In its drive to establish EU-wide security of supply for the defence market, Brussels faces protectionism, a flawed notion of European strategic autonomy and mistrust among governments.

On June 28th 2016, the European Union published its new Global Strategy (EUGS) for foreign and security policy. As part of its rather vague call for a “sustainable, innovative and competitive” European defence industry, the strategy stresses the need for European ‘security of supply’ in the defence sector. For national defence planners, security of supply means a guarantee that they will have access to defence equipment, irrespective of the member-state in which their suppliers are located. More concrete proposals for achieving this will be included in the Commission’s ‘Defence Action Plan’, due in the autumn of 2016, which will outline a security of supply ‘roadmap.’ This insight explains the tensions and trade-offs the Commission must consider in its drive to establish EU-wide security of supply.

The EU’s efforts to regulate the European defence market are relatively recent. Before the passing of the EU ‘defence package’ in 2007, security of supply in defence was largely a national prerogative. National production of defence equipment reduces the risk that supplies can be disrupted in times of crisis; and a national defence industrial base that produces innovative technologies and skills can in itself be a military advantage. Moreover, for some extremely sensitive purchases, such as cryptographic equipment or – in the case of the UK and France – components for nuclear weapons, it can be in a country’s essential security interest not to contract with a defence company based in another country.

In reality, however, European governments are finding national security of supply to be increasingly costly – defence equipment prices have risen faster than the general rate of inflation for many years. As the CER has previously shown, European governments have started to spend more money on defence, but rising personnel costs are constraining the amount member-states can spend on equipment procurement and research and development (R&D). At the same time, new systems are becoming more complex and costly. As a result of buying at home, European countries are restricted to procuring fewer major weapons systems, and are finding it hard to sustain an industrial base that can deliver the full range of capabilities. If the EU wants simultaneously to have a common defence strategy, to boost
security of supply and reduce costs, and to incentivise European companies to produce new technology to deliver that strategy, it needs an industrial policy for the EU defence sector.

The ultimate solution is shared defence procurement and development between like-minded European countries. But cross-border co-operation can become the norm only if national defence planners can rely on their allies to supply equipment or components under all circumstances. So far, the EU’s attempts to create an EU defence market – such as the ‘transfer directive’, which aims to make it easier to move defence goods between states – have been half-hearted. They address the symptoms, but not the underlying reasons why an EU-wide security of supply regime is not yet in place. The EU has to consider three trends.

First, national security of supply has become a way for member-states to sustain uncompetitive defence industries as state-subsidised job creation schemes in a relatively high-skilled industrial sector. EU countries buy over 80 per cent of their defence equipment at home. This is inefficient and leads to duplication: the EU maintains 37 types of tanks, 12 types of tanker aircraft and 19 types of combat aircraft. A European defence equipment market that created more competition for defence contracts would bear down on prices and increase interoperability in operations. More inefficient or less innovative companies would lose out to better ones, driving up productivity and innovation.

To counter protectionism the EU passed a directive regulating defence procurement in 2009. The directive requires member-states to publish defence tenders and contracts in the same way as other public procurement projects. But so far, governments have only applied the procurement directive’s provisions to contracts that deal with maintenance and repair, facilities management or the acquisition of equipment with low strategic value. Most major military equipment contracts are awarded without an EU-wide tender.

The EU should be more assertive in enforcing the existing rules. Until now, the Commission’s only response has been a letter to 13 member-states in March 2016, “reminding” them of their neglected obligations under the directive. But because of the sensitive and highly political nature of procurement decisions, there is little willingness among defence companies and the European Commission to contest decisions by member-states and take them to the European Court of Justice. If the Commission is serious about its reform endeavours it should use all the instruments available to it, including the threat of legal action, to ensure member-state compliance.

Second, if the EU wants a European defence market and EU-wide security of supply, it must avoid replacing national protectionism with European protectionism. The EUGS renewed calls for European “strategic autonomy”, meaning that European countries should possess the defence capabilities necessary to conduct their own foreign and security policy independently.

This is a very ambitious goal and a far cry from today’s reality – Europeans rely to a large extent on the United States for their protection. On a political level, the term ‘autonomy’ is in itself misleading, considering that many EU member-states are also members of NATO and thus committed to close transatlantic security ties and collective defence responsibilities. In fact, NATO is pursuing its own security of supply objectives and is currently introducing a new mechanism where the Alliance’s own procurement agency acts as the lead buyer for various allied militaries. In contrast with the EU’s notion of purely European security of supply, however, NATO’s definition includes suppliers in all member-states, including the United States. The first test will be the purchase of precision-guided munitions from the
US. The idea is to avoid the bureaucracy of each NATO member-state applying for a US export licence; instead, the US will issue one licence to NATO, which will then be responsible for distributing equipment to member-states.

NATO’s experience highlights the fact that European defence planners increasingly depend on procuring high-end defence equipment ‘off the shelf’ from third countries, most importantly the US. EU member-states also largely import raw materials necessary for defence component manufacture, such as rare earths, from other non-EU countries including China. But buying ready-made equipment from the US specifically comes with additional benefits. It is often seen by European governments as relatively cheap, and more predictable than relying on EU defence cooperation. It also contributes to closer ties; Central European countries for example may use defence procurement contracts to keep the United States interested in their national security concerns.

Buying ‘off the shelf’, however, involves minimal local technology or intellectual property content. This is problematic because European security of supply depends on having an independent European defence technology and industrial base (EDTIB) which, once lost, would be extremely difficult to rebuild. Governments have recently started to spend more on defence, but there was a big fall in procurement after 2008, with cuts in defence budgets after the financial crisis. To cope, European industries have prioritised commercially more attractive dual-use capabilities – which can be used for both military and civilian objectives – or have shifted away from their home market and focused instead on exports to countries outside the EU, leading them to lose touch with the capabilities that EU states need. At the same time, American needs and those of individual European nations are not necessarily the same. For example, expensive high-end US equipment designed for expeditionary operations may not meet the needs of small eastern European militaries that must focus on territorial defence and manage tight budgets. A Ferrari is not necessary when a Volkswagen will do.

But a pure ‘buy European’ doctrine is not the answer either. Europe’s defence companies want to be at the cutting edge of systems development, which brings in more high-value orders from governments both in the EU and outside it. They do not want to be limited to producing European capabilities for a shrinking European market. At the same time, Europe’s defence industrial base cannot now compete with US technology in many areas, such as stealth capability. National planners should be able to procure the best value and best technology for their money. Attempting to establish a regime of strictly European procurement would increase costs, while removing valuable opportunities for EU and third country researchers to work together. European industries should aim not just to build the most pan-European product at any price, but to build a product that is competitive on the global market.

The EU’s Group of Personalities Report on defence research is right to stress the need for balance between dependency on offshore suppliers and preserving European capabilities and systems ownership. But the 27 member-states of the European Defence Agency (the EU minus Denmark) together spend only €7.5 billion per year on defence R&D. In comparison, the US plans to spend €64.3 billion in 2017. In light of these numbers, the Commission is for the first time getting serious about the possibility of a defence-specific EU research fund. A so-called ‘Preparatory Action’, launching this year, will test different approaches to funding defence research with a limited budget for three years. Successful strategies could then be adopted in the next EU multiannual budget (2021-27).

The EU R&D programme could strengthen the EDTIB by funding research in critical defence technology and encouraging co-operation between European industries. By investing at an early stage in
technologies for which there is demand among member-states but where Europe is currently dependent on external supply, the EU could reduce some of the risks that defence companies take when they embark on long-term projects. Autonomous systems, cyber-defence and maritime surveillance are examples of new technology, in which joint R&D investment would help to build a common industrial base and strengthen EU-wide security of supply.

Finally, security of supply boils down to a question of trust. Recent crises have highlighted the differences in strategic perspectives among European nations, especially over the right approach to a revanchist Russia. A survey last year found that many Europeans were against sending military aid to Ukraine to support the country against Russia. While Ukraine of course is not an EU or NATO member-state, the poll made EU member-states close to Russia feel uneasy. Their concerns appeared even more justified when it emerged that despite treaty commitments to NATO solidarity, voters in several NATO member-states were reluctant to use force against Russia even to protect an ally.

These political trends have implications for security of supply. For example, defence planners in a Baltic state might worry whether a member-state reluctant to provoke the Kremlin would deliver defence equipment to its allies in a crisis. The Commission has taken a legalistic approach to solving this issue, encouraging governments to make bilateral agreements. The EDA has drafted a framework voluntary agreement on security of supply, designed to guarantee supply in order to increase the level of mutual confidence amongst participating member-states.

Ultimately however, the trust that is essential for security of supply grows out of shared strategic priorities and defence interests. The EU Global Strategy establishes the priorities; it should be followed up with an EU defence white book that outlines what the EU wants to achieve militarily, and sets the stage for a new defence industrial strategy that identifies procurement priorities. Europe still has a long way to go to provide for its own defence. But the impossible goal of national security of supply in Europe will eventually be history; European-wide security of supply needs to become a reality.

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