The European Union and the Challenge Posed by Defence Budget cuts

JEAN-PIERRE MAULNY / DEPUTY DIRECTOR, IRIS

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ABSTRACT

Over the coming years the European Union countries’ defence budgets will be drastically reduced due to the economic crisis and the need to curtail public debt. The scope of these budget cuts and the fact that all the member countries were affected at the same time calls for a coordinated response from the governments. The deferment of programmes and the reduction of orders are measures that run the risk of being insufficient. They may result in capacity inconsistencies which will no longer make it possible to carry out external operation missions or will lead to a loss in technological skills in the defence industry, which would, in turn, jeopardise Europe’s strategic autonomy.

In this context, and knowing that most European countries have decided to revise their strategic documents due to the scale of budget cuts, it is possible to sketch a draft of a European white paper on defence based on pragmatism. This white paper will seek to bring together the national capability models in order to obtain a European capability model.

This entails looking for capability pooling, which seems to have focused on support areas for the forces in operation, logistics, maintenance and training, surveillance and reconnaissance.

It is also necessary to define an industrial capability model, both at the national and European levels. It needs to be geared towards maintaining the strategic autonomy of the European Union while preserving the technological competencies needed to maintain this autonomy at a time when the production of military equipment will have to be reduced. This will require sustaining efforts for research and technology, fostering cooperation over armament and research and technology, and accelerating the rate at which European companies start working together.
The European Union and the Challenge Posed by Defence Budget Cuts

Jean-Pierre Maulny / IRIS Deputy Director

INTRODUCTION

The European Union countries’ budget for 2011 (and beyond) will be a reflection of the economic crisis. At the end of 2009, the crisis in Greece shed light on what could happen when public finances go adrift in Europe. Over the past two years, because of the recession, many European governments have supported their economies while keeping a loose leash on their public spending and letting their deficit grow well beyond the bounds set by the convergence criteria. The rating agencies anticipated these risks and threatened to drop some countries’ ratings. European countries were thus forced to implement economic plans in order to reassure the markets as to their ability to reduce their deficits and to contain public debt.

The time of stimulus plans is over (1). It is now the time of budgetary rigour and governments are turning to drastic measures in order to both increase fiscal revenues and reduce public spending.

In a state’s budget, defence is the only item in which investments account for a considerable amount, as high as a third of the budget of the ministry, as is the case in France. This means that the defence budget is generally an easy target for economy and finance ministries when they seek to reduce public spending, because savings can be achieved swiftly by appreciably decreasing spending on equipment. The upside is that it does not lead to an outcry from the unions or to public indignation. It would be impossible to conduct the same policy with a different public budget without a brutal reduction of public service jobs.

Thus, it is very tempting for public officials to reduce defence expenditure. The effect on jobs in the industry is indirect, because it’s the defence contractors, as opposed to the government, which lays off staff. It is thus politically innocuous. When it comes to elections, it is often easier to support defence budget cuts than social or education programme cuts. This situation was exemplified recently in a poll on “The French and Public Debt” (2), which showed that 45% of people surveyed thought that defence was the sector to focus on to reduce public spending.

Defence budget cuts are thus tempting for politicians, even more so since the first wave of cuts in the wake of the fall of the Berlin Wall did not trigger a major protest.

However, the budgetary overhaul that seems to be taking shape in European countries is very different from the budget cuts of the 1990s, which were deemed to be the “dividends of peace” that marked the end of the confrontation between East and West.

More and more European countries have undoubtedly reached the critical point after which they will no longer be able to sustain some technological fields and conduct a number of missions domestically for lack of sufficient military capacities. The expected budget cuts are thus imposing a radically different approach from the one that European countries implemented in the 1990s. Most of all, a concerted approach between the European Union

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1. In 2009, France’s defence budget had benefited from budgetary appropriation amounting to 1.4 billion euros to anticipate some equipment orders.

member states, as well as with the armament industry, is required. This is necessary to avoid getting to the point where Europe would be weakened over the long term both in terms of diplomatic and military ambitions and of its industrial strategic autonomy.

**BUDGET CUTS: WHAT ARE WE REFERRING TO?**

In early September 2010, it is still too early to give an accurate picture of the budget cuts to come and what their impact may be.

The British are not scheduled to make their new Strategic Defence Review public until October 2010. France will only announce its defence budget on or around September 20. In Germany, more adjudication needs to take place.

However, one thing is certain. Budget cuts are not going to be limited to the year 2011. It is very likely that these cuts will spread over periods of three to five years. Even though some decisions have yet to be made, the data published by non-specialist and specialist media and official statements seem to indicate that budget cuts will be great and have considerable consequences on the equipment, capacities and format of military forces. This paper provides some indication of that effect on those countries that are most important in terms in defence, notably France, the United Kingdom and Germany. The mere mention of cuts in orders or of cancelled programmes is enough to help us gauge the scope of the measures being considered.

**In France**, the defence budget cuts are said to be 3.5 billion euros between 2011 and 2013\(^3\), with an annual budget of about 33 billion euros. For now, no official statement regarding reduced orders or cancelled programmes has been given. Similarly with the numbers of jobs, no new measure has been added to the cut of 54,000 jobs which was decided when the white paper on national defence and security was drafted in 2008. However, launching of new programmes will be frozen.

It is likely that the decrease in budgetary appropriations will be greater than expected, that some programmes will be postponed, and that some orders will be reduced. It might also be tempting to cut jobs once again in order to free additional funds for equipment, even though the current structuring is already imposing severe constraints on the forces.

Also, the “exceptional income” (sale of real estate assets by the Ministry of Defence and sale of radio frequencies), which was initially planned for in the military programming law for 2009-2014, has been delayed, which means the expected amounts cannot be counted on.

In spite of some possible savings on operations, military capabilities will most likely be diminished. One of the questions that is then raised is whether the reduction of budgetary appropriations for equipment will be decided after stock has been taken of the capacity situation or whether the government will be tempted to reduce the orders of equipment based solely on accounting logic, running the risk of ending up with capacity model inconsistencies.

**In the United Kingdom**, the Strategic Defence and Security Review (SDSR) will be made public in October. The first data published in the press and the first public statements set expectations for drastic defence budget cuts. The general objective set by the new British government is to reduce spending by 25% with the upcoming Spending Review over a period of four years ending in 2014/2015. Keeping in mind that the defence budget will be pro-

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3. “L’armée devra économiser 3,5 milliards d’euros sur 3 ans” (The armed forces will have to save 3.5 billion euros over 3 years), LeMonde.fr (with Reuters and AFP), July 1, 2010, http://www.lemonde.fr/economie/article/2010/07/01/l- armee-reduira-ses-depenses-de-3-5-milliards-d-euros-sur-3-ans_1381949_3234.html
tected, Malcolm Chalmers, fellow at RUSI (Royal United Services Institute), estimated in mid-July 2010 that the British budget could be reduced by at least 15% in four years⁴, but this would not be without consequences for the British model of defence.

The budget cuts that are being considered would have great consequences, even though they have yet to be confirmed:

- Reduction of orders for Eurofighters from 160 to 107, in addition to a previous reduction (from 232 to 160);
- Possible cancellation of the air patrol aircraft Nimrod MRA.4 programme;
- Early withdrawal from service of combat aircraft Tornado GR-4;
- Reduction in the number of orders for Joint Strike Fighters (JSF) F-35 from 138 to 50, and possible replacement by an order for F-18 fighters;
- Reduction in the number of armoured and artillery regiments;
- Withdrawal of British troops from Germany⁵.

The United Kingdom will experience a reduction in the format of its armed forces, even though the last cuts were made only in 2004⁶, as well as a reduction in the amount of equipment. Malcolm Chalmers estimates that 30,000 jobs will be cut⁷. The Royal Air Force could bear the brunt and the Chief of the Air Staff has recognised the fact that he would not be able to keep all of the types of aircraft in service⁸.

In a speech given at the Royal Institute of Chartered Surveyors on August 13, 2010, the Secretary of State for Defence, Liam Fox, spoke of a funding deficit of 37 billion pounds (approximately 50 billion euros) over the next ten years. The objectives stated by Dr Fox in his address were threefold:

- Make immediate cuts in the defence budget;
- Make these cuts part of a consistent whole that would become the new armed forces model for 2020;
- Avoid sacrificing the future while trying to achieve a new consistent model for 2020.

In addition, the question of the future of deterrence and its cost is also raised. Although this cost may be proportionally lower than that of France’s deterrence, since the British did not have to develop their Trident ballistic missile which was provided by the US, the Secretary of State for Defence would have liked this cost to be covered by the Treasury. However, his hopes were dashed by the Chancellor of the Exchequer, George Osborne, who put the ball back in the Defence Ministry’s camp.

Finally, a political debate is taking place within the coalition, with the Liberal Democrats and their leader, Nick Clegg, wanting to simply stop the replacement of the Vanguard nuclear submarines and of the Trident nuclear missiles onboard.

In Germany, the defence budget cuts could lead to a measure with major political ramifications: the end of the draft. The draft has been deeply unpopular in Germany since the end of the Second World War. It was designed to be a testament to the democratisation of the armed forces. But since the end of the Cold War, the German armed forces have become smaller and smaller. From 370,000 men in the wake of the “Two Plus Four Treaty” in 1990, which enshrined the reunification of Ger-

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⁵ The British have deployed as many as four armored divisions to Germany since the 1960s as part of NATO programmes. After the end of the Cold War, the British withdrew the majority of their troops with the exception of the first armored division stationed in Münchengladbach. 22,000 British soldiers remain stationed in Germany.
⁶ British Ministry of Defence, Delivering Security in a Changing World: Future Capabilities, July 2004. The format of the British armed forces was reduced by more than 15,000 civilian and military jobs when the British White Paper of 2004 was published.
⁸ "Types will be lost in SDSR, UK air chief warns", Jane's Defence Weekly, 28 juillet 2010
many, it is down to 250,000 today. The latest reform of the Bundeswehr (Federal Defence Force) led to a reduction in the length of the military service to 6 months, which is insufficient to train the conscripts. The idea of universal military service has long been abandoned in Germany, even though alternative military service, in which thousands of young men opt to do social work, is very strong. The end of conscription would reduce the size of the armed forces from 250,000 to 165,000. The adoption of such a reform, which affects the very foundation of German society, would be a great upheaval for Germany.

Overall, the objective of the defence budget cuts in Germany is to save 8.3 billion euros over five years to 2014. The reorganisation of the armed forces, presented by the Minister of Defence, Karl-Theodor zu Guttenberg, on August 23, will naturally lead to reductions in equipment, but not all the consequences have been announced yet. The intervention and stabilisation forces will be reduced to 54,500, compared to 105,000 today (35,000 for the intervention forces, 70,000 for the stabilisation forces). The number of companies of tanks will be reduced from 18 to 12, while the number of light infantry companies will go up from 11 to 43. One of the objectives is to pool the deployment of equipment within the various forces. Thus, the Army’s CH-53 transport helicopters will be transferred to the Air Force, while NH90 helicopters will solely be used by the Army. There will be three Eurofighter squadrons, two Tornado squadrons (including one with multirole aircraft and one with reconnaissance aircraft) and an A400M transport squadron. The size of the Navy, with its 11,500 men, will be reduced by half. As for the equipment cuts that have already been confirmed:

- Reduction of the number of NH90 helicopters from 120 to 80;
- Reduction of the number of combat Tiger helicopters from 60 to 40;
- Withdrawal from service of 206A submarines;
- Withdrawal from service of 4 out of the 8 Bremen frigates.

It is most likely that the 3b segment of the Eurofighter programme will be cancelled and a number of Tornado aircraft will be withdrawn from service. The number of A400M aircraft ordered could go down from 60 to 40.

It must be pointed out that the document that was presented by the armed forces to the Ministry of Defence in July 2010, Prioritizing Material Investment – Options for Action, planned for the reduction in the number of Tornado aircraft from 185 to 85, the reduction in the number of F-125 frigates from 4 to 3, as well as the abandonment of the Talariion MALE drone.

**FORESEEABLE CONSEQUENCES OF THE BUDGET CUTS AND PITFALLS TO AVOID**

**Spreading programmes over several years**

The first predictable consequence is the risk of having disorganised budget programming in the various countries. The lifetime of an armament programme can spread over 40 years. One of the commonly used money-saving techniques is to lengthen the duration of the programmes, which seems innocuous over the short term. But past experience has shown that this practice is costly – it requires the armed forces to upgrade equipment midway through its lifespan, and it multiplies the number of versions of a given equipment item, which in turn increases the maintenance cost. With such a practice, equipment goes into service later, which leads to capability gaps because of the equipment’s inadequacy – the geostrategic context or the operational need have changed. The examples of the Rafale aircraft programme, whose ob-

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9. Only 60,000 German youth do their military service out of the approximate 400,000 young men in that age category in Germany.
solescence had to be managed part-way through the programme, or of the Trigat MP anti-tank missile programme, which was abandoned in 2001 before production started, illustrate this risk. In the case of the Trigat MP, more than 20 years had elapsed between the first studies and the start of missile production, before the programme was finally abandoned when Britain withdrew. The equipment had become inadequate for the operational need. The tougher the budget cuts, and they will be tough in 2011, the more the spreading of programmes will prove inadequate and even counter-productive.

Risks related to capability incoherence

The second risk would be to end up with incoherent national and European capabilities. The objective may be to save money, but it is often essential to keep some equipment when the consequences of cancelling or reducing the number of items ordered can jeopardise a company. If we do not pay sufficient attention, the decisions that are made can jeopardise the coherence of the capability model or lead to a capability model that is divorced from the ambitions stated in the strategic documents such as white papers. In the past, so-called “small” programmes have often been sacrificed, even though they were “companion” programmes to a number of larger programmes and were thus the guarantors of the capacity model’s coherence. This is, for instance, one of the difficulties encountered by the French Army in the beginning of the 2000s with a budget crippled by the cost of Leclerc tanks.

The risk of capability incoherence at the national level can be coupled with capability incoherence at the European level. Thus, for instance, if every European country kept their strategic modes of transportation but sacrificed all transportation helicopters, this could lead to the emergence of major capability gaps, which would hinder the conduct of operations in the context of the Common European Defence and Security Policy (CEDSP) or NATO.

Technological disconnect risk

The third risk is both industrial and technological in nature. It is the risk of technological disconnect from the industrial and technological European defence base, whether it be by the loss of skills in state-of-the-art technologies or by the loss of industrial competitiveness. Given that this industry is mostly private in Europe today, the risk lies in having shareholders withdraw from a sector that is no longer as profitable as it once was or that the European industry may no longer be able to compete with the American industry, or even that of Russia or emerging countries.

While the first two pitfalls are generally well identified, this technological and industrial risk, while not completely new, could gain an altogether different dimension with the budget cuts to come.

It is useful at this stage to give an overview and background of the greatest defence industries in Europe, i.e. those of France and the United Kingdom. Two steps can be identified. Until the middle of the 1980s, these industries more or less made it possible for those two countries to be self-sufficient in terms of defence equipment. Starting in the mid-1980s, i.e. even before the end of the Cold War, this 100% self-sufficiency had disappeared. In France, the shift was symbolised by the purchase of American AWACS air surveillance aircrafts.

Admittedly, in spite of budget cuts in the 1990s and 2000s, European countries were able to maintain the capacity to develop new state-of-the-art technologies and an acceptable level of technological competitiveness against the United States, even though European production costs were too high because of a shorter mass-production cycle.

The dependence on the Americans remained confined to specific equipment or technologies.

But the past few years have shown worrisome signs of a loss of skills on the part of the Europeans. Thus, the British were not able to bring to fruition the As-
stitute submarine without the assistance of American engineers. Furthermore, the Europeans abandoned industrial capability in the area of anti-tank missiles. Contractors and small- and medium-sized businesses have been made vulnerable because of the lack of a structured and self-sufficient European market.

Finally, France could abandon the idea of developing a European MALE (medium-altitude long-endurance) drone and buy an American drone. However, the market for this type of device is expanding and this equipment has to do with a strategic function, namely “knowledge and anticipation”, which was re-evaluated in the 2008 French national defence and security white paper.

The risk with new budget cuts lies in the loss of entire areas of technological skills, even more so because defence Research and Technology (R&T) has been sacrificed in every European country over the past ten years in order to preserve funding for larger equipment programmes that had just come into service.

ANSWERS

Two elements need to be taken into account when thinking about future defence budgets and should prevent the use of remedies of the past:

- The budget cuts ahead are great, cosmetic measures which will help us to adjust our defence tools to the new situation;

- The last budget cuts of the 1990s and 2000s have already taken a toll on our capacity and industrial defence models. These models will not withstand these new cuts if they are carried out in a homothetic way. It is thus necessary to find different answers, otherwise we might end up with incoherent and inefficient capability models and a loss of strategic autonomy because of a technological and industrial disconnect in our defence industry.

The answers should focus on three points.

1. Revise strategic documents and capability models in a national and European context

We may think that the budget cuts will be temporary and that the economic situation will have recovered after four or five years. This would make it possible to do without a major adaptation of our defence tools. But since there is no certainty as to a favourable change in the economic situation over the short term, since the budget cuts are likely to be great, and since the defence tools are already fragile because of a discrepancy between their funding and the stated ambitions, it seems that it is preferable to revise the strategic documents and to adapt the strategic models to the new deal.

The United Kingdom has already started on this path with its new Strategic Defence and Security Review. This revision was actually planned a year ago by the Labour Party, as well as by the Conservatives who won the May 2010 elections. In Germany, if the end of conscription becomes a reality, it is obvious that the entire defence policy will be turned upside down. In France, the decision to break away is a more difficult one to make because the national defence and security white paper was published in 2008 and the first military programming law that resulted from it was adopted very recently, in July 2009. For now, the statements given by French officials show a tendency to limit budget cuts as much as possible, but it is not certain that such a policy can be sustainable over the medium and long terms.

In all of these scenarios, the capability models, if not the European countries’ armed forces’ models, are revised and reduced and projections will, in turn, be revised and reduced. This may also accelerate the debate over the presence of European troops in Afghanistan in an operation that is costly and ties up lots of deployed troops abroad, as is notably the case for the United Kingdom.

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10. In this regard, France and the United Kingdom are similar. In 2008, the funding deficit of the 2015 military model was estimated at 35 billion euros and the British Secretary of State for Defence, Liam Fox, stated a funding deficit of 37 billion pounds (50 billion euros).
In and of itself, this obligation to cut national defence tools because of the economic crisis is admittedly bad news for our armed forces and for our security. This being said, it could be a blessing because this situation should force us to build a more coherent, rational and efficient model within the European context.

For the first time, every European country is in a position that makes it possible to review its defence strategic model and its capacity model at the same time. For over ten years, politicians across party lines in France have been advocating for a European white paper on defence and military programming laws. All of these proposals, which were included in the 2008 French national security and defence white paper, have failed because they were too dogmatic and incompatible with the political and industrial strategic interest of the states. Today, necessity can be the mother of invention as no country, including France and the United Kingdom, will be able to build a coherent strategic tool on a national basis.

As in 1999, with the inception of the European Security and Defence Policy (ESDP), a window of opportunity could open up for the drafting of a European defence white paper based on a few simple principles for the use of our military tools and, most of all, a coherent and rational European capacity model. This coherent capacity model requires a definition of our military tools and of the missions we seek to fulfil in this European framework, whether it means doing away with capacity redundancies or pooling our forces when possible. This is how we will be able to achieve the assertion of the European Union’s place in the world as well as the influence of each of the countries it is made up of.

2. Capability pooling and sharing

Possible types of pooling

Two years ago, IRIS carried out a study on the accomplishments and prospects for capability pooling and sharing in the framework of the European Union11. This study was published in February 2008 and inspired a typology of capacity pooling and sharing adopted by the French Presidency of the European Union in the second quarter of 2008.

This typology should help determine the opportunities for capacity pooling depending on the areas. The budget cuts give us the opportunity to put the theory for capacity pooling into practice, because this is the only way to achieve savings while maintaining an identical, or even greater, military capacity in the European context. Capability pooling can be achieved in three different ways:

1. Countries add up their capabilities in order to create a common capacity in a multinational framework: European Union or NATO. In this scenario, the states retain sovereignty over their capabilities and equipment, but coordinate their efforts so as to create a coherent whole in a multinational context. They thus seek capability coherence both nationally and multinationally;

2. Countries create a comprehensive capability by acquiring part of this capacity. This is the model we encounter with spatial observation12, or that we could have with anti-missile defence in NATO. In this case, no country has the financial means to build this capacity alone. But, when pooling financial resources, creating a significant military capability is made possible;

3. Countries pool some capabilities. Two different scenarios can occur:

   - either European countries decide to pool together to buy equipment and put it at the disposal of a supranational organisation such as NATO or the European Union;

   - or they make purchases at the national level but have their common use of the equipment managed by a multinational agency.

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12. The French build the optical observation satellite, the Germans the observation radar, the Italians a dual-system satellite.
In the capacity pooling typology, the third category, i.e. joint development and management of capabilities, is most likely to be the one with the greatest margins for development, because this pooling does not affect the sovereignty of the states. It has to do with the capability functions that come into play to support military operations or that have to do with personnel training. Some of these functions are:

- Strategic and tactical transportation by way of air (aircrafts and helicopters), land or sea;
- In-flight refuelling;
- Surveillance when it is not for a tactical or strategic mission;
- C3 (command, control, communication) in operation (notably, military telecommunication capacity).

This type of pooling can be extended to equipment, operation logistics or to staff training on commonly used equipment\(^\text{13}\).

This category of pooling also makes feasible the externalisation of joint capabilities to contractors. The contractors themselves will have to submit proposals to this effect\(^\text{14}\). This solution would also be beneficial in that it would further the convergence of operational needs between European countries. This is always a difficult task when it is carried out by the staffs.

Finally, if capability abandonment is considered at the national level, this requires ensuring that the comprehensive capacity at the European level is not weakened and that this capability is made available to a country that decided to give up developing its national capability\(^\text{15}\).

**Pooling framework**

Current discussions on coordinating defence budget cuts, and thus on the potential pooling of capacities, are only taking place bilaterally between France and the UK or France and Germany. Two working groups have been established at the governmental level.

The establishment of these bilateral working groups is most assuredly an excellent initiative, but we must ensure that coordinating defence policies and pooling capabilities solely bilaterally does not lead to inconsistencies within the European framework. In other words, capability pooling and sharing at the bilateral level need to be part of a framework that could be the seed of a European white paper on national defence and security, as well as a coherent European capacity model\(^\text{16}\).

This task could usefully feed the permanent, structured cooperation planned for in the Lisbon Treaty, with which we do not seem to know what to do. Incidentally, this would also revitalise the European Defence Agency, which would be charged with monitoring this consistency.

The insertion of a bilateral framework into a European framework is also beneficial in that it would link all of the European countries up to the CESDP (Common European Security and Defence Policy). Today, France, the United Kingdom and Germany are the three countries that contribute the most financially to defence, but they do not necessarily do so in the most judicious way.

Today, Denmark, Sweden and Finland, as well as Norway, a non-EU member, are within the Scandinavian group, which is the most virtuous in terms of capacity pooling\(^\text{17}\). One can imagine that identical initiatives could be taken by countries in central and Eastern Europe\(^\text{18}\). In other words, we cannot systematically blame those EU countries that make a lesser effort for their defence without congratu-

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\(^{13}\) An example with military telecommunications would be the Paradigm Consortium which operates the Skynet 5 satellite constellation.

\(^{14}\) The economic model, however, needs to be viable, which requires at the very least the capacity to find uses other than military, for instance security uses for public or private organisations. They could develop a fleet of MALE drones that would not be covered by the MTCR (Missile Technology Control Regime) restrictions which could be used for EU military operations, for border surveillance, for surveillance at big events, in the fight against piracy, for the protection of off-shore oil rigs, etc.

\(^{15}\) E.g. if the UK gave up on developing maritime patrol aircraft, then France and Germany would have to be able to fulfil this function on the UK’s behalf.

\(^{16}\) At this level, even though the CESEP does not have jurisdiction over collective security since this role was delegated to NATO, it would be necessary to have a capacity model that encompasses all capacities just for the sake of coherence.
lating them at the same time for their efforts to ra-
tionalise their capacity within a coherent European whole.

3. The need to build a national industrial capacity model integrated within a European model

It is now urgent for the European Union to create an industrial capability defence model. This requires a definition of what is meant by European industrial and technological strategic autonomy. Today’s situation can be described as follows:

- Industrial national defence models tend to be defined by default based on budget cuts. Even though efforts are made to maintain some technological fields, the lack of a big picture approach on the creation of an industrial tool is blatant. Furthermore, budget cuts create rivalries among companies as well as among the various staffs of the armed forces, which furthers the risk of having an incoherent industrial tool;

- There is no true interconnection among European countries that allows for mutual knowledge of the industrial and technological capacities of each country. Research and technology policies remain mostly confined to the national context, notably with a view to defending domestic jobs. Thus, when an EU country gives up its technological or industrial capacity, it does not necessarily know if this technology is available in another European country;

- The continuous reductions of R&T budgets over the past 20 years is leading to the emergence of critical thresholds within companies beyond which some consultancy firms will have to be dismantled or some technological fields abandoned for lack of appropriations allowing further developments;

- In terms of technology and military equipment supply transfers, the American ally is always likely to have reservations. Industrial rivalries, America’s will to maintain its operational superiority, Europe’s fear of seeing American technologies reexported – Europe’s supply security by America should not be taken for granted. Furthermore, America sometimes applies job restrictions to equipment sold to Europe:

- The European Union’s efforts, and notably those of the European Commission, to establish an open and competitive European defence equipment market, are admittedly commendable. But too often they tend to negate the specificity of an industry that fundamentally finds its justification not in economic matters, but in the defence of the sovereignty of states. Without government intervention for the creation of the industrial models necessary for the defence of the states’ sovereignty, this industry is in danger and the European defence equipment market will not be enough by itself to defend the European defence industry.

WHAT MEASURES?

Up until now, the larger EU countries had found that their domestic orders, added to exports, were enough to defend their industry and ensured a form of self-sufficiency.

Domestic industrial policies geared towards preserving technological systems were the exception, not the norm. Thus, some orders were meant to preserve jobs or to help a company survive. The British

17. E.g. the purchase of an NH90 helicopter, coordination between the navies of four countries.
applied this policy in the area of ammunition, as did the French with the order of the latest Leclerc tanks placed with Nexter. These measures then had a non-systematic nature and were not included in a big picture view of the nature of the industrial landscape. Rather, the staffs of the armed forces generally objected to them because they did not always see them as a response to their operational needs.

Today, the challenge lies in not multiplying the number of isolated measures and in thinking carefully about what could constitute an industrial capability model built within a national context as well as a European context. It is likely that the reduction of capacity models may make it impossible in the future to sustain the industrial defence base solely with the needs of the armed forces of EU countries.

As for the development of exports, there is admittedly a ready answer for France, but it is too random, even dangerous, because countries may be tempted to take risks on where their exports are sent.

Thus, the answers to this industrial challenge of defence budget cuts should revolve around several measures:

1. In terms of acquisition policies, it is necessary to accelerate the pace of implementation for armament programmes. This requires, at the same time, withdrawing obsolete equipment from service – even if it means accepting short-term capability gaps. Savings resulting from the withdrawal of equipment could be used for the development of new equipment programmes;

2. It is necessary to switch from an industrial defence model focused on production to a model focused on technological innovation. It is incumbent upon the governments to assume this policy. Paradoxically, in this time of budget cuts, we must increase the research and technology budget instead of cutting it. The additional contribution, which can be estimated to be 300 million euros a year for France, remains limited compared to the expected benefits;

3. As for the contractors, they must change their industrial production model in order to adjust to the reduction of military orders. The technologies they use, which are often dual purpose, must make it possible for them to invest in expanding markets, such as the security market, or even that of alternative energies. Obviously, this approach will not be an option for those few companies whose products or technologies are specific to the military. In which case, governments alone are able to guarantee the sustainability of these businesses whose activity is deemed strategic in its nature, thanks to budgetary appropriations to research and development. It is also the contractors’ responsibility to suggest joint solutions for future capacities with a view to accelerating capability pooling.

Ideally, these proposals would be submitted jointly by several companies thus allowing for simultaneous restructuring and necessary concentration of the European armament industry.

These recommendations that apply chiefly to the national context must be translated to the European context.

The approach used for the industrial aspects must be the same as the one used for military capabilities. The European industrial capability model can only stem from a coordination of the various national industrial capability models.

Our budgetary means do not make it possible to do everything at the national level. We must accept these European interdependence situations.
This evolution is undoubtedly incompatible with the maintenance of competition between European companies. The future industrial model will be one with more and more pooling, more and more European monopolies, with more competition at the transatlantic and global levels than at the European level. It will be necessary to ensure supply security among European countries each time an industrial or technological capability is abandoned by a country.

CONCLUSION

Today, European countries are faced with an important challenge: because of the economic crisis and the budget cuts, they must redefine their defence policy, which paradoxically forces them to find new solutions and to innovate. At the same time, it could present an opportunity, because no one is immune to the necessity to conduct a strategic aggiornamento – update to meet current needs – as a result of the economic crisis.

The solutions can no longer be found in the national context. This requires true political will in the face of today’s weak interest in Europe. Thus, theoretical or dogmatic solutions must be avoided to the benefit of pragmatic and innovative solutions. Progress margins are possible when making the national defence tools coherent within a European framework without the loss of national sovereignty. Regardless, changes need to be made if the member states and the European Union itself want to continue to have an influence in the international arena.

Paris, September 2010
THE DEFENCE INDUSTRY IN THE UNITED STATES

Turnover = 160 billion € | Direct personnel = n/a

Comment: the American defence industry holds a prominent place on the global armament market and enjoys a considerable domestic market with significant growth since 2001. Furthermore, the degree of consolidation is often higher than that of its European counterpart in many industries, which the presence of seven American companies among the ten companies in the world with the highest turnover attests to.

THE DEFENCE INDUSTRY IN FRANCE

Turnover = 14 billion € | Direct personnel = ~ 165,000

Comment: France, along with the United Kingdom, is a leading country in armament production in the EU. The large defence investments that France, compared to the rest of Europe, has been making for a few years make it possible for it to have a presence in all industrial sectors.

THE DEFENCE INDUSTRY IN GERMANY

Turnover = 8 billion € | Direct personnel = ~ 80,000 pers.

Comment: the defence industry in Germany holds a prominent place in Europe, notably in the air and space, land, and naval sectors. It is actually a strong exporter in the land and naval sectors, mostly with heavy armoured vehicles and classical submarines.

THE DEFENCE INDUSTRY IN SPAIN

Turnover = 4.2 billion € | Direct personnel = ~ 17,000 pers.

Comment: Spain has “national champions” in each of the industrial sectors that are able to take part in international cooperation – Navantia in the naval sector, Indra in the new communications and information technology sector as well as defence electronics, EADS CASA in the air and space sector and Santa Barbara in the land sector.

THE DEFENCE INDUSTRY IN THE UNITED STATES

Turnover = 160 billion € | Direct personnel = n/a

Comment: the American defence industry holds a prominent place on the global armament market and enjoys a considerable domestic market with significant growth since 2001. Furthermore, the degree of consolidation is often higher than that of its European counterpart in many industries, which the presence of seven American companies among the ten companies in the world with the highest turnover attests to.

THE DEFENCE INDUSTRY IN ITALY

Turnover = 8.2 billion € | Direct personnel = ~ 52,000 pers.

Comment: the Italian defence industry, in particular the Finmeccanica group, has consolidated while refocusing its areas of competitive excellence. Italy now occupies a significant place in Europe in the air and space, naval armament and electronic defence, and land armament sectors. It is present in a number of European joint programmes and also has strong links with the American industry.

THE DEFENCE INDUSTRY IN UNITED KINGDOM

Turnover = 44 billion € | Direct personnel = ~ 305,000 pers.

Comment: the United Kingdom has first-class industrial capacities within its borders, with strong positions in the aeronautical, land, missile and defence electronics sectors, as well as, though to a lesser extent, in the naval armament sector. It is however less present in the space sector, with the exception of the area of military telecommunications.

THE DEFENCE INDUSTRY IN SWEDEN

Turnover = 3 billion € | Direct personnel = ~ 15,690 pers.

Comment: thanks to its “niche” policy, Sweden has established clear positions in high-tech sectors. Exports are a particularly determining factor for the defence industry in Sweden because of its weak domestic market.

Tables and comments extracted from “Calepin international des principales entreprises travaillant pour la defense” (International Directory of Leading Defence Companies), Directorate General for Armament (2008 data).
The European Union and the Challenge Posed by Defence Budget Cuts
Jean-Pierre Maulny, IRIS deputy director
E-mail: jpmaulny@iris-france.org

Biographical note on the author
Jean-Pierre Maulny is deputy director at IRIS. He holds a Master’s degree in Defence Studies. He was an official representative of the President of the Defence and Armed Forces Committee of the National Assembly between 1997 and 2002. In this capacity, he participated in an informative mission on Rwanda for which he conducted many interviews outside of public hearings. He has had to follow the various external operations in which the French armed forces have been involved since 1990. He participated in a NATO mission in Afghanistan in 2008 during which he was able to interview soldiers from various countries in the field, as well as stakeholders involved in the field: the UN, the EU, NGOs, and diplomatic and economic stakeholders from the various nations participating in the reconstruction efforts (notable within the provincial reconstruction teams or PRT).

Jean-Pierre Maulny is in charge of matters related to defence policy, ESDP and NATO, the armament industry and to arms sales. He is in charge of the “defence policy and armament industry” chapter of the annual IRIS publication entitled “L’Année stratégique” (Strategic Year).

He is the author of “La Guerre en réseau au XXIème siècle. Internet sur les champs de bataille” (Network War in the 21st Century. Internet on the Battlefield) (Editions le Félin, 2006), as well as of many studies, including some which were published as “Lessons learned from European defence equipment programmes” (Occasional Paper n°69 – European Union Institute for Security Studies, October 2007) or “Pooling of EU Member states’ assets in the implementation of ESDP” written in February 2008 for the European Parliament.