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## Workshop C – European Arms Exports

### Background paper

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Europe has a very fragmented defence industry supporting the various national Ministries of Defence in their aim to acquire and field capabilities, be they for national purposes or multinational operations in an EU, NATO, UN or other framework.

No one questions the legitimate demands that Member States have on the basis of national security and sovereignty, and in the wider context, European security.

But Member States – irrespective of their size – are all struggling to square the circle of the exponential rise in the cost of developing and producing defence equipment and squeezed defence budgets on the other. Furthermore, they face the twin challenges of a still fragmented industrial base that is characterised by overcapacity on the one hand; and fragmented demand driven by national thinking on the other.

Industry, for its part, is suffering from the absence of major new European defence programmes and thus becoming increasingly reliant on the export market outside Europe. This often leads to transfer of technology, the consequence of which could be that today's buyers will become tomorrow's competitors.

The bottom line is that no Member State – even the larger ones such as France and the UK – is able single-handedly to acquire and support the full suite of capabilities.

There is only one way forward: more cooperation. Cooperation both between governments, and between government and industry. The stark choice facing national administrations is either cooperate to acquire capabilities; or risk losing them altogether.

Governments should cooperate better and in a more systematic way to better align requirements to fill their critical capability gaps. There are too many to mention all of them, but here are a few examples: Air-to-Air Refuelling, Satellite Communications, Precision Guided Munitions, ISTAR, and so on.

It is striking that Member States are prepared to deploy their troops shoulder-to-shoulder in operations; but not to cooperate to give those troops the interoperable kit that they need to carry out that operation successfully and with minimal loss of life.

So, much stronger interdependency is needed to jointly develop future capabilities.

An added benefit would be for Member States to adopt a genuine, and more binding, regime on security of supply, which is a prerequisite for trust and transparency. Within the EU both the Commission and EDA are working on the issue of security of supply to help Member States.

The capabilities of tomorrow require investment in Research & Technology (R&T) today. Yet national investment in R&T is in almost terminal decline. This has to be reversed, otherwise we will not be able to develop the systems that our troops will require in the future. The US – as ever – is taking the lead through its Third Offset Strategy. This has nothing to do with industrial participation; but everything to do with harnessing the massive strides being made in civil and dual-use technologies. Europe needs to do likewise.

Turning to industry, the market really needs to be made into a level playing field, one that is truly open to cross-border competition, where supply chains are also open, so that all companies – irrespective of where they are based – have a fair chance to compete.

But an inevitable consequence of this is that industry will have to go through major restructuring with transnational mergers to safeguard Europe's freedom of action. This is not – I repeat not – about creating a Fortress Europe, but of ensuring that when Europe needs to act, it can do so.

The current security climate in Europe means that doing nothing is not an option. Europe needs to get its act together to become – and remain – a credible security provider, and not just a security consumer.

With the US increasingly turning its attention towards the Pacific; with substantial budget cuts for defence due to the financial crisis; with the increasingly volatile security environment caused by threats from terrorism, or hybrid attacks, or cyber-attacks, the refugee crisis, not to mention conventional threats: Europe needs to wake up, and wake up now.