

European Defence in Times of Austerity: Are Budget Cuts a Threat or an Opportunity?

Madariaga Report – 16 July 2013

European countries' defence budgets are shrinking under the pressure of the spending reviews, in contrast with a global defence expenditure that is on the rise and the multiplication of common security threats. However, many stress that budgetary cuts might prove an opportunity to speed up the defence integration in Europe through pooling and sharing and smart spending, as witnessed by many bilateral agreements within the EU aimed at reducing fixed costs such as redundant personnel and infrastructure. But is there the concrete risk that joint defence could be used as a pretext for less defence? How will this affect the consolidation process envisaged for the EU's defence industry in the years ahead? And above all, how to overcome national resistance to pooling and sharing without the concrete identification of basic common interests, as witnessed by the Libyan experience?

A Citizen's Controversy with

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Jo Coelmont declared that budget cuts are nothing new, but the topic of the debate is of utmost importance considering the geostrategic environment today. The question is how this situation must be evaluated. Is it serious? Is it dramatic? Or does it only appear that way when in fact there are possible solutions within reach? In Coelmont's opinion, there is a way out.



The context does matter. In the late 1960s to early 1970s, the budgetary situation of the Belgian Armed Forces was described as being extremely worrisome. At that time NATO had established that countries should spend at least 4% of GDP on defence

issues, and only a fistful of member countries were doing so. The context at that time was, of course, the Cold War and the arms race where it was more about superiority of capabilities than about balancing the capabilities.

In the 1990s, after the fall of the Berlin Wall, budget cuts were called the 'peace dividend'. Defence spending saw the most dramatic cuts since World War II, and the environment was changing. The Agenda for Peace meant that the military no longer stayed in the barracks or on the air bases but went on crisis management operations first for the UN, then NATO, then the EU. This increase in activity was in contradiction with the budget cuts.

The events of 9/11 brought in another era. Budgets increased in the US but not in Europe. Yet, during that period, Europe deployed around 80,000 military at a given point in time to distant countries such as Afghanistan, Iraq and other

areas where Blue Helmet operations were taking place. The context at that time was the war on terror.

Now we come to 2013: what is our geostrategic context? It is difficult to say without the historical distance, but imagining that we are looking back on this year from the future, how would the world of today be described? Would austerity come to mind? Probably not. People looking back on 1913 before World War I broke out would likely say that it was the brink of a whole new reality of a whole new world. That is possibly what is being witnessed today. We are in a period in which there is a major shift of power occurring and we know from history that these moments in time are particularly dangerous. Many scenarios can be developed during these kinds of periods and the only promising scenario is a world of more permanent structured international cooperation – not among small countries, but among entities the size of continents. This is the world we live in today.

In this new strategic environment, all the paradigms for European defence are shifting. The first shift is that after four decades, defence has finally been accepted as being part of the European integration process. The second paradigm shift is the US pivot: it was long believed that if Europe had any shortfalls on the strategic side in crisis management operations, then NATO, i.e. the US, would come to the rescue. Although Washington is still a strong supporter of Brussels, the US is now expecting the EU to deliver its own capabilities.

The third shift refers to Europe's system of national defence planning. Most European countries have defence planning that is mostly focused on tactical capabilities, neglecting the strategic ones. This explains why, in recent years, Europe has been able to deploy so many military to faraway countries for such a long period of time. Europe does not have any problems tactically. But as was learned in Mali and Libya,

modern crisis management requires strategic enablers. Europe's weakness in this area has therefore brought about a paradigm shift in defence planning from tactical to strategic. The difficulty is that the current system of national defence planning is not fit to deal with an issue as significant as strategic enablers. Another system is needed.

How has Europe reacted to these new realities and new paradigms? Simply by putting forward pooling and sharing. This slogan was only launched because the original project, namely establishing permanent structured cooperation, failed. Pooling and sharing was second best – at best. Furthermore, it is not a system that will save money but an instrument for obtaining a higher level of effectiveness with the scarce amount of resources available by pooling and sharing them. It is about having more input for the money spent and usually the input has to be increased, so it is not about savings. The net result of a study looking at the potential yearly savings for pooling and sharing found that in the best case scenario the savings would represent about 10% of the annual budgets, i.e. this system will not save Europe.

Another observation that can be made with regards to the pooling and sharing programmes is that they all remain on the tactical level and do not address Europe's strategic shortfalls. There is one example in Europe of two countries pooling and sharing some strategic capabilities, namely France and the UK through the Lancaster House Agreement. But although the agreement was made with the best of intentions, it is not easy to turn those intentions into action because this requires money. The UK is recovering from two simultaneous wars, in Afghanistan and Iraq. So while the money might be there, it is perhaps serving other purposes for the moment. There are also political views that come into play: the UK is more oriented towards the US than Europe, and because France wants to keep the UK on board, it respects this position and is not pursuing more

permanent structured cooperation in the EU context. The net result is that Europe is waiting.

Pooling and sharing is not a new idea. It was explored in the 1970s with the Benelux agreement. There was an agreement between France and Germany for decades through the Franco-German Brigade, which later became the Eurocorps. So it seems that the slogan 'pooling and sharing' is currently being used to camouflage the fact that Europe is simply muddling through and that it is business as usual.

Pooling and sharing has, however, a great deal of potential. In several pooling and sharing programmes the integration goes so far that the countries involved are no longer inclined to establish their own defence planning in secrecy. The countries would feel the need to approach their partners and discuss defence planning and long-term projects, perhaps even harmonise on subjects like satellites, eventually developing a single joint defence planning structure. There are islands of cooperation in Europe and there is room for more, but what is really needed is a continent of cooperation.

Pooling and sharing is more about muddling through. It leads to a standstill especially on the issue of strategic enablers and consequently it may cause a standstill in CSDP – yet there are reasons to remain optimistic. This is because the continent of cooperation is not only within reach but it is in the making. This optimism can be justified by looking at all the other policies developed so far in the European Union: from the Coal and Steel Community to economic governance, monetary union, banking union, and so on. In each case the EU used two building blocks: *la méthode Monnet* and the principle of subsidiarity. The former – born after the rejection of the European Defence Community – provided the basis for defence to find itself back on the agenda four decades later. The political ability to implement the principle of subsidiarity in the European Union first requires that it be more efficient to apply it at the European

level; second, that there be a significant amount of damage experienced; third, that it be of a magnitude which can no longer be hidden in a political environment or before the public opinion; fourth, that the politicians become desperate; but the transfer can only take place with the fifth phase, when the politicians accept that there is no other option than to transfer defence to the EU.

The situation that Europe is currently in with regards to defence is that most politicians are already at level four: they are desperate. Some are already at level five. Austerity played a role in pushing Europe to level four and the geopolitical environment will likely cause the continent to take the final leap from level four to five, mainly because of the US pivot, leaving Europe no other option than having defence at the EU level. The question, therefore, is not will it happen but when will it happen.

The first major opportunity for discussion of this possibility is the Council Summit in December. Defence has been placed on the agenda, meaning the political risk has already been taken. In doing so, the bottom-up approach that has so far been used for European Security and Defence policy will now receive top-down steering for the first time. It is high time: in order to mount crisis operations there must be some cooperation beforehand and not simply left to improvisation as has been the case in the past.

There will be three main issues for the December Summit, the first of which is operations. To increase the effectiveness and visibility of CSDP operations, it must be ensured that these are part of an overall EU Security Strategy. Secondly, concerning capabilities, Europe needs permanent planning and control structures and adequate stand-by forces. The former does not require any money because the competences to create such a centre already exist. The latter will not cost anything either because they also exist in the form of the EU Battlegroups and NATO's NRF – but as one is too small and the other is too large, what is

needed is something in between. The stand-by forces should be able to be utilised in NATO or in the EU depending on the crisis at hand; what is needed is a security compact to replace the Berlin+ arrangement. Moreover, if member states take ownership of a Global Security Strategy, this will be the catalyst to ensure that defence planning will slowly and surely move from an individual to a common concept of strategy. Thirdly, the industry is another important aspect in the discussion and here the role of the Commission and of the EDA is absolutely vital.

Strategy is an extremely important issue for Europe to address. It is about spending and how to spend. Theoretically, the current spending of the member states combined is enough to do the job, because Europe's redundancies today outnumber its shortfalls. But if Europe continues with the 'business as usual' attitude and engages in additional austerity, then even theoretically it will no longer be possible. A sense of urgency is absolutely justified and the message for the December Summit is clear: defence matters and now is the time to act. But as has been the case with all other EU policies, Europe will step into action somewhere between 'just in time' and 'just too late'.

Nathalie Errard clarified that EADS is a great supporter of European defence. It was originally built to contribute the best aerospace assets in Europe and, with €12 million in sales, it is number two in Europe in defence. EADS is delivering flagship military programmes,



tankers, air lifters, attack helicopters, military transport helicopters, proving that Europe can deliver cutting-edge technology and can perform on the export market. The defence industry has adapted well to changing environment and market conditions over the last twenty years. The aerospace sector in particular saw a stream of mergers and consolidations and through integration much has been learned about working together. All of this leads the industry to feel that it is ready for the next level of European cooperation on defence. However, it is first necessary to understand why the defence industry matters, why this industry is in danger, what the political answer is and what can be improved.

The defence industry matters because it enables the security of European citizens, of assets and of critical information. There is not the same level of strategic autonomy if equipment is bought off the shelf than if it is developed. Europe needs to define its level of strategic autonomy towards its allies. On the economic side, the European defence industry is worth €94 billion and is therefore a major sector generating innovation and employment. The industry directly employs about 400,000 people and generates up to 900,000 indirect jobs. There are also synergies with the commercial side, especially on the technology front as major breakthroughs on the commercial aircraft market came from the defence industry. It is an essential sector to retain if Europe wants to remain a leading global power in manufacturing innovation. It is at the heart of Europe's economy as it contributes to growth, jobs, innovation and research.

Unfortunately, this long endeavour to create a European defence industry is in danger. The financial crisis triggered harsh cuts to the defence budget. From 2001 to 2010, the EU defence spending declined from €251 billion to €194 billion. Between 2005 and 2010, there was a 14% decrease in European R&D budget, making it unsurprising that the US now spends seven times more on R&D than all European member states

combined. The export market does not offer much potential either because the US and EU still account for 80% of global defence spending. Although the BRICS have impressive growth figures, the markets are hard to access. Furthermore, they want to be independent and for their own industry to deliver their needs, plus there is a growing demand for technology transfer. Therefore the EU can no longer continue providing the same equipment to the BRICS or Korea; these countries want technology transfer to be able to manufacture their own equipment. So the traditional defence export model where equipment was only sold abroad is almost dead. If the current trend persists, 12% of the EU's overall defence spending will have disappeared by 2017, i.e. the equivalent of the entire current defence budgets of Poland, Spain and the Netherlands.

Furthermore, there is a fragmented market in Europe and collaboration is the exception. Seventy-five percent of equipment procurement is still conducted nationally. There are some bilateral programmes but there are not even any European-wide initiatives on the horizon. Also, prices in Europe are probably 30-40% too expensive compared to its export potential. In a nutshell, Europe's industry is facing the risk of losing key skills and expertise, putting its strategic autonomy in danger.

Some projects have been launched – the European Defence Agency was created, the Small Defence Initiative by NATO, pooling and sharing by the EU – but unfortunately these initiatives will have little effect if they are not implemented. There will be a significant downsizing of the European defence technological and industrial base if action is not taken. Furthermore, the lack of new programmes is accelerating the brain drain from defence to commercial. For the EADS Group, where 75% of the activity takes place in the commercial aircraft market, it is difficult to retain the best people in defence. People gravitate to the civil side of business and keeping these people is

probably the biggest and growing challenge for the defence industry.

Defence is a difficult topic to cooperate on because there is a unique link between the governments and the industry. Governments are the primary customers and the defence industry is geared towards their needs. Moreover, governments deal with the export regulations. There is therefore a close partnership on the business model. Having a European defence would be extremely complex. But if no concrete action is taken and if the financial crisis results in increased austerity rather than acting as the catalyst for more cooperation, it would bring about the decline of European industry. For this reason, Europe needs the harmonisation of certification, EU funding for security, a minimum launch of new research programmes and better coordination of national defence strategy so that cuts are not made at the same time to the same capabilities.

The industry has several proposals to offer Europe. The upcoming December Summit is indeed a unique opportunity to make a decision regarding European defence and the industry would hope that it would result not only in a statement or declaration but in concrete and committed actions. One proposal is that Europe would acknowledge that it is necessary to discuss strategic autonomy in the context of a multipolar world. Also, the concept of a European economic operator should be defined, because it is important to ensure that when taxpayers' money is used it is in their own defence industry and not in someone else's.

Secondly, Europe needs to go back to decent funding: 2% of GDP was once a target, hopefully it will be once again, but in the short term defence spending must at least be stabilised. There is a need for multinational programmes to create structural consolidation. This would present an opportunity to agree on new programmes, to harmonise the specifications and be more efficient

in the way that they are certified and managed with a single contact point for both the customer and the industry side. Europe should launch a concrete programme as a test case and learn to manage it efficiently.

Thirdly, the EU institutions need to be empowered, especially the EDA which does not have a serious budget or resources. Some work from national agencies could be transferred to EDA so as to take a step forward on the cooperation front. Furthermore, links between the national procurement agencies and the EDA should be strengthened.

Defence is a difficult topic in Europe but it involves important issues that need to be addressed. If the December Summit fails then it will be a catastrophe for the defence industry with knock-on effects on employment, technology and research. The defence industry will not invest its own money to save European defence, but it can be the horse pulling the wagon. Europe needs to invest and to engage in greater cooperation to protect its strategic autonomy. The industry has confidence in the European project because it has been built over the past decades by the brightest minds in Europe. However, there is a risk that it could be destroyed by the reluctance to act. Europe has to take action soon.

DISCUSSION

During the first round of questions a participant addressed the public opinion's perceived lack of interest in the need for European strategic autonomy. Another expressed surprise at the moderate optimism felt by the speakers considering the many causes for concern. The inefficiency of Europe's spending on defence issues in comparison to that of the US was pointed out as a waste of European taxpayers' money and defence integration could be drawn.

It was suggested that while Europe has many accords and treaties dealing directly with the economy, this framework is lacking on the defence side and therefore contributes to the absence of a European defence. A participant noted that the speakers failed to mention the Commission's Defence Package, which resulted in two directives, and wondered whether these were considered significant or not. Finally, the audience questioned how far the parallel between the monetary

Jo Coelmont addressed the issue of the EU being judged as nothing more than an economic entity in agreeing that this very well may be the view held by the public opinion outside of Europe, but not in the EU. Beyond its borders Europe is viewed solely as a trade partner or an economic entity and not as something to do with security, let alone foreign affairs. The defence role is automatically placed upon NATO. However, according to the Eurobarometer the one policy that has received strong support over the years is European defence. This demonstrates that the public opinion has a much more favourable view of the system of subsidiarity than is thought. The public opinion understands that defence should be at the European level if the continent wants to be a world leader.

An attractive new narrative for the European Union is indeed absent, but the public opinion in Europe seems to know what defence is all about – that it is about maintaining the European way of life in a globalised world. If the public does not know much about European defence and only has simple views on the subject, perhaps this is a weakness that can be attributed to poor communication by the European defence itself.

It is understandable that there are concerns and frustrations about the state of European defence today. But any growth that has taken place in this sector has been as a result of collective frustration. The massive frustration as a result of what happened or did not happen in Yugoslavia or Iraq

caused Europe to think differently about its defence. If there is significant frustration today then it can be a source of action if it is properly oriented.

The EU once tried to have a European Commissioner on top of a European Defence Community – and it failed. So now Europe is advancing step by step because the member states are not ready for a dramatic, revolutionary step forward. The current method of going ahead slowly but surely is likely the best considering the circumstances.

Will defence go the same way as the monetary union? The December Summit is only a first step. The key development to hope for is that clear tasks and expectations will be put on the agenda and regularly revisited. The Summit will not yield any major changes but top-down steering is needed to make sure that defence is properly addressed. The bottom-up approach through the institutions, on the other hand, will never bring about the revolutionary step towards integration – it will be brought about by the outside world forcing Europe to do so. This is a good thing because, historically, when Europe has tried to do it the other way around the success was never durable. Policies in Europe often take decades but a common policy for defence cannot wait that long. There must be action.

Nathalie Errard expressed that she is not extremely optimistic about the defence situation in Europe but that it is necessary to maintain some hope, especially as the December Summit is coming up. It is certain, however, that the situation is critical for the defence industry.

On the European taxpayer's money in the field of defence, unfortunately the way that the cooperation programmes are managed makes it difficult to be efficient. There are 26 versions of each programme, meaning there are more versions than customers. As such, the benefits associated with having cooperation programmes are lost. The

same applies when building a common platform as each country wants its own specificities thereby interfering with the daily operations. This is why the industry would not be enthusiastic about another cooperation programme, unless it is properly managed through the harmonisation of the specifications and the structuring of the programme. If these steps are not taken then it leads to a terrible loss of efficiency. More could be done in terms of correctly spending the available money in defence.

With regards to the Commission's Defence Package, the industry welcomes the efforts made towards more harmonisation and common certification. However, it is difficult for the industry to feel comfortable when regulation is adopted without first defining the overall framework and strategy. It is important for the defence industry to understand where Europe is heading. It is difficult to appreciate the regulation by the Commission without knowing what the ultimate goal is, and this is where there is need for political momentum from the different governments. The EU will not be able to move forward without the willingness to create a European defence industry. If this does not take place there could be a tendency to over-regulate. State Aid for R&D in defence, for example, is surprising as there is no such thing in the US or in China. In those countries the way the business model for the defence industry works is that public institutions pay for R&D. It worries the industry when the harmonisation of exports is being discussed at a time when Europe should support its industry in exporting because it is facing a critical situation. The industry welcomes the creation of a single market and the transfer of licenses and the Commission could help in pushing for the harmonisation of specifications and certification, but what is important is for there to be a clear recognition that the defence sector is unique. This is a job for the Council.

During the second round of questions, the issue of whether Europe would be ready to face an external threat if one occurred was brought up, particularly with regard to the situation in Syria. A participant wondered what the ideal outcome would be for the December Summit. Finally, the importance of defining the European economic operator was questioned.

Nathalie Errard clarified that defining the European economic operator is key because if there is support and investment in research and technology at the European level, it must be evident that the companies using this support have their research centres, employment and manufacturing capabilities in Europe. In this area the EU framework is not yet mature but defining the economic operators that could benefit from EU support goes hand in hand with the understanding of strategic autonomy. This is a critical element to add to the regulation toolbox to ensure that the brain power remains in the EU. The defence industry feels a sense of urgency and if Europe takes too long to respond to its defence needs, some skills will be lost permanently.

Concerning Syria, **Jo Coelmont** explained that it is important for there to be a strategy upfront and intervention should take place (or not) as a consequence of this strategy. Europe is currently ill-equipped as it is in a situation where it is not able to intervene and it does not have a strategy.

The ideal outcome for the December Summit would be if the Council were to give a mandate to develop a Global Security Strategy, at least as a concept. It is no good to have a policy without strategy, because one supports the other. Bottom-up without top-down means you stay on the bottom. Europe has the capabilities, insight and building blocks to move forward but there is no common vision. If the vision is to wait until all 28 member states have the same vision, then Europe will wait forever. Instead, the 28 countries should take ownership of a common strategy.

The December Summit will be unable to deliver a strategy, but the High Representative could be asked to come up with a concept and then utilise the EU's instruments. What is needed is a global concept – not a military concept – as a means to a strategy. A global strategy involves the economisation of Europe's security, the Commission, the EEAS, the civil capabilities and goes much farther than the traditional '3D'. Europe needs something compared to the Old Executive Building in the US, with the National Security Council on one floor and the Economic Security Council on another working together to advise the President. This should be part of the concept of defence, which should be attractive to the public.

CITIZEN'S CONTROVERSIES

The *Citizen's Controversies** series of lunchtime debates seek to address one of Europe's most vital tasks: rekindling the citizen's interest in EU matters. Much has been said about the 'democratic deficit', which is now felt to seriously hamper EU progress. This deficit, however, does not stem from undemocratic EU institutions, but from a lack of citizen participation in EU democratic life. Less an institutional deficit, therefore, than a citizenship deficit. The Citizen's Controversies strive to encourage citizens' ownership of the pan-European political debate by securing fair and contrasting views on fundamental EU issues. Each debate confronts different points of view on a given topic to point out options and trade-offs and highlight the political stakes present in each necessary compromise. The objective, in sum, is to enhance the perception of a 'European common good', which is more than the sum of national interests.

* The *Citizen's Controversies* are held under the Chatham House Rule. A report is then published after agreement with the speakers.

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