

# Agent of change...

Daniel Keohane analyses the function of, and the necessity for, the new EU Defence Agency.



SFOR troops on the move in Bosnia-Herzegovina. The former Yugoslav state will be the first acid test for EU defence integration.

**I**n 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 multinational organisation. But the Balkan wars of the 1990s showed how weak European governments were when they tried to act alone. That experience encouraged governments to forge a common EU foreign policy, so that they would act together in future crises. In 1999

governments agreed to set up an EU defence policy, to support their common foreign policy.

Since then, EU governments have had mixed results in developing the 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, including, for example, the hunt for the indicted Bosnian Serb general, Radovan Karadzic. Bosnia will be a crucial test of the EU's military mettle, much more than

the peacekeeping missions the EU carried out in Congo and Macedonia in 2003.

As well as taking on new peacekeeping responsibilities, EU governments are also becoming more ambitious for the types of soldiers and equipment their armed forces should have. 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



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The Eurofighter, a much fraught project which highlights how much work the EDA has ahead.

moment, only France and Britain could put together a battle group easily. If they wish to contribute, all other EU defence ministries 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 buy new types of defence goods.

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 agency 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 approximately 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. For example, 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, often 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 cost 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. EU governments need to greatly improve 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 the member states to boost their military capabilities. Other EU leaders offered their support at the Thessalonika summit in June 2003. The new agency will have

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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 waste precious defence money on uncompetitive European monopolies.

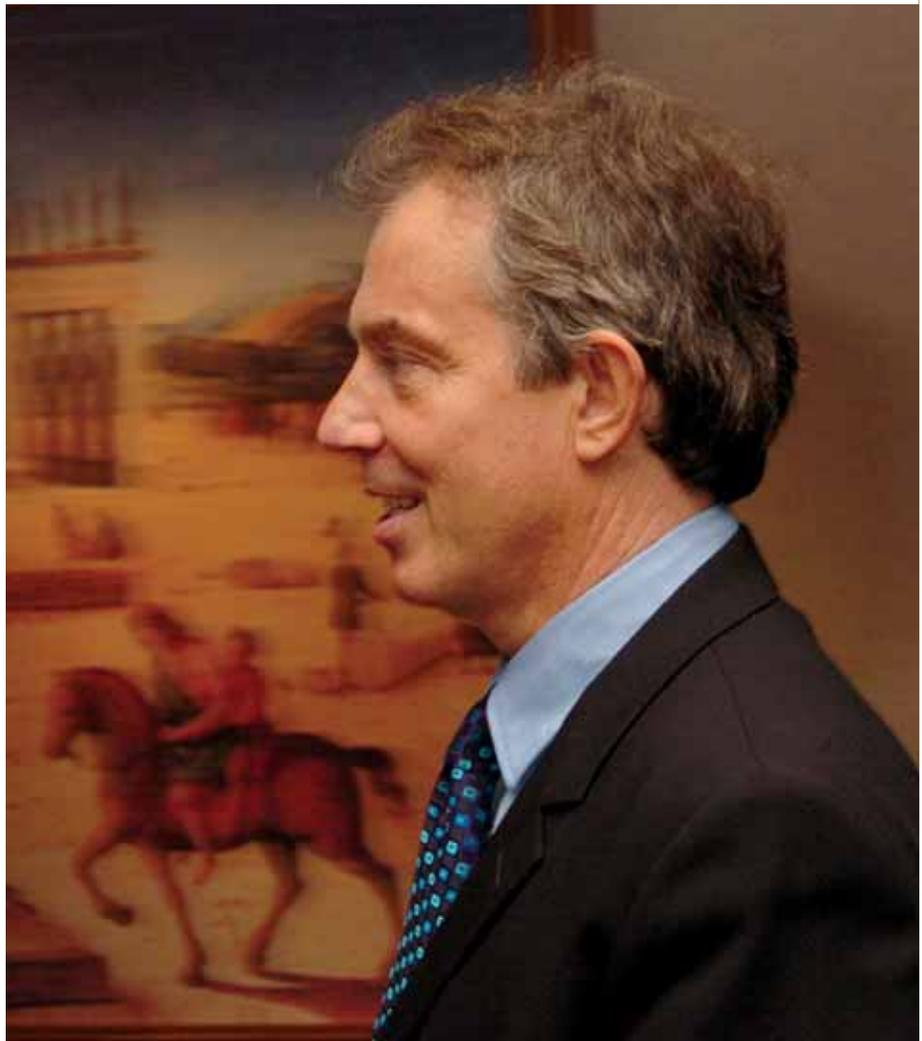
NATO and a multitude of other Europe-only bodies, such as the Western European Armaments Group (WEAG), have tried for decades to encourage governments to work together more closely in acquiring and developing tanks, ships and aircraft. But they have been unable to do so. Governments have traditionally co-operated in armaments projects on an ad hoc basis, and often with little consideration for 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. This is because the EU is not just a defence organisation, and has far greater political momentum than NATO does. And the EU has influence over a wide range of policy areas that affect the defence industry, such as

the new EU agency and earlier proposals is that it would not be like a traditional national 'armaments agency', which 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 position against an EU role in armaments,

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 would not always buy European goods. French defence ministry officials agree. But their counterparts in the French foreign ministry want the agency to also play an important role in helping governments to preserve the European defence industrial base.

Although any EU member can join the agency if it wants to, some are clearly vital for its functioning. EU countries have vastly different defence industries. The six major European arms-producing countries (Britain, France, Germany, Italy, Spain, and Sweden) account for more than 90 per cent of defence equipment production



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The EU's Foreign Policy Representative Javier Solana will head the EDA.

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 sell nationally produced defence goods. The United States dislikes this idea because 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 a more open defence market, but for different reasons. The consumer countries do not feel an obligation to always 'buy European'. From the perspective of a consumer government, competition between European and American suppliers is desirable, because it brings prices down. Thus Denmark and the Netherlands, along with non-EU members Norway and Turkey, will buy the Joint-Strike-Fighter 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. Nick Witney, a former British official, is the agency's chief executive, and the agency will have around 80 employees. The agency will be able to propose ways in which EU countries should work together to fill European capability gaps, including research projects, and co-ordinate those projects. But the agency will not have its own procurement or research budget, so it will neither buy equipment nor manage multinational programmes. The agency's initial task will be to co-ordinate the existing network of institutions involved in Europeans armaments co-operation.

The new agency would need to work especially closely with NATO. Both NATO and the EU are trying to improve European military capabilities. Agency 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 other's efforts. In fact, in the area of capabilities, both organisations have so far managed to work with each other in a mutually reinforcing way, such as matching their procurement priorities. This close co-operation with NATO on capabilities should continue after the creation of the agency.

Another important institution that the agency will work with is the Bonn-based Joint Armaments Co-operation Organisation (known by its French acronym OCCAR), a five-country organisation 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 too 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

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membership and that of the new defence agency will not coincide.

## Opening Up Europe's Defence Market

Another key task of 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. Greater cross-border mergers and acquisition would allow for larger economies of scale and increased competition, which would put downward pressure on prices, particularly for more advanced equipment. Defence ministries would be able to purchase equipment from the company that offers 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% of current R&D spending.

Initial efforts to integrate Europe's defence market have yielded few results. The six main European arms-producing (and arms-purchasing) 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 do not have 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 to it. Nonetheless, the letter has had little impact, and no multinational institution monitors its implementation.

Since each EU country is a consumer of defence equipment, all should be prepared to sign up to the principle of integrating Europe's defence market. The agency could push EU member-states to

non-binding political commitment. The code would say EU governments agree that foreign companies are able to compete for their 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 competition 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 could assess whether or not member-states were sticking to the code's principles. To help the agency pressure governments it should produce an annual public report of the openness of national defence markets.

But there are limits to a strictly inter-governmental approach to defence market integration, due to competing national interests. 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 announced some new proposals to harmonise defence procurement law in Europe. Currently, defence goods related to the 'essential interests of security' – as stipulated in Article 296 of the EU treaties – are one of the notable exclusions from the Commission's regulation of European industry.

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 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, for many of their components are on sale on the commercial market. For example, military information technologies are increasingly adapted from commercial applications. Countries already develop advanced technologies for items like fighter jets together. They should also be ready for a more integrated market for at least some of the components of these types of equipment.

The European Commission should take on a regulatory role regarding the less sensitive sorts 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 intra-EU transfers. 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 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 the ECAP has not had much success. The headline goal should help to re-vitalise the ECAP process. Helpfully, the agency will evaluate and report annually on the progress of member-states towards meeting their commitments. However, the agency looks set to keep those reports secret. That is a shame. If those reports were made public, the agency could 'name and shame' those member-states that are



Winds of change: The EDA is one of the first formalisations of a new European Defence Identity.

holding up progress.

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. This management set-up ensures that defence ministers have a clear stake in the success of the agency. Solana can also use steering board meetings to bring national armaments directors, defence R&D officials, and capability planners together on a more regular basis.

There is, however, a danger that the head of the agency, Javier 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. In order 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. Thus, there is no reason why Solana cannot have a deputy for defence policy as well.

### Conclusion

In the beginning the agency's role will appear more 'virtual' than real. The agency 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.

However, 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. And 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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