



CENTRE FOR EUROPEAN REFORM

policy brief

Europe's new defence agency

By Daniel Keohane

- ★ By the end of 2004 the EU should have a new defence 'capabilities agency'. The agency's initial impact on EU defence is likely to be small, but it could make a real difference in the medium to long run.
- ★ The first job for the agency will be to pressure EU member-states to spend more on new military equipment and to build a more open and competitive European market for defence goods.
- ★ The agency should also prod EU defence ministries to think more strategically about their long-term defence needs and encourage greater spending on defence research and development.

In contrast to economic policy, the EU has made only stuttering progress towards greater co-ordination of defence policies. This is because governments have traditionally been unwilling to cede sovereignty over their defence policies to a supranational organisation like the EU. But the Balkan wars of the 1990s showed how weak European governments were when they tried to act alone. That experience encouraged governments to work towards a common EU foreign policy, so that they would be better able to act together in future crises. In 1999, the governments agreed to forge an EU defence policy, to support their common foreign policy.

Since then, EU governments have had only mixed results in developing their defence policy. But 2004 is a landmark year. Towards the end of this year, the EU is due to take over the peacekeeping operation in Bosnia from NATO. This mission will be extremely difficult, since the peace between the Serb, Croat and Bosniak communities remains fragile. Bosnia will be a crucial test of the EU's military mettle, much more than the peacekeeping missions to Congo and Macedonia in 2003.

As well as taking on new peacekeeping responsibilities, EU governments are becoming more ambitious over the types of soldiers and equipment they need in their armed forces. In April 2004,

European defence ministers agreed that, by 2007, the EU should be able to use nine 'battle groups', each consisting of 1,500 troops, and deployable within two weeks. Each battle group would be able to draw on extensive air and naval assets, including transport and logistical support. At the moment, only France and Britain could easily put together a battle group. If other EU defence ministries wish to contribute, they will have to buy new equipment. Many of the EU's cash-strapped defence ministries will have to collaborate with each other if they want to make the necessary purchases.

To help them co-operate in purchasing and developing military equipment, EU governments have agreed to set up a European defence agency. The governments are currently finalising the organisational details of the agency, and its first officials should start their work by the end of 2004. The new agency has the potential to have a major impact on EU defence policy.

The problem

The 25 EU governments collectively spend almost €180 billion on defence, second only to the US which spends €330 billion. On paper, that amount of money should be enough to cover Europe's defence needs. But despite these considerable financial resources,

Europeans do not have nearly enough useful military equipment or professional soldiers, because they spend their defence money very ineffectively.

Too much European money is wasted on conscript troops and outdated equipment, which are useless for foreign missions. The US has over 200 long-range transport planes that can carry the heaviest loads. In contrast, EU countries in total have only four such planes – all of which the UK is currently leasing from the US. Even allowing for the fact that Europeans do not have nearly so many global commitments as the US, that number is unacceptably low.

No single European country can afford to buy or develop every conceivable category of weaponry. Governments, therefore, have to combine their resources to acquire major new capabilities. But the record of multinational defence programmes in Europe is poor: they have often been dogged by delays and budget over-runs. For example, the first deliveries of the Eurofighter jet – a four-country venture – arrived in 2003, ten years after the original target date, and massively over-budget. The conclusion is clear: EU governments need to improve greatly the way in which they co-operate on purchasing and developing weapons systems.

The political context

At the Le Touquet summit in February 2003, British Prime Minister Tony Blair and French President Jacques Chirac proposed the creation of a new EU defence agency, tasked with encouraging member states to boost their military capabilities. Other EU leaders offered their support at the Thessaloniki summit in June 2003. The new agency will have three main tasks: harmonising military requirements; co-ordinating defence research and development (R&D); and encouraging the convergence of national procurement procedures.

The idea of a European defence agency is not new. In 1978, Egon Klepsch MEP presented a report to the European Parliament that proposed the formation of a European armaments agency. The EU did not take up this proposal, because the more Atlanticist member-states were reluctant to set up a Europe-only armaments body. But in 1991 a declaration was attached to the EU's Maastricht treaty, calling for the creation of such an agency. Again this proposal made no headway. Britain in particular feared that an armaments agency would create a 'Fortress Europe' that excluded American (and other non-European) suppliers from European defence contracts. The danger in that scenario was that defence ministries would spend their money unproductively on uncompetitive European monopolies.

NATO and a multitude of other Europe-only bodies, such as the Western European Armaments Group (WEAG), have tried for decades to encourage governments to work together more closely in

acquiring and developing tanks, ships and aircraft. But the member-states have repeatedly failed to do so. Governments have traditionally co-operated in armaments projects only on an ad hoc basis. They seldom give much thought to what defence equipment might be most useful for Europe as a whole. This is mainly due to the fact that defence remains the most 'national' of all policy areas, in the sense that EU governments are very reluctant to give up sovereignty to international organisations. Yet many of the current challenges facing European armed forces – such as peacekeeping in the Balkans, Afghanistan and Iraq, or the global threats of terrorism and weapons proliferation – require pan-European responses.

Paris and London both hope that the EU will have more success than NATO, WEAG and other bodies at convincing governments to work together more effectively in the field of armaments. The justification for this hope is that the EU is not just a defence organisation, and has far greater political momentum than NATO. And the EU has influence over a wide range of policy areas that affect the defence industry, such as competition policy, where NATO has no say.

Furthermore, the difference between the new EU agency and earlier proposals is that it would not be similar to a traditional national 'armaments agency', that concentrates on procuring defence equipment. The new body is better described as a 'capabilities agency', since it will attempt to bring together the separate worlds of research, development, and procurement of defence equipment. In addition, the agency will have a political role: it will help to direct and then assess member-states' progress towards meeting their capability commitments. In other words, the agency will provide an overarching political framework for all the existing European cross-border armaments bodies (like WEAG) and projects (such as the Eurofighter jet). For all these reasons, British officials reversed their traditional hostility to an EU role in armaments, and decided with the French to propose the agency in February 2003.

At present, EU countries continue to disagree about what exactly they want from the agency. British officials stress that the agency should focus primarily on pressuring governments to improve their military capabilities – even if that meant governments did not always buy European goods. French defence ministry officials agree. But their counterparts in the French foreign ministry also want the agency to play an important role in helping governments to preserve the European defence industrial base.

Although all EU members may join the agency, they have vastly different defence industries. The major European arms-producing countries (Britain, France, Germany, Italy, Spain and Sweden) account for more than 90 per cent of defence equipment production in the EU. This means that most European countries are primarily consumers of defence goods.

Some of the producers hope that the agency could help them to preserve their defence industrial base by proposing European equipment projects. The United States dislikes this idea because it fears that non-EU suppliers may suffer discrimination. It wants to ensure that American companies can continue to compete for European defence contracts. The consumer countries in Europe agree with the Americans on the need for more open defence markets, but for different reasons. The consumer countries do not feel an obligation always to 'buy European'. From the perspective of a consumer government, competition between European and American suppliers is desirable, because it reduces prices. Denmark and the Netherlands, along with non-EU members Norway and Turkey, plan to buy the Joint Strike Fighter (JSF) jet from Lockheed Martin in the US, rather than European alternatives such as the Eurofighter, the Rafale and the Gripen.

Let's work together

The agency will not form part of any existing EU institution, although it will be headed by the EU's foreign policy chief, Javier Solana. The agency will have around 80 employees, and 12 experts from EU countries are currently thrashing out the final financial, legal and administrative details. The agency will be able to propose ways in which EU countries should work together to fill European capability gaps, including research programmes. It will also co-ordinate those projects. But the agency will not have its own procurement or research budget, so it will not buy equipment or manage multinational programmes. The agency's initial task will be to co-ordinate the existing network of institutions involved in European armaments co-operation.

The new agency will need to work especially closely with NATO. Both NATO and the EU are trying to improve European military capabilities. The agency's proposals on what equipment European defence ministries should buy must complement NATO's ideas. The EU should not compete with NATO for scarce defence money, nor should the two organisations duplicate each others' efforts. In fact, in the area of capabilities, both organisations have so far managed to work with each other in a mutually reinforcing way, by matching their procurement priorities. For example, both organisations agree that European defence ministries should buy more transport planes. The EU's close co-operation with NATO should continue after the creation of the agency.

Another important institution that the agency should work with is the Bonn-based Joint Armaments Co-operation Organisation (known by its French acronym OCCAR), a five-country body that brings together Belgium, Britain, France, Germany and Italy. OCCAR will soon have more members: Spain and the Netherlands are in the process of joining, while Sweden has also expressed serious interest in

becoming a member. Before long OCCAR is likely to include all the major arms-producing countries in Europe. OCCAR's key task is to promote more efficient management of multinational armaments programmes. Its first major programme is the seven-country A400M transport plane, built by Airbus, of which the initial deliveries are expected in 2009. But OCCAR will not form part of the agency. This is because OCCAR's membership and that of the new defence agency will not coincide.

Research and development

Although the agency will not manage equipment programmes, there is much that it could do in the field of defence R&D. EU member-states together spend roughly €10 billion a year on military R&D. France and Britain alone account for about 75 per cent of that figure, each spending roughly 13 per cent of their defence budgets on R&D, compared with the US figure of 15 per cent. Yet only six of the remaining 23 EU governments (the Czech Republic, Germany, Italy, Poland, Spain and Sweden) spend over two per cent of their defence budgets on R&D. Therefore, one of the key tasks of the new agency will be to encourage EU governments to spend considerably more of their defence budgets on R&D.

If the Europeans continue to invest so little in R&D, Europe will not be able to sustain a competitive defence industry. For example, Europe's fighter jet sector will find it hard to compete with more advanced American products like the JSF. EU countries now produce three fighter jets: the Eurofighter, a joint venture between Germany, Italy, Spain and the UK; the French Rafale; and the Swedish-British Gripen. They are all effective aircraft but their technologies are ageing, compared with the latest developments in the US. In the short term, the Europeans lack the resources to develop a European competitor to the JSF. And on present spending trends, the same will be true for future defence systems, such as sophisticated unmanned combat aerial vehicles (UCAVs).

More R&D is also needed to ensure that European armed forces have compatible defence equipment ('inter-operability' in defence jargon). European defence ministries do not have to buy the same products made by one company, but soldiers with different communications systems should be able to talk to each other. During the NATO stabilisation mission that followed the 1999 Kosovo war, American soldiers had secure communications equipment, but their European counterparts did not – they had to use commercial mobile phones to talk to each other.

The Brussels-based Western European Armaments Organisation (WEAO), which is linked to the WEAG, has 19 member-states, and tries to promote cross-border R&D projects. However, WEAO has not made much impact on cross-border research co-operation, nor is it likely to in the future. This is

mainly because WEAO is politically ‘orphaned’ since its parent body, the Western European Union (WEU), is defunct. Governments, therefore, should disband WEAO, and the EU agency should take over its role. The agency does not have its own research budget, but can propose suitable R&D projects in which member-states may want to participate. To help it in this task, the agency will have a budget of around €3 million to conduct ‘feasibility studies’, so that officials can establish whether or not a particular research project is worth pursuing.

Long-term thinking

The EU defence agency should also play a vital role in convincing defence ministries to develop a long-term vision for EU defence. Most defence ministries do not have a sophisticated vision for their own national policies, let alone for EU defence. Agency officials should fill this gap in European defence planning. They should think about which aircraft, vehicles, ships and other sorts of equipment, EU armies would need 20 years from now. This is for two reasons. First, the security landscape in 2025 will be very different from that of today. For example, 20 years ago most European defence ministries had fighter jets that specialised in air-to-air combat, to intercept Soviet fighter planes. Now they have a much greater need for jets that can hit targets on the ground. In 2025 space-based technology is likely to play a much more important role in both military technology and commercial sectors. Therefore one of the main military priorities for EU governments in 2025 could be to protect satellites from attacks.

Second, defence technology can take a decade or more to develop. If European governments want to have the right types of missiles or communications technology in 2025, they should start thinking now about the kinds of equipment they might need. The agency should set up a ‘next-generation committee’, composed of experts from different EU countries to look at what capabilities EU armies could need in 20 years. This committee should work closely with the EU military staff and other parts of the Council Secretariat. It would also need to discuss its ideas with NATO officials to ensure compatibility – and avoid duplication – between the EU’s long-term capability plans and those of the Atlantic alliance.

In addition, the agency should work closely with the European Commission on R&D programmes. Some of the projects funded by the Commission’s annual €4.4 billion civil research budget also have military uses – so-called ‘dual-use’ technologies. For example, the Commission is funding Galileo, a satellite navigation system due to be launched in 2008. Galileo was originally conceived as a civil project, but it could perform some military tasks. Many of America’s ‘smart’ bombs and cruise missiles in the 2003 Iraq war were steered towards their targets by satellite navigation signals. Similarly, European

soldiers on peace-support missions in the Balkans, and elsewhere, could use Galileo to define their positions or guide their munitions.

EU governments are currently negotiating the outlines of the next EU budget, which will run from 2007-2013. As part of its proposals for the next budget, the Commission wants to set up a ‘security research programme’. This programme would be different from a defence research fund because it would focus on threats, like terrorism, that affect a broad range of policy areas. For example, the security programme could fund new technologies, like iris scans, that would make it easier for border officials to identify terrorists. The Commission wants this security fund to have a minimum budget of €1 billion a year (the total EU budget is currently about €100 billion). If national governments agreed to such a fund, there would be a greater need for close co-operation between the EU defence agency and the Commission.

Opening up Europe’s defence market

Another key task for the new agency will be to promote a more open European defence market. Governments have allowed some cross-border consolidation in the defence sector, leading to the creation of companies like the Franco-German-Spanish firm EADS. However, the European defence sector, unlike the single market for other goods and services, remains fragmented into many national markets.

In theory, a common European defence market would allow free movement of most defence goods amongst EU member-states. More cross-border mergers and acquisitions would allow for larger economies of scale and increased competition, which would put downward pressure on prices, particularly for the more advanced kinds of equipment. Defence ministries would be able to buy equipment from the company that offered the best financial and technical package, regardless of its national origin. Keith Hartley, a professor at the University of York, has estimated that a more integrated defence market could save European governments up to €6 billion a year, equivalent to 60 per cent of current R&D spending.

Initial efforts to integrate Europe’s defence market have yielded few results. The six main European arms-producing countries signed the so-called ‘letter of intent’ in 1998. This was supposed to make it easier for cross-border companies like EADS to operate in those six markets, and simpler for those governments to organise joint projects like the A400M. The signatories of the letter of intent do not want to extend its provisions to countries which lack a significant defence industry. They fear that the letter, which covers sensitive issues such as transfer of technology and common export procedures, may have to be altered if too many countries sign up. Even so, the letter has had little

impact, and no multinational institution monitors its implementation.

Since each EU country is a consumer of defence equipment, they should all be prepared to sign up to the principle of integrating Europe's defence market. The agency should push EU member-states to sign a 'code of conduct'. In contrast to the six-country letter of intent the code would be a non-binding political commitment. The code should spell out that EU companies would be allowed to compete for government defence contracts. If a government deviated from that principle it would have to explain its position to the other EU member-states.

The code should also require that if two or more national defence ministries are looking to buy the same type of equipment, they should run their contract competitions jointly, based on the same rules. At the moment a company that is trying to win a helicopter contract in two European countries usually has to cope with completely different sets of rules. For example, one government may require that its local industry receive work worth 20 per cent of the contract price. But the second government could decide that its industry deserves 40 per cent of its money. These differences invariably drive up project costs and cause lengthy delays. The agency should assess whether or not member-states were sticking to the code's principles. To help the agency put pressure on governments it should publish an annual report on the openness of national defence markets.

Because of competing national interests, there are limits to a strictly inter-governmental approach to defence market integration. Thus there is a case for a stronger role for a European institution. The European Commission would like to take on the task of regulating a European defence market. This autumn, the Commission will announce some new proposals to harmonise defence procurement law in Europe. Currently one of the notable exclusions from the Commission's regulation of European industry is defence goods. Article 296 of the EU treaties stipulates that governments can close their markets for goods related to 'essential interests of security'.

But the arms-producing countries are reluctant to give much new regulatory power to the Commission, and have traditionally adhered to a strict interpretation of Article 296. This has prevented the Commission from having a meaningful involvement in the defence market, with the result that governments can protect their national companies from foreign competition. Governments will evidently not allow free cross-border trade in the most sensitive defence goods, such as encryption devices. But many parts of modern weapons systems do not have to be kept so closely under wraps, since a lot of components are available on the commercial market. For example, military information technologies are increasingly adapted from commercial applications. Countries already develop advanced technologies for fighter jets

together. They should be ready for a more integrated market for at least some of the components of these types of equipment.

Therefore, the European Commission should take on a regulatory role regarding the less sensitive types of equipment, such as armoured vehicles, and some components of fighter jets and military ships. It should take advantage of the rules already established in the European single market, to promote, where appropriate, cross border competition and lower prices through a simpler licensing system for transfers within the EU. At a later stage, governments could try to extend these arrangements to the movement of more sensitive goods, for example unmanned-aerial-vehicles (UAV) and cruise missile technology. But even if the EU could take only these first, limited steps, it would be going a significant way towards creating a more integrated European defence market.

Military capabilities are too important to be left to the generals

Perhaps the most important role for the new agency should be political. EU governments are currently discussing a new 'headline goal' – a list of capability commitments that governments should meet by 2010. The EU already has a procurement programme – the European Capabilities Action Plan (ECAP) – which tries to focus European efforts on acquiring particularly crucial assets such as transport planes and unmanned aerial vehicles. But thus far the ECAP has not had much success. The new headline goal should help to revitalise the ECAP process. Helpfully, the agency will evaluate and report annually on the progress of member-states towards meeting their commitments. Regrettably, the agency looks set to keep those reports secret. If they were made public, the agency could 'name and shame' those member-states holding up progress.

There are two other questions about the political role of the agency: how should national governments be involved in the agency; and who should head it? There was some disagreement on what role national defence ministers should play in the agency. Germany and Italy argued that defence ministers are too important to sit in the agency, and should have their own council of ministers, currently they only meet informally. The Germans and Italians also proposed that national armaments directors should have their own committee, separate from the agency. Under that plan, the agency's 'steering board' would consist of mid-ranking officials.

Other countries, such as Britain, opposed the Italo-German plan on the grounds that mid-ranking officials cannot influence national policies in the way ministers can. They wanted to ensure that national defence ministers would have a clear stake in the success of the agency, and pushed hard that the ministers sit on the agency's steering board. It looks as if the British vision will win out. Under the

current plan, Javier Solana, the EU foreign policy chief, will head the agency and chair its steering board. This will consist of national defence ministers and a European Commissioner, and meet twice a year. The EU foreign policy chief can also convene steering board meetings that would bring national armaments directors, defence R&D officials, and capability planners together on a more regular basis.

But there is a danger that Solana will have neither the time nor the resources to look after the defence agency, on top of his many other foreign policy duties. National governments require both foreign ministers and defence ministers. Similarly, EU member-states should appoint a defence deputy to Solana, to head the agency and press defence ministers to meet their promised contributions towards the EU's equipment goals. To be effective he or she would need ample experience of military matters, and the personality to command respect. Former defence ministers, such as Janusz Onyszkiewicz of Poland or António Vitorino of Portugal could be possible candidates. And there is a precedent: in March 2004 EU governments appointed a new deputy for counter-terrorism, Gijs de Vries, who works for Solana. There is no reason why Solana cannot have a deputy for defence policy as well.

Conclusion

In the beginning the EU defence agency's role will appear more 'virtual' than real. It will not have a procurement or research budget to spend on new military equipment for Europe's armies. Instead it will have to concentrate on ensuring that different armaments-related bodies, such as OCCAR and WEAO, all work together more efficiently. Perhaps the agency's most important role in the short term will be to audit member-states' performance on meeting their capability commitments.

In the long run the agency could play a major role in developing and improving Europe's military capabilities. But it will need to convince defence ministries to do three things: harmonise their equipment requirements; develop their long-term thinking on defence R&D; and open up the European defence market. If the new defence agency does manage to improve European co-operation in armaments, those benefiting would include the defence industry, which would become more competitive; the armed forces, that would get badly needed military equipment at a better price; and the taxpayers, who would get better value for money.

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Other CER defence publications

- ★ *A European way of war* Pamphlet by Steven Everts, Lawrence Freedman, Charles Grant, François Heisbourg, Daniel Keohane and Michael O'Hanlon, May 2004.
- ★ *EU defence takes a step forward* Briefing note by Charles Grant, December 2003.
- ★ *Resolving the rows over ESDP* Opinion paper by Charles Grant, October 2003.
- ★ *Why the EU needs a security strategy* Briefing note by Steven Everts and Heather Grabbe, May 2003.
- ★ *Europe needs an avant-garde for military capabilities* Briefing note by Daniel Keohane, April 2003.
- ★ *The EU and armaments co-operation* Working paper by Daniel Keohane, December 2002.
- ★ *What future for NATO?* Working paper by Stanley Sloan and Peter van Ham, October 2002.