

Working Group VIII

Working document 4

## **Groupe de travail VIII « DÉFENSE »**

**Objet : Note de M. Katiforis**

Les membres du groupe de travail VIII trouveront ci-joint une note de M. Katiforis, membre de la Convention.

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## **Towards an EU Armaments Strategy**

The current phase of EU enlargement, and the creation of Euroland, coincides with the emergence of a new security environment in Europe and all over the world characterised by many uncertainties and high instability that can potentially threaten our security, and where the EU Member States are required to develop and mutualise their defence capabilities in order to support the EU's decision-making autonomy for action in foreign and security policy, and consequently its international credibility.

Within this spirit, Europe's objectives in the field of armaments could include:

the strengthening of a globally competitive and dynamic European Defence Technological and Industrial Base (DTIB), and European Defence Equipment Market (EDEM) in order to create an effective European supplier base compatible with the requirements of European security, and capable of providing the necessary choices and options for the EU in assuming its responsibilities and developing its influence on the world stage,

the promotion and enhancement of European armaments co-operation, taking into account the diverse capabilities of the EU Member States, through improvements of the efficiency and cost-effectiveness of the management of European armaments co-operation, and sharing and streamlining national development efforts with the aim at making full use of economies of scale and the best use of financial resources through improved co-ordination of operational requirements,

the improvement of co-operation in defence research and development, in order to maintain the EU at the forefront of key technologies for the service of an innovative and globally competitive defence industry,

the opening of national defence markets to more competition adapted to the defence specificity,

the promotion of European military capabilities.

These objectives may be met if the EU is capable of responding to its technological, social, industrial, economic and security challenges; achieving these objectives means looking into the future, anticipating developments and taking appropriate decisions that will enable the EU to meet its requirements.

In the meantime, Europe loses valuable industrial and technological capabilities and resources which could, in some years, influence the Member States imperative of ensuring the appropriate level of **security of supply** through a fair and efficient distribution and maintenance of strategically important assets.

As Europeans, we should make every effort to achieve the necessary goals in order to build a common house not only for big countries and large companies, but also for smaller countries, subcontractors and small and medium sized enterprises (SMEs). There should be room for every EU Member State which wants to be actively involved in the field of armaments.

Moreover, since the EU has competencies touching upon the five dimensions of armaments (financial, industrial, commercial, social and crisis management), the Convention should initiate discussions with regard to a **global approach** in order to make better use of the EU to challenge the various issues in the armaments sector.

- THE EXISTING SITUATION IS NOT SATISFACTORY

### **The structures**

To meet the challenge of the problems of European armaments co-operation, Europeans took successive initiatives based on different principles and aims. For the time being, these initiatives have not yet met the expectations, in particular budgetary, of the various actors of armaments (procurement services, defence industry, operational users, Exchequer's administrations).

At the same time, the European defence industry has already moved, in a rapid manner, towards the formation of European conglomerates to remain a credible competitor within a demanding worldwide market. However, those conglomerates should prove their endurance in the strenuous conditions imposed by global competition.

### **Defence specificity**

The multi-formity and overlapping of fields of action and an overview of organisations dealing with European armaments prove how difficult it is to find a balance between the principle of co-operation and the principle of competition. The balance in question should respect the defence specificity of armaments, something that differentiates them from common commercial products and consists of the following elements:

- the specific nature of the market, since customers are states which need to cover the needs of their armed forces,
- the transit, transportation and export of defence material, which is allowed only with state permission,
- the security classification of certain activities,
- the existence of a defence industry is considered as a way to reinforce a nation's defence needs. These needs are not measurable nor can they be indexed, as in the case of the international market of commercial goods.

Consequently, the urgency and/or the preferences in armaments to be procured off the shelves for national armed forces require a specific defence product for reasons related to national defence. It should be recognised, as an exception, in any future European procurement armaments regulation. On the other hand, the European co-operative programs, which in principle do not respond to the above-mentioned urgencies or preferences, may be subject to European wide competition under certain modalities.

Moreover, specific characteristics of the armaments sector have been acknowledged since the foundation of the Community, and are taken into account by the provisions of Article 296 of the Treaty. The latter provides for a safeguard clause whereby Member States may take the measures they consider necessary for the protection of the essential interests of their security which are connected with the production of or the trade in arms, munitions and war material. As regards this article, a judgement of the European Court (C-414/97/16.9.1999) created jurisprudence.

### **The EU influence on defence expenditures**

The financial discipline and the monetary rules that are dictated by EMU can affect the size of the defence expenditures that are included in the budgets of its Member states; solutions should be explored in order to spend better but not more, and the Ministers of Defence of EU Member States recently explored some ideas on financing capabilities.

### **European interdependency versus the dilemma dependency or self-sufficiency**

The purchasing of arms from abroad means dependence. Therefore, up until the 1990's, European countries, pursued the principle of self-sufficiency in the field of armaments, creating industrial or technological units at national scale in order to ensure their freedom of choice with regards to the purchase of defence systems for their armed forces. In our days, the dilemma between dependency and self-sufficiency is gradually substituted by European interdependency since the security of supply is essential for an interdependent European supplier base able to guarantee the procurement requirements of the EU Member States.

### **"Europe of Armaments": Parameters and dimensions**

The level of European political progress through the advent of ESDP, coupled with the introduction of the Economic and Monetary Union in Europe (EMU), could allow the appropriate reforms in the field of armaments to be speeded up.

We must therefore move towards our goal, which is to create the necessary conditions for the constructive co-operation of all EU Member States that will benefit globally everyone in the field of armaments. In order to do this, we must specify the EU framework within which the "Europe of Armaments" could be developed, underlining the aspects of research and technology.

#### ***A. Parameters of the "Europe of Armaments"***

When reference is made to the "Europe of Armaments", one could consider the following parameters:

- Four European countries (France, Germany, UK and Italy) represent 80% of European industrial production and consumption, including research and development (R&D) facilities.
- No EU Member-State can bear the financial cost of the production of a complete arsenal and consequently, be self-sufficient in the field of armament production. Moreover, due to the precipitous decline of armament budgets, defence industries are compelled to turn to co-operation programs making co-operation with other European countries a necessity.
- The shrinking of the market, coupled with the increase in the prices of advanced technology defence products lead to the intensification of competition.
- In order to save research efforts and time, modern defence systems usually incorporate technology that, to a great extent, is available in the open market. In some advanced technological sectors, such as communications and airspace, the utilisation of goods of dual use constitutes the norm. Nevertheless, this dependence of modern defence systems on products from the open market, very often outside Europe, prevents interstate transfer of defence know-how and technology due to strict intellectual property rights legislation and commercial product patents.
- The synergy of the defence and civil research and technology sectors has dictated the adoption of uniform or co-ordinated national state policies by most European countries.
- The armaments budget on a European scale is being reduced, but operational users (Chiefs of Staff/CHODs) are becoming increasingly demanding in terms of technology.
- Industrial giants in the field of armaments are being created on the other side of the Atlantic, conquering the global market and leaving limited room for development for European industries, some of which operate, inter alia, on the basis of an extended network

of subcontractors with small and medium sized enterprises (SMEs). Due to the transatlantic unequal competition and the creation of colossal industries in the defence sector by means of take-overs or mergers, large European defence companies choose to cooperate exclusively with one another, thus marginalizing SMEs.

- The European armaments area is not homogenous, as national legal barriers between countries are being raised, and the limited number of European co-operative armaments programs has an *ad hoc* character.

- After the end of Cold War, the great majority of European countries focused mainly on industrial, technological, financial and social aspects rather than on the strategic side of defence programs.

- An important challenge that European Defence Ministers face is to provide from the funds available the equipment required by their military forces in order to meet an increasing number of sophisticated security threats or risks from the funds available.

- The need to maintain Europe's position of reasonable technological and industrial equivalence with its transatlantic partners, is a matter of fundamental military and economic importance.

- Should Europe, on the other hand, fail to deal satisfactorily with these issues, then we believe that, in the next decade, it will be relegated to a relative subordinate position vis-à-vis the other more technologically advanced nations, unable to exercise technical leadership of major programmes and able to secure only a quite limited proportion of the overseas sales it presently enjoys. The challenge for Europe's defence industries is therefore to arrange their activities so as to improve the cost ratio of R&D to production so that unit costs are reduced to a competitive level. But the European market is fragmented and most manufacturers traditionally find themselves limited to meeting the needs only of their own governments. A further challenge for the future will be to strengthen Europe's technological base through the co-ordination of research programmes across Europe and the elimination of unnecessary duplication.

- There will also need to be a much greater understanding, in the framework of closer co-operation, of industrial sensitivities by those who shape government procurement policies and industrial strategies. On the one hand, industries fear that the sharing of their knowledge might lead to the creation of a competitor. On the other hand, they worry that if they do not cooperate, or delay too long before deciding to do so, an outside Europe supplier will establish himself in Europe. In order to overcome these sensitivities, structured and recognisable arrangements should be made which provide for nations and industries to receive not only a fair economic return for industrial participation but also a fair share of the technology involved.

- National security is at the heart of sovereignty. But in today's world, security is an issue, which cannot realistically be treated only at national level. Rapid technological change is driving up the real cost of equipment and the continuing inclination to "gold-plate" armaments equipment can no longer be an exception. Consequently, the procurement of armaments equipment cannot remain an exception. But, one reason why unit costs of equipment in Europe are high is because Member States buy increasingly uneconomic quantities from their own industries in order to protect them. We believe that nations can no longer continue to do so. They should seek out, inter alia, less expensive European solutions, since the single European framework is able to offer a "therapy" to the challenges of the Europe of Armaments.

### *Dimensions of the Armaments Sector*

The comprehensive understanding of the “Europe of Armaments” presupposes an analysis of the following dimensions of European armaments:

- a. Social
- b. Financial
- c. Commercial
- d. Industrial
- e. Crisis Management

#### a. Social

The defence industry employs thousands of qualified workers and high-level scientists, and any downsizing of it will create hundreds of unemployed who cannot easily be employed in other sectors, and will probably emigrate outside Europe. Moreover this dimension could be very important for the future newcomers to the EU.

#### b. Financial

The defence industry is in need of vast sums for its operation. However, it can make huge profits, provided that the defence products are sold not only within the domestic market, but also through exports opportunities to foreign national armed forces.

#### c. Commercial

The very small number of clients, i.e. the national armed forces, characterises the market. Consequently, the existence of the defence industry depends on national armed forces that are in need of constant purchases.

Moreover, one must note that the products of the defence industry can only be exported by means of bilateral agreements that make both the supplier and the buyer identifiable. Thus, a number of international agreements and extremely detailed national regulations constitute the framework of the arms trade. Clearly, there is a special relationship between national defence industries and armed forces. The latter are faithful clients as well as testers and guarantors of the products of the former.

#### d. Industrial

The defence industry needs know-how since it must

- maintain research teams for technological advancement,
- subsequently develop their products, and
- finally, proceed to the stage of production.

Nevertheless, only a very limited number of research items reach the stage of development and an even smaller number is selected for the production stage. On the other hand, the time pressure of European operational users for procurement of the necessary materiel and satisfaction of their requirements is not always compatible with the necessary period for the development of the appropriate programme at national or European level. However, high technology is both the shield and the arm that protects and assists the operational user.

#### e. Crisis Management

Armaments are an integral part of an efficient crisis management policy and consequently a decisive factor in the formulation of security policy.

### *Conclusions*

On the basis of above, one can draw the following conclusions:

-The various EU policies could have effects on the armaments expenditures of the Defence Ministries of EU Member States.

-A prerequisite for a number of the above issues is the re-examination of the existing bipolar logic (“national independence versus dependence”) in favour of a certain European interdependence based upon the belief that all European partners can obtain long-term mutual benefits.

-At national level, no Minister of Defence can control all dimensions (social, financial, commercial, industrial and defence) of the armaments sector.

-At European level, the political and legal framework of the EU has mechanisms and instruments, which touch upon four out of the five dimensions (social, financial, commercial and industrial), while in the defence sector it has competencies relating to crisis management issues.

- The EU has services that could become useful for the functioning of an EDEM, due to its long experience gained from the single market. On the one hand, as far as the sector in question is concerned, Ministers of Defence and General Armaments Directorates of European countries cannot build from scratch a complete mechanism and control system of the planned European armaments market due to lack in financial resources and in manpower. On the other hand, for the time being, the EU does not possess enough knowledge of the so-called “*defence specificity*”, which distinguishes armaments from other products. Nevertheless, it is easier and less expensive for the EU to develop the ability to recognise the specificities of this sector after the political conditions for the creation of the European armaments market are met, rather than to build a new and costly mechanism.

-The creation of a viable EU community of operational users, making use of the EU Military Committee’s potentialities, may contribute to the successful formulation of armaments programmes, capable of satisfying the CHODs requirements.

-A process of restructuring the European defence industry that is not influenced by European governments could lead to the danger of creating monolithic industrial giants, which in turn, could destroy the existing useful networks of subcontractors in European countries possessing vital technological capital and innovative ideas for the survival of the European defence industry in a competitive global environment.

-A powerful European defence industry needs a certain opening of the domestic markets of all EU Member states and the creation of a European armaments space. Otherwise, the European industrial conglomerates may not be able to survive international competition in the medium-term.

### **Co-operation : a key factor**

The EU should now concentrate on succeeding in the field of co-operation. In practice, however, we do not seem to be convinced about the high level of that cooperation or its consequent benefits for our military forces.

The EU should therefore use its institutional tools in order to promote the expansion of opportunities for cooperation, under the condition that it will be equipped with the necessary means for the achievement of this objective.

If European co-production of armaments is based on a spirit of cooperation, beyond mere agreements on the technical aspects of armaments, it should result in a European Defence, Technological and Industrial Basis (DTIB) taking into account the sensibilities of all Member–States. These sensibilities go far beyond the concerns of a simple customer, who buys or rents, individually or collectively, from other European partners.

The central question to be answered by the Europeans is “how should we cooperate in order to make mutual gains in the long run”? Otherwise, from a European point of view, a number of challenges will remain, perpetuating the current, unsatisfactory, situation.

Without the leadership of governments, we do not believe that Europe will succeed in taking the steps required to improve the competitiveness of its defence industries and to ensure that it stays in the first league of technological communities into the 21st century, since it is clear that:

- a fragmented market denies Europe the economies of scale to reduce costs, fund R&D and ensure the effective application of technology,
- traditional methods of co-operation within Europe do not provide best value for money and the appropriate level of security of supply for the EU member states.

## • ISSUES AND POSSIBLE ACTIONS

### **EUROPEAN DEFENCE RESEARCH AND TECHNOLOGY PROGRAM**

The recent Barcelona European Council emphasised that "in order to close the gap between the EU and its major competitors, there must be a significant boost of the overall R&D and innovation effort in the Union, with a particular emphasis on frontier technologies". In this respect, defence research activities in Europe could be co-ordinated and managed in such a way so as to provide for the fullest exploitation of the funds (economies of scale), innovation and talent available, in order that Europe's technology base remains strong and dynamic.

The existence of a technological base compatible with European security requirements implies appropriate investments in defence research and technology. It also entails making use of synergies with civil research activities in dual-use fields, and it necessitates in the first place a common analysis of technological capacities having priority for European security.

The well being of the defence industry depends on the twin pillars (civil and defence). They are complementary to each other but mutually dependent. Operating in civil and defence markets means sharing know-how, skills and products, enjoying economies of scale and the benefits of a broad product range. Both rely on the application of advanced technologies whilst serving private and public customers with different needs.

The EU could lay the foundations for Europe's long-term future as a technological and industrial community by strengthening its technological base. In this respect, the EU could create a research program, which provides for a fully comprehensive technology base and addresses its areas of weakness. Indeed the cost of maintaining Europe's technology base in good health will not be great compared with the long-term economic repercussions of opting out of a field of technology.

The EU should therefore investigate in every way how it can achieve a greater return on its existing investment and make fuller use of its scientific talent in order to obtain maximum cross-fertilisation of ideas to the benefit of its defence industry. Duplication of research between EU Member States, is the inevitable consequence of past failures to co-ordinate effectively their research programmes. EU Member states also need to embark on common research programmes which, in addition, will ease the problem of technology ownership and subsequent project exploitation.

Furthermore, the current limited commitments to pooled R&D projects should be expanded and could include large co-operative demonstrators programs which bring together activities from different Member States to create a strong defence research framework.

Consequently, EU Member States with the support of the European Commission could explore the possibility to create a Defence R&T Programme that, inter alia, would:



- a) identify the weaknesses in the technology base that have been identified and seek how they can be remedied.
- b) establish centrally co-ordinated programmes taking into account the defence specificity, and inspired and drawing benefit by the European Community's Framework Research Programme, which is a good example of what can be achieved.
- c) promote a closer interaction between civil and military applications of advanced technologies. The dual-use nature of these technologies makes such an interaction essential.
- d) promote better co-ordination of national defence research programmes.
- e) explore the possibility of sponsoring a range of EU "demonstrators" programmes, whereby special attention can be given to a field of research through the granting of funds to scientists, the twinning of laboratories and the funding of original or promising work being carried out in a defence-related field by teams of scientists from various Member States.
- f) explore the possibility of pooling test and evaluation facilities within the EU Member States.

Only by doing this will it be possible to achieve a high degree of co-ordination of research activities. This does not mean that all research should be undertaken on a co-operative basis: there will be many activities which are of interest primarily to a single EU Member State and in any case there is often merit from a scientific point of view in exploiting the competitiveness that exists naturally between EU Member States. A common programme must and should be supported by a common research fund if it is to achieve real credibility and if it is to ensure that the special needs of all EU Member States are given coherent attention.

The objective of the common programme should be to improve:

- the quality of output from European research expenditure, and in particular,
- innovation, which is the key to resist to the world market.

More effective research is needed and the management of the programme along with the fund should be carried out with imagination and skill to ensure that this is achieved. Funds must reach the talent that can provide Europe with the knowledge it requires for the future. There must be stringent and expert reviews of the common program in order to ascertain that it is indeed realising the potential we see for it.

## **PROMOTION OF EUROPEAN INNOVATION THROUGH SME AND SUBCONTRACTING WITHIN EUROPEAN CONSORTIA**

The Cologne European Council recognised that "the need to undertake sustained efforts to strengthen the industrial and technological defence base, which we want to be competitive and dynamic" and the Lisbon European Council concluded that "The Union set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".

In this respect, the potential of all EU Member States to participate in the activities of Europe's defence industries should be adequately exploited.

Many EU Member States wish to see arrangements made to exploit the potential of their sub-contractor capabilities in order to participate in co-operative programmes, which are consistent with:

- the needs of Europe's defence industries as a whole, and
- the strengthening of European military capabilities.

The desire of these EU Member States to become increasingly capable of participating effectively in armaments design and production is understandable. It is also in the interests of all the Europeans that this should happen. A competent defence industry could do much to enhance the economic cohesion of these EU Member States. Support from the other EU Member States to achieve this will be given in the light of the promotion of European military capabilities.

Moreover, it is natural to consider the needs and interests of larger companies first when examining ideas to improve the competitiveness of the European defence industry as a whole but we believe that the contribution that small businesses can make to the well being and dynamism of the European defence industry should not be overlooked. Europe's main competitors place a high value on the small business sector. It is not difficult to understand why:

- These businesses offer industrial flexibility: there are a range of companies in each area of technology and these provide alternative technical solutions, scope for competition and a stock of development and production capacity.
- They offer technical innovation: they survive according to their ability to produce good ideas and to translate them into capable hardware.
- They offer new employment opportunities.
- Co-operation across borders between small businesses is typically more spontaneous than is the case with larger companies and promotes a good cross- fertilisation of innovative ideas.

Furthermore, it is underlined that

- industrial co-operation at that level is of particular value for the EU Member-states able to offer only sub-contractor companies to European consortia, and
- in most European nations, policies are being developed which promote the interests of small businesses generally and the European Commission is taking a particular interest in them.

Furthermore, the integration of the defence industries of the Sub-contracting partners within the European defence industrial community presents a special challenge. Since their national economic capabilities are limited, they cannot invest heavily in defence industries. Typically, their defence industries are relatively new, have a limited but increasing technological capability, have very limited experience and only a few products which are known in the other Member states. Since production output is low and their technological base limited, it is only possible to maintain a limited research and development program despite the existence of a great number of excellent and experienced scientists, most of whom have trained or worked in foreign R&D establishments.

We are convinced that special attention should be given by the other nations of Europe to the efforts of the Sub-contracting partners to strengthen their technological bases and to develop their defence industrial capabilities. Politically, the economic, social and industrial integration of Europe demands that these efforts - which have such important implications for the manufacturing industries of the Sub-contracting partners - as a whole - be given real support. From a more practical point of view, some Sub-contracting partners are likely, in the future, to have more money to spend on armaments. It is in the European interest that they spend that money in Europe instead of buying off-the-shelf outside Europe. Again it is in Europe's collective interest that they obtain this from other European Member states. We believe that involvement of the Sub-contracting partners in European consortia is an issue of great importance. There are long-term mutual economic, commercial and industrial advantages.

In the final analysis, a global balance, for the future, may be organised on a broader base and over a longer period. This should be particularly so for the Sub-contracting partners. A consequence of interproject compensation organised on that basis, favouring the Sub-contracting partners, and overseen by the EU, might well lead to some degree of industrial specialisation for these nations.

### **A PROGRAM FOR ACCOMPANYING MEASURES TO RESTRUCTURING ISSUES AND ENLARGEMENT CHALLENGES**

Maintenance of overall employment levels will remain a primary objective of EU Member states. Levels of unemployment in many European nations are at an all-time high and the issue is rightly one of great political sensitivity. Although our “defence industries” are not in themselves major employers of labour, they do support other industries, which are major employers. The idea of buying equipment from another country when an indigenous supply is available, even where there is a clear cost advantage in doing so, is regarded therefore as unacceptable exporting of employment and accordingly is often rejected by Ministers. The essence of our proposal for action, as will be outlined below, is to organise European R&D and production on a more efficient basis and thus reduce costs. This will release the necessary funds required for more armaments which will be manufactured primarily in Europe, increase the likelihood of securing more export orders, and thereby protect, and even increase, employment levels in Europe’s defence industries. However, the continuation of the restructuring process of the European defence industries, the necessity to reduce overcapacities, the development of interdependency links among EU Member states, and the visibility of EU enlargement, conduct us to explore the necessity to invite the European Commission to offer a proposal of actions in this field taking into account its beneficial experience in the field of social, industrial and enlargement matters.

### **A PRECURSOR EUROPEAN MARKET FOR COOPERATIVE PROGRAMS**

Obstacles, which restrict free trade and fuller industrial co-operation in armaments in Europe, should be removed gradually, thereby permitting companies to forge linkages and groupings, which provide for greater efficiency, technological strength and competitiveness on a European basis. The EU Member states could create, through a more free trade in armaments, a balanced, innovative industrial base across Europe, which can produce defence equipment with the same efficiency and economy as that of the other competitors outside Europe.

Contracts for armaments could be placed with suppliers in other Member states more readily than is currently the case. Placing work with efficient, inexpensive manufacturers of other Member states will help increase production numbers and reduce costs. We believe that any extra cost involved in co-operating outside home markets will be greatly outweighed by the economic advantages accruing from the larger production quantities, which will be possible in a European market. Moreover, in this way, interoperability will be promoted within Europe.

These advantages will only be realised fully however, if governments are prepared to allow a better competition. For co-operative programmes, EU Member states may apply these modalities through the compliancy requirements described below. For direct purchases to meet urgent or sensible national requirements, room should be let for national modalities according to the circumstances of each case.

Across Europe, there is in many areas of our equipment inventories a range of systems responding to quite similar requirements where only one would have been enough. These have been produced on different production lines in limited quantities, sometimes at slow rates of production to limit expenditure in the short term or to stretch out employment, all having a detrimental effect on unit costs. The European armed forces have been denied the

benefits of equipment interoperability and common logistic support. By providing protection to our industries, we have blunted their competitive edge. Without EU involvement in its capacity as an international organisation, we consider that the success rate of European collaboration will be much reduced or alternatively that common projects will result in uneconomic and overspecified designs.

We believe that there should be more clarity and structure in the arrangements for *juste retour* within the spirit of global balance. For every EU Member-State, the acceptance by its electorate and by its parliament of the huge sums spent on armaments comes only with clear evidence that these not only provide an effective defence but also an adequate level of opportunity and involvement for its industry. Purchasing EU Member States therefore expect to receive from another Member State supplier, or project management organisation in the case of a collaborative project, an appropriate share of work, which provides a fair return, or *juste retour*, in both economic and technological terms. However, it is often difficult in a single military program or equipment purchase to make arrangements for *juste retour* which provide for a sensible division of technical responsibilities or which do not increase overall costs. We therefore consider that governments should be more prepared to see *juste retour* organised on a broader base (global balance), but restricted to the military equipment field, and over a longer period than hitherto, which would make possible more efficient arrangements.

Maintenance and development of the national industrial base and technologies is a national priority. There are fears that the free trade in armaments in Europe would do irreparable damage to the defence industrial base of each member state, resulting in industrial contraction, loss of technology and the surrender of sector capabilities. It seems often to be the case that a European Member-state will support the interests of Europe as a whole only when it is in its national interest to do so. Consequently, any programmed change must identify the long-term advantages to all European Member-States and must be on equitable terms.

Europe has quite a good record of co-operation in armaments programmes but this has been on a piecemeal basis. What is required for the future is systematic co-operation within a clear European framework. EU member states should be willing to contemplate co-operation within EU as a first course of action for suitably sized projects derived by the study how to remedy the HLG shortfalls. Additionally, EU Member States could be prepared to purchase equipment from suppliers in other European Member states except in those cases where local procurement is the only sensible approach or where there is a predominating strategic implication for a national industry or company. There exist already in the civil field a number of good examples of how Europe can work together in a systematic way, for example Airbus Industry.

Our aim could be to create a more open market of a competitive kind in Europe and to promote the conditions for beneficial industrial restructuring. To start moving towards that aim, we should put forward a point of principle: that we are prepared to adopt a policy of more competition across EU for collaborative programs, taking into account the defence specificity.

We acknowledge that competition is not possible in all cases. Flexibility of approach will therefore be important but we should keep in mind that only a certain number of cases are inappropriate for competition of some kind. Neither do we see that nationalised industries should be treated any differently in this regard from privately-owned companies. All the evidence confirms that competition, applied in the right circumstances, is the most successful means of achieving improved efficiency in industry and of obtaining increased value for money for the customer.

We believe that a most satisfactory form of linkage between industries across national boundaries for the short term, and one, which provides the benefits of competition, is that of competing consortia. Within Europe, there is now some experience of the advantages of competing consortia both in the defence and civil fields and the evidence suggests that this approach results in very substantial reductions in cost.

### **SECURITY OF SUPPLY**

Interdependence within the field of armaments materiel is growing as a consequence of the restructuring of the defence industry, and should promote a more competitive and robust European defence industry.

The EU could acknowledge the advantages of maintaining a strong European-wide defence industry, and the importance, from a security of supply perspective, of supporting a sufficient level of acquisitions for the national armed forces of the EU Member states from these industries as home market suppliers.

Moreover, the EU may emphasise that restructuring in the field of armaments production could take into account

- the imperative of ensuring the security of supply of the EU Member states, and
- a fair and efficient distribution and maintenance of strategically important assets.

EU Member states could be able to safeguard, on a mutual way and through a non-binding "mecanisme de veille", the security of supply of their armed forces in times of peace, crisis or war.

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