307</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

<sup>308</sup> Op.cit., p. 53.

instability from failed states, however, represent Malta's primary perceived threats.<sup>309</sup> Given the small size of its population and economy, resources for defence remain limited. There is no Defence Ministry.

The chief missions of Malta's armed forces are peacetime security missions, territorial defence, crisis management and peace-time diplomacy. Malta pursues a reform of its armed forces to counter asymmetric threats on the basis of existing capabilities (infantry platoon plus headquarters element for EU missions). Its overall goal is to strengthen peacetime security missions in the Mediterranean. Malta's reforms are thus chiefly driven by its immediate security environment and seek to focus on the modernization of existing capabilities (Special Operation Forces and maritime patrols).<sup>310</sup>

#### 4.7 Slovakia

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	38.49	44.57	54.90	64.57	63.05	65.97
GDP per capita, euro tsd.	7.14	8.27	10.17	11.94	11.64	12.18
Gross public debt, euro bn.	13.40	14.70	16.32	18.62	22.33	27.76
Gross public debt (% of GDP.)	34.82	32.98	29.72	28.84	35.42	42.08
Net lending (+) or net borrowing (-), euro bn.	-1.08	-1.41	-0.99	-1.35	-5.00	-5.43
Net lending (+) or net borrowing (-), % of GDP	-2.81	-3.17	-1.81	-2.09	-7.93	-8.23
Defense budget, euros	70,000	80,000	80,000	100,000	n.a.	n.a.
Defense budget, % of GDP	0.00017	0.00017	0.00015	0.00015	n.a.	n.a.
Military personnel						
Armed forces	20,195	20,195	15,223	17,129	17,445	16,531

Slovakia virtually rules out a direct threat against its national territory, but considers WMD terrorism, failed states, regional conflicts, organized crime, vulnerability of data and communication systems, illegal migration, ethnic conflicts and natural disasters as potential threats to its security.<sup>311</sup>

After a major indent in defence expenditure in 2007, the defence budget was corrected upwards again by 11% from the year before and has remained roughly correlated to economic performance since then. In 2009, the defence budget was cut by about €100m as a direct consequence of the financial crisis. A recovery expected for 2010 did not materialize and no increases in defence spending are expected before 2012. These increase will in all likelihood represent only a modest return to pre-recession levels.<sup>312</sup>

The defence budget for 2011 amounts to €76m, which corresponds to a drop of €6.3m from 2010. The Defence Ministry has already delayed plans to purchase new aircrafts, and the government recently announced it will seek savings of almost €332 million across the public sector.<sup>313</sup>

Reforms of the Slovak armed forces started in 2001 and are scheduled to last until 2015. Its main thrust is move away from territorial defence and to downsize force levels to achieve a smaller force with increased forces projection capacity to be a more reliable partner in international missions.<sup>314</sup> Slovakia places emphasis on providing niche capabilities.<sup>315</sup> By 2015, Slovakia aims to be able to field up to 900-1,150 troops, for ad hoc high intensity operations under NATO collective-defence provisions (up to

<sup>309</sup> Op.cit., p. 69.

<sup>310</sup> Op.cit., p. 36.

<sup>311</sup> Op.cit., p. 60.

<sup>312</sup> Defence budget (Slovakia), *Jane's Sentinel Security Assessment—Central Europe and the Baltic States*, February 2011.

<sup>313</sup> NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial,crisis>>

<sup>314</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 38.

<sup>315</sup> Op.cit., p. 60.

brigade size), for crisis-management operations under NATO or EU command (battalion-sized contribution) and for long-term, small-scale humanitarian missions and peace support operations (company sized).<sup>316</sup> Slovakia's reforms are based on the development of an all-professional force, equipment modernization and improved training. Its priorities are Communication and Information Systems, lift, improved logistics, and armoured vehicles.

Since mid-2008, Slovakia has steadily increased its share of deployable troops to the ISAF mission in Afghanistan, KFOR in Kosovo, ALTHEA in Bosnia and Herzegovina, UNFICYP in Cyprus, and the UNTSO observer mission at the Lebanese, Syrian and Israeli borders. Slovakia has made a concerted effort to increase troop strength in Afghanistan from 70 in June 2008 to the current level of 246. Slovakian defence funding will continue to focus this year on personnel, training readiness, and equipment and infrastructure modernization.<sup>317</sup>

#### 4.8 Slovenia

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		28.76	31.06	34.57	37.30	35.38	35.85
GDP per capita, euro tsd.		14.37	15.47	17.12	18.42	17.31	17.63
Gross public debt, euro bn.		7.76	8.29	8.08	8.39	12.52	14.60
Gross public debt (% of GDP.)		26.98	26.69	23.37	22.49	35.38	40.72
Net lending (+) or net borrowing (-), euro bn.		-0.41	-0.40	n.a.	-0.67	-2.06	-2.08
Net lending (+) or net borrowing (-), % of GDP		-1.43	-1.30	n.a.	-1.79	-5.82	-5.81
Defense budget, euros		400,000	450,000	530,000	n.a.	n.a.	n.a.
Defense budget, % of GDP		0.00140	0.00145	0.00152	n.a.	n.a.	n.a.
Military personnel	Armed forces	6,550	6,550	6,550	5,973	7,200	7,200
	Gendarmerie	4,500	4,500	4,500	4,500	4,500	4,500

Slovenia also virtually rules out a major conventional conflict affecting its territory and focuses its threat assessments on the proliferation of WMD, international terrorism, failed states and mass migration.

The economic downturn has compelled the Slovenian Defence Ministry to make draconian reductions in defence spending. The mid-term Defence Plan for 2007-2012 initially anticipated defence expenditures reaching 2% of Slovenia's GDP by 2009; however, Slovenia will unlikely be able to achieve this mark. Instead, the defence budget is to be cut from 1.55% of GDP in 2009 to 1.25% of GDP in 2012. This means that funds for modernization will be cut in half. Due to budget cuts, the growth of the number of soldiers is slowing down and the number of officers is being cut.<sup>318</sup> In March 2009, Defence Minister Ljubica Jelusic announced that the defence budget would be further cut and would only grow by 5.36% from 2008. Since 2007 the defence-spending percentage of GDP has been steadily declining.

Slovenia has begun to reform its armed forces in 2006, which should be finished by 2012. Its aims are to increase deployability and interoperability as well as to increase force projection to enhance its contributions to international missions. Slovenian defence spending is heavily concentrated on efforts to transform the military from a conscript-force to a fully professional NATO-compatible service. The reduced defence budget since 2007 has been translated first and foremost in the stretching, indefinite postponement and even cancellation of procurement projects. New acquisition is only selectively planned. No major cuts have been made to personnel numbers, however. The financial squeeze has

<sup>316</sup> Ibid.

<sup>317</sup> NATO, *Commitments to operations and missions: The Slovak Republic*, 07.04.2009, see < <http://www.nato.int/issues/commitment/docs/090407-slovak-rep.pdf> >

<sup>318</sup> 'MoD meets goals in first two years despite budget cuts', *Slovenska Tiskovna Agencija* 01.12.2010.

bogged down ongoing reform efforts. In April 2010, a new national Security Strategy was adopted, but in light of the current financial situation, the implementation of its ambitions seems unlikely.

By 2015, Slovenia wants to be able to field up to 750-1,000 troops for one year. Besides downsizing, the main axes of reforms are to achieve an all-professional force and to modernize equipment through increased defence spending with increased investment. Capability priorities are C2, deployability, mobility, combat effectiveness, sustainability and survivability.<sup>319</sup> Recent ministry activity includes the purchase of new combat vehicles for €438m; stabilizing personnel costs at around €210m; and increasing funds for operations from €70m in 2005 to €180m by 2010.<sup>320</sup>

The implications of austerity measures for Slovenia's international obligations are severe: Slovenia will not be able to pay its membership fee to the UN in 2011 and will have to cut down on cooperation in international representative offices, cut funds for staff at its missions, bring down the number of people sent to international operations and missions and reduce the army at home.<sup>321</sup> Yet to date, no details on troop-withdrawal are currently known. Slovenia has integrated a small contingent of American soldiers in its first Slovenian-led OMLT in Afghanistan and heavily relies on American materiel (e.g. protected vehicles). Slovenia engages in closer defence cooperation with Serbia, Croatia, Macedonia and Austria.

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<sup>319</sup> Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 38.

<sup>320</sup> NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <  
<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis> >

<sup>321</sup> 'Funding Cuts Affecting Slovenia's International Obligations', *Slovenska Tiskovna Agencija*, 14. October 2010.

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