



**Editorial**

## Defence Economies in Small and Medium-Sized Countries

Wally Struys<sup>1\*</sup>

### Are Ares and Hermes Still Compatible?<sup>1</sup>

“In the past, I’ve worried openly about NATO turning into a two-tiered alliance: (...) between those willing and able to pay the price and bear the burdens of alliance commitments and those who enjoy the benefits of NATO membership (...)

### But Don’t Want to Share the Risks and the Costs<sup>2</sup>

By this statement in his farewell speech, Robert GATES had specifically NATO’s European members in his collimator. He was not the first, nor the last to castigate the tendency of some European countries to act as free-riders in the Alliance.

In this context, the present editorial focuses on the specific responsibilities and problems of Small and Medium-sized Countries (SMCs) in Europe and addresses more precisely the efficiency and effectiveness issues of defence spending and defence equipment acquisition.

Since we are far from having all answers to all questions-which, besides, have not yet been asked, we will also suggest a number of topics which will remain open for further research and analysis for a long time yet.

### Defence Economics and Smcs

Defence Economics is far from being the oldest branch in economic science; it took off after the second world war from the US, by analyzing firstly topics such as the effects of the Cold War on defence spending, on the organization of the military, on the “guns vs. butter” dichotomy, on economic growth and on (under-) development.

After the fall of the Berlin Wall, Defence Economics found new important niches of predilection such as reductions of defence spending, detente dividends, the analysis of the economics of conflict and peace, conversion of defence industries and modernization of the armed forces.

Globally, Defence Economics therefore occupies a particular position in the analysis of political, economic and social life of a country, since it deals with all aspects related to external security.

More than ever, emphasis is nowadays on the efficiency and effectiveness of the use of resources available for defence, taking into account the economic and financial crises, the possible domino effect of the sovereign debt problems and the disequilibria within the Euro zone.

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More specifically, the present and the future hot topics related to Europe and Defence within the Common Security and Defence Policy (CSDP) framework, involve the European Defence Technological and Industrial Base (EDTIB), the European Defence Equipment Market (EDEM), Pooling and Sharing and Smart Defence.

Unfortunately, to my esteem, the role of SMCs is not really often subject of thorough analyses or even mentioned, and there are too few studies on their particular situation and their future.

### Yesterday’s Economic and Financial Crises – Tomorrow’s Defence Challenge

It is precisely at the time where most of the defence budgets were leveling off after the drastic cuts of post-cold war, that crises declared themselves.

Initially, most major countries have reacted by an appeal to Keynesian type policies, namely to massive States interventions in the economy, aggravating or postponing thereby the consolidation of their public finances. The need to limit the deficits however led policy makers to look for areas where the cuts would less hurt.

Since the end of the Cold War, Defence belongs to these areas, because it is a public good being characterized by the properties of non-rivalry and non-exclusivity and which therefore presents itself in a rather abstract way to the individual citizen. In addition, it has the particularity of feeling the harmful effects of budget restrictions only in the medium or long term.

Defence spending has therefore decreased nominally, the EU being the most strongly affected. Another characteristic lies in the reduction of the defence budget purchasing power: these past three years, price growth in the euro area rose from 0.3% to 2.7%. In addition, defence prices tend to increase even more, mainly due to the technology embedded in equipment, but also because of the too reduced production series. As a result, equipment costs grow exponentially more expensive, especially for complex and high-tech weapon systems.

Research in the UK has shown that the acquisition costs of major equipment increase by 20-30% per decade<sup>1</sup>. Indeed, this is not more than the average price increase in Europe, but it presupposes an annual increase of 2-3% of the equipment expenditures within the defence budget to keep pace and to maintain the purchasing power of acquisition budgets. The combination of declining budgets and permanently rising costs for equipment turns the preservation of a polymorphous deployable military into an illusion.

### European Smcs Success and Shortcomings<sup>3</sup>

It may seem paradoxical to note that, despite of crises, number of European SMCs participated in the aerial and naval campaign in

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<sup>2</sup>From DoD transcript of Secretary of Defense Robert Gates’ speech on NATO’s Future delivered in Brussels (2011).

<sup>3</sup>Malcolm Chalmers (2010) Capability Cost Trends: Implications for the Defence Review. RUSI Future Defence Review Working Paper.

Libya. This proves that the budgetary constraint has not influenced their decision to engage in this war. Several European SMCs even made major contributions to the strike missions in the Libya conflict, despite their limited resources.

But in the long run, costs become a financial constraint in the framework of the ongoing austerity policies. This eventually led, over the conflict, to the partial withdrawal of Norway, Italy and Canada, and gradually of Great Britain, Greece and Spain.

If the recent military interventions proved that several countries, whether big or small, are capable of collaborating in an efficient manner, the Libyan conflict however pinpointed cruelly numerous lacunas and capability gaps of Europe's Defence in a series of domains such as strategic transport, satellite communication, space capabilities, in 3 flight refuelling, ISR1 platforms, CBRN2 protection, UAV3, medical support and maritime surveillance. The US assets therefore proved decisive for the successful strikes carried out by the European combat aircraft. These shortcomings are jeopardizing the ability of the UE to conduct an integrated, effective and sustained air-sea campaign.

There is therefore no point denying that the EU countries still largely depend on the US. Their defence expenditure represents only 40% of those of the US, and moreover, their budgetary efficiency achieves only 20% as a result of the fragmentation of European defence budgets and markets.

However, the EU is still the first world economic area, with a population and a GDP that exceed those of the USA. In spite of this potential, its member States collectively spend some 200 billion Euros per year on defence, which is barely a third of the American military budget. Add the worrying decline in military R&T which is the most affected sector by the impact of the crisis.

As for now, the EU is not able to play a role in the security field commensurate with its economic strength. This applies also for the financial aspect of Defence, since the national budgetary policies did not lead so far to any intra-European budgetary solidarity.

### Europe's Accessory Role

It is tautological to declare that the credibility of NATO and of the CSDP is based on their military capabilities. But if the USA were, and still are always the world leaders, the role of Europeans seem subordinate, accessory even.

It is therefore not surprising that numerous voices rose since the debut of the century to encourage the European countries to unfold more financial efforts with the intention of re-equipping their armed forces and establishing a truly efficient defence. In most cases, they came from political and military NATO leaders or from American politicians.

On 19 February 2002, for the first time in history, a Secretary-General of NATO, Lord Robertson of Port Ellen, was invited to the rostrum of the European Parliament. He took this opportunity to assert his belief that Europe was to modernize its armed forces, at the risk of being marginalized on the world scene. "The choice for the Europeans is modernization or marginalization", he stressed, adding with reference to Afghanistan, "Despite an annual investment of over 140 billion USD by NATO's European members, we still need US help to move, command and provision a major operation"<sup>4</sup>.

Recently, in addition to Robert Gates speech mentioned above, his

successor Leon Panetta warned, in Brussels again, that "Spending cuts on both sides of the Atlantic risked weakening the alliance's military capability in a way that could be devastating to US and European security (...). The economic reality of the financial, banking, stock market and especially of the sovereign credit crises will be for a few more years a constraint rendering impossible the sheltering of defence budgets. (...) Reuters commented as follows: "As a result, Panetta's wish about the need to invest in NATO in order to tackle the security<sup>5</sup> challenges of the future will remain dead letter, certainly in Europe, but also in the United States"<sup>6</sup>.

The US confirmation came not later than January 2012, when Leon Panetta unveiled a 2013 budget plan with painful cuts in defence spending over the next decade<sup>7</sup>.

Another compelling element for the European Defence lies in the statements of President Obama, clearly indicating that his country was going to partially disengage of the European continent for the benefit of Asia and the Middle East<sup>8</sup>. It is therefore more than ever obvious that the epoch when Europe could free ride at leisure at the expense of the USA, comes to an end.

Finally, at the opening of the recent NATO Chicago Summit, Europe was - although diplomatically - at the centre of all concerns again: "...We recognize the importance of a stronger and more capable European defence and welcome the efforts of the European Union to strengthen its capacities to address common security challenges. These efforts are themselves an important contribution to the transatlantic link<sup>9</sup>."

### Smcs, too Marginal to Really Count?

Even the large countries are no longer in the position of maintaining independently all capacities. For the SMCs, this has long been the case, but problems are getting worse. Some speak of the danger of the demilitarization of Europe and of a race to the bottom<sup>10</sup>.

Indeed, in terms of defence production, there is no such thing as a European defence industry, but juxtaposition or rather an ant heap of more than twenty national defence industries in the EU. The EDTIB is in fact characterized by numerous constraints, especially in the SMCs, subject to uneconomic defence production policies.

### Pooling and Sharing

One of the two major objectives set out by the Protocol on Permanent Structured Cooperation in Defence (PSCD), annexed to the Lisbon Treaty, intends to develop more intensively defence capacities and to use smarter the existing scarce resources.

In this context, the application of the double principle of Pooling and Sharing, comparable to the concept of Smart Defence in NATO, is an obvious necessity. It should result in better coordination of defence planning, including the harmonisation of military requirements, the pooling and sharing of certain functions and means, enhanced cooperation in R&T, industrial collaboration and consolidation,

<sup>4</sup>Intelligence, Surveillance and Reconnaissance

<sup>5</sup>A Global Dimension for a Renewed Transatlantic Partnership (2002) Remarks by Lord Robertson, NATO Secretary General at the European Parliament Conference, Brussels.

<sup>6</sup>Chemical, biological, radiological and nuclear.

<sup>7</sup>Brussels (2011) (Reuters) 051520 10 (GMT).

<sup>8</sup>AFP, Washington, 052130 JAN 12.

<sup>9</sup>Summit Declaration on Defence Capabilities: Toward NATO Forces 2020 (2012).

<sup>10</sup>Tomas Vasalek (2011) Race to the bottom. Centre for European Reform.

optimization of the procurement process and the removal of market barriers.

Despite the criticism above, it would be unfair to silence the past, even modest initiatives in the EU. Examples of encouraging bi- or multilateral cooperation already exist or are emerging, such as the Franco-British agreement<sup>11</sup>, the initiatives of the Group of 5 Višegrad<sup>1</sup>, the Nordic countries<sup>2</sup> and the Weimar Triangle<sup>3</sup>, as well as the creation of the Belgian-Dutch Navy as early as 1996, the joint Belgian and French pilot training and the creation of EATC<sup>4</sup> by Belgium, the Netherlands, Germany, France and Luxembourg. Include also cooperation in certain programs within EDA (e.g. A400M, European Air Transport Fleet)<sup>12,13,14</sup>

EATC is a multinational command centre, which exercises operational control of all military transport aircraft, with the exception of helicopters, and especially the existing fleet of Transall C-160 and C-130 Hercules. In the future, all Airbus A400M will also join<sup>15</sup>.

On 22 March 2012, the EU Ministers of Defence decided to collaborate in order to strengthen its in-flight refuelling capacity; twelve countries also committed themselves to a project of a modular field hospital.

In addition, the importance of EDA also deserves to be underlined; its role is to ameliorate EU defence capacities, to promote European collaboration in the field of armaments, to create a competitive EDEM, and finally to favour research, with a view to strengthening the European defence industrial and technological potential. Note however that because of the overcautiousness of certain Member States, EDA lacks means; it will also be necessary to reinforce them.

### The Spectre of Resurgent Protectionisms

But acts must follow lyrics. Let us not forget that the initiatives of Pooling and Sharing and Smart Defence are not the first to have come into being in the area concerned. Indeed, since the 1960s, NATO has established procedures and created agencies to strengthen what was then called standardization and interoperability of military equipment. Let us recall the Eurogroup, established in 1968, and the Independent European Program Group (IEPG).

One of the objectives of the Euro group was collaboration in the acquisition of armament. Its results have been disappointing, probably because of the not much institutionalized and ambiguous character of this informal consultation body. The relative responsibilities of the Euro group were then transferred to the IEPG, born in February 1976. Despite commendable attempts, the IEPG has also led to a failure: its activities were limited to the technical and administrative aspects in the short and medium term.

Regrettably, European governments still have a tendency to get out of their economic and financial difficulties by returning to protectionist reflexes, forgetting the maxim which has been the basis of the birth of GATT, OMC and EU: If the goods do not cross the borders, the soldiers will.

So, what about the relevance or even of the usefulness of the sometimes ambiguous concepts of Pooling and Sharing and Smart Defence, if, in the end, economic indicators push States to get locked into their keep, as it was so often the case?

If in these times of crisis, less business raises the spectre of increased protectionism; the same goes for defence. Many decision

makers brandish the argument of national sovereignty and of the particular interests of national security<sup>15</sup>.

Unfortunately, the EU Treaties provided the perfect alibi to justify this protectionism from the very beginning. The EU member countries indeed still take advantage of article 346, paragraph 1 of the Treaty on the Functioning of the EU<sup>16</sup>:

“1. The provisions of the Treaties shall not preclude the application of the following rules:

- (a) No Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security;
- (b) Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the internal market regarding products which are not intended for specifically military purposes.”

This article thus prevented the defence sector of following the general movement towards integration and justified any protectionist measure in the sector.

### Offsets, Fatal Weapon of A “Competitive Protectionism”<sup>17</sup>

Economic compensations, or offsets, are mainly used as a means to maintain or to develop defence industrial activities and to improve their technical quality. Taking this into consideration, many countries, especially SMCs, use since a long time to pursue economic policy goals in the framework of defence purchases, by integrating offset requirements and priorities into their defence industrial policy.

Economic compensations can exert different effects; they depend on the nature of the offsets implemented and their effects. Belgium, for instance, distinguishes three sorts of offsets<sup>18</sup>:

Direct compensations represent the national economy's shares in producing the equipment and in the supplies, work and services incorporated in the defence equipment that is the subject of the contract and are being produced only to meet the needs of the Belgian armed forces. Direct offsets are directly related to the product delivered.

Semi-direct compensations characterize the workload of the national economy in producing the equipment and in the supplies,

<sup>11</sup>Sometimes (provisionally?) called “entente frugale” (instead of entente cordiale) because of the disappointing results.

<sup>12</sup>Poland, Hungary, Czech Republic and Slovakia. These countries committed themselves on May 4, 2012 to create by 2016 a common battle unit in the EU.

<sup>13</sup>NORDEFECO: Nordic Defence Cooperation: Denmark, Finland, Iceland, Norway and Sweden.

<sup>14</sup>Poland, Germany, and France.

<sup>15</sup>European Air Transport Command.

<sup>16</sup>Article 346 (previously Art.223 and 296 (Consolidated version of the Treaty establishing the European Economic Community in force (and renamed) as of 1 December 2009, as amended by the Treaty of Lisbon (2007) and all preceding treaties).

<sup>17</sup>Wally STRUYS (2004) Offsets in small countries: between Scylla and Charybdis? In J. Brauer and P. Dunne Arms Trade Offsets: Theory, Policy, and Cases in arms trade offsets, Routledge, New York, 164-171.

<sup>18</sup>Wally STRUYS (2002) Country Survey XV: defence policy and spending in Belgium, in Defence and Peace Economics 13: 48.

work and services incorporated in identical equipment to the equipment specified in the contract, but being produced either for the originating country or for third countries. Semi-direct offsets are thus also directly related to the product delivered.

Indirect compensations represent the products, supplies, work and services intended for the countries that awarded the contract, in any field of activity other than those which form the subject of the contract. Hence, indirect offsets embody the purchase of unrelated products or services.

Since several decades, SMCs used offsets as a means of maintaining their defence industrial activities. True, they strengthened their defence firms in the short-run, but they made them also vulnerable to structural changes, because they led to limited cooperation on an ad hoc basis, which has been responsible for the weaknesses of their defence industries. In general, they did not develop a coherent tissue of main defence firms and subcontractors, the defence production sectors were not restructured soon enough and the technological revolution did not give way to the expected qualitative results. As a result, the other side of the coin shows a growing dependence on discontinuous defence orders and vulnerability to structural changes. Most of the time, offsets are also based as much - or even more-on political considerations as on economic reflections.

Not surprisingly, offsets and the economic paradigm are thus more often than not contradictions. They make any durable policy difficult, since the industrialists depend on uncertain contracts with long intervals; they are inefficient in the long run.

On the EU level, offsets are responsible of distorting the European defence industrial restructuring process. Indeed, at a time when there is a major overcapacity in many European nations, the use of offsets corresponds to nothing else than to grant subsidies for less competitive enterprises.

During the previous decades, the rise of a true European defence industrial activity through co-operation on a large scale was made impossible by the mere existence of limited co-operation on an ad hoc basis. It has most often been accompanied by very strict requirements with regard to offsets and to the rigid principle of *juste retour* which gave rise to an overprotection of national enterprises and, hence, to the existence of an overcapacity in the production of arms systems on a European scale. This has also contributed to the problems of the fragmented and oversized European DTIB<sup>19</sup>.

Nevertheless, the Europeans still are torn between the protection of their national interests and the need for closer military programs following the pressure of national defence budgets. The EU capitals do not want to be subjected to too much pressure and wish to keep (a lot of) flexibility. This is the reason why they retain a so-called pragmatic approach while the situation imposes to lose parts of their sovereignty in favour of a more European vision of the of the Old continent's Defence.

### Chronicle of a Death Foretold?

Are Ares, the god of war and Hermes, the god of trade (and economics) still compatible? In other words, taking the foregoing into account, should SMCs resign and be resolved to abandon any ambition in the field of economic and industrial activities related with defence? Several issues arise since there are indeed inevitable and even existential questions to be asked:

- Should the defence budget remain a budgetary reserve from

which governments can scoop out funds to fight elsewhere financial difficulties, thus relegating defence to a subordinated second zone activity?

- Is the purely domestic concept of national defence spending still credible in the EU?
- Are SMCs still able to afford polymorphous armed forces and military interventions abroad? Or even to maintain a credible defence?
- Will there still be room for small DTIBs in Europe, or will the regrouping of industrial resources correspond with the disappearance of small DTIB's?
- Even if the SMCs are able to maintain industrial activities relating to defence, are the large countries willing to accept cooperation with them, or do they want to exclude them from the EDTIB?
- Will the EDTIB increasingly turn into niche producers?
- Are offsets essential for the survival of the defence industrial sectors in SMCs?

The answers to these questions are far from being obvious in the actual geopolitical, military, economic and industrial environment; they often generate instinctive and little substantiated reactions. In the world of Defence Economics, there is clearly much room for serious and objective scientific analyses in this field.

### The Way Ahead: Three Cheers for the Crisis?

Along with the lessons of the war in Libya, we can paradoxically "hope" that the economic and financial crises have become an alibi, or even a constraint to encourage intensive collaboration. Considering the fact that the period of austerity may last another two decades in certain countries, structural solutions are needed. In fact, European countries have no choice but to cooperate if they want to develop capacities necessary for the conduct of modern military operations.

More than ever, it will again be necessary to make tough cornelian choices in short and medium terms. This very much looks like a matter of squaring the circle, since the tighter European budgetary rules and constraints, as well as the slow economic recovery, keeps all public finances under a lot of pressure in the longer term. Defence always scores low on the list of the most important community's expenditure and will not be spared, not being a priority for Governments confronted with other socio-economic priorities and budgetary controls.

To the contrary, it should indeed be clear to everybody that, today and beyond 2012, the need to keep public finances under control is liable for a lack of flexibility when it comes to defence budgets. Without a significant economic recovery, governments will still be subjected to strong pressures when beginning to reimburse their massive crisis loans; defence projects and expenditures will be more targeted, principally in the SMCs. This could eventually put in danger the mere existence of the EU defence capacity.

It goes, of course, without saying that Defence had to participate and must continue to participate in the consolidation of public finances. But for years, the defence 9 budget cuts were implemented

<sup>19</sup>Wally STRUYS (2004) The future of the defence firm in small and medium countries, in *Defence and Peace Economics* 15: 556.

in a piecemeal fashion, with little coordination with EU or NATO partners. This egocentric attitude must be casted aside.

If we take defence expenditures as a criterion, we have to take into consideration that in 2011, just four of twenty-eight NATO allies spent the so-called target of 2% of GDP on defence. I do not expect this situation to change dramatically in the foreseeable future. But even if many may consider that there is a problem regarding the absolute level of defence spending, I would be the last to request an increase in defence expenditures, taking into account all constraints.

However, it seems clear to me that defence budgets should be allocated and, more importantly, subdivided in a more rational manner. The shoe pinches especially at the level of equipment acquisition expenditures. The European SMCs need definitely to reduce the share of personnel costs in order to free up additional resources to the advantage of financing equipment acquisitions.

It is, of course, unrealistic to hope that in a foreseeable future, the EU would have a single common defence budget. The relevant challenge for SMCs today, therefore, is no longer the absolute common level of defence spending, but more budgetary solidarity.

Of course, as I pointed above, there is a need to seek a certain degree of concordance between partners, but it would also be delusive to pool completely the defence budgets. However, taking into account the fact that the most serious shortcomings are located at the equipment level and that the military budgets are already sealed by too voluminous and too inelastic personnel expenditures, a common use of the major equipment acquisition budgets should constitute an important step towards a harmonization of the needs and to joint acquisitions.

Europe must absolutely cease scattering its efforts when purchasing military equipment and, taking into account savings in equipment programs everywhere, an important step forward should be made by pooling important parts of the acquisition budgets.

As a financial expression of the defence policy, the budget is in all ways a subordinate tool, but the budget-or parts of it-should NOT evolve from a financial management tool into an obstacle to an efficient management of defence.

### **Pooling and Sharing and Smart Defence: En Route to the EDTIB?**

One cannot dissociate economy and defence because in these fields, an increased complementarity is essential. Macro-economic, micro-economic and meso-economic goals, economic prosperity and external security are inextricably bound. The achievements of the European construction should also benefit the armaments production sector, which has to find its place in an integrated EDEM on both the demand and supply sides; the contrary would be incomprehensible. Indeed, defence expenditures include, on average, 15 to 20% capital expenses, which have a direct link to the acquisition of specific military equipment. Since defence expenditures represent an average of about 2% of GDP, the acquisition of armaments only amounts to some 0.4%. Is it realistic for Europe to operate the rules of the Union for "only" 99.6% of productive activities and continue to apply a protectionist policy for the rest?

The European dimension has to be taken into account since the future of small DTIBs will essentially depend on the creation of a

genuine EDTIB, organized in accordance with a genuine European industrial defence policy. 10 Fundamental choices are inevitable for Defence after the credit crisis. The armed forces in the SMCs are far from having real possibilities to remain all-round or even versatile. But the question is not really whether SMCs are able to maintain, fund, organize and implement a polymorphous defence. The question is rather whether SMCs and SMEs are capable or not to deal with the following alternatives: go out of business, accept being absorbed by their bigger counterparts, or being partners in supply chains?

In the SMCs, the industrial approach is, logically, subordinate to specialization, and complementary to their European partners. Otherwise, they would remain confined to execution tasks, sub-contracting, or even aiding and inferior activities. In any case, a common political framework, including an appropriate R&T policy, is required for the defence industries of the SMCs if they are to be part of supply chains of the major system players in order to be able to develop and produce the sub-systems or components for which they have niche and pole of excellence positions.

In such an environment, valuable arguments exist in favour even of SMCs. Their small national markets truly represent a major interest to larger countries because the marginal advantages bigger economies can realize in the former may mean the difference between success and failure, or between losses and profits for the latter. Indeed, even in the big countries, the era of autarkic national DTIBs belongs to the past and their defence firms have to rely on subcontractors, whether national or abroad.

### **Defence Economics and Politics**

The European countries, within NATO and the EU, should undoubtedly have a military capacity that reflects better their political and economic might.

In this respect, at the opening of the NATO Chicago Summit, Anders Fogh Rasmussen declared that "NATO will work closely with the European Union, as agreed, to ensure that our Smart Defence and the EU's Pooling and Sharing Initiative are complementary and mutually reinforcing"<sup>20</sup> respectively President of the European Council, High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission, and Chief Executive of EDA.

On the side of the EU and on several occasions, similar statements were made. Herman Van Rompuy, Catherine Ashton and Claude-France Arnould<sup>2</sup>, expressed on their side their commitment to the development of enhanced European defence cooperation.

These nice declarations of principle however, have not yet led to satisfactory acts on the ground. Up to now, each country initiated restructuring of its defence in scattered formation, without even trying to find complementarities or substitutions on a transnational level, which resulted in sometimes very unbalanced cuts. There was therefore never a truly European restructuring of Defence; wastage stems precisely from the fact that the United States of Europe does not exist.

Taking into account the existing constraints, we cannot expect a complete alienation of the national defence policies since, second after the national currencies; it is defence which constitutes typically the paragon of national sovereignty.

<sup>20</sup>Summit Declaration on Defence Capabilities (2012): Toward NATO Forces 2020, Chicago.

Politically, the EU is experiencing today a time out in the pursuit of integration. Could we hope that it would be up to Defence to make a breakthrough now and to yield a piece of national sovereignty?

In any case, even if defence still constitutes a national prerogative, political decisions and defence choices obviously cannot continue to be decided or even studied in a national perspective only.

The answer seems evident but a number of previous attempts to realize a genuine European armament co-operation have not, in the past, been crowned with positive outcomes, in spite of some successes. As stated above, one of the main reasons was the will of the large countries to protect their national strategic assets, as well as their national decision making.

The military intervention in Libya constitutes an excellent example: while every Alliance member voted for this mission, less than half participated at all, and fewer than a third were willing to participate in the strike operations, despite the fact that this mission, in Europe's neighbourhood, was deemed to be in Europe's vital interest.

### The Pangs and Throes of Protectionism

Faced with these new challenges, the European DTIB should not resort to protectionist solutions-unlike the longings of some, but to more cooperation in order to ensure an effective defence production.

We must not delude ourselves: not one, on a strictly national basis established BTID, is sustainable today, not even in major countries. Salvation can only come from the abandonment of the old protectionist reflexes and of the sacrosanct offsets.

As for the SMCs, taking into account their marginal role, their defence industrial policies must take the European dimension very seriously by abandoning sterile short-term protectionist procedures: their watchword must be to cooperate or to perish. Only consultation and co-operation within the political and industrial framework of CSDP will enable SMCs, in the duration, to play their role within a common defence.

We should, however, keep in mind that a real EDEM is still in an embryonic phase and that European countries continue to abuse of offsets when purchasing defence equipment. It is thus that the Višegrad Group, although often cited as an example, made an almost emotional statement, pointing out that that "offsets constitute the lifeblood of the defence industry"...

On the supply side of the market, many have underlined the importance of the creation of a genuine EDEM, with equal opportunities for all industrial actors. In such a true open market with fair competition, offsets are superfluous in the absence of any objective and subjective base. In this ideal situation, offsets can be waived for trade amongst European nations.

The privileged may have a wet dream and think that the disappearance of SMCs would be a sacrifice made to the gods of European efficiency and effectiveness. It is, however, reasonable to assume that the disappearance of small DTIBs would harm the collective security and turn against Europe. It would also be difficult to explain politically, humanely and objectively to SMCs that they have to show solidarity with the large countries in political, financial and military matters of defence, but that they cannot benefit from an analogous solidarity from the big DTIBs in the defence industry by integrating them in production processes.

We must be aware of the fact that it is particularly in the field of defence equipment acquisition and production that it will not be easy to find equitable criteria to allocate responsibilities and activities between the participants.

It would be preposterous to conclude; since number of progress still must be made; a modest final comment will suffice...

Defence economics is neither the only nor the first criterion to be taken into account when it comes to determining a country's Defence policy; in the first place, Defence is subordinate to the foreign and general policy of a country. However, any sound management of the military institution must also take into account the economic and social context in which Defence should complete its task; in this case, it has to be in the EU framework. The central reference of this management must be found in practice in CSDP. But any step towards a genuine CSDP also involves a convergence of the Defence economies in the member countries. This is of course primarily a matter of political will.

One can only hope that it will not take even more serious economic and financial crises to awaken the Europeanist Defence spirit...


Be that as it may, regardless of past, present and future, Europe has to assure more than ever an efficient defence production, at a socially acceptable expense, and this in a renewed economic, social and political environment.

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