

## EU Defence Policy after Chicago: Going Smart?

**Giovanni Faleg and Alessandro Giovannini**

**19 May 2012**

*This CEPS Commentary analyses the impact of the Chicago NATO Summit (May 20-21) and the Smart Defence agenda on the European Union's defence policy. Will the EU follow NATO and go 'smart'? The authors point out that the NATO agenda provides indeed a unique chance for the EU to make unprecedented progress on pooling and sharing. They outline a three-part road map to rationalise the EU defence market and put the Union back on track as a credible and capable security provider. The Commentary also stresses that complementarity between the NATO and EU agenda is all important to achieve long-term change.*

The Chicago NATO Summit (May 20-21) will not change the transatlantic Alliance. But it can transform the way states cooperate in multilateral defence fora, very much including the European Union. 'Smart Defence' appears as the long-awaited answer to the irksome issue of fairer sharing of the transatlantic security burden, aka burden-sharing. It seeks to boost the development of Allied (read European) military capabilities through cost-effective solutions by pooling and sharing (P&S) resources. Despite the new label, that idea is a rather old one, which however has systematically failed to turn into concrete action in NATO's 60-year-old history.

Times have changed though. Operational (the lessons from Libya), structural (austerity and the challenges arising from a multi-polar world) and strategic pressures (re-orientation of US strategic interests towards the Asia-Pacific region) force European allies to upgrade and maintain hard security capacities without impacting on wobbly national budgets. True, geopolitical considerations and protectionist national interests may continue to hamper progress in collective defence capacity-building. Nevertheless, NATO is expected to endorse in Chicago such a comprehensive package for defence acquisition addressing critical needs from air-to-air refueling to intelligence, surveillance and reconnaissance. The implications might be long-lasting and lead to a change in the security mind-set, if states commit to develop the agenda over time, thus going beyond the Summit's slogan.

The link between the Smart Defence package and the EU's pooling and sharing will play a crucial role in this respect. In his May 18<sup>th</sup> op-ed in the International Herald Tribune, NATO Supreme Allied Commander for Transformation, Stéphane Abrial, described the EU's P&S as a complementary approach to the one taken by NATO. Camille Grand, Director of the

Giovanni Faleg is a Visiting Researcher at CEPS and a Ph.D. Candidate at the London School of Economics and Political Science. Alessandro Giovannini is a Research Assistant at CEPS. This Commentary draws on the authors' more detailed analysis presented in a CEPS Special Report, "EU between pooling & sharing and smart defence: Making a virtue of necessity?", May 2012 (<http://www.ceps.eu/book/eu-between-pooling-sharing-and-smart-defence-making-virtue-necessity>).

CEPS Commentaries offer concise, policy-oriented insights into topical issues in European affairs. The views expressed are attributable only to the author in a personal capacity and not to any institution with which he is associated.

Available for free downloading from the CEPS website ([www.ceps.eu](http://www.ceps.eu)) • © CEPS 2012

Fondation pour la Recherche Stratégique (FRS), stressed that an integral part of the Smart Defence package should be close coordination with the EU and the European Defence Agency (EDA). As a matter of fact, NATO's agenda has already triggered a revival of the debate on deeper armaments cooperation in the EU.

EU P&S can be seen as a more integrative and perhaps sophisticated version of Smart Defence, as it relies upon the effective liberalisation of the European defence market and a progressive Europeanisation of national defence budgets. P&S essentially relates to EU member states' willingness to commit to joint procurement of weapons and services, to the integration of force structures and to increased specialisation. Two critical junctures have influenced the debate on EU P&S over the past three years. First, the adoption in 2009 of EU two Directives simplifying procedures for moving military goods among member states and opening defence procurement to competition across the EU. Second, the process known as the "Ghent Framework" has sought to identify suitable areas for increased cooperation, such as R&D, acquisition, joint training and exercise facilities. The last two Ministerial Steering Boards (30 November 2011 and 22 March 2012) of the EDA made further progress in developing the agenda. Speaking to the European Parliament's Committee on Foreign Affairs on May 3<sup>rd</sup>, EDA's Chief Executive Claude-France Arnould was reported to say that the NATO Chicago Summit is "a critical milestone, but not the end of the story", explicitly referring to "significant EU deliverables through EDA" as well as to P&S as a long-term ambition for the EU to become a more capable security provider.

The EU needs P&S as badly as NATO needs Smart Defence. From an economic standpoint, returns would be significant. The financial crisis led to an average cut in EU member states' military budgets by 5.7% in 2010 and by a further 3.5% in 2011. It is an axiom that severe fiscal discipline no longer permits deficit financing of defence investments: as Europe faces no imminent security threat, a rise in military spending would lack political grounds and easily provoke mounting public criticism. At the same time, the existing EU defence system is uneconomical, due to fragmentation in the demand side (e.g. member states' governments establishing expenditure policy and arms acquisition in an uncoordinated manner) and in the supply side (e.g. the presence of disaggregated national industries producing duplications in procurement and preventing economies of scale from being exploited). The cost of the absence of a functional defence market, exacerbated by the financial crisis, is exorbitant. Operationally, the EU suffers from a 'crisis manager's block': sidelined and unable to deliver during the Libya crisis, it must also acknowledge a steep decline in peacekeeping missions under the Common Security and Defence Policy (CSDP) from 2009 onward. Trends in the global defence industry are worrisome too. Strong economic growth allows emerging powers to strengthen their military capabilities, diversify their arms acquisition policies and develop domestic military industries to reduce dependence on exports. Soaring competition in the global defence market, coupled with the contraction of the European market due to austerity, can be the source of a loss of profits for European military companies and a loss of strategic room for manoeuvre for Europe.

It is in nobody's interest that European defence goes 'dumb'. NATO's Smart Defence package, unveiled at Chicago, provides a unique opportunity for a sea-change in defence cooperation, which must include an 'EU basket'. Complementarity between the NATO and the EU agendas is the only way to achieve effective, long-term change.

Drawing impetus from the Chicago spirit, a three-part road map for P&S would put the EU on the right track to provide a substantial contribution to regional and global security. The road map should rely on permanent structured cooperation to set implementable objectives and guidelines, but also avoid politically-sensitive issues such as the establishment of an EU military HQ and command and control structure, which would jeopardise progress. The first

part involves strategic equipment. A focus on 'best practices' (e.g. the role of EADS in the aerospace sector) could produce important spillovers and create emulation effects for other types of heavy military equipment. Due to the EU's growing contribution to maritime security and the increasing importance of naval operations within CSDP (cf. Operation Atalanta), the application to the naval sector could be a first, flagship initiative. The second part deals with R&D programmes. A better division of tasks between member states (in charge of defining the strategic priorities, based on a revised European Security Strategy), the European Defence Agency (tasked with operationalising these strategic needs through designing R&D programmes) and the Commission (as 'project manager' or executor) could create unprecedented synergies, especially if states agree to abandon the principle of 'juste retour' (or pure returns). Finally, the third part would regulate non-strategic equipment. Here the Ricardian lesson of 'mutual gains from specialisation' could provide the EU with more efficient and cost-effective armies.

Chicago will not provide NATO with a new identity or *raison d'être*, nor will it put an end to the squabbling and setbacks, such as those arising over burden-sharing, that are deeply rooted in the transatlantic bond. But it can very well set a new course in multilateral defence cooperation. The EU ought to snatch it up.