



Refocusing defence

The 2012 EDA annual conference report



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Introduction

The 2012 EDA Annual Conference "REFOCUSING DEFENCE: European Perspective on Defence Cooperation in a Time of Financial Challenge" gathered over 350 senior representatives from governments, parliaments, EU institutions, military staff, NATO, defence industry, academia and media.

The conference provided the platform for a high-level debate on Pooling & Sharing; for increasing the efficiency of the European defence market and the strategic priorities for the defence technological and industrial base; and for generating new thinking on how most effectively to harness available resources.

It concluded that enhanced defence cooperation is the only viable way to overcome the challenge of financial austerity.

Chief Executive's Foreword

The 2012 EDA Annual conference demonstrated the importance of defence cooperation in a time of financial challenge and highlighted the necessity and inevitability of doing more together.

If there is a single striking conclusion that can be drawn from that day, it is the degree of consensus amongst governments, armed forces, EU institutions, industry and academics, about the challenges we face and the solutions we need to apply.

Speakers and participants alike agreed that there is no alternative to cooperation and that urgent and coherent action is required because we cannot afford decline of defence capabilities in Europe: for our security; for a strong transatlantic partnership; for our role the world; and for our prosperity: growth, technology, innovation and jobs.

We all need time to transform what we heard on 31 January into initiatives and action –this report is intended to assist that process. But the challenge is to move swiftly forward and turn the promising concepts into concrete progress. It is not an ephemeral exercise – we need continuous political impetus and sustained commitment to transform ideas into practical developments and effective projects.

I would like to express my gratitude for all the contributions. They are very encouraging for taking forward our shared objectives. The EDA Defence Ministers' Steering Board on 22 March and the NATO Summit in Chicago are important milestones in this respect.



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By Tomas Valasek, Director of foreign policy and defence, Centre on European Reform

Two themes dominated at the European Defence Agency's annual conference on January 31st 2012: the continuing impact of the financial crisis on capabilities and industry, and the effect of the US 'pivot' towards Asia on European security and defence policy. Taken together, the participants were told, those two trends strongly suggest that Europe will have to assume a greater responsibility for its own defence. It will also have to do so in the midst of the worst economic crisis in decades. With defence budgets stagnant or falling, EU defence resources will need to be allocated more shrewdly than ever; defence industry will have to find new sources of revenue, governments will need to seek savings in military collaboration; and the EU and NATO will need to go the extra length to avoid duplicating efforts and resources.

The Head of the Agency, Catherine Ashton highlighted the economic crisis in reviewing the previous twelve months in Europe. "Last year, the debate about defence focused on the financial crisis and we have seen a wave of defence budget cuts across Europe", she said. "Not even the United States was immune." Belgian Defence Minister Pieter De Crem warned that the end to the financial crisis may be nowhere near. "The road to financial stability looks like being a long one". Meanwhile, the risks and threats to Europe are not going away – if anything, Catherine Ashton said: "there is a growing demand for the EU to be present". But EU Member States are meeting this demand with increasingly strained defence capabilities". Pressures on governments to control expenditure remain enormous. "Defence is not and cannot be immune from this pressure" Olof Skoog, permanent chair of the Political and Security Committee, agreed, adding, "their policies are defined by the economic crisis at the same time, demand for EU to do more and will continue to get stronger. We need to be able to assume our global responsibilities whilst showing real value for money"

The US 'pivot' towards Asia and the Middle East adds to the complexity of the task before Europe, many speakers observed. In future joint operations, "the US will expect the Europeans to do more by themselves," the then-US Assistant Secretary of Defense (now Deputy Secretary-General of NATO) Alexander Vershbow said. "Even as our strategic guidance and defense budget advance the importance of Europe being our partner of choice, this does come with an important expectation. The U.S. global commitment – in a European context – is a two-way street. Our broader approach to building partnership capacity with our Allies and partners is about modernizing how the U.S. fulfills its commitments in Europe, but just as importantly, it's about how we share the costs and responsibilities of global leadership together with Europeans" he added. Several speakers warned not to underestimate the seriousness of US intent to reduce its role in Europe – similar US pleas for Europe to assume a greater military burden went unheeded in the past but this time may be different. The pressures on the US defence budget are as great as those in Europe, Lady Ashton noted. The EDA's Chief Executive Claude-France Arnould concluded that "we have to take [the new US strategy] seriously...The US has strategic interests elsewhere that are compelling, and we need to show that we can do things like Libya by ourselves".

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The task before Europe, therefore, is to expand military responsibilities to keep up with the challenges that the external environment and the changing US posture put before it, while also coping with the economic crisis. Closer military collaboration – 'pooling and sharing' – becomes more important than ever. While several members of the audience noted that savings derived from pooling and sharing will never fully offset cuts that European governments have made to defence budgets, deeper collaboration remains the best available way to reduce their impact on European capabilities. "Austerity is a challenge we cannot duck, we must confront and overcome. The only way to do so is through cooperation", Catherine Ashton said. And the fiscal contingency gives the governments new reasons to overcome their reservations. "We have a political impulse, and economical constraints: we must now accelerate. It is of utmost importance that we turn this impulse into concrete results", Claude-France Arnould noted. While governments remain understandably keen to maintain sovereignty in military matters, "it is better to have collective capabilities rather than non-existent national ones", Minister De Crem pointed out.

Work on pooling and sharing is proceeding apace, a number of speakers observed, though much more remains to be done. "Only 15 per cent of procurement money is spent on collaborative projects", pointed out Patrick Bellouard, director of OCCAR executive agency. Swifter progress and new ideas may be needed for the European defence industry to retain its capacity to produce cutting-edge equipment. It has suffered greatly from uncoordinated budget cuts over the past few years, Georg Wilhelm Adamowitsch, managing director of the German Security and Defence Industry, said. "European defence is underfunded, and the governments' attention is on cost saving", he warned. Europe ignores the vulnerability of its industry at its peril. While Catherine Ashton noted that "a capability driven, competent and competitive EDTIB is a strategic and economic necessity", its survival is not guaranteed. "Pooling & Sharing ultimately must result in the pooling of demand. I can only hope that the consequences of Pooling & Sharing will come in time to for our Defence Industrial Base before significant capabilities are lost or transferred to attractive markets outside of the EU" observed Klaus Eberhardt, CEO of Rheinmetall.

How precisely to preserve industrial capacity in the face of budget cuts was the subject of vigorous debate. Two different schools of thought were visible at the conference. Bob Regan of the UK Ministry of Defence presented the new British industrial strategy: "Nowhere does it mention 'sovereignty'", he pointed out. "Its emphasis is on competition and on procuring the best available equipment at the best price, irrespective of the source", he added. Whether such strategy serves the interests of smaller companies, in particular, was hotly disputed by other participants. Daniel Calleja Crespo of the European Commission's DG Enterprise and Industry argued that many European companies simply do not get enough research and technology funds to remain on the technological cutting edge. "We need a proper European industrial strategy", he added. Two possible elements of such strategy were proposed: the EU needs to make sure that European industry is less dependent on non-European sources for key technologies and equipment, noted General Carmine De Pascale,



Italian Armaments Director. And several speakers stressed the importance of fair access for European companies to non-European markets – particularly the lucrative US one. "We cannot open European market to American companies and not have the same access to the US market," noted Klaus Eberhardt.

Behind the occasional differences, several strong points of agreement regarding the state of the industry emerged. The industry in Europe is competent and competitive, noted Domingo Ureña Raso, head of Airbus Military. Or, as the EDA's former chief executive Nick Witney (in the role of a moderator) said: "We still have some first rate industry and technologies; this gives us hope for the future" But to remain so, governments will need to decide on what programmes to keep and defence skills to enhance. As Patrick Bellouard reminded the audience, the capability that exists in European militaries and defence companies is based on programmes that were decided 25 years ago. Similarly far-sighted political leadership is needed today, and so is core support for fledgling initiatives: "The EU is especially well suited to work on dual-use capabilities with the European Commission's funding", Alexander Vershbow added from Washington. Besides a strong commitment to future capabilities, the industry may also need a clearer prospect of its future structure – perhaps a US-style 1990s consolidation is required, noted Klaus Eberhardt. He went on to observe that 'Europeanisation' of the defence industry is a project that dates back to Konrad Adenauer and Charles de Gaulle, and which has, after all, already yielded a notable success in the form of the creation of EADS. It will be a delicate undertaking. The unequal size of European companies makes the smaller among them nervous of integration, warned Gabor Márki, the Hungarian National Armaments Director. "They may want to seek co-operation with other similar-sized enterprises" in order to boost their size and future prospects.

The industry and militaries would also benefit immensely if the EU governments managed to better coordinate and pool their orders. This process starts with "a clearer definition of European security goals and ambitions", Olof Skoog observed, "on the basis of which we reach an agreement on what capabilities are needed for future threats". As next step, "European governments need to pool demand and synchronise their [procurement] timelines", Mr Eberhardt said, "before significant capabilities are lost or transferred outside the EU". The EDA will have a very important role to play, said François Lureau, member of the EDA's Senior Level Experts on pooling and sharing: "it should support the work on the definition of key industrial capabilities and harmonization of the requirements" among participating governments, he added. The end goal must be the emergence of a truly European defence equipment market. Next year will be very important, noted Daniel Calleja Crespo of the European Commission, because it will be the first full year when the two new directives (on defence procurement and intra-European arms transfers) take effect and start transforming the defence market. "The European Commission will do its best to create a single European market on defence," promised Crespo, adding that this will be a top goal for the newly created defence Task Force at the European Commission.

Expanded military exports outside the EU will have to be a part of the European defence industry's response to the economic crisis: "Exports help us sustain capability and to remain competitive", explained Ulf Hammarström, head of the Swedish Defence and Security Export Agency. By creating economies of scale, exports also depress prices for the consumers of defence equipment -- the governments themselves. The downside is that today's importers often become tomorrow's competitors, the participants pointed out: because some purchasing governments do poorly at protecting intellectual property, imported technology is quickly appropriated and re-exported. "There is always technology transfer involved in our exports", noted Mark Fuchs, CEO of OHB AG, a satellite maker. "And countries immediately take the technology and become competitors -- ours are very short lived business relationships." Competitors are no longer far behind Europe, noted Domingo Ureña Raso. "We used to be comparable to the US, now BRIC countries [Brazil, Russia, India and China] as well as Turkey are approaching our level." Ultimately, Bob Regan of the UK Ministry of Defence noted, "the best defence our exporters have against such eventuality is to always remain one technological step of those trying to emulate their technology". Whether European companies can maintain this edge at the time of falling domestic orders will be the big question before the European defence industry



"The European Commission will do its best to create a single European market on defence"





in 2012. At any rate, they will need help from governments such as that provided by Sweden's export agency. "It makes a lot of difference whether we have effective support on the ground," explained Domingo Ureña Raso.

With defence spending tightening everywhere in Europe, Member States will be more adamant than ever that the EU and NATO do not compete and do not duplicate efforts. The EDA and NATO's Allied Command Transformation have gone to extraordinary lengths to make their respective capability initiatives -- pooling and sharing and 'smart defence' - compatible, their chief officers, Claude-France Arnould and General Stéphane Abrial assured the audience. "Not only have individual projects been de-conflicted and made fully complementary", noted General Abrial, but "because both initiatives identified similar challenges, they reinforced each other's message of urgency". The US firm commitment to improving EU-NATO cooperation was stressed by Alexander Vershbow in his remarks. "The U.S.-European partnership, whether viewed through the NATO or the EU lens can help us all transit through this era of austerity" he noted and called to look for more concrete steps towards developing specific cooperative projects.

In summarising the conference, Claude-France Arnould reminded participants of the stakes involved. "Industrial capacity, once given up, is not easily reconstituted", she observed. But the conference's sober tone, shaped by the economic realities, had a distinctly constructive edge. "The past year has also seen a renewed focus on closer European cooperation. This EDA conference therefore reflects this shift in how we want to tackle the challenges we face: by doing more together and doing it better; by looking for greater efficiencies and value for money; by pooling and sharing of military capabilities", stated Catherine Ashton. "This is the only pragmatic way forward given the growing demand for the European Union to become a more capable, coherent and strategic global actor."





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