

More bang for our bucks

If European armies are to have all the equipment they need, we need to spend more and not waste our current resources. By **DANIEL KEOHANE**

Are Europeans serious about defence, or do they intend to remain dependent on the US? A few months ago, the German ministry of defence had to lease transport planes from Russia and Ukraine to get its troops to Afghanistan, as Germany's own transport capabilities are inadequate. Five years ago, nine European countries, including the UK, agreed that they needed new military transport planes – the A400M – and that Airbus should build them. Today, the project remains clouded in uncertainty, due to

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contractual delays, and the A400M is nothing more than a plywood model. Italy left the project last December, deciding to buy American planes instead. The A400M story is only one example of a disturbing trend across Europe. There is consensus across Europe that new capabilities are needed, but European states are struggling to come up with the goods.

The Kosovo conflict showed just how dependent Europeans are on American military assets. The dominance of the US in the recent Afghan campaign revealed that the transatlantic equipment gap is widening, rather than being reduced. Europeans are finding it increasingly difficult to fight alongside the Americans.

And if the US is occupied with other crises elsewhere around the globe, Europeans cannot always expect Uncle Sam to save the day. This is part of the rationale behind the EU's new defence policy – namely that the Europeans will be able to conduct autonomous military operations. But without new equipment, European soldiers might not even be able to get to the battlefield.

Nato members agreed a programme in 1999 – the

Defence Capabilities Initiative – to focus European procurement efforts on particular needs. It listed 58 priorities, including secure communications systems, improved air and sea transport, and precision-guided weapons. Three years later, fewer than half these programmes have been funded.

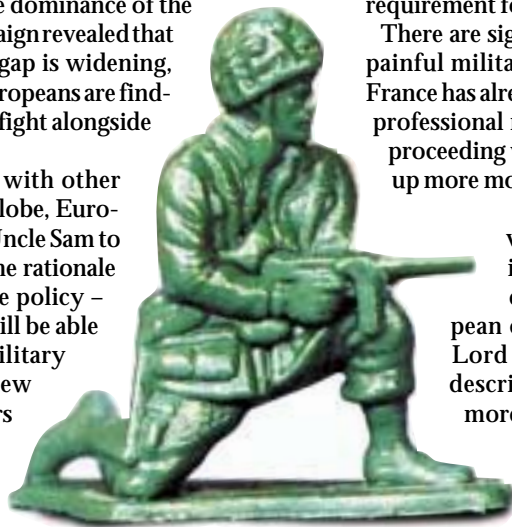
The embryonic EU defence policy also needs new capabilities, and would benefit from a successful Nato programme – most of Nato's equipment goals complement the EU's – but so far the EU, like Nato, has not managed to convince member states to increase significantly the amount of money spent on defence. Yet defence expenditure will have to increase if Europeans are to acquire all the equipment they need. However, despite the campaign against global terrorism, the present political climate and other pressures on public purses do not augur well for defence spending hikes.

Static budgets are only part of the problem. Europeans also waste much of their existing financial and military resources, and need to think imaginatively about using their assets more efficiently. Europeans in Nato spend roughly half of what the US spends on defence, but they do not get near half the US capability. One improvement would be for countries to share more assets. For example, the Benelux air task force combines fighter aircraft from three countries, which can be deployed as a single squadron. Such cost-cutting measures help ensure that different armies can work together – a crucial requirement for a successful military coalition.

There are signs of progress, with some countries pursuing painful military reforms, such as scrapping conscription. France has already moved from a conscription army to an all-professional military, while Spain, Italy, and Germany are proceeding with similar measures. These reforms may free up more money for new equipment.

However, the US government is not convinced that Europe is doing enough to improve its military capabilities, and has become extremely frustrated with the inability of European countries to increase their defence budgets. Lord Robertson, Nato secretary-general, has described European efforts as amounting to little more than “paper tigers” if defence money is not better spent.

While European governments are struggling, industry has been moving ahead. A recent round of mergers and acquisitions has



created new “European” defence companies. They include EADS, a Franco-German aerospace company, and MBDA, a four-country missile manufacturer (which includes BAE Systems of the UK). The idea behind these mergers and acquisitions is to consolidate resources more efficiently, so as to compete better with the might of larger American companies.

American defence firms have the advantage of a bigger market, thanks to the size of the US defence budget – nearly \$380bn in 2002. And since they depend on a single customer and regulatory system, American companies can consolidate their production relatively easily, freeing up more money to invest in research and development. By comparison, an EU company struggles to rationalise its defence production, since it operates in a fragmented defence market with 15 different procurement and regulatory environments.

EU governments need to think more about collective research, development and procurement (RD&P). Funding levels for European RD&P are insufficient for existing needs and unlikely to increase significantly in the foreseeable future. One option

would be to create an EU body – under the guidance of Javier Solana, the EU high representative for foreign and security policy – to pool national contributions for RD&P, taking advantage of economies of scale. The same EU body could set out equipment priorities for European armed forces, stimulating competition among defence suppliers and promoting a Europe-wide market.

Philippe Camus, CEO at EADS, recently urged politicians to create a single European defence market, like the one that exists for civilian goods. A single market for defence goods is unlikely, due to the highly sensitive nature of those defence technologies that governments do not want on an open market. But there are other defence goods that are not so secret – many new defence systems use civilian commercial

products – and could be put on a more open market. Removing some market barriers would help sustain a competitive industrial and technological base across Europe, allowing companies to be more efficient. And a more integrated defence market would save taxpayers money by making it easier for governments to buy some of the best equipment for better prices across Europe, and not have to purchase certain goods solely on a national basis.

EU member states should allow the European Commission to regulate less sensitive defence goods, but without a “European preference” policy. Such a preference practice, favouring EU companies over non-EU firms for defence contracts, is not in the general interest of European industry, if for no other reason than that it would harm prospects for developing relationships with US firms – essential if European companies are to increase their access to the huge US market. As European defence budgets remain flat, getting a foothold in America is critical for the future of defence suppliers in Europe.

Transatlantic defence companies do not yet exist, but there are some joint transatlantic projects. The UK, the Netherlands, and Denmark are all partners of the US government in the Joint Strike Fighter (JSF) programme to build the next generation of fighter-jets. A genuinely transatlantic market would be preferable, but there remain too many political and legal obstacles to ensuring equal access for European defence suppliers in the US, and vice versa.

Even so, Europeans should concentrate on improving their own market environment to make it easier to develop and acquire new military capabilities. Europe’s armies must have much-needed new equipment if they are to carry out the full range of missions expected of them, and taxpayers’ money could be better spent than it is. In other words, Europeans need much more bang for their bucks if they are to play a more effective role in global security.

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